CAB785
FOR DECISION
WARD(S): GENERAL

CABINET

11 February 2004

CAPITAL RECEIPTS – TRANSFER OF NON-OPERATIONAL PROPERTIES

REPORT OF THE DIRECTOR OF FINANCE

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RECENT REFERENCES:

CAB741 Capital Programme and Budget 2003/04 to 2008/09 17 December 2003

EXECUTIVE SUMMARY:

This report refers to the changes in the rules for capital financing that were brought in by the Local Government Act 2003 and in particular those regarding capital receipts and the future pooling of those receipts.

The non-operational property assets held within the Housing Revenue Account are reviewed and the options for transferring these assets are considered, having regard to the potential financial effects on both the General Fund and the Housing Revenue Account.

RECOMMENDATIONS:

1. That Cabinet determines the principle of whether all or any of the non-operational properties currently held in the Housing Revenue Account should be transferred to the General Fund and refers the report to Housing Performance Improvement Committee for comments.

2. That a review of all the charges between the General Fund and the HRA should now be undertaken.

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1 Background

1.1 It has been reported to Cabinet on a number of occasions during 2003 that the capital financing system for local government will be changing from 1 April 2004, and Cabinet has been made aware of the proposals to bring in a system for pooling capital receipts from housing asset sales.

1.2 During December the Office of the Deputy Prime Minister (ODPM) published Statutory Instrument SI 2003/3146 setting out the details of the new capital finance framework. Part 4 of the SI sets out the regulations in respect of capital receipts. These regulatory details differ in places from the draft regulations previously issued, clearing up some of the ambiguities in the draft and clarifying some of the queries raised during the consultation process.

2 Pooling of receipts

2.1 Under the present arrangements there is a requirement to set aside a proportion of capital receipts as a provision for credit liabilities (i.e. to pay off borrowing or other credit arrangements) but this set aside is held in the authority's account and earns interest. For debt free authorities there is no set aside requirement and capital receipts can be used for whatever (legitimate) purposes the local authority determines. The City Council has been debt free since 1 April 2002.

2.2 In recent years capital receipts in excess of £3million per annum have been received by the City Council from right-to-buy (RTB) sales. These receipts have all been used to finance capital expenditure or to generate investment income.

2.3 The new regulations impose a pooling requirement on all receipts from the sale of housing land, i.e. any land, house or building held within the Housing Revenue Account (HRA). In the case of dwellings under the right-to-buy, 75% of the receipt will be pooled, in all other cases 50% of the receipts will be pooled. The actual amount to be pooled will be reduced by the administrative costs of the sale and the costs incurred in improving the property within three years prior to the date of disposal.

2.4 For authorities that are debt free on 31 March 2004 there are transitional arrangements. In the three years 2004/05, 2005/06 and 2006/07 the capital receipts liable to pooling will be reduced by up to 75%, 50% and 25% where the authority commits this amount of expenditure to its housing functions.

2.5 The rules allow one further concession in that receipts from non RTB sales may be reduced before calculating the pooling percentage by reference to a "capital allowance" for the Council's expenditure on affordable housing and regeneration projects. However, the value of this capital allowance must be determined before 1 April 2004 and to this end an amount of £500,000 per annum has been included in the capital programme for 2004/05 and 2005/06 (report CAB778 refers).

2.6 Receipts from “qualifying disposals” are excluded from the pooling requirement. This includes any receipt from large scale voluntary transfers (LSVT) of housing stock to registered social landlords, although any subsequent sale of non-operational property would still be caught by the pooling rules.

3 City Council Assets

3.1 Land and property assets owned by the City Council are held by either the General Fund (GF) or the Housing Revenue Account (HRA). Assets held in the HRA should be those assets that are relevant to the City Council’s housing landlord role and assets not associated with that role should be held in the General Fund. In the past assets have been acquired where there could be some ambiguity as to where they should be held, or where apportionments could have been made on acquisition. Until now this has not been critical as long as these assets have been treated correctly for subsidy or grant purposes.

