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## **APPROPRIATION OF SHOPS HELD IN THE HRA TO THE GENERAL FUND**

To: **Cabinet – 3 April 2014**

Main Portfolio Area: **Finance/Housing**

By: **Financial Services Manager**

Classification: **Unrestricted**

Ward: **Eastcliff and Westgate Wards**

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**Summary:** **To request the appropriation of some shops held within the Housing Revenue Account to the General Fund.**

### **For Decision**

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#### **1.0 Introduction and Background**

- 1.1 The Council holds a varied asset portfolio which includes commercial and industrial properties, council housing and assets used to deliver council services.
- 1.2 Under current International Financial Reporting Standards the properties are required to be reviewed and categorised based on the purposes for which the council holds them and this determines the basis for the valuation methodology undertaken on them which is subsequently reflected within the Financial Statement of Accounts.
- 1.3 This yearly review and recent accounting changes for non-dwelling properties held within the Housing Revenue Account (HRA) have identified that the HRA shops may no longer meet the criteria for being held within the HRA.

#### **2.0 The Current Situation**

- 2.1 The shops held within the Housing Revenue Account relate back to when the housing estates were first constructed to provide community facilities for the use of our social housing tenants.
- 2.2 Over time under right to buy a large number of council homes have become privately owned resulting in mixed residential developments. The HRA shops are rented out to various organisations and individuals on commercial rather than residential leases.
- 2.3 Where the purpose of holding a property is not related to the provision of housing under part II of the Housing Act 1985, the property should not be held within the HRA. Some historic non-dwellings still remain with the HRA as a result of them being originally acquired under Housing Powers.
- 2.4 Appropriations of dwellings from the HRA to the General Fund require the consent of the Secretary of State under s19(2) of the Housing Act 1985, whilst appropriations of non-dwelling properties can be transferred under s122 of the Local Government Act 1972 without requiring consent. As the shops are on commercial leases and not on residential leases it is considered that these are not appropriations of dwellings for which the Secretary of State consent would be required.

- 2.5 Accounting changes as a result of the HRA Self-financing settlement have meant that depreciation charges or downward valuations on non-dwelling assets will now be true costs to the tenants (previously these charges were negated so that they did not impact on the tenants) This gives an element of uncertainty to the long-term planning of the HRA 30 year business plan. This change in accounting treatment has not been applied to the General Fund which continues to allow for a counter entry to negate the impact to the Council Tax Payer of depreciation and downward valuations.
- 2.6 The accounting changes under self-financing also apply to the Council's HRA garage sites. It is not intended to propose to transfer these sites as a review is currently underway to ascertain any development potential of under used sites. It is anticipated that this will negate some of the costs incurred to tenants through site development in the long term.
- 2.7 Details of the shops identified for transfer are provided in Annex 1 and Annex 2. It is proposed that the HRA will continue to retain one shop being the leased shop in the centre of the Newington Regeneration Scheme on the basis that as part of the scheme consultation, Council Tenants wanted to continue to retain a shop centrally within the estate. This has been funded from a Tenant contribution to the scheme and so the purpose for the Council owning and using this asset is for the continued community benefit to our tenants.
- 2.8 The management of HRA shops was originally delegated to East Kent Housing, the Arm's length Management Organisation that the Council uses to manage its Council dwellings. However, for Thanet this function has always been undertaken by the in-house Estates Team and has never been transferred over to East Kent Housing. It is proposed to continue with the current arrangement for the in-house Estates team to manage the HRA shops and liaise with Housing on the letting of the premises. It is therefore recommended that the scheme of delegation with East Kent Housing agreed at full Council on 24 February 2011 is amended to correctly reflect where the management of the HRA shops currently is and will continue to reside.

### **3.0 Options**

- 3.1 Members agree to transfer the Housing Revenue Account Shops to the General Fund as detailed in Annex 1 and Annex 2, in order to give a degree of certainty in the long term planning of the HRA Business Plan and increase the borrow capacity of the HRA.
- 3.2 Members do not agree to transfer the Housing Revenue Account Shops to the General Fund as detailed in Annex 1 and Annex 2, in order to give a degree of certainty in the long term planning of the HRA Business Plan.

### **4.0 Corporate Implications**

#### **4.1 Financial and VAT**

- 4.1.1 The financial impact of transferring the shops from the Housing Revenue Account to the General Fund will mean that any costs and income relating to the property will subsequently fall on the General Fund. The budget approved by Council on 6 February 2014 assumed rental income of £16,000 would transfer to the General Fund in relation to these shops. Currently the retail stock transferring is in relatively good condition but in order to plan for any future repairs it is requested that any surplus rental income generated in excess of £16,000 is taken to a reserve to set funds aside to cover any costs that may be incurred at a later date.

- 4.1.2 An added value of the proposals is that due to the accounting arrangements there is an increase in the headroom for HRA borrowing by the amount equivalent to the transfer of £225,000. The estimate of the financial impact of the transfer is detailed in the table below:-

<b>Detail</b>	<b>HRA</b>	<b>General Fund</b>
Opening Capital Financing Requirement	£22,325,000	£19,450,000
Market Value of HRA Shops	(£225,000)	£225,000
Closing Capital Financing Requirement	£22,100,000	£19,675,000
Depreciation adjustment	(£1,870)	£1,870
Rental Income	£18,840	(£18,840)
Accounting Adjustments	0	(£1,870)

## 4.2 Legal

- 4.2.1 Under s19 of the 1985 Housing Act a local housing authority may appropriate land for the purposes of housing consisting of a house or a part of a house with the Secretary of State consent.
- 4.2.2 Under s122 of the Local Government Act 1972 a council may appropriate land which it owns and is no longer required for the purpose for which it was initially held.
- 4.2.3 As the shops are not used for housing purposes and are on commercial leases it intended to use the powers under S122 of the Local Government Act 1972 to transfer the HRA Shops into the General Fund asset register.

## 4.3 Corporate

- 4.3.1 As detailed in paragraph 2.8 the management of the HRA shops is currently undertaken by the in- house Estates team and would continue to be managed by the same team on transfer to the General Fund.
- 4.3.2 A recommendation has been made to make an amendment the scheme of delegations given to East Kent Housing to reflect the current and continuing management of the Councils HRA shops.

## 4.4 Equity and Equalities

- 4.4.1 There are no equality issues identified in respect of the transfer of the Housing Revenue Account Shops to the General Fund.
- 4.4.2 Details of the proposed transfer of the Housing Revenue Account shops were within the budget outline shared with the Thanet Tenant Board on 29 January 2014.

## **5.0 Recommendations**

- 5.1 Cabinet agree for the transfer of the HRA shops as set out in Annex 1 and Annex 2 to the General Fund;
- 5.2 Cabinet agree for the East Kent Housing scheme of delegations be amended to reflect the current and continuing arrangements for the management of the HRA Shops to reside with the in house Estates Department at Thanet District Council.

## **6.0 Decision Making Process**

- 6.1 This is a key decision to go to Council as it involves the transfer of assets between the Housing Revenue Account and General Fund and associated costs.

Contact Officer:	Sarah Martin – Financial Services Manager
Reporting to:	Sue McGonigal – Chief Executive

## **Annex List**

Annex 1	Appropriations to General Fund
Annex 2	GIS Map of Areas for Transfer

## **Corporate Consultation Undertaken**

Finance	Nicola Walker – Finance Manager (HRA, Capital and External Funding)
Legal	Steve Boyle – Interim Legal Services Manager
Property Services	Natalie Beldin – Estates Surveyor