Scrutiny Standing Panel Agenda

SCRUTINY

Epping Forest District Council

Joint Housing and Finance and Performance Management Scrutiny Standing Panel
Tuesday, 12th October, 2010

Place:	Council Chamber, Civic Offices, High Street, Epping
Time:	7.00 pm
Democratic Services Officer:	Adrian Hendry - The Office of the Chief Executive Tel: 01992 564246 Email: ahendry@eppingforestdc.gov.uk

Members:

Councillors R Morgan (Chairman), R Barrett, W Breare-Hall, Ms R Brookes, R Cohen, D Dodeja, Mrs R Gadsby, Mrs A Grigg, Ms J Hart, Ms J Hedges, D Jacobs, Mrs S Jones, D C Johnson, B Judd, Mrs J Lea, L Leonard, A Lion, G Mohindra, S Murray, J Philip, W Pryor, Mrs J Sutcliffe, Ms S Watson and Mrs J H Whitehouse

1. APPOINTMENT OF VICE CHAIRMAN

RECOMMENDATION:

To appoint a Vice-chairman for the duration of the meeting.

2. APOLOGIES FOR ABSENCE

3. SUBSTITUTE MEMBERS (COUNCIL MINUTE 39 - 23.7.02)

(Assistant to the Chief Executive) To report the appointment of any substitute members for the meeting.

4. DECLARATIONS OF INTEREST

(Assistant to the Chief Executive). To declare interests in any items on the agenda.

In considering whether to declare a personal or a prejudicial interest under the Code of Conduct, Overview & Scrutiny members are asked pay particular attention to paragraph 11 of the Code in addition to the more familiar requirements.

This requires the declaration of a personal and prejudicial interest in any matter before an OS Committee which relates to a decision of or action by another Committee or Sub Committee of the Council, a Joint Committee or Joint Sub Committee in which the

Council is involved and of which the Councillor is also a member.

Paragraph 11 does not refer to Cabinet decisions or attendance at an OS meeting purely for the purpose of answering questions or providing information on such a matter.

5. NON HOUSING ASSETS WITHIN THE HOUSING REVENUE ACCOUNT (Pages 3 - 50)

At their meeting on Monday, 13 September 2010, the Cabinet asked that the report on Non-Housing Assets within the Housing Revenue Account be considered by a joint meeting of the Housing and the Finance Scrutiny Standing Panels as the subject matter covers both housing and finance.

The report (C-020-2010-11, attached, along with a covering report and other relevant background papers), recommended the transfer of the non-housing assets to the general fund. Cabinet wanted this joint scrutiny to look at this and make any recommendations to the full Council meeting on 2 November 2010. The Cabinet would also submit their recommendations to this meeting.

Report to the Finance & Performance Management and Housing Scrutiny Panel

SCRUTINY

Epping Forest District Council

Date of meeting: 12 October 2010

Subject: Non-Housing Assets within the Housing Revenue Account

Officer contact for further information: Brian Moldon (01992 564455)

Committee Officer: Adrian Hendry (01992 564246)

Recommendations/Decisions Required:

(1) To consider the proposed transfer of the non-housing assets from the Housing Revenue Account to the General Fund and to provide its views and recommendations on the proposals to the Council on 2 November 2010.

Report:

1. The Cabinet met on 13 September 2010 to consider the transfer of the non-housing assets (shops, pubs and a petrol station) listed in appendix 4 from the Housing Revenue Account (HRA) to the General Fund. The Cabinet agreed to recommend to the full Council that all non-housing assets should be transferred from the HRA to the General Fund from 2011/12, following an updated valuation of the assets.

2. However, members also decided at that meeting that further scrutiny of this proposal should be undertaken and a decision was made to hold a joint meeting of the Finance & Performance Management and Housing Scrutiny Panels to provide views and recommendations on the proposal to Council on 2 November 2010.

3. To assist members in considering this proposal, a number of appendices are attached for their information.

a. Annex D from the Communities and Local Government's (CLG's) document *"Council housing: a real future prospectus"* (a recent consultation paper on which the Council provided comments, that also looked at the option to dismantle the current housing subsidy system). This provides the draft revised guidance on the operation of the HRA ring-fence i.e. whether various items of expenditure and income should or should not be included within the HRA. No guidance has yet been introduced following this consultation.

b. Next is the report from the Director of Housing that went to the Tenants & Leaseholders Federation (TLF) on 7 September 2010, *"Proposed Transfer of Non-housing Assets from the HRA to the General Fund – Effects on the HRA and the Housing Capital Programme*".

c. Next is the letter from the Director of Housing to all members of the Council, accompanying a copy of the report to the TLF, giving some further information on the modelling and information provided within the report to the TLF (in appendix 2).

d. Then the report that went to Cabinet on 13 September 2010.

e. And finally is the Financial Issues Paper that went to the Finance &

Performance Cabinet Committee on 27 September 2010.

4. A further recommendation from the Cabinet meeting, was a request of officers to provide further analysis showing the likely effect on the HRA of further savings being made through no pay award being anticipated in 2010/11 and 2012/13. As part of this exercise, anticipated interest income has been updated, and anticipated savings figures from the current estimate process and subsidy payments have been reviewed and adjusted, to reflect latest indications.

5. Updated revised five and thirty year HRA Business Plans have been calculated taking into account the changes above and adjusting the Capital Expenditure Charged to Revenue in years 2010/11 to 2012/13. This has resulted in additional contributions to capital expenditure of £5.35 million being included over this period, to manage the HRA balance down to £3.89 million. This is an increase of £800,000 following the changes above.

6. The thirty year HRA Business Plan now shows that the predicted forecast for the HRA to fall into deficit (if no remedial action is taken) is in Year 18, this is six years later than that reported to Cabinet on 13 September 2010 and is as a result of updating the HRA Business Plan following that meeting. However, this is sooner than that forecast within the current HRA Business Plan (which includes the retention of the non-housing assets within the HRA) which was adopted in March 2010, at that time it was predicted that the HRA will remain in surplus until Year 28.

7. Although the Chair and Vice-Chair of the TLF have been invited to attend this joint meeting of the Scrutiny Panel, neither are able to attend. However, it is understood that they will provide their written comments on this issue in advance of the meeting.

Reason for decision:

To ensure that the HRA is operated on the correct basis as a landlord account.

To ensure that the benefit of the rental income is shared amongst all residents and not confined to the HRA.

Options considered and rejected:

To leave the non-housing assets and their rental income within the HRA.

Consultation undertaken:

The Tenants & Leaseholders Federation was consulted on 20 July 2010 and they strongly oppose the transfer of the commercial properties to the general fund. Their views were: this would have an impact on the service for tenants due to a reduction in capital expenditure; members would find it more difficult to be able to set rent below the rent restructuring level; and there were concerns that the valuation is too low and to make a informed decision on the possible transfer, an up to date valuation should be provided. The TLF also requested that the chairman of the TLF be invited to Cabinet to further express the views of the Federation. They attended Cabinet on 13 September 2010 and reiterated their views.

Resource implications:

Budget provision: The General Fund would benefit from an additional income of approximately £1,097,000 in 2010/11, whilst the HRA would lose income of the same amount. This would not have an impact on Council tenant's rents for future years, as there is a mechanism in place for setting Council rents which does not include commercial properties income within the calculation.
The HRA, Housing Repairs Fund and Major Repairs Reserve balances as at 31 March 2010 are £6.089 million, £4.157 million, and £5.730 million respectively.

Personnel: Nil
Land: None

Community Plan/BVPP reference:
Relevant statutory powers: Under section 19(2) of the Housing Act 1985, the Council will require the consent of the Secretary of State to transfer the commercial properties from the HRA to the General Fund.

Background papers:
Finance and Performance Management Cabinet Committee on 18 May 2010 Response to CLG offer on the reform of the HRA subsidy system. CLG prospectus on Council housing: a real future published March 2010.

Environmental/Human Rights Act/Crime and Disorder Act Implications:
Key Decision reference: (if required)

Impact Assessments:

Risk Management
There is a risk to the HRA that the level of service may reduce. However, this risk is mitigated by the excellent condition of the housing stock and size of the balances available to the HRA. The revised 30 year business plan indicates that the HRA will not go into deficit until year 18 and it is likely that there will be some wider reform of the subsidy system before then.

The risk to the General Fund is that much more substantial service reduction will be required if the transfer does not proceed. The alternative Medium Term Financial Strategy (MTFS) presented with the Financial Issues Paper show that the net savings needed over the period would increase from £2.3m to £3.4m.

There is a risk that the Secretary of State may not consent to the transfer.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?	Yes
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	Yes

What equality implications were identified through the Equality Impact Assessment process?
The Customer Impact Assessment only identified low potential impacts, which relate to a reduction in the resources to the HRA. This would result in less money being available for management and maintenance issues, then if the transfer did not occur.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
The completion of the Customer Impact Assessment has been passed onto the Housing Directorate to highlight the potential impact, and it is for Housing to consider the options available to them.

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ANNEX D

Draft revised guidance on the operation of the HRA ring-fence

Introduction

1. This guidance is an updated version of Circular 8/95 published by the former Department of the Environment (DoE) and was developed with stakeholders as part of the joint CLG/HMT Review of Council Housing. It gives advice to local housing authorities in England on certain aspects of the Housing Revenue Account ("the HRA").

2. DoE Circular 8/95 provided valuable advice and gave clarification as to whether various items of expenditure and income should be accounted for inside or outside the HRA. However, while that document was a useful expression of council housing management at the time, circumstances have changed. Estates are no longer purely council estates and it can be the case that council tenants are in the minority on some estates. The rising expectations of tenants and residents have also placed increasing demands on housing services, which are frequently being called upon to provide services to meet the needs of communities and neighbourhoods which are beyond the traditional remit of a landlord service.

3. This paper restates Ministers' established policy for the HRA and introduces no new issues of principle. However it does highlight the need to be fair to both tenants and council tax payers and that there should be a fair and transparent apportionment of costs between the HRA and General Fund. Therefore this guidance serves to re-emphasise the already existing requirement for authorities to make contributions from the General Fund to the HRA when services are provided out of the HRA to the benefit of the community as a whole.

4. It is intended to be a helpful reference document for authorities, tenants and auditors alike. *This guidance is not intended as an authoritative statement of the law on the keeping of the HRA. Authorities should take their own legal and accounting advice as necessary and will need to satisfy their auditors about their decisions*.

5. At its most basic, when taking any decision on whether an item of expenditure or income potentially related to the administration of the housing stock should be accounted for in the HRA, the test that should be applied is "Who benefits?" That is to say, who is the major contributor of the item of income, or the major beneficiary of

the expenditure under consideration; should the HRA bear the full cost or only part, or should it benefit from the entirety of the income, or is some of it applicable to the General Fund?