3.2 Under the new regulations it is important to ensure that any asset held that has the potential to generate a capital receipt and could be held in the General Fund should be so considered. This will help ensure that the City Council receives full benefit from any future asset sales.

3.3 A review of all non-operational land and property assets held in the HRA has been carried out by the Chief Estates Officer and consideration should be given to whether these properties are to be retained within the HRA. The category list of non-operational assets, the current book value of which is £2.17m, is attached as Appendix 1 to this report. The actual sale proceeds of these properties would depend on market conditions at the time of any sale.

3.4 A number of these properties generate income for the HRA so any consideration of transferring them to the General Fund must also take into account the potential loss of income to the HRA. If assets are transferred between the accounts then any estate management and maintenance costs of the transferred properties will also be transferred. However, as many of the properties are let on full repairing leases, current maintenance costs are not significant.

3.5 Assets held in the GF and HRA attract capital financing charges, which in turn may affect subsidy received. Appendix 2 illustrates the potential effects.

4 Options

4.1 The first option is to transfer all non-operational property assets from the HRA to the GF. This would have the effect of reducing the rental income received by the HRA by up to £250,000. This could cause potential problems as the housing rents for 2004/05 were set taking into account this rental income from non-operational properties.

4.2 The second option is to leave all non-operational property assets in the HRA. This could deny the City Council the full benefit of future capital receipts and would leave what are in effect non-housing assets in the HRA.

4.3 The third option is to transfer specific non-operational property assets from the HRA to the GF. A comment on each of these categories (as listed in Appendix 1) gives more detail to inform the decision. Those property assets that Cabinet should consider transferring are noted in Appendix 1, with a potential net reduction on HRA income of £130,000.

4.4 Community Asset/Facility – there are 17 items of this type with a value of £21,227 and an annual rental income to the HRA of £2,093. These assets are of the community centre/scout hut type and could be transferred to the General Fund with minimal effect on the HRA.

4.5 Garden Land or Access – there are 43 items here with a value of £16,525 and an annual rental income to the HRA of £2,304. These are the odd pieces of land adjacent to properties, accesses, pathways etc that might in future prove useful as ransom strips for future developments. As such they should be reviewed as some could generate useful future receipts and it would be advantageous to transfer them to the General Fund. Those that are required for landlord purposes should remain within the HRA.

4.6 Shops – there are 17 of these with a value of £842,700 and an annual rental income to the HRA of £108,300. Although two shops are free-standing, the others are in housing blocks and should thus remain within the HRA.

4.7 Miscellaneous Houses and Flats – there are 7 of these with a value of £309,175 and an annual rental income to the HRA of £33,613. These properties are generally let on short to medium term leases and in the past when leases have expired and the properties no longer needed they have been sold to generate substantial capital receipts.

4.8 Ground Rented Industrial sites – there are 13 of these sites, all in Winnall Valley Road, with a value of £776,400 and an annual rental income to the HRA of £85,990. There is no reason why these properties should remain within the HRA, the only compelling argument against transfer is that the loss of rental income from these sites would have an adverse effect on the HRA balance and would reduce the funds available for other HRA activity. One such property is discussed in CAB798 elsewhere on this agenda and, because of the particular circumstances in connection with that property, the recommendation is that it is transferred from the HRA to the General Fund in advance of further consideration of the detail of other properties in this report.

4.9 Ground Rented Residential sites – there are 14 of these sites with a value of £1,818 and an annual rental income to the HRA of £115.

4.10 Miscellaneous – there are 15 of these sites with a value of £208,919 and an annual rental income to the HRA of £18,903.

4.11 The financial implications of transferring non-operational properties from the HRA to the General Fund are loss of rental income to the HRA, reduced capital financing charges to the HRA, reduced costs of property maintenance to the HRA, loss of subsidy to the HRA. Although it is not yet possible to determine these figures with any certainty the potential impact is shown in Appendix 2.

4.12 The financial implications of not transferring non-operational properties from the HRA to the General Fund are a loss of 50% of any future capital receipt to the Government pooling arrangements. The implications of such a transfer are noted in section 5 below.

