

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Finance and Performance **Date:** Tuesday, 18 May 2010
Management Cabinet Committee

Place: Committee Room 1, Civic Offices, **Time:** 6.35 - 7.30 pm
High Street, Epping

Members Present: C Whitbread (Chairman), R Bassett, Mrs D Collins, D Stallan and Ms S Stavrou

Other Councillors:

Apologies: - Mrs M Sartin

Officers Present: D Macnab (Deputy Chief Executive), A Hall (Director of Housing), R Palmer (Director of Finance and ICT), P Maddock (Assistant Director (Accountancy)), B Moldon (Principal Accountant) and G J Woodhall (Democratic Services Officer)

Also in attendance: Mrs M Carter and S Smith

48. DECLARATIONS OF INTEREST

There were no declarations of interest pursuant to the Council's Code of Member Conduct.

49. MINUTES

RESOLVED:

That the minutes of the meeting held on 15 March 2010 be taken as read and signed by the Chairman as a correct record.

50. ANY OTHER BUSINESS

It was noted that there was no other urgent business for consideration by the Cabinet Committee.

51. REPLACEMENT OF HOUSING REVENUE ACCOUNT SUBSIDY SYSTEM

The Director of Finance & ICT introduced a report upon the Government's proposals to replace the current Housing Revenue Account (HRA) Subsidy System. In attendance was also the Council's appointed Consultant from ConsultCIH, and the Chairman of the Council's Tenants & Leaseholders Federation.

The Consultant from ConsultCIH presented the report prepared on the implications of the proposed HRA reforms upon the Council. The proposal by the Government had been based upon moving towards a self-financing HRA system in which the current subsidies were exchanged for a one-off adjustment of housing debt, after which rental surpluses and Right-to-Buy receipts would be retained by local authorities in their entirety, under clause 313 of the Housing & Regeneration Act 2008. The debt

settlement from the Government for the Council had been set at £164.4million, but after offsetting the HRA's current surplus of £22.8million this would result in an actual debt allocation of £157.6million. The difference between the two figures would be retained as borrowing potential for the Council to provide further housing, which when allied to grants from the Homes & Communities Agency could provide an additional 240 social housing properties over the next 30 years. A model had been produced for the Council, based upon the existing HRA five-year forecast and a number of key assumptions, including general inflation of 2% and long-term debt interest rates of 6%. If revenue surpluses were set aside for repayment, then the debt could be paid off in 18 years and reserves built up to £450million after 35 years. However, a key issue for the Council would be the subsequent effect upon the General Fund, as the proposal would involve the Council losing its debt free status.

In response to questions from Members, the Consultant added that the proposed debt allocation could currently only happen on a voluntary basis, although this position could change in the future. It was felt that the proposed debt settlement could benefit councils with decent housing stock as more funds would be available to pay back the debt. It was confirmed that the Public Works Loan Board would provide loans for the proposed debt, which should be fixed for a long period with stable interest rates and repayment plans, but it would still require careful Treasury Management by the Council.

A letter was read out by the Director of Finance & ICT from an individual member of the Tenants & Leaseholders Federation (TLF), before the Chairman of the Federation summarised it's formal views:

- (i) the current subsidy system was immoral and unfair to the Council's tenants, as the surpluses were used to fund non-housing Government spending;
- (ii) concern over the proposed rejection of the Government's offer, although the potential effect on the Council's General Fund was acknowledged;
- (iii) the Council was urged to accept the Government's offer if the effects upon the General Fund could be overcome;
- (iv) support for the Government's proposal for Councils to retain 100% of their Right-to-Buy receipts; and
- (v) to consult with the Federation over the possible transfer of non-housing assets from the HRA to the General Fund.

The Principal Accountant outlined the further analysis of the proposals upon the Council, and in particular the General Fund. The proposals would give rise to a debt per property of £27,500 for the Council, which was high in comparison to other councils throughout the country. The General Fund currently paid interest at 1.8% to the HRA, which for 2009/10 equated to £396,000. The proposed debt reallocation at an interest rate of 6% would produce a new combined charge to the General Fund of £2.2million, an increase of £1.8million on the current position and represented a significant additional cost. The HRA also included non-housing assets such as commercial properties, which could be transferred to the General Fund. Such a transfer would benefit the General Fund provided the rent received, net of property expenses, exceeded the additional interest payable to the HRA. Further work was required to establish the impact of such a change on both the HRA and General Fund, and a further report would be submitted to the Cabinet in due course.

The Director of Finance & ICT added that the HRA was only meant to provide a landlord function for social housing, and it seemed to be an accident of history that it also received income from commercial properties. It was felt that it would be more appropriate for all residents within the District to benefit from such income, and not just the Council's housing tenants, hence the proposed further report on the matter.

The Director then proceeded to present the Council's suggested response to the Government's consultation, which involved answers to the six listed questions. It was highlighted that a number of Councils within Essex did not have a HRA as they had previously transferred their housing stock to Housing Associations, and consequently the proposals did not affect them. The additional cost to the General Fund of £1.8million would lead to cuts in Council services as any future rise in Council Tax to cover the additional costs would be capped by the Government. Of the nine Councils with similar circumstances that had been written to by the Director, only one had responded. Welwyn & Hatfield Council had stated that they were not in a similar position to Epping Forest, and would not be supporting any possible joint response through the Local Government Association. It was highlighted that there could be a further two or three revisions of the Housing Revenue Account over the proposed 30-year period.

The Cabinet Committee felt that the new Government could alter the terms of the proposal in future, and the recent rise in inflation was also a worry. There was concern expressed at the Council losing its debt-free status and, as there was no certainty about the proposals over the term of the debt, it was felt that this would be a very risky venture for the Council with its current strong financial position. There was no guarantee that any solution to the issues facing the Council would be implemented on a permanent basis by the Government and the Cabinet Committee was reluctant to commit the Council to this debt over such a long period, especially as the Government could impose further debt upon the Council in future. Consequently, it was felt that the proposed offer from the Government should be rejected and the draft response to the consultation, outlining the Council's views, should be approved.

RECOMMENDED:

- (1) That the report provided by ConsultCIH on the implications of the proposed reforms of the Housing Revenue Account Subsidy System upon the Council be noted;
- (2) That the views of the Council's Tenants & Leaseholders Federation on the Government's proposed reforms be noted;
- (3) That the proposed offer from the Department of Communities & Local Government on the reform of the Housing Subsidy System be rejected;
- (4) That the Council's draft response to the Government consultation (attached at Appendix 2 of the report) be approved; and
- (5) That the submission of a further report to a future meeting of the Cabinet on the possible transfer of non-housing assets currently held within the Housing Revenue Account to the General Fund be noted.

Reasons for Decision:

To be able to respond to the Government's consultation on the proposed reforms of the HRA subsidy system before 6 July 2010.

Other Options Considered and Rejected:

To respond in favour of the offer or to make changes to the Council's draft response attached at Appendix 2 of the report.

CHAIRMAN