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HRA Financial Management and Investment Strategy

1.0 Introduction

1.1 Following the abolition of the HRA debt cap in October 2018 the Council is required to publish Prudential Indicators specific to the HRA.

1.2 Local Authorities are required by regulation to have regard to the prudential code. The objectives of the code are to ensure within a clear framework that capital investment plans are affordable, prudent and sustainable.

1.3 As the Council continues to increase its capital investment programme supported by an increase in HRA borrowing, it is timely for the council to set out its approach to monitoring the financial capacity and capability of the HRA to deliver on its objectives towards refurbishment, investment, regeneration and new supply.

1.4 By identifying future investment capacity potential, the Council can evidence the affordability of its borrowing and investment strategy for council housing.

HRA 30 year borrowing forecasts are illustrated by the graph at Section 7 below

2.0 Interest Rate Chargeable to HRA borrowing

2.1 The Council currently operates a one pool approach to financing both the General Fund and the HRA which results in an interest rate being shared between the two Capital Financing Requirements.

2.2 Authority will be given to the Section 151 officer to determine a different approach if required, for example additional borrowing for new developments could be separated from the average interest calculation should this be beneficial.

3.0 HRA Debt Repayment

3.1 Since the introduction of self-financing in 2012, the Council has adopted a strategy to utilise the annual HRA operating surplus to repay debt. Under the prudential framework authorities are required to set aside money each year from revenue where they borrow to finance general fund capital spending. This is referred to as Minimum Revenue Provision (MRP).

3.2 The annual HRA operating surplus refers to the balance remaining after operating expenses, depreciation and financing costs have been charged against income. Borrowing for Social Housing does not require the set aside of MRP so the balance can be used to fund capital expenditure or increase reserves as well as repaying debt. However sufficient debt repayment should be made in order to create headroom for future borrowing.

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3.3 The council is required to charge Depreciation to the HRA in order to reflect the costs of providing the asset over the life of the asset. The depreciation effectively sets aside funding for capital works that enhance and prolong the life of the asset (for accounting purposes this is managed through a Major Repairs Reserve).

3.3 Authority will be given to the Section 151 Officer to determine the use of the annual HRA operating surplus in the way that is most beneficial to the Council.

4.0 Investment Framework

4.1 While there is no theoretical limit to borrowing within the HRA, the existing asset and operating base generates a net income stream that does offer a logical limit on sustainable borrowing levels because it needs to be sufficient to fund services and cover financing costs.

4.2 This strategy sets out the framework within which decisions will be taken to ensure that the HRA Business Plan remains sustainable and borrowing affordable.

4.3 Reference is made to the Housing Association sector, traditionally funded through long term bank lending secured on the asset base so provides an insight into the viability and sustainability of borrowing as viewed by private lenders.

4.4 Interest Cover Ratio (ICR)

This is the ratio of operating surplus divided by interest costs and represents the cover that the HRA has against its interest cost liabilities in any year; the ICR is set to a minimum which provides comfort that if there were a sudden drop in income or increase in operating costs, there would be sufficient headroom to continue to cover debt interest.

Housing Association lending covenants are generally based on an ICR of between 1.10 and 1.50 with 1.25 being a typical golden rule.

This strategy sets out that the ICR for the HRA should remain at 1.2 or above for the duration of the 30 year plan. The ICR will be monitored on an annual basis by the Section 151 Officer. Authority is given to the Section 151 officer to determine a variation on the minimum ICR

The HRA 30 year Interest Cover Ratio forecast is illustrated by the graph at Section 7 below and demonstrates that financing of the proposed capital programme with the proposed level of debt repayment is affordable.

5.0 Operating Costs

5.1 The effective management of operating costs will enable the HRA to sustain borrowing capacity by creating and maintaining headroom.

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5.2 It is the Council's strategy to ensure that operating costs are linked to property numbers so that they vary as property numbers reduce over time in line with income generated.