5 The Housing Revenue Account Budget

5.1 Council approved the HRA budget and rent levels for 2004/05 at its meeting on 7 January 2004 (report HO21 refers). The budget included provision of £250,000 for income from non-operational properties. The HRA will continue to operate at a deficit of £385,500, with balances reducing to the minimum target set in the HRA Business

Plan of £1.25 million by the end of 2004/05. Significant savings are required in the next year to ensure that sufficient balances are maintained in future years. Any additional loss of income would result in even greater savings being required.

5.2 If assets are transferred and income to the HRA lost, then corresponding reductions in expenditure would need to be identified. It is probable that in the short term this would be from the revenue repairs budget. However, this could also impact on the long term projections currently being prepared for the HRA Business Plan based on the Stock Condition Survey and plans to achieve the Decent Homes Standard by 2010.

5.3 Whilst the Housing Revenue Account is ring fenced and limited only to expenditure on Council Housing related issues, there are many areas which could and arguably should be funded directly from the General Fund. Whilst the principle of appropriating assets (with the associated potential for losing income) is under review, consideration should also be given to the future funding of other revenue costs which are in part currently supported by this income. Such items include:

- Operating the Joint Housing Register – This is a strategic housing function that provides a service for other social landlords as well as the Council.

- Central Control – This unit provides services to the whole community as well as other social landlords. It has a clear objective to become a “self-funding” general fund service following the recent best value review.

- Other Community based services – The HRA contributes towards a range of community based services. TACT have argued for some time that tenants are effectively paying twice for services on estates such as Grounds Maintenance, estate improvements, the Credit Union, grants to voluntary groups and the establishment of the community warden initiative.

5.4 In view of the above comments it is appropriate that a review of all the charges between the General Fund and the HRA should now be undertaken to ensure a fair handed approach.

6 Authority to transfer assets

6.1 If Cabinet resolves to transfer all or any of the above assets to the General Fund then the permission of the Secretary of State will be needed. This process normally takes 2-3 weeks and would need to be put in train as soon as possible to enable any transfers to take place before the 31 March 2004.

OTHER CONSIDERATIONS:

7 CORPORATE STRATEGY (RELEVANCE TO):

7.1 The need to make the best use of all available resources by continued clear financial planning within the City Council is an integral part of the Corporate Strategy.

8 RESOURCE IMPLICATIONS:

8.1 There could be resource implications for both the General Fund and the Housing Revenue Account as discussed in the body of the report and the Appendices.

9 TACT COMMENT

9.1 The chairs of TACT would like to thank Councillor Hiscock and Richard Botham for being given the opportunity to consider this paper and we make initial comments below. We stress the importance of wider consultation with TACT and all tenants on this matter as soon as possible.

9.2 Despite reading the paper carefully and being briefed on its content, it has to be noted that because of the complexities of the issues raised, we will be consulting our Independent Tenants Advisor to gain their view on the principle discussed in the paper. Any confidential information will be respected.

9.3 Whilst we appreciate the points raised, it should be noted that there is absolutely nothing wrong from a legal point of view with the assets referred to forming part of the HRA. There is no requirement to make an immediate decision on this matter and we strongly recommend that the Council proceed with caution.

9.4 The current Housing Options Appraisal project is crucial to the future of the Housing Service. Any decision taken which could have a negative impact on the HRA needs to be considered very carefully as part of this project.

9.5 We support the proposal not to consider this issue in isolation, but to recognise that certain costs in the HRA should be reviewed as part of the same process. Indeed, TACT has been requesting this for some time.

9.6 We note the comment in 6.1 regarding the need for Secretary of State approval. It is hoped that through reasonable discussion and consultation, an acceptable way forward can be agreed. However, TACT would wish to make representations themselves to the Secretary of State if agreement could not be reached.

<u>BACKGROUND DOCUMENTS</u>:

Operational and financial records held in the Finance Department

<u>APPENDICES</u>:

Appendix 1 Categories of non-operational property assets held in the Housing Revenue Account

Appendix 2 Financial effects of transfer of assets between the Housing Revenue Account and the General Fund