6. In some cases, such as rental income, or expenditure on housing repairs, it is clear that the HRA is the correct accounting vehicle. Transactions concerning rent rebates and Housing Benefit are clearly placed in the general fund, but there is a substantial 'grey area' of items of income and expenditure where differing and perhaps unique local circumstances will suggest different solutions. These are the decisions where local flexibility is best employed using the "who benefits?" approach.

Statutory Background

7. Expenditure and income relating to property listed in section 74 of the Local Government and Housing Act 1989 ("the 1989 Act") must be accounted for in the HRA. This comprises mostly housing and other property provided by authorities under Part II of the Housing Act 1985 ("the 1985 Act"). Schedule 4 to the 1989 Act (as amended by section 127 of the Leasehold Reform, Housing and Urban Development Act 1993) specifies the debit and credit items to be recorded in the HRA. The Housing (Welfare Services) Order 1994 specifies the welfare services which must be accounted for outside the HRA.

General Principles

8. The statutory provisions referred to above reflect the Government's policy that the HRA remains a ring-fenced account within the General Fund and should still primarily be a landlord account, containing the income and expenditure arising from a housing authority's landlord functions.

Property in the HRA

9. The main consideration when deciding whether the costs and income associated with a particular property should be accounted for in the HRA is the powers under which the authority is currently providing that property, Section 74 of the 1989 Act sets out the property which must be accounted for in the HRA, by reference to the powers under which it is held.

10. A property has to be accounted for within the HRA if it is currently provided under Part II of the 1985 Act or any of the other powers specified in section 74 of the 1989 Act ("Part II housing"); the account also extends to any outstanding debts or receipts which arose when a property was so provided and which are still outstanding

following its disposal. If a property is not provided under the powers listed in section 74, or in directions under that section, the authority must not account for it in the HRA. The HRA (Exclusion of Leases) Direction 1997, made under section 74(3)(d) of the 1989 Act, requires that all leases for dwellings for a period of 10 years or less, must not be included in the HRA.

11. If an authority wishes to include in the HRA property which is ancillary to Part II housing but not up to now provided under Part II, it will be necessary to obtain consent from the Secretary of State under section 12 of the 1985 Act (see also section 15 of the 1985 Act for London authorities). Such applications will be considered on their individual merits.

12. Equally, properties which may originally have been provided under one of the powers in section 74 of the 1989 Act (or their predecessor powers) may no longer fulfil their original purpose. In these circumstances, the authority should consider their removal from the HRA. Examples of properties which might fall into this category are estate shops and other commercial premises, such as banks, post offices, workshops, public houses, industrial estates and surgeries, where there is no longer any connection with the local authority's housing. The decision is for the authority to take, though they should be able to explain the basis of the decision to their external auditor and tenants, if called upon to do so.

13. Authorities should have regard to the powers available to them to hold property when they are considering whether to appropriate it out of the HRA. Section 19(2) of the 1985 Act requires authorities to obtain the Secretary of State's consent before a house or part of a house can be appropriated for any other purpose. If a property is transferred between the HRA and any other revenue account within the General Fund, this will involve adjustments to HRA and HRA subsidy capital financing requirements, in accordance with the relevant determinations under Part VI of the 1989 Act.

Amenities

14. These include play and other recreational areas, grassed areas and gardens and community centres. In each case it is for the authority to form their own judgement on whether provision is proper under Part II of the 1985 Act and the extent to which the costs should be charged to the HRA. Much will depend upon local circumstances. Among the issues to be considered are the purpose of provision and the use made of the facilities by tenants and other people. There can only be a charge to the HRA where the amenities are provided and maintained in connection with Part II housing accommodation.

15. Where an amenity is shared by the community as a whole, the authority must have regard to paragraph 3 of Part III of Schedule 4 to the 1989 Act. This requires a contribution to be made from the General Fund to the HRA reflecting the general community's share of the amenity.

Management and Maintenance Services

16. The landlord is often best placed to provide wider services for neighbourhoods and communities that go beyond their traditional remit. Housing Quality Network (HQN) research into HRA management and maintenance costs found that *"A large and growing proportion of management costs, perhaps up to 40%, are being incurred in 'non-core' service areas and whilst a proportion of these costs are recovered through a diverse range of income streams including grants, service charges and other contributions, the net cost of these services is significant and growing."* In the light of this evidence there is a clear need to demonstrate transparency to both tenants and council tax payers that there is a fair apportionment of costs between the HRA and the General Fund.

17. To assist in determining what should and what should not be charged to the HRA management and maintenance services can be expressed as core, core plus or non-core services. This approach was developed by HQN in their above mentioned research.

18. While core-plus and non-core activities may attract funding from a variety of external sources to supplement the funding from the HRA, including non-rent service charges, other funding streams and grants, and the general fund. As a general approach, the net cost of core-plus services to the HRA should be taken into account through locally programmed management and maintenance provision, funded primarily from rental income.

19. Over time, non-core services should be regarded as services provided by the landlord but funded from sources other than rent. The degree to which these non-core activities attract alternative sources of funding, together with the degree they are taken up by the council's own tenants will also influence any decision on where they should be accounted for under the "Who Benefits" principle.

20. Where a council landlord is taking decisions concerning the correct place to account for new services, or is reviewing existing practice in the light of evolving circumstances, Communities and Local Government would expect that tenants should be consulted or otherwise involved in the decision-making process.

Core Services

- Repair and maintenance
  - Responsive
  - Planned and cyclical
  - Rechargeable repairs
- General tenancy management
  - Rent collection and arrears recovery
  - Service charge collection and recovery
  - Void and re-let management
  - Lettings and allocations of HRA properties only, any work carried out in respect of non HRA properties should be charged to the General Fund
  - Management of repairs
  - Anti Social Behaviour: low level
  - General advice on tenancy matters
- General estate management[1]
  - Communal cleaning
  - Communal heating and lighting
  - Grounds maintenance
  - Community centres
  - Play areas
  - Estate officers and caretakers
  - Neighbourhood Wardens
  - Concierge
  - CCTV
- Policy and management
  - HRA share of strategic management costs
  - Setting of rent levels, service charges, and supporting people charges
  - Administration of the Right to Buy

1 If any of the above services provided from the HRA in connection with Part II housing accomodation are shared by the community as a whole then a General Fund contribution to the HRA must be made to reflect the general communities share.

Core Plus Services

- Contribution to corporate Anti Social Behaviour services. Where the service is entirely charged to the General Fund it may be appropriate for the HRA to contribute to these costs
- Tenancy support
- Supporting people services – HRA housing related support services only e.g.
  - Sheltered accommodation wardens
  - Alarm services

Non-Core Services

It is the view of CLG that it is inappropriate to charge these services to the HRA. Their costs should be met from the General Fund.

- Administration of a common housing register – costs should be split between the HRA and General Fund
- Maintenance of tenant gardens – unless a separate charge is made for the service
- Street lighting
- Dog wardens
- Personal care services
- Homeless administration
- Housing advisory service

Date: August 2010

Our Ref: AMH/AMH

Your Ref:

TO ALL MEMBERS OF COUNCIL

Alan Hall (01992) 564004
e-mail:ahall@eppingforestdc.gov.uk

Dear Councillor,

Proposed Transfer of Non-Housing Assets from the HRA to the General Fund - Report to the Epping Forest Tenants and Leaseholders Association on the Implications for the HRA

At the meeting of the Cabinet to be held on the 13th September 2010, a report from the Director of Finance and ICT on the possible transfer of non-housing assets (primarily estate-based shops) from the Housing Revenue Account (HRA) to the General Fund will be considered. You should receive the Agenda for the Cabinet meeting in your Members Pack, at the same time as you receive this letter.

The Epping Forest Tenants and Leaseholders Federation has previously been consulted by the Director of Finance and ICT on the report's contents, and the views of the Federation have been included within the report (under the "Consultation Undertaken" Section). In addition, the Leader of the Council has agreed a request from the Federation that its Chairman and Vice-Chairman be given an opportunity to present the Federation's views orally at the Cabinet meeting. They will be given 3 minutes to summarise the Federation's views, in accordance with the usual practice for non-member attendance at Council meetings.

The Federation has asked me, separately, to provide them with a report on the implications that the loss of income from proposed transfer of non-housing assets to the General Fund would have on the HRA, the Housing Capital Programme and the Housing Service generally. I have therefore produced a report for the Federation's next meeting, to be held on the 7th September 2010.

In view of its importance, any decision to transfer the non-housing assets would need to be made by the full Council (probably on the 28th September 2010), on the recommendation of the Cabinet. Therefore, in order to ensure that all members are aware of the potential implications that the loss of income would have on the HRA and the Housing Service when they come to make the decision, the Leader of Council, Finance and Economic Development Portfolio Holder and Housing Portfolio Holder have asked me to provide all Members of Council with a copy of my report to the Tenants and Leaseholders Federation for their information.

I have therefore attached a copy of the report hereto which, as you will note, suggests a potential approach to model and mitigate the financial effects the proposed transfer of non-housing assets would have on the HRA, and sets out - in general terms only - the likely effects and implications that the resultant loss of income would have on the Housing Capital Programme and the Housing Service, including the required amount of budget reductions that would need to be made in the future.

Please note the following caveats on the modelling and information provided in my report to the Federation, which is not included within the report itself:

- The proposed approach, modelling and effects - if the transfer goes ahead - is on the basis that the average loss of income to the HRA each year would be £750,000 p/a, as set out in the report to the Cabinet. However, over the next couple of years, the net loss of income to the HRA is likely to be higher than this amount (due to current low interest rates). As the report to Cabinet explains, if the transfer had been implemented from the current year, the loss to the HRA this year would have been in excess of £1 million.

- If the annual average loss of income to the HRA over the next 10-20 years is higher than £750,000 per annum, even more HRA budget reductions will be required than the amounts set out in the report to the Federation (either greater reductions each year, or the required budget reductions will need to be commenced earlier). Similarly, if the average net annual transfer value is less than assumed, less HRA budget reductions will be required.

- The approach and effects are based on the Council receiving the same amount of annual Major Repairs Allowance (MRA) from the Government (an annual Government grant to maintain the Council's properties) as currently assumed within the HRA's 30-Year Financial Plan.

  However, like all public expenditure, commentators believe that the amount of MRA paid to local authorities will be reduced as a result of the forthcoming Comprehensive Spending Review in October. If this is the case, even more budget reductions will be required to the HRA Capital Programme and Housing Service than set out in my report to the Tenants and Leaseholders Federation

- Although the report to the Federation only focuses on the losses to the HRA over the next 20 years, it should be noted that the annual HRA budget reductions that would be required from Year 20 onwards would need be increased from £500,000 per annum to £750,000 per annum.

