

22 March 2016

Policy, Finance and Resources Committee

Transfer of Housing Revenue Account Shops (HRA) to General Fund

Report of: *Chris Leslie, Finance Director*

Wards Affected: *All*

This report is: *Public*

1. Executive Summary

- 1.1 This report seeks approval for the transfer of the shops portfolio from the Housing Revenue Account (HRA) to the General Fund (GF). The portfolio comprises of 24 shops which are no longer used for the housing purposes for which they were originally acquired.
- 1.2 Opportunities for both the General Fund and HRA arise from this transfer of assets, risk and external debt costs.

2. Recommendation(s)

- 2.1 **That the shops currently held in the Housing Revenue Account shown in Appendix A be transferred to the General Fund with effect from 1st April 2016.**

3. Introduction and Background

- 3.1 At 31 March 2015 the Council owned 2,496 dwellings 1095 garages and car spaces and 24 shops that were accounted for in the HRA.
- 3.2 International Financial Reporting Standards (IFRS) require that these properties are categorised according to the purposes for which the Council holds them. As part of the Council's continuous review of its assets, some properties have been identified where the Council's reason for holding them has changed since the original acquisition, which

requires that these properties be moved from one class of assets to another.

- 3.3 Where the purpose for holding a property is not related to the provision of housing under Part II of the Housing Act 1985 (Part II), the property cannot be held within the Housing Revenue Account (HRA). If a property is currently held with the HRA, usually as a result of being originally acquired or constructed under Housing powers, it must be transferred (“appropriated”) to the General Fund.
- 3.4 The shops have remained in the HRA as a result of being acquired using housing powers. The shops were originally provided as part of neighbourhood development but no longer contribute to the achievement of a housing objective.
- 3.5 The right to buy policy (where tenants can purchase their council home from the council at a discounted price) means that an increasing proportion of properties on the Council’s housing estate are occupied by leaseholders or private tenants of leaseholders rather than Council housing tenants which was the case when estates were originally built. This means that the shops are no longer supplied solely for the neighbourhood of the housing tenants.

4. Issue, Options and Analysis of Options

- 4.1 The shops currently sitting in the Housing Revenue Account (HRA) were originally provided as part of neighbourhood development. These shops are now let on a purely commercial basis, and are not there to meet the need of HRA tenants.
- 4.2 The list of shops that are being proposed for transfer are outlined in Appendix A.

Accounting Treatment on Transfer of Assets.

- 4.3 Best practice determines that the shops are General Fund properties based on the current nature of the assets. Furthermore, where an asset is held to achieve a return for capital appreciation as in the case here, the correct classification is investment property.
- 4.4 Asset transfers between the General Fund and HRA are dealt with by means of Capital Financing Requirement (CFR) adjustments.

- 4.5 The HRA CFR will lower by the valuation of the shop portfolio. The reduction in the HRA CFR will create larger headroom for the HRA to borrow for other capital initiatives. The current headroom (the difference between actual debt and the borrowing requirement when the HRA became self financing) is £7 million.
- 4.6 The General Fund CFR will be increased by the equivalent amount of the valuation of the shop portfolio. The cost of servicing the debt will be met from the income generated by the assets. As the properties will be considered to be investment properties they will not be subject to a depreciation charge, but instead will be subject to annual revaluations.

Financial Effect of Transfer

- 4.7 The transfer of assets at 1st April 2016 means that the above rental income will be accounted for in the General Fund and the HRA will lose this revenue income stream.
- 4.8 The transfer between the HRA and General Fund, transfers the risks and returns of the shops from the HRA to the General Fund.
- 4.9 The General Fund will receive the rental income and take responsibility of managing and maintaining the shop portfolio as well.
- 4.10 The Council will need to revisit its Minimum Revenue Provision (MRP) policy in order to calculate the MRP provision needed on the transfer of shops.
- 4.11 Currently, the HRA charges the General Fund for internal borrowing. The transfer of these assets will transfer the risk of future interest rate fluctuations, which can impact the amount the HRA charges the General Fund for borrowing. Therefore, the HRA will benefit from greater investment income.
- 4.12 The interest rate exposure will need to be considered annually in budget setting.

5. Reasons for Recommendation

- 5.1 To comply with legislation, the shops should be transferred from the General Fund to the HRA.
- 5.2 The transfer will also generate a net revenue income stream to the General Fund, the HRA will lose this income stream however through efficiency savings the HRA can offset this loss of income.

6. References to Corporate Plan

- 6.1 Good financial and asset management underpins all priorities within the Corporate Plan.

7. Implications

Financial Implications

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- 7.1 The financial implications are set out in body of the report.

Legal Implications

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- 7.2 Section 122 of the Local Government Act 1972 provides that the Council may appropriate for any purpose which the Council is authorised to acquire land, any land which belongs to the Council and is no longer required for the purpose for which it is held immediately before appropriation.
- 7.3 Section 19 (2) of the Housing Act 1985 provides that the Council shall not appropriate land held for the purposes for Part II of the 1985 Act without the consent of the Secretary of State if any part of the land consists of a house or part of a house for any other purpose.
- 7.4 For the shops as proposed in this report, Section 19(2) of the 1985 Act has no relevance as the land to be appropriated to the GF does not consist of a house or part of a house. To appropriate the shops from the HRA to the GF, the Council will rely on the power in Section 122 on the 1972 Act. In order to avail itself of the appropriation power, the Council needs to be able to confirm that the land is no longer required for the purpose for which it was held immediately before the appropriation.

- 7.5 Given the circumstances of the report and the mix of tenures that have arisen through, the 'right to buy' scheme, other changes in tenure and the commercial lease of the shops, transferring the shops from the HRA to the GF would not be an unreasonable position to take.

Other Implications

- 7.6 **Asset Management** – The General Fund will manage the shop portfolio and will bear the risks and rewards of the shop portfolio.

8. Appendices

Appendix A – List of HRA Shops to be transferred

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