

AGENDA ITEM: 11

SUMMARY

Report for:	Cabinet
Date of meeting:	17 December 2013
PART:	1
If Part II, reason:	

Title of report:	Housing Revenue Account – Non Residential Assets
Contact:	<p>Cllr Nicholas Tiley, Portfolio Holder for Finance & Resources</p> <p>James Deane, Assistant Director (Finance & Resources)</p> <p>Richard Baker, Team Leader Regulatory & Financial Accounting</p>
Purpose of report:	To review the ownership of HRA Investment Properties and propose transfer to the General Fund at market value
Recommendations	That Housing Revenue Account Investment Properties are appropriated to the General Fund at market value of £2.018m, with land remaining with the HRA where dwellings are situated above commercial units.
Corporate objectives:	<p>Dacorum Delivers</p> <p>The arm's length transaction benefits both the General Fund (through the increased revenue stream) and the HRA (through the capital injection to assist with delivery of the new build programme).</p> <p>There are also efficiency benefits of aligning responsibility for all of the Council's Investment Properties within the same administrative function.</p>
Implications:	<p><u>Financial</u></p> <p>The net budgetary impact for the council is nil. However, the two funds maintained by the Council will be affected.</p> <p>The HRA will appropriate the investment property to the GF meaning Capital resources will be transferred from the GF to the HRA.</p> <p>The GF, in return for the Capital resources passed to the HRA will receive an annual revenue income (net of costs) of around £175k.</p>

	<p><u>Value for Money</u> Statutory regulations governing the ring-fencing of the HRA require this to be an arm's length transaction. The transfer value of the properties was determined by an accredited external valuer, and has been externally audited as part of the Statement of Accounts.</p>
Risk Implications	No risks arise from the recommendations in this report.
Equalities Implications	There are no equality implications from the recommendations in this report.
Health And Safety Implications	There are no health and safety implications from the recommendations in this report.
Monitoring Officer/S.151 Officer Comments	<p>Monitoring Officer:</p> <p>It should be noted that, where land or buildings are said to be within the 'ownership' of the HRA, this means that the land or buildings are held by the Council solely for the purpose of carrying out its social housing function. As explained in the report, there are complex legal restrictions in place which are designed to prevent the HRA from cross subsidising the GF.</p> <p>Deputy S.151 Officer</p> <p>My comments are incorporated within the body of the report.</p>
Consultees:	<p>Sector Treasury Advisors</p> <p>Department for Communities and Local Government</p>
Background papers:	None
Glossary of acronyms and any other abbreviations used in this report:	<p>GF – General Fund</p> <p>HRA – Housing Revenue Account</p> <p>DCLG – Department for Communities and Local Government</p>

Background

1. Investment Property is defined by the International Accounting Standards Board as land or buildings held solely to earn rental income and/or for capital appreciation.
2. The Council's Investment Property portfolio currently comprises around 450 properties, both land and buildings, with a combined market value of £42m. The majority of the buildings are shops and commercial garages, and the land is of mixed commercial use including car parks, public houses and commercial facilities such as the Ski Slope at Jarman Park.

Current ownership of Investment Properties

3. Local Authority accounting regulations require the Council to identify 'ownership' of the Investment Property portfolio between the GF and the HRA. Currently the portfolio split is as follows:
 - HRA 34 properties valued at £2.3m
 - GF 415 properties valued at £39.7m
4. As one would expect, given its broader remit, the vast majority of the Council's Investment Properties are owned by the G F. Ownership of Investment Properties by the HRA is not encouraged under statutory regulations, and the Council would need to obtain consent from the Secretary of State prior to the HRA incurring capital expenditure on non-housing assets.
5. The HRA currently derives an income of around £175k per annum from its Investment Properties (which are listed in Appendix A), which represents a reasonable net yield of 7.5%, and accounts for around 0.3% of HRA annual turnover.
6. All of the Council's Investment Properties are currently managed through the G F, with costs passed onto the HRA through the recharge process. The process of distinguishing between HRA and G F related expenditure on the portfolio creates some administrative complexity.