If any members have any queries relating to this important issue in advance of the Cabinet meeting, please do not hesitate to contact either myself or Bob Palmer (Director of Finance and ICT).

Yours faithfully,

Alan Hall
DIRECTOR OF HOUSING

Report to Tenants and Leaseholders Federation
7th September 2010

Proposed Transfer of Non-Housing Assets from the HRA to the General Fund – Effects on the HRA and the Housing Capital Programme

Author: **Alan Hall, Director of Housing**

Recommendations:

That the effects on the HRA and the Housing Capital Programme of the proposed transfer of non-housing assets from the HRA to the General Fund be noted.

Introduction

1. At its last meeting, the Federation considered a presentation from the Assistant Director of Finance & ICT (Accountancy) and the Principal Accountant on a draft report to be submitted by the Director of Finance and ICT to the Council's Cabinet on the 13th September 2010, proposing the transfer of non-housing assets (i.e. shops and other commercial properties) from the HRA to the General Fund.

2. The Federation noted that the loss of income (estimated at between £750,000 - £1 million per annum), due to the proposed transfer, would have a detrimental effect on the HRA and the Housing Capital Programme, and the delivery of a first class housing service to the Council's tenants.

3. The Federation asked that the following comments from the Federation be included within the report to the Cabinet (which they have):

- The Federation strongly opposes the transfer of the non-housing assets to the General Fund;
- The transfer would have a detrimental impact on the housing service to tenants;
- In future, the Council would find it more difficult to be able to set rents below the rent restructuring level; and
- The Federations has concerns that the valuation of the non-housing assets is too low and, in order to make an informed decision on the possible transfer, an up-to-date valuation should be provided before a decision is made.

4. The Federation also requested that its Chairman be invited to, and allowed to speak at, the Cabinet meeting, in order to further express the views of the Federation. The Leader of the Council (as Chairman of the Cabinet) has agreed to this request, subject to the Federation's views being presented within 3 minutes, which is the usual period given to invited speakers at Council meetings.

5. It has been agreed between the Chairman and the Vice Chairman of the Federation that they will both attend the Cabinet meeting, and that the Vice-Chairman (Mike Tobin) will present the Federation's views.

6. When the Federation considered the draft report at its last meeting, it also asked the Director of Housing to explain the effects of the proposed transfer on the delivery of the Councils housing serviced and Capital Programme at this meeting.

Effects on the HRA and the Housing Capital Programme of the proposed transfer of the non-housing assets

7. Attached as Appendix 1 to this report is a table that sets out suggested changes that would need to be made to the first 20 years of the HRA's 30-Year Financial Plan, as a result of the proposed transfer, together with the savings that would need to be made on HRA day-to-day expenditure (i.e. the Housing Service) and the HRA Capital Programme as a result.

8. It is emphasised that a variety of different changes could be made, which would have different effects on HRA expenditure and the Capital Programme. However, the suggested changes set out in the table are considered by the Director of Housing to be the most prudent approach to managing the problem.

9. In order to properly understand the table, the terms used within the table need to be understood, and are explained below:

(Housing) Capital Expenditure	Money spent on major repairs and improvement projects to the Council's housing stock
HRA Capital Programme	The list of major repairs and improvement projects to the Council's housing stock, and the amounts to be spent on each type of project. The Current HRA Capital Programme for the next 5 years, showing the list of repairs and improvements, is given at Appendix 2
RCCO (Revenue Contributions to Capital Outlay)	The amount of tenants' rents used to pay for capital expenditure (e.g. major repairs and improvements)
HRA Balances	The amount of money held ("in the bank") by the HRA at the end of the year, that can be used to spend on housing services in future years. It is illegal for the Council to budget for a deficit (i.e. "negative" HRA Balances)
MRA (Major Repairs Allowance)	An annual grant from the Government that must be used to fund major repairs and improvements to the Council's properties - but does not necessarily have to all be used in the year that it is received. Any amount of the MRA that is not used can be carried over to future years
MRA Reserve	The cumulative amount of MRA that has not been used over the years, and that can then be used in the future
MRA Used	The amount of MRA and any MRA Reserves used in that year
"Original"	The figures included within the HRA's current 30-Year Financial Plan
"Proposed"	The figures that the Director of Housing suggests should be included within the 30-Year Financial Plan, each year, if the proposed transfer of non-housing assets to the General Fund goes ahead

"Difference"	The differences, each year, between the figures included within the current HRA Financial Plan and those proposed if the transfer goes ahead.
"HRA Savings Required"	The amount of savings in "day-to-day" expenditure that would need to be made to the Housing Service each year, as a result of the proposed transfer
"Capital Programme – Differences"	The amount of reductions in capital expenditure that would need to be made, each year, within the Housing Capital Programme, as a result of the proposed transfer

10. The conclusions on the effects and implications on the HRA if the proposed transfer goes ahead, that can be drawn from the table at Appendix 1, are as follows:

- Since the Council has accumulated quite a high amount of MRA Reserve to date (currently just over £5 million), and had planned to build the MRA Reserve up further (to around £8.5 million in Year 9) - so that it can be used to fund capital expenditure in later years - the current HRA Capital Programme can remain the same if the transfer goes ahead, up to Year 14 (2022/23)

- However, after Year 14, the HRA Capital Programme will need to be reduced by £1.8 million - £2.3 million (around 25%) **per year** over the next 6 years, amounting to £12.8 million in total

- Although not shown in the Table, it is likely that the HRA Capital Programme will need to continue to reduce by at least £2.3 million (25%) per year for the last 10 years of the 30-Year HRA Financial Plan

- In addition, savings of £0.5 million will need to be made **each** year on day-to-day expenditure on the Housing Service, from Year 11 (2019/20)

Effect on Tenants and the Housing Service

11. Clearly, when the savings to the HRA Capital Programme and the Housing Service need to be made, the Council's members and the Federation will need to consider very carefully the areas in which these reductions should be made. The report does not attempt to consider where these savings should be made.

HRA Capital Programme

12. Reductions in the HRA Capital Programme of around 25% per year will clearly have serious implications for major repair and improvement projects, and it is likely that the Council will be unable to continue to ensure that all tenants' homes meet the Decent Homes Standard. It is certain that improvement schemes not linked to the Decent Homes Standard will have to be significantly reduced or discontinued. The following types of projects are probably at most risk of reduction or eradication:

- Kitchen and bathroom replacements
- Disabled adaptations
- Heating system replacements
- Off-Street Parking Schemes
- Door entry replacements
- Energy efficiency works

- Estate improvements
- Large-scale improvement schemes (like those undertaken in the past at Springfields, Oakwood Hill and sheltered housing schemes)

13. It should also be noted that the ***current*** HRA Capital Programme does ***not*** have sufficient funding to properly maintain the Council's housing stock to a required standard. It is only sufficient to ensure that all the Council's properties meet the Decent Homes Standard, and to enable some additional improvements to be undertaken. For example, a property can meet the Decent Homes Standard, even if:

- One "non-key" building components is old and needs replacing or major repair; ***and/or***

- The property lacks ***up to two*** of the following facilities or services:

    - A reasonably modern kitchen (less than 20 years old)
    - A kitchen with adequate space and layout
    - A reasonably modern bathroom (30 years old or less)
    - An appropriately located bathroom and WC
    - Adequate insulation against external noise (where external noise is a problem)
    - Adequate size and layout of common areas for blocks of flats.

The Housing Service

14. Reductions of £0.5 million per year in the amount that can be spent on the Housing Service will also seriously affect the Council's ability to provide a first class housing service. Significant reductions that will be required in staff numbers and expenditure on, for example:

- Housing repairs
- Grass-cutting on estates
- The Careline Service
- Housing management
- Tenant participation

and will inevitably reduce the quality of the Housing Service that can be provided to tenants.

Appendix 1

Table Showing the Effects on the HRA and Housing Capital Programme of Non-Housing Assets Being Transferred from the HRA to the General Fund, in a Managed Way

	RCCO used			HRA Balances			MRA used			MRA Reserves			HRA Savings Reqd		Capital Programme		
	Original	Proposed	Difference	Original	Proposed	Difference	Original	Proposed	Difference	Original	Proposed	Difference	Original	Proposed	Original	Proposed	Difference
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Year 1	1,525	1,525	0	6,056	6,056	0	6,503	6,503	0	5,194	5,194	0	0	0	8,143	8,143	0
Year 2	1,763	1,763	0	6,048	6,048	0	5,143	5,143	0	4,895	4,895	0	0	0	6,956	6,956	0
Year 3	2,800	2,050	-750	4,974	4,876	-99	4,161	4,911	750	5,669	4,919	-750	0	0	7,011	7,011	0
Year 4	2,800	2,050	-750	4,446	4,439	-7	3,467	4,217	750	7,230	5,730	-1,500	0	0	6,317	6,317	0
Year 5	2,800	2,050	-750	4,034	4,098	65	3,031	3,781	750	9,321	7,071	-2,250	0	0	5,881	5,881	0
Year 6	2,800	2,050	-750	3,715	3,835	120	3,611	4,361	750	10,926	7,926	-3,000	0	0	6,461	6,461	0
Year 7	2,000	2,000	0	3,681	3,084	-597	4,523	4,523	0	11,711	8,711	-3,000	0	0	6,573	6,573	0
Year 8	1,200	1,200	0	3,783	2,447	-1,336	5,440	5,440	0	11,668	8,668	-3,000	0	0	6,690	6,690	0
Year 9	1,100	1,100	0	3,843	1,745	-2,098	5,659	5,659	0	11,502	8,502	-3,000	0	0	6,809	6,809	0
Year 10	1,000	1,000	0	3,881	998	-2,883	5,881	5,881	0	11,211	8,211	-3,000	0	0	6,931	6,931	0
Year 11	1,000	0	-1,000	3,993	1,801	-2,192	6,612	7,612	1,000	10,287	6,287	-4,000	0	-500	7,662	7,662	0
Year 12	1,000	0	-1,000	4,049	2,528	-1,521	6,754	7,754	1,000	9,322	4,322	-5,000	0	-500	7,804	7,804	0
Year 13	1,000	0	-1,000	4,028	3,172	-856	6,898	7,898	1,000	8,319	2,319	-6,000	0	-500	7,948	7,948	0
Year 14	1,000	0	-1,000	3,925	3,730	-195	7,046	8,046	1,000	7,277	277	-7,000	0	-500	8,096	8,096	0
Year 15	1,000	0	-1,000	3,736	4,200	464	7,195	6,391	-804	6,196	0	-6,196	0	-500	8,245	6,441	-1804
Year 16	1,000	0	-1,000	3,459	4,581	1,122	7,349	6,227	-1,122	5,074	0	-5,074	0	-500	8,399	6,277	-2122
Year 17	1,000	0	-1,000	3,094	4,877	1,783	7,507	6,342	-1,166	3,908	0	-3,908	0	-500	8,557	6,392	-2166
Year 18	1,000	0	-1,000	2,627	5,080	2,452	7,668	6,460	-1,208	2,701	0	-2,701	0	-500	8,718	6,510	-2208
Year 19	1,000	0	-1,000	2,054	5,199	3,145	7,832	6,581	-1,251	1,450	0	-1,450	0	-500	8,882	6,631	-2251
Year 20	844	0	-844	1,523	5,244	3,721	8,155	6,705	-1,450	0	0	0	0	-500	9,049	6,755	-2294

