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:

Risk Management
It is possible 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?	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