6.0 Minimum Balance

6.1 The HRA minimum balance needs to be sufficient to provide a contingency. Currently at a level of £7 million, equating to 7% of turnover.

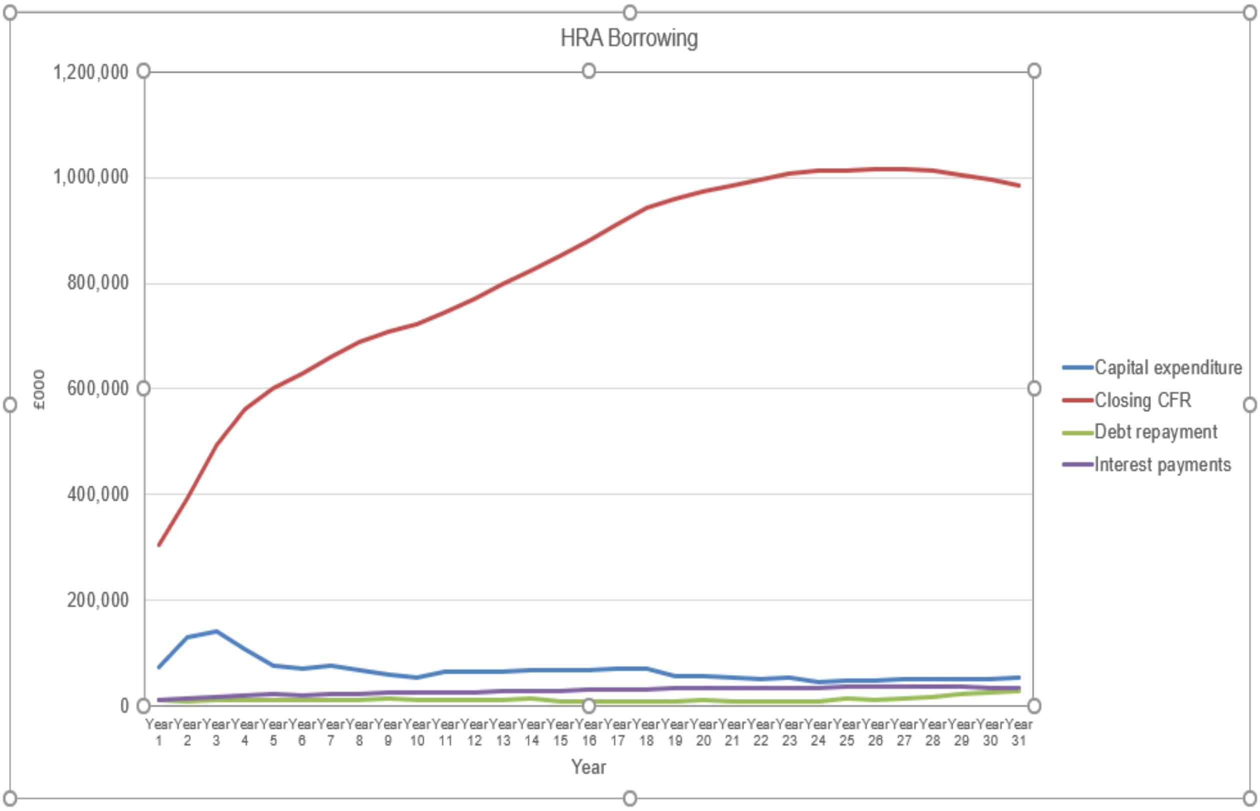
6.2 The Section 151 officer will consider the risks and pressures facing the HRA when determining an appropriate and adequate level of reserve.

6.3 The Section 151 officer will review the minimum balance on an annual basis.

7.0 HRA Borrowing and Interest Cover

7.1 30 year HRA Borrowing Forecasts

The closing Capital Financing Requirement (CFR) is the borrowing need at the end of the financial year.



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7.2 30 Year Interest Cover Ratio Forecasts