Key		
	RCCO	Revenue Contributions to Capital Outlay, which is the amount of tenants' rents used to pay for capital expenditure (e.g. major repairs and improvements)
	HRA Balances	The amount of money held ("in the bank") by the HRA at the end of the year, that can be used to spend on housing services in future years
	MRA	The Major Repairs Allowance, which is an annual grant from the Government that must be used to fund major repairs and improvements to the Council's properties - but does not necessarily have to all be used in the year that it is received. Any amount of the MRA that is not used can be carried over to future years
	MRA Reserves	The cumulative amount of MRA that has not been used over the years, and can be used in the future
	MRA Used	The amount of MRA and any MRA Reserves used in that year

File: Alan's Summary 30 year without Shops v2.xls
Tab: Summary

Appendix 2

Current 5-Year HRA Capital Programme
2009/10 – 2013/14

HOUSING (HRA) PORTFOLIO
CAPITAL PROGRAMME
2009/10 to 2013/14 5-YEAR FORECAST EXCLUDING CARRY FORWARDS

	2009/10 Revised Actual £000	2010/11 Forecast £000	2011/12 Forecast £000	2012/13 Forecast £000	2013/14 Forecast £000	5 Year Total £000
Housing Revenue Account						
Springfields, Sub Total (Works & Fees)	**1,548**	**0**	**0**	**0**	**0**	**1,548**
Boiler Replacements	310	300	300	300	300	1,510
New Heating Upgrades	450	739	726	722	617	3,254
MVHR / Ventilation Installations	16	40	40	40	40	176
Rewiring - (Kitchens & Bathrooms)	336	230	317	332	364	1,580
Rewiring - (Heating)	150	230	317	332	364	1,394
Central Heating/Rewiring Sub Total	**1,262**	**1,539**	**1,700**	**1,727**	**1,686**	**7,913**
PVCu Double Glazing / Door replacement	150	131	203	206	229	919
Roofing	522	539	528	605	409	2,602
Balcony Resurfacing	24	25	25	25	25	124
Asbestos Removal	52	115	115	115	115	512
Communal water tank renewals	120	67	80	83	81	431
Windows/Roof/Rewiring Sub Total	**868**	**876**	**951**	**1,034**	**858**	**4,588**
Norway House Improvements	50	50	50	50	50	250
Communal TV Upgrade/Other	35	100	0	0	0	135
Door Entry	14	26	18	35	104	196
Drainage Works	20	100	100	100	100	420
Energy Efficiency Works	160	200	200	200	200	960
Total Other Planned Maintenance	**279**	**476**	**368**	**385**	**454**	**1,961**
Total Planned Maintenance	**3,957**	**2,891**	**3,019**	**3,145**	**2,998**	**16,010**
Jubilee Court - Conversion of Warden Accom.	2	0	0	0	0	2
Parsonage Court - Conversion of Warden Accom.	139	0	0	0	0	139
Miscellaneous Structural Works	250	400	400	400	400	1,850
Total Structural Schemes	**391**	**400**	**400**	**400**	**400**	**1,991**
Small Capital Repairs	**438**	**685**	**632**	**464**	**493**	**2,711**
Kitchen & Bathroom Replacements	2,110	1,548	1,672	1,720	1,204	8,254
Total Cost Reflective Repairs	**2,110**	**1,548**	**1,672**	**1,720**	**1,204**	**8,254**
Fencing	22	15	15	15	15	82
Environmental Improvements - Shops	280	165	120	50	50	665
Off Street Parking	21	607	541	41	41	1,251
Estate Environment	112	102	102	102	100	518
Structural Watercourse Improvements	10	10	10	10	10	50
CCTV	34	50	50	50	50	234
Total Non-Cost Reflective Repairs	**479**	**949**	**838**	**268**	**266**	**2,800**
Welfare Heating	48	50	50	50	50	248
Other Disabled	534	400	400	400	400	2,134
Disabled Adaptations	**582**	**450**	**450**	**450**	**450**	**2,382**
External Lighting Schemes	32	5	5	5	5	52
Feasibilities	41	15	15	15	15	101
Other (New Roof Covering Loughton Way)	8	0	0	0	0	8
Careline Equipment Upgrade	50	0	0	0	0	50
Other Repairs & Maintenance	**131**	**32**	**20**	**20**	**20**	**211**
Contingency						**0**
TOTAL HRA	**8,088**	**6,955**	**7,031**	**6,467**	**5,830**	**34,359**
Housing DLO vehicles	55	50	50	50	50	255
TOTAL DLO	**55**	**50**	**50**	**50**	**50**	**255**

Report to the Cabinet

Report reference: C-020-2009/10
Date of meeting: 13 September 2010

Epping Forest District Council

Portfolio:	**Finance & Economic Development Housing**		
Subject:	**Non-Housing Assets within the Housing Revenue Account**		
Responsible Officer:		**Brian Moldon**	**(01992 564455).**
Democratic Services Officer:		**Gary Woodhall**	**(01992 564470).**

Recommendations/Decisions Required:

(1) To recommend to Council the transfer of the non-housing assets listed in appendix 1 to the General Fund; and

(2) To give authority to the Director of Finance & ICT to write to the Secretary of State to request permission to transfer the properties from the HRA to the General Fund.

Executive Summary:

Within the prospectus for the Housing Finance Reform on the dismantling of the Housing Subsidy System there is an emphasis that the Housing Revenue Account (HRA) remains a ring-fenced account and should still primarily be a landlord account, containing the income and expenditure arising from a housing authority's landlord functions.

Within the HRA, non-housing assets are currently held as investment properties, and the HRA receives rental income on these shops, pubs and a petrol station. The transfer of the non-housing assets to the General Fund would result in additional rental income to the General Fund but, because of the mechanism for setting rents, this would not cause rents for tenants to increase.

Amended versions of the five and thirty year forecasts reported to Cabinet on 8 March 2010 have been produced. The amended five year forecast still has a balance of just under £4 million on the HRA at the end of 2014/15. However, the amended thirty year forecast shows that, without a savings or efficiency programme, the HRA will fall in to deficit in year 12, compared to year 28 in the previous forecast.

Reasons for Proposed Decision:

To ensure that the HRA is operated on the correct basis as a landlord account.

To ensure that the benefit of the rental income is shared amongst all residents and not confined to the HRA.

Other Options for Action:

To leave the non-housing assets and their rental income within the HRA.

Report:

Introduction

1. The Finance and Performance Management Cabinet Committee met on 18 May 2010 to consider a response to the Department of Communities and Local Government (CLG) prospectus on the dismantling of the Housing Revenue Account (HRA) subsidy system. Within the report a recommendation was agreed to provide a further report to Cabinet on the opportunity to transfer to the General Fund the non-housing assets currently held within the HRA.

2. The non-housing assets within the HRA are commercial properties; this includes shops in the Broadway and elsewhere, a petrol station and pubs. These properties were transferred over to the Council around the same time as the Council dwellings from the Greater London Council. These properties are situated in or around the housing estates and therefore were left within the HRA.

3. During the recent exercise in considering the Government proposal to dismantle the HRA subsidy system, the prospectus highlighted the following in relation to the operation of the HRA ring-fence:

(a) Estates are no longer purely council estates and it can be the case that council tenants are in the minority on some estates;

(b) Government's policy is that the HRA remains a ring-fenced account and should still primarily be a landlord account, containing the income and expenditure arising from a housing authority's landlord functions; and

(c) Highlighted the need to be fair to both tenants and council tax payers and that there should be a fair and transparent apportionment of costs and income between the HRA and General Fund.

4. The Council already has a number of commercial properties within the General Fund, e.g. at Brooker Road and Oakwood Hill, so the income from these premises benefits all council tax payers. There are no statutory requirements for properties to remain within the HRA and be held only for the benefit of council tenants.

Impact on the HRA

5. Work has been undertaken including reviewing the HRA manual, to consider the transfer out of the HRA. An authority can appropriate land and property which it holds for one purpose, but no longer requires for that purpose, for another purpose. To do so, would require consent of the Secretary of State under section 19(2) of the Housing Act 1985. The Council has been in contact with CLG and initial views from them suggest that this is a straightforward and common occurrence, but we would need consent from the Secretary of State.

6. A list of the proposed commercial properties is shown at Appendix 1. These were last valued at 31 March 2009. A small sample from each shopping parade has been reviewed by the Council's Estates Service and applied to the other properties in the parade. A formal valuation will be undertaken if the properties are to be transferred to the general fund.

7. The table below shows the net gain to the General Fund from purchasing the properties from the HRA. The gain is achieved from the rental income from the commercial properties being transferred to the General Fund. This is off set by the cost of managing these properties and by a charge made for the purchase of them. The purchasing charge is the valuation price of the properties multiplied by the Average Interest Rate (this is the average rate of return on our investments in the year). Updated guidance taking into account requirements under the new International Financial Reporting Standards (IFRS) is still awaited, the valuation of properties will be undertaken by Estates Services and will need to be in line with this guidance when issued by CIPFA / RICS.

	2008/09 Actual	2009/10 Actual	2010/11 Estimate
Valuation of properties	£15,451,640	£15,451,640	£15,451,640
Average Interest Rate	5.56%	1.93%	1.80%
Charge to the General Fund	**£859,000**	**£298,000**	**£278,000**
Rental income from Properties	£1,671,000	£1,600,000	£1,754,000
Costs from properties	£269,000	£355,000	£379,000
Net income from properties	**£1,402,000**	**£1,245,000**	**£1,375,000**
Net gain on General Fund / loss on HRA	**£543,000**	**£947,000**	**£1,097,000**

8. There are still a number of operational issues that need to be resolved, for example where a shop is leased with the flat above the shop, the shop will be transferred, but the flat will remain with the HRA. Costs from properties have increased between 2008/09 and 2009/10, the main reason being the introduction of a recharge from the General Fund for CCTV cameras as a number of them are situated within Housing property or on Housing Land.

