

Date: August 2010

Our Ref: AMH/AMH

Your Ref:

TO ALL MEMBERS OF COUNCIL

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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 to 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 Req'd		Capital Programme			
	Original £'000	Proposed £'000	Difference £'000	Original £'000	Proposed £'000	Difference £'000	Original £'000	Proposed £'000	Difference £'000	Original £'000	Proposed £'000	Difference £'000	Original £'000	Proposed £'000	Difference £'000	Original £'000	Proposed £'000	Difference £'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	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	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	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	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	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	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	0	6,573	6,573	0
Year 8	1,200	1,200	0	3,763	2,447	-1,336	5,440	5,440	0	11,668	8,668	-3,000	0	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	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	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	0	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	0	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	0	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	0	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	0	8,245	6,441	-1,804
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	0	8,399	6,277	-2,122
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	0	8,557	6,392	-2,166
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	0	8,718	6,510	-2,208
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	0	8,882	6,631	-2,251
Year 20	844	0	-844	1,523	5,244	3,721	8,155	6,705	-1,450	0	0	0	0	-500	0	9,049	6,755	-2,294

Key	RCCO		HRA Balances		MRA		MRA Reserves		MRA Used	
	Original	Proposed	Original	Proposed	Original	Proposed	Original	Proposed	Original	Proposed
Revenue Contributions to Capital Outlay, which is the amount of tenants' rents used to pay for capital expenditure (e.g. major repairs and improvements)										
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										
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										
The cumulative amount of MRA that has not been used over the years, and can be used in the future										
The amount of MRA and any MRA Reserves used in that year										

**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