Report to the Finance & Performance Management and Housing Scrutiny Panel

Date of meeting: 12 October 2010

SCRUTINY

Epping Forest District Council

Subject: Non-Housing Assets within the Housing Revenue Account

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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.