9. Revised five and thirty year business plans have been calculated taking into account the changes mentioned above, removing the previously anticipated pay award out of the 2011/12 figures, and adjusting the Capital Expenditure Charged to Revenue in years 2011/12 to 2014/15. When the previous five year forecast had been presented in March it had been necessary to build in additional contributions to capital of £7.55 million over the period to manage the HRA balance down to £3.75 million at the end of 2014/15. The amended forecast reduces the additional contributions to capital to £4.55 million and leaves the HRA with a balance of £3.85 million at the end of 2014/15. This still leaves the contributions to capital higher then prior to the five year forecast being agreed in March 2010.

10. The previous thirty year forecast projected that the HRA would fall into deficit in year 28. The amended forecast predicts the HRA could now fall into deficit in year 12, although this is before: reducing 2010/11 and 2012/13 budgets for no pay awards, generating a saving of £116,000 and £250,000 respectively; and any savings that are likely to be required as part of the 2011/12 estimate process.

11. A revised 30 year business plan under self financing has also been constructed. The results show little effect to the plan, with the total debt to be repaid by year 18, capital expenditure to be fully met and HRA revenue balances to be around £350 million in 30 years.

Resource Implications:

The General Fund would benefit from an additional income of approximately £1,097,000 in 2010/11, whilst the HRA would lose income of the same amount. This would not have an impact on Council tenant's rents for future years, as there is a mechanism in place for setting Council rents which does not include commercial properties income within the calculation.

The HRA, Housing Repairs Fund and Major Repairs Reserve balances as at 31 March 2010 are £6.089 million, £4.157 million, and £5.730 million respectively.

Legal and Governance Implications:

Under section 19(2) of the Housing Act 1985, the Council will require the consent of the Secretary of State to transfer the commercial properties from the HRA to the General Fund.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

It was recommended by the Finance and Performance Management Cabinet Committee on 18 May 2010 that the Tenants & Leaseholders Federation (TLF) be consulted prior to Cabinet receiving the report. This went to the TLF on 20 July 2010 where they strongly opposed the transfer of the shops to the general fund. Their views were: this would have an impact on the service for tenants due to the contribution to capital would be reduced; members would find it more difficult to be able to set rent below the rent restructuring level; and there were concerns that the valuation is too low and to make a informed decision on the possible transfer, an up to date valuation should be provided. The TLF also requested that the chairman of the TLF be invited to Cabinet to further express the views of the Federation.

Background Papers:

Finance and Performance Management Cabinet Committee on 18 May 2010 Response to CLG offer on the reform of the HRA subsidy system. CLG prospectus on Council housing: a real future published March 2010.

Impact Assessments:

<u>Risk Management</u>
It is possible that the Secretary of State may not consent to the transfer.

<u>Equality and Diversity:</u>

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?	No
Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?	N/A

What equality implications were identified through the Equality Impact Assessment process?
N/A

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
N/A

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1 Lower Queens Road, Buckhurst Hill	548 Limes Avenue, Chigwell
4 Lower Queens Road, Buckhurst Hill	550 556 Limes Avenue, Chigwell
5 Lower Queens Road, Buckhurst Hill	558 Limes Avenue, Chigwell
8 Lower Queens Road, Buckhurst Hill	560 Limes Avenue, Chigwell
	562 Limes Avenue, Chigwell
28 & 38 Parklands	
29 & 36 Parklands	48-50 The Street
30 & 34 Parklands	
31 & 32 Parklands	113 – 117 Upshire Road
	119 Upshire Road
20 & 22 St Peter's Avenue	121 Upshire Road
24 & 26 St Peter's Avenue	123 Upshire Road
28 & 30 St Peter's Avenue	
32 & 34 St Peter's Avenue	11-13 The Broadway
	12-14 The Broadway
74 Roundhills	15 The Broadway
76 Roundhills	16 The Broadway
78 Roundhills	17/19 The Broadway
80 Roundhills	18 The Broadway
82 Roundhills	20 The Broadway
	21 The Broadway
36 The Broadway	22 The Broadway
38 The Broadway	23 The Broadway
39 The Broadway	24 The Broadway
40 The Broadway	25 The Broadway
41 The Broadway	26 The Broadway & Flat 61A
42 The Broadway	27 The Broadway
43 The Broadway	28 The Broadway
44 The Broadway	29 The Broadway
45 The Broadway	30 The Broadway
46-48 The Broadway	31 The Broadway
47-49 The Broadway	32-34 The Broadway
50 The Broadway	33-37 The Broadway
51 The Broadway	57 The Broadway + Garage 292
52 The Broadway	58 The Broadway
53 The Broadway	59 The Broadway
54 The Broadway	60 The Broadway
55 The Broadway	61 The Broadway
56 The Broadway	62 The Broadway
64 The Broadway	67 The Broadway & Flat 22A
65 The Broadway	68 The Broadway
66 The Broadway	69 The Broadway
70 The Broadway	71 The Broadway
72 The Broadway	73 The Broadway
74 The Broadway	80 The Broadway
76 The Broadway	82 The Broadway
78 The Broadway	
58 & 78 Borders Lane	60 Borders Lane
62 Borders Lane	64 Borders Lane
66 Borders Lane	68 Borders Lane
70 Borders Lane & Flat 90	72 Borders Lane
74 Borders Lane	76 Borders Lane & Flat 96

83 Loughton Way, Buckhurst Hill	142 Loughton Way, Buckhurst Hill
144 Loughton Way, Buckhurst Hill	146 Loughton Way, Buckhurst Hill
148 Loughton Way, Buckhurst Hill	150 & 152 Loughton Way, Buckhurst Hill
154 Loughton Way, Buckhurst Hill	156 Loughton Way, Buckhurst Hill
158 Loughton Way, Buckhurst Hill	160 Loughton Way, Buckhurst Hill
162 Loughton Way, Buckhurst Hill	164 Loughton Way, Buckhurst Hill
15 Market Square	16 Market Square
17 Market Square	18 Market Square
19 Market Square	
34 Pyrles Lane	36, 38 & 40 Pyrles Lane
42 Pyrles Lane	44 Pyrles Lane & Flat 72a
46 Pyrles Lane	48 Pyrles Lane
50 Pyrles Lane	52 Pyrles Lane & Flat 62 & Garage
1-4 Hillhouse	5 Hillhouse
6 Hillhouse	7 Hillhouse
8 Hillhouse	9 Hillhouse
10 Hillhouse	11 Hillhouse
12 Hillhouse	
6, 7 & 14 Longcroft Rise	24 & 25 Fir Trees
Petrol Filling Station	Public House Sir Winston Churchill
	Public House The Cottage Loaf
2-18 Torrington Drive	Public House Gun Makers Arms
	Public House Spencers (Golden Lion)
70 Wellfields	Public House The Black Deer
63 Wellfields	Public House Clydesdale
17 & 18 Maynard Court	

Report to the Finance and Performance Management Cabinet Committee

Date of meeting: 27 September 2010

Epping Forest District Council

Portfolio: Finance and Economic Development

Subject: Financial Issues Paper

Officer contact for further information: Bob Palmer – (01992 – 56 4279)

Democratic Services Officer: Gary Woodhall - (01992 - 56 4470)

Recommendations/Decisions Required:

To make recommendations to the Cabinet on establishing a new budgetary framework including:

1. **Setting 2010/11 budget guidelines for the:**

   (a) The CSB budget (including growth items);
   (b) DDF items;
   (c) The use of surplus General Fund balances;
   (d) The District Council Tax for a Band 'D' property;

2. **A revised Medium Term Financial Strategy for the period to 2014/15, including the communication of the revised Medium Term Financial Strategy to staff, partners and other stakeholders.**

Executive Summary:

This report provides a framework for the Budget 2011/12 and updates Members on a number of financial issues that will affect this Authority in the short to medium term.

In broad terms the following represent the greatest areas of current financial uncertainty and risk to the Authority

- Likely reductions in grant as part of the next Comprehensive Spending Review
- Changes in the block grant allocation formulas
- Effects of the "Credit Crunch" and reduced activity in the housing market
- Transfer of commercial property from the Housing Revenue Account to the General Fund
- Using up of capital reserves on non-revenue generating assets
- Next triennial pension valuation
- Capitalisation of pension deficit payments
- Public sector re-organisation/shared services

These issues will be dealt with in the following paragraphs, taking the opportunity to discuss some areas in greater detail following recent developments. Based on the information contained in the report Members are asked to set out, for consultation purposes, the budgetary structure for 2011/12.

Reasons for Proposed Decisions:

By setting out clear guidelines at this stage the Committee establishes a framework to work within in developing growth and savings proposals. This should help avoid late changes to the budget and ensure that all changes to services have been carefully considered.

Other Options for Action:

Members could decide to wait until later in the budget cycle to provide guidelines if they felt more information, or a greater degree of certainty, was necessary in relation to a particular risk. However, any delay will reduce the time available to produce strategies that comply with the guidelines.

General Fund Out-turn 2009/10

1. Members have already received the outturn figures and the Statutory Statement of Accounts for 2009/10 together with explanations for the variances. In summary the General Fund Revenue outturn for 2009/10 shows that CSB expenditure was £569,000 lower than the original estimate and £702,000 lower than the revised. The main variance, as in 2008/09, related to staff savings arising from vacancies and a lower than anticipated pay award.

2. The revised CSB estimate for 2009/10 increased from £18.015m to £18.148m with the actual being £17.447m. The largest variance on growth and savings items was on waste management where growth of £359,000 had been estimated, but actual growth was only £204,000. A significant variance was also seen on the opening CSB figure, which is consistent with the main variance arising from salary savings.

3. Net DDF expenditure was £1.213m lower than the revised estimate. However £523,000 of this resulted from slippage so both expenditure and financing for this amount has been carried forward to 2010/11, giving a net saving of £690,000. Net portfolio DDF spending was £526,000 below the revised estimate, due to under spends of £264,000 in Planning & Economic Development and £164,000 in Corporate Support Services. In addition to this, non-portfolio income items exceeded the revised estimate by £687,000 to give the total DDF saving of £1.213m.

4. The non-portfolio items include the “Fleming Claim” for the repayment of VAT. This had initially been budgeted at £375,000 to match the investment impairment the Council was required to include in the 2010/11 budget. A net refund of £1.158m was achieved, exceeding the estimate by £783,000. The inclusion of the “Fleming Claim” income and the underspend mean the balance on the DDF is higher than previously predicted at £4.041m at 31 March 2010. However, the vast majority of this amount is committed to finance the present programme of DDF expenditure, particularly the Local Development Framework.

5. As the underspend on the DDF is matched by the variance on appropriations, the overall variance in the use of the General Fund Revenue balances is equal to the CSB underspend of £569,000, compared to the original estimate. This translates into a reduction in balances of £135,000 compared to the original estimate of £704,000.

The Updated Medium Term Financial Strategy

6. Annexes 1(a/b) show the latest four-year forecast for the General Fund. This is based on adjusting the balances for the 2009/10 actuals, allowing for items already approved by Council and other significant items covered in the report. The annex (1b) shows that revenue balances will decrease by £0.632m in 2010/11, £0.408m in 2011/12, £0.456m in 2012/13 and £0.758m in 2013/14 and 0.426m in 2014/15.

7. For some time Members have aligned the balances to the Council’s ‘Net Budget Requirement’ (NBR), allowing balances to fall to no lower than 25% of NBR. The

predicted balance at 1 April 2011 of £7.668m represents just over 46% of the anticipated NBR for next year (£16.656m) and is therefore somewhat higher than the Council's current policy of 25%. However, predicted changes and trends mean that by 1 April 2015 the revenue balance will have reduced to £5.620m. This still represents nearly 36% of the NBR for 2014/15 (£15.750m).

8. The financial position as at 1 April 2010 was better than had been anticipated, however the change in the key assumption about future grant funding has increased the level of savings that need to be identified. This may prove difficult to achieve, particularly given indications from the Government that Council Tax should not be increased for the next two years.

9. The target saving for 2011/12 has been set at £500,000; this increases to £900,000 for 2011/12 and then reduces to £500,000 for 2013/14 and £400,000 for 2014/15. These net savings could arise either from reductions in expenditure or increases in income. What is clear is that given the levels of savings now required, it is no longer sufficient to talk in terms of "efficiencies". Members will have to make difficult decisions about reducing or stopping some non-priority services. If Members feel that the levels of net savings being targeted are appropriate, it is proposed to communicate this strategy to staff and stakeholders.

10. Estimated DDF expenditure has been amended for carry forwards, supplementary estimates and income shortfalls and it is anticipated that there will be £562,000 of DDF funds available at 1 April 2015. The four-year forecast approved by Council on 16 February 2010 predicted a DDF balance of £156,000 at the end of 2013/14 and this has improved slightly.

11. Capital balances have been updated for recent outturn figures and updated assumptions on capital receipt generation. The reduction in estimated capital receipts means that the predicted balance at 1 April 2015 falls to £9.238m. Over this four-year period the capital programme has some £50m of spending. As capital balances are used up the revenue benefit from interest earnings is reduced and so care needs to be exercised in expanding the capital programme any further, particularly on non-revenue generating assets.

CSB

12. The CSB saving against revised estimate was £0.702m, compared to £0.187m in 2008/09. The prime cause of this under spend was again salary savings, actual salary spending for the authority in total, including agency costs, was some £19.351m compared against an original estimate of £20.082m. There is currently an under spend on the salaries budget in 2010/11, although in part this is due to an anticipated pay award of 1.5% which will not now occur.

13. In addition to the salaries savings, a number of CSB budgets were under spent and these will be closely scrutinised going forward to ensure budgets are more closely aligned with actual spending in prior years.

14. Previously it has been agreed that CSB expenditure should not rely on the use of balances to provide support but should be financed only from Government grant (RSG + Distributable NDR) and council tax income. This means that effectively the level of council tax will dictate the net expenditure on CSB or the CSB will dictate the level of council tax. As Members have not indicated any desire to contradict Government guidance that council tax increases should be frozen for the next two years, it is clear that the former will be the determinant. The four-year forecast, agreed in February, had included an assumption that Council Tax would increase annually by 2.5%. Amending the four-year forecast for the revised assumption on Council Tax takes

approximately £1m of income out of the forecast for the three years 2011/12 to 2013/14. Clearly if there is to be no increase in Council Tax the link between Council Tax increases and the rate of inflation is no longer relevant. For information, RPI is currently 4.7% and CPI 3.1% and inflation forecasts retain an important role in estimating future costs.

15. The latest four-year forecast (annexes 1a & b) show that the original budget for 2010/11 did not achieve that objective, as funding from Government grants and local Taxpayers fell £0.6m below CSB. The revised estimate for this year shows a small increase in CSB at this time although that is likely to change as we go through the budget process.

The Comprehensive Spending Review

16. When setting the budget in February the Medium Term Financial Strategy (MTFS) assumed a reduction in formula grant of 10% over the life of the next Comprehensive Spending Review (CSR). Whilst it is not yet clear what the exact reduction will be, we can be sure that it will be more than 10%.

17. Rumours of funding cuts of between 25% and 40% have been circulating. Although more recently speculation has focused on cuts in specific grants instead of formula grant. A broad indication will be given on 20 October when some of the headlines from the CSR will be announced. However, specific grant figures for individual authorities will not be provided until late November. During 2010/11 the Council will receive £9.4m of formula grant, an illustration of the effect of different % reductions in grant is shown below –

% Reduction	£ Reduction (M)
20	1.88
30	2.82
40	3.76

18. In terms of specific grants it is worth mentioning the grant received from the Department for Work and Pensions (DWP) to administer the benefit system. Currently the Council receives £0.9m per annum in administration grant. If the DWP has a budget cut imposed by the Treasury of 25% it is likely that will be passed straight on to local authorities. Therefore the MTFS includes an assumption that over the CSR annual administration subsidy will be reduced by some £225,000.

Government Grant Formulae

19. There is a separate report earlier on the agenda setting out the possible changes to the grant formulae and their impact. The key elements worth mentioning again are concessionary travel and the floor mechanism. From 1 April 2011 the responsibility for administering the national concessionary fare scheme moves from district councils to county councils. DCLG have modelled four different scenarios to achieve this transfer. Two of the models leave this authority in a worse position by approximately £100,000 and two in a worse position by approximately £1,000,000.

20. The outcome of the grant formulae calculations has previously been moderated by a system of floors and ceilings that average out the changes so that authorities are prevented from either gaining or losing too much grant. The consultation includes a question about the level at which the floor should be set to allow the outcomes of the formulae to be effective. Given the recent history of poor grant settlements and the impact shown by the exemplifications in the consultation, the proposed response is to seek a high floor averaging out the reductions to give all authorities similar reductions to deal with.

21. The vagaries of the grant system and how this authorities fortunes have fluctuated since the introduction of the “Four Block” method of allocation are illustrated in the table below.

	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
Relative Needs Amount	5.728	5.742	5.455	5.457	5.464
Relative Resource Amount	-4.465	-4.724	-5.228	-5.096	-4.956
Central Allocation	7.854	8.332	8.793	8.834	8.871
Floor Damping	-0.490	-0.189	0.302	0.173	0.036
Formula Grant	**8.627**	**9.161**	**9.322**	**9.368**	**9.415**

22. The figures shown above represent a poor settlement for the Council and give grant increases of only 1% (against the adjusted 07/08 figure) for 2008/09 and only 0.5% for 2009/10 and 2010/11. This seems odd given the sizeable grant increase seen under this system for 2006/07 and 2007/08.

	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m
Formula Grant (adjusted)	8.627	9.161 (9.229)	9.322	9.368	9.415
Increase £	0.711	0.534	0.093	0.046	0.047
Increase %	9.0%	6.2%	1.0%	0.5%	0.5%

23. The introduction of the four block system saw the Council change from receiving floor support of £412,000 to losing £490,000 to support the floor for others. It had been hoped that the move away from the floor would last longer than two years. However, the benefit of the previous large increase was not lost, as this provided the base that the floor increase of 1% has been added to.

The “Credit Crunch” and Reduced Housing Market Activity

24. The Council’s CSB contains a number of income streams that have been adversely affected, to varying degrees, by the current state of the housing market. Most recent surveys have shown house prices are falling and new mortgage approvals remain at a very low level. Confidence is fragile and a clear direction is needed from Government on what will replace the regional planning structures and housing targets that have been set aside.

25. The main areas of income related to the housing market are land charges, building control and development control. For 2010/11 land charges income had been estimated at £177,300, consistent with the actual of £183,000 for 2009/10 but less than half the 2006/07 figure of £394,000. At the end of August the cumulative income achieved was less than £1,000 behind the estimate. However, changes to the regulatory regime will result in a reduction in CSB income of at least £25,000 and possibly more once the full changes are confirmed. There is also a possibility of some past fees having to be repaid and this could have a £100,000 impact on the DDF.

26. Building Control fees may fall short of the estimate of £642,000 by as much as £170,000. This is a ring-fenced account and costs within it were successfully managed down last year so that, despite the lower income level, a small surplus was generated. To date Development Control income is doing better, although the outturn here is likely to be closer to £500,000 than the £605,000 originally estimated.

27. Moving briefly off of housing market related income it is worth noting that some of the Council’s other income streams are doing well. The MOT income from Fleet

Operations may exceed the estimate of £292,000 by £30,000. Total licensing income is also currently slightly ahead of expectations and should exceed the estimate of £256,000.

28. All of the above income streams will continue to be monitored on a monthly basis. Adjustments have previously been made to CSB income levels and no further reductions are planned at this time, although some extra allowance may be needed in the DDF.

29. The Council's interest earnings have also been hit by the "Credit Crunch". Earlier in the crisis in 2008/09 as banks struggled for liquidity they were prepared to pay high interest rates to borrow from the Council. This position has now reversed and the base rate has remained at 0.5% for a year and a half with no imminent sign of any upward movement. The original estimates were prepared using the interest rate predictions of the Council's previous treasury management consultants, who had anticipated an increase in interest rates. The outturn is likely to be £342,000 short of the original estimate of £0.897m, although a large portion of this is credited to the HRA. The Medium Term Financial Strategy (MTFS) has taken a prudent view on future interest rate movements, based on advice from the Council's new treasury management consultants.

Transfer of commercial property from the Housing Revenue Account to the General Fund

30. The recent consultation on reform of the HRA highlighted that this account should be a dwelling based landlord account. Since the formation of the Council a substantial number of commercial properties have been accounted for as part of the HRA as they transferred to the authority at the same time as the housing stock. The benefit of this commercial income to the HRA over the last 36 years has meant that it has been possible to achieve the Decent Homes standard whilst still retaining ownership of the housing stock. The HRA is currently on a very sound financial footing with various reserves totalling some £16m.

31. The issues around the transfer were fully set out in a report to Cabinet on 13 September. At that Cabinet meeting, after requests from non-Cabinet Members, it was decided that before any decision is recommended to Council a joint meeting of the Housing and Finance & Performance Management Scrutiny Panels should be held to consider the transfer. This meeting is scheduled to take place on 12 October.

32. The importance of the transfer of these assets is illustrated by the differences in annexes 1 and 2, which show the predicted level of savings needed in the General Fund with and without the income from the commercial properties. For ease of reference this is summarised in the table below.

Financial Year	Savings with transfer £m	Savings without transfer £m
2011/12	0.50	1.00
2012/13	0.90	1.50
2013/14	0.50	0.50
2014/15	0.40	0.40
Total	2.30	3.40

33. It should also be noted that in the model without the transfer of commercial property the balance on the General Fund is £112,000 lower at the end of 2014/15. If Council decides that the commercial properties should be transferred an application will then need to be made to the Secretary of State, although initial indications from DCLG are that this should be a straightforward process.

Use of capital resources on non-revenue generating assets

34. In recent years the Capital Strategy has stressed the need for capital projects to be used to improve the Council's revenue position, either by saving costs or increasing revenues. This issue has also been recognised on the Council's Corporate Risk Register. Capital receipts generate investment income and so if they are used up on non-revenue generating assets there is a "double whammy" whereby the Council loses out on income and takes on additional costs.

35. This principle has been applied to recent decisions such as procuring equipment for the leisure centres to reduce the CSB payments to SLM and the purchase of the Black Lion car parking area to save on rental costs.

36. The updated Capital Programme will go to Cabinet next month and the figures show spending of £50m over five years. Of this spending, £37m is funded from revenue or grants but the remainder will reduce the balance of capital receipts from £21.1m to £9.2m. In view of this Members should carefully consider whether existing schemes are essential and any additional schemes should only be approved where there is a positive revenue contribution, after allowing for any loss of investment income.

Pay Awards

37. The MTFS approved in February included assumed annual pay awards of 1.5%. However, the employer's organisation has made it clear that there will be no pay award for 2010/11 and the Government have announced that they expect no pay awards for 2011/12 and 2012/13. The lack of any pay award for three years will produce a considerable saving against the previous MTFS.

38. Having set out the Government's expectations above, a question clearly exists over whether this position is sustainable if RPI remains close to 5%. It is worth considering this Council's pay bill and the effect that different levels of pay awards might have. The total salary estimate for 2010/11 is £20m; therefore for every 1% the pay award increases the Council's pay bill by £200,000. The MTFS has assumed the Government will enforce the extended pay freeze, although if inflation does not reduce significantly this assumption may prove incorrect.

Next Triennial Valuation of the Pension Scheme

39. The Local Government Pension Scheme (LGPS) is an umbrella term for a number of schemes across the country, most commonly administered at a county level. Most local government bodies in Essex pay contributions into the fund administered by Essex County Council. The level of contributions is based on an actuarial evaluation of the fund's assets and liabilities at a given date. These valuations are conducted on a triennial basis, with annual interim valuations being used only to update the annual accounts.

40. The last triennial valuation was undertaken as at 31 March 2007 and showed a significant improvement on the 2004 valuation. As at 31 March 2004 the scheme was only 71% funded (the value of the scheme's assets only covered 71.4% of the liabilities), by 2007 the funding level had improved to 81.2%. The results of the full valuation as at 31 March 2010 are still to be released, but initial indications are that the funding level has dipped back down to a level similar to the 2004 valuation at 71%.

41. The increase in the funding level as at 31 March 2007 meant that it was possible to reduce the amount of the deficit contributions but due to other factors, such as increasing life expectancy, it was necessary to increase the ongoing contribution rate from 10.1% for 2007/08 to 13.1% for 2010/11. Whilst full valuation results and an

updated Funding Strategy Statement are still awaited, indications from Essex County Council are that ongoing contribution rates are unlikely to change.

42. Recent years have seen a number of changes to the LGPS, with increased contribution rates for employees and a rising of the normal retirement age. Further options for reform are still being examined and it is likely that in the long term the defined benefit scheme could be closed to new entrants or pensions could be based on average earnings instead of final salary. There is a general acceptance that the scheme in its current form is not sustainable, although at this time it is not possible to predict the outcome of these discussions with any certainty.

Capitalisation of Pension Deficit Payments

43. The Council has an established policy of seeking annual capitalisation directions for pension deficit payments. There are strict financial criteria laid down by the Government that you must satisfy to be eligible for a capitalisation direction. If you satisfy the criteria you get a Gate 1 approval but it is only after the Government has considered all Gate 1 approvals in aggregate that it decides the amount of Gate 2 or final approvals.

44. Since the capitalisation policy was put in place the Council has generally been successful in obtaining directions. A direction was first applied for in 2005/06 and one was obtained for the full amount requested. It was in 2006/07 that the Two Gate System was introduced and that year saw all applicants receive directions for only 57% of the amounts applied for. In all subsequent years the Government has issued directions for the full amounts applied for.

45. The amounts that will be applied for are set out in the table below and given recent history it has been assumed that full directions will be obtained. To fund the capitalisations £2.5m was moved to the Pension Deficit Reserve in 2007/08. If this assumption proves incorrect any amounts that cannot be capitalised will have to be charged to revenue. At 31 March 2010 the balance on the Pension Deficit Reserve was £728,000 so a further transfer of £200,000 will be needed to fund the 2010/11 capitalisation.

	2008/09	**2009/10**	**2010/11**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
General Fund	**662**	**644**	**626**	**1,932**
HRA	**311**	**302**	**294**	**907**
	973	**946**	**920**	**2,839**

Public sector re-organisation/shared services

46. Whilst the Government has said it will not legislate to achieve a formal re-organisation of local government it is encouraging a number of shared service initiatives and a major re-structuring of the National Health Service. The possibility of a joint Building Control service was examined with neighbouring authorities. However, it was concluded that this was likely to create a financial burden on this authority and lead to a reduction in the level of service.

47. One successful example of a shared service is within Accountancy, where an insurance claims service is provided for Uttlesford District Council. This has created savings for both authorities and is working well. In evaluating any proposals from any other bodies care needs to be taken to ensure that the legal and financial consequences are fully understood and that arrangements are only entered into where they are genuinely in the best long-term interests of the authority. Entering into

any arrangements for short-term expediency is likely to create bigger problems later on.

DDF

48. The carry forward of £523,000 represents an increase of £243,000 on the £280,000 of slippage for 2008/09. This highlights the need for tighter controls on DDF budgets and this issue is covered by an earlier report on this agenda. Given that DDF funding is limited, it should only be used to support high priority projects. If a project takes several years to be implemented questions may arise over whether it was really a priority and if that money could have been used for a more urgent purpose.

49. The financial forecast shows that not all DDF funding is currently allocated to schemes. It is currently anticipated that there will be some £562,000 of DDF available at 1 April 2015.

The Capital Programme

50. The total of 9 Council house sales in 2009/10 was in line with the estimate and was a slight improvement on the all time low figure of 7 in 2008/09. It is not anticipated that sales will return to their previous levels for some time. This is consistent with the two completions so far in the first four months of 2010/11. The Capital Programme has already been adjusted to reflect this anticipated lower level of Council house sales.

51. Significant receipts have previously been generated through the sale of other assets. Land values in some areas are starting to improve again and a number of potential projects are currently being evaluated. As non-housing receipts are not included in the estimates before completion has occurred no allowance has been made in the MTFS.

52. The capital outturn report considered by the Finance and Performance Management Cabinet Committee on 14 June 2010 highlighted that the underspend of £1m was an improvement on the £2.4m under spend in 2008/09. Non-housing expenditure was £0.85m below the estimate at £4.06m, whilst housing expenditure of £9.16m was £0.14m below the estimate of £9.3m. The slippage in the programme will be carried forward to subsequent periods.

The Council Tax

53. Band D Council Tax increased by 1.5% for 2010/11 following increases of 2.5% in the previous two years. The Government has made it clear that it expects authorities to freeze the Council Tax for two years; beyond this it is assumed that future increases will not exceed 2.5%.

A revised Medium Term Financial Strategy

54. Annexes 1(a&b) show a four-year forecast with target levels of savings to bring the projections closer to the policy of keeping reserves above 25% of the NBR. The net savings included are £500,000 in 2011/12, increasing to £900,000 in 2012/13 before reducing to £500,000 for 2013/14 and £400,000 in 2014/15. These savings would give total CSB figures for 2010/11 revised of £18.160m and 2011/12 of £17.064m.

55. This proposal sets DDF expenditure at £2.389m for the revised 2010/11 and £0.909m for 2011/12, and given the possibility of other costs arising, it is likely that the DDF will be used up in the medium term.

56. No predicted non-housing capital receipts are being taken into account, as any sales are still some way off. Over the period of the MTFS the balance shown at Annex 1 (b) on the Capital Fund reduces significantly from £21.1m at 1 April 2010 to £9.238m at 1

April 2015. This has impacted on interest earnings within the forecast and it is important that any new capital schemes either save revenue costs or generate income.

57. Previously the Council has taken steps to communicate the MTFS with staff, partners and other stakeholders. This process is still seen as good practice and a failure to repeat the exercise could harm relationships and obstruct informed debate. If Members agree, appropriate steps can be taken to circulate either the full strategy or a summarised version.

Conclusion

58. The current level of uncertainty on future government grant, the ongoing effects of the "Credit Crunch" and potential changes to the public sector make it difficult to produce robust financial forecasts. Although the Council is better placed than most to face these challenges, at 1 April 2010 the General Fund balance exceeded £8m, the DDF £4m and capital receipts £21m. These balances can be used over the medium term to support a structured reduction in net expenditure and it is clear that Members will need to make tough decisions in prioritising the allocation of resources. The need to seek net savings now far exceeds any possible contribution from "efficiencies" and therefore service reductions are inevitable.

Resource Implications:
The report covers resource implications over a four-year period and provides an updated Medium Term Financial Strategy.

Legal and Governance Implications:
None.

Safer, Cleaner, Greener Implications:
The Safer, Cleaner, Greener initiative is considered in the report.

Consultation Undertaken:
None.

Background Papers:
None.

Impact Assessments:
No equalities impacts.

The report sets out some of the key areas of financial risk to the authority. At this time the Council is well placed to meet such challenges, although particular care needs to be exercised in taking on any additional capital projects.

GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2010/11 - 2014/15

ORIGINAL 2010/11		REVISED FORECAST 2010/11	FORECAST 2011/12	FORECAST 2012/13	FORECAST 2013/14	FORECAST 2014/15
£'000	**NET REVENUE EXPENDITURE**	£'000	£'000	£'000	£'000	£'000
18,314	Continuing Services Budget	18,033	18,510	17,254	16,646	16,499
-237	CSB - Growth Items	127	-946	73	155	77
0	Net saving	0	-500	-900	-500	-400
18,077	Total C.S.B	18,160	17,064	16,427	16,301	16,176
1,879	One - off Expenditure	2,389	909	194	-13	0
19,956	Total Net Operating Expenditure	20,549	17,973	16,621	16,288	16,176
-24	Contribution to/from (-) Insurance Res	-24	0	0	0	0
-1,879	Contribution to/from (-) DDF Balances	-2,389	-909	-194	13	0
-549	Contribution to/from (-) Balances	-632	-408	-456	-758	-426
17,504	Net Budget Requirement	17,504	16,656	15,971	15,543	15,750
	FINANCING					
			-9%	-8%	-8%	
9,379	Government Support (NNDR+RSG)	9,379	8,568	7,882	7,252	7,252
36	RSG Floor Gains/(-Losses)	36	0	0	0	0
9,415	Total External Funding	9,415	8,568	7,882	7,252	7,252
8,089	District Precept	8,089	8,089	8,089	8,291	8,498
0	Collection Fund Adjustment	0	0	0	0	0
17,504	To be met from Government Grants and Local Tax Payers	17,504	16,656	15,971	15,543	15,750
	Band D Council Tax	148.77	148.77	148.77	152.49	156.30
	Percentage Increase %		0.0	0.0	2.5	2.5

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GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2010/11 - 2014/15

	REVISED FORECAST 2010/11	FORECAST 2011/12	FORECAST 2012/13	FORECAST 2013/14	FORECAST 2014/15
REVENUE BALANCES	£'000	£'000	£'000	£'000	£'000
Balance B/forward	8,300	7,668	7,260	6,804	6,046
Surplus/Deficit(-) for year	-632	-408	-456	-758	-426
Balance C/Forward	7,668	7,260	6,804	6,046	5,620
DISTRICT DEVELOPMENT FUND					
Balance B/forward	4,041	1,652	743	549	562
Transfer Out	-2,389	-909	-194	13	0
Balance C/Forward	1,652	743	549	562	562
CAPITAL FUND (inc Cap Receipts)					
Balance B/forward	21,091	13,753	11,427	10,339	9,773
New Usable Receipts	201	235	295	295	295
CR Used to Fund Capital Expenditure					
- Transistional Relief Receipts	0	0	0	0	0
- Other Capital Receipts	-7,539	-2,561	-1,383	-861	-830
Balance C/Forward	13,753	11,427	10,339	9,773	9,238
TOTAL BALANCES	23,073	19,430	17,692	16,381	15,420

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GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2009/10 - 2013/14

ORIGINAL 2010/11		REVISED FORECAST 2010/11	FORECAST 2011/12	FORECAST 2012/13	FORECAST 2013/14	FORECAST 2014/15
£'000	**NET REVENUE EXPENDITURE**	£'000	£'000	£'000	£'000	£'000
18,314	Continuing Services Budget	18,033	18,510	17,897	16,620	16,337
-237	CSB - Growth Items	127	151	-35	0	0
0	Net saving	0	-1,000	-1,500	-500	-400
18,077	Total C.S.B	18,160	17,661	16,362	16,120	15,937
1,879	One - off Expenditure	2,389	909	194	-13	0
19,956	Total Net Operating Expenditure	20,549	18,570	16,556	16,107	15,937
-24	Contribution to/from (-) Insurance Res	-24	0	0	0	0
-1,879	Contribution to/from (-) DDF Balances	-2,389	-909	-194	13	0
-549	Contribution to/from (-) Balances	-632	-1,005	-391	-577	-187
17,504	Net Budget Requirement	17,504	16,656	15,971	15,543	15,750
	FINANCING					
			-9%	-8%	-8%	
9,379	Government Support (NNDR+RSG)	9,379	8,568	7,882	7,252	7,252
36	RSG Floor Gains/(-Losses)	36	0	0	0	0
9,415	Total External Funding	9,415	8,568	7,882	7,252	7,252
8,089	District Precept	8,089	8,089	8,089	8,291	8,498
0	Collection Fund Adjustment	0	0	0	0	0
17,504	To be met from Government Grants and Local Tax Payers	17,504	16,656	15,971	15,543	15,750
	Band D Council Tax	148.77	148.77	148.77	152.49	156.30
	Percentage Increase %		0.0	0.0	2.5	2.5

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GENERAL FUND MEDIUM TERM FINANCIAL STRATEGY 2010/11 - 2014/15

	REVISED FORECAST 2010/11	FORECAST 2011/12	FORECAST 2012/13	FORECAST 2013/14	FORECAST 2014/15
REVENUE BALANCES	£'000	£'000	£'000	£'000	£'000
Balance B/forward	8,300	7,668	6,663	6,272	5,695
Surplus/Deficit(-) for year	-632	-1,005	-391	-577	-187
Balance C/Forward	7,668	6,663	6,272	5,695	5,508
DISTRICT DEVELOPMENT FUND					
Balance B/forward	4,041	1,652	743	549	562
Transfer Out	-2,389	-909	-194	13	0
Balance C/Forward	1,652	743	549	562	562
CAPITAL FUND (inc Cap Receipts)					
Balance B/forward	21,091	13,753	11,427	10,339	9,773
New Usable Receipts	201	235	295	295	295
CR Used to Fund Capital Expenditure					
- Transistional Relief Receipts	0	0	0	0	0
- Other Capital Receipts	-7,539	-2,561	-1,383	-861	-830
Balance C/Forward	13,753	11,427	10,339	9,773	9,238
TOTAL BALANCES	23,073	18,833	17,160	16,030	15,308

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Epping Forest District
Tenants & Leaseholders Federation

Epping Forest District Tenants &
Leaseholders Federation
C/o Civic Offices
323 High Street
Epping
CM16 4BZ

1st October 2010

To all Members of the Housing and
Finance & Performance Management Scrutiny Panels

Dear Councillor

Proposed Transfer of Non-Housing Assets from the HRA to the General Fund

We are writing to you personally in advance of the joint Housing and Finance & Performance Management Scrutiny Panels as we are both unable to attend the meeting, for which we apologise.

As the Vice Chair said at the Cabinet meeting on 13th September the Tenants & Leaseholders Federation are strongly opposed to the transfer of the non-housing assets to the General fund.

One of the reasons stated in the Cabinet report for the proposed decision is "to ensure the benefit of the rental income is shared amongst all residents and not confined to the HRA". We find that unfair as it places the effect of any financial benefits/pain disproportionately on the Tenants and Leaseholders who are among some of the poorest in the District. The Equality and Diversity Paragraph suggests there are no equalities issues, we think you should seek advice on that, we feel sure that Council Tenants are disproportionately among some of the equalities groups and will therefore be disproportionately affected.

The other reason stated in the report is "to ensure the HRA is operated on the correct basis as a landlord account." Our understanding is that this is based on the prospectus for the Housing Finance Reform on the dismantling of the Housing Subsidy System specifically Annex D which is shown on Page 7 of the agenda as an Appendix to the officer's report: "Draft revised guidance on the operation of the HRA ring-fence". This is as it states "DRAFT" and will presumably at some point be finalised or not as the case may be. In all likelihood it will be finalised when and if there is an agreed way forward on Housing Finance Reform, we think that you should await that before making this a reason for any Council decision that will have long term consequences.

Looking at the detail of that guidance - in section 12 of that Annex D the words that could apply seem to be found:
12. *Equally, properties which may originally have been provided under one of the powers in section 74 of the 1989 Act (or their predecessor powers) may no longer fulfil their original purpose. In these circumstances, the authority should consider their removal from the HRA. Examples of properties which might fall into this category are estate shops and other commercial premises, such as banks, post offices, workshops, public houses, industrial estates and surgeries, where there is no longer any connection with the local authority's housing. The decision is for the authority to take, though they should be able to explain the basis of the decision to their external auditor and tenants, if called upon to do so.*

We as the Tenants federation would therefore expect you to be able to explain your decision and at present feel you cannot do so. In fact in many instances we would say that the shops which have flats above, occupied by Council tenants or leaseholders in particular, are:
a) still fulfilling their original purpose.
b) still – and will continue to be – accounted for within the HRA.
And therefore should not be transferred.

We are also concerned about the level of the valuations. £1.75M predicted rental for 10/11 would mean an 11.3% return on capital on the current valuation. The Federation would expect when these properties are re-valued that the valuation will be much higher, resulting in a lower net loss to the HRA.

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Epping Forest District
Tenants & Leaseholders Federation

Also the figures shown in the report assume an average interest rate which may be appropriate in the long term but is unlikely to be applicable over the next few years, which will further increase the loss to the HRA in the short term. If actual interest rates are much lower than assumed over the next 2-3 years then the annual loss to the HRA might be around £1m per annum.

We also strongly believe the transfer of these assets will have a detrimental impact on the housing services to Tenants. The report says in the Resource Implication "This would not have an impact on Council tenant's rents for future years." This may be strictly true BUT the quality of the service will suffer, may be not now but in year 12 onwards. We had been very keen over the years as the Tenants Federation to ensure prudent accounting and so the fact that we had 28 years before the account fell into deficit was a great position. To more than halve that makes us believe the Council is not acting with the same level of care on its HRA account. We also believe that it will make it more difficult for the Council to set rents below the restructuring level. We would stress that we believe this change will have:
a) the detrimental effect on the Housing Capital Programme and the Council's associated ability to meet the Decent Homes Standard; and
b) in addition, the cuts that would have to be made to the Housing Service, which would result in a significant reduction in the housing service that can be provided to tenants, amounting to either £0.5 million per annum from Year 11, or £0.25 million per annum **from next year**.

Our final point is that there are lots of pieces of information not yet available for you to make a proper reasoned decision:

- The Comprehensive Spending assessment is not out until later this month and the detailed assessment of it is unlikely to be able to be taken into account if a decision is made at full Council in November.
- More importantly, the Government's review of self-financing for the HRA (where councils would be asked to take on the debts of other councils, in return for ceasing the housing subsidy system to which this Council contributes around £10m per annum from tenants' rents) is not yet completed. Although the Council rejected the offer from a General Fund perspective we believe that the Council's consultants concluded that, financially, the HRA would be better off if this went ahead, based on the "offer" from the previous Government. If a solution could be found that does not adversely affect the General Fund but still reduces the costs to the HRA then the proposed Transfer may not have such a detrimental impact on the HRA. We understand the new Government's Housing Minister has apparently said that he wants to consider the outcome of the consultation with LAs, and then make a decision on whether or not to go ahead with the proposals and, if so, on what terms.

To conclude we would ask you to defer decision on this issue until ALL the information is known. This is a one time decision with very long term consequences.

We would suggest that if the financial situation makes it impossible for you to defer the decision you only transfer those properties that are unrelated to flats or other HRA properties. For example perhaps the petrol station; pubs and shops without any residential properties above.

As a last resort, if the financial situation is so desperate the Council feels unable to take Tenants views into account we would at least ask a fairness in sharing the pain/benefits of the transfer and not transferring more than 50% by value of the Assets.

Thank you for reading this and apologise once again that neither of us can be at your meeting in person. We are disappointed that the meeting is not being web-cast (as we requested) as this does not help us (or the tenants and leaseholders) understand the outcome of your meeting.

Yours sincerely

M. Carter   Michael P. Tobin

Molly Carter, Chair   Mike Tobin, Vice Chair

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