Proposed transfer of Investment Property from HRA to GF

7. With reference to the above paragraphs, it is proposed that the HRA Investment Properties are transferred to the G F, at market value, for the following reasons:
 - Avoidance of technical risk around Secretary of State approval for future capital expenditure
 - The ambitious new-build programme means that the HRA would benefit more from an immediate £2m capital injection from the transfer of the assets than it would from a relatively immaterial ongoing revenue stream
 - The G F would benefit from securing a robust, ongoing revenue stream at a yield significantly more favourable than current investment rates
 - Eliminate the cross ring-fence complexities of managing HRA Investment Properties from within the G F
8. Statutory accounting regulations governing the HRA demand that cross ring-fence transfers are carried out as arm's length transactions, i.e. at market value. The Council's Investment Properties were valued by an accredited external valuer for inclusion in the 2013 Statement of Accounts, at £2.018m. This valuation was audited by Ernst & Young, and no issues were raised.
9. The actual value of the 34 properties in the 2013 Statement of Accounts has been adjusted down for the purpose of this transfer by c£300k from £2.3m.

This is because ten of the properties proposed for transfer to the GF have dwellings above shops and therefore the proposal is to transfer only the shop to the GF, leaving the land associated with the dwelling within the HRA.

10. Confirmation has been received from Sector, (the Council's treasury advisors), from Ernst & Young (the Council's external auditors), and from the DCLG that the proposed transfer complies with regulations and that it does not require Secretary of State approval.
11. The table below is an extract from the Council's Asset Management system showing the values of the relevant properties over the last two years

Asset Name	2011/12	Reval Gains / Losses	2012/13	Value for Appropriation (Excluding Land Where Appropriate)
2 Henry Wells Square	101,861.00	(8,206.00)	93,655.00	93,655.00
3 Henry Wells Square	101,689.00	437.00	102,126.00	102,126.00
4 Henry Wells Square	64,595.00	(322.00)	64,273.00	64,273.00
5 Henry Wells Square	66,868.00	642.00	67,510.00	67,510.00
6 Henry Wells Square	317,514.00	(6,018.00)	311,496.00	311,496.00
9 Henry Wells Square	110,318.00	856.00	111,174.00	111,174.00
10 Henry Wells Square	99,938.00	0.00	99,938.00	99,938.00
11 Henry Wells Square	99,884.00	16.00	99,900.00	99,900.00
12 Henry Wells Square	100,083.00	4,750.00	104,833.00	104,833.00
14 Henry Wells Square	105,247.00	(160.00)	105,087.00	105,087.00
1 Bellgate - 1	87,869.00	583.00	88,452.00	57,494.00
2 Bellgate - 1	75,828.00	148.00	75,976.00	49,384.00
3/4 Bellgate	164,687.00	(149.00)	164,538.00	106,946.00
5 Bellgate	87,048.00	758.00	87,806.00	57,074.00
6 Bellgate	88,930.00	3,348.00	92,278.00	59,981.00
7 Bellgate	88,930.00	13,371.00	102,301.00	66,496.00
8 Bellgate	53,979.00	271.00	54,250.00	35,262.00
9 Bellgate	84,213.00	178.00	84,391.00	54,854.00
10 Bellgate	91,646.00	192.00	91,838.00	59,695.00
Bellgate Central Store	33,000.00	0.00	33,000.00	33,000.00
1 Bellgate - 2	10.00	4,950.00	4,960.00	4,960.00
2 Bellgate - 2	6,000.00	(1,041.00)	4,959.00	4,959.00
3 Bellgate	6,000.00	0.00	6,000.00	6,000.00
4 Bellgate	6,600.00	0.00	6,600.00	6,600.00
21 Bellgate	6,000.00	(1,200.00)	4,800.00	4,800.00
Garage 22 Bellgate	2,100.00	0.00	2,100.00	2,100.00
23 Bellgate	6,000.00	0.00	6,000.00	6,000.00
24 Bellgate	4,800.00	0.00	4,800.00	4,800.00
Former Landscape Depot, Bellgate	15,010.00	0.00	15,010.00	15,010.00
123 Hobbs Hill Road	24,478.00	141.00	24,619.00	24,619.00
125 Hobbs Hill Road	24,619.00	172.00	24,791.00	24,791.00
131 Hobbs Hill Road	26,536.00	211.00	26,747.00	26,747.00
133 Hobbs Hill Road	49,308.00	2,417.00	51,725.00	51,725.00
5 Silk Mill Way	94,962.00	108.00	95,070.00	95,070.00
Market Value of Properties	2,296,550.00	16,453.00	2,313,003.00	2,018,359.00
Net Income Received from Properties (Transferred to HRA)	180,741.00		172,927.38	172,927.38
Return on Assets	7.87	0.72	7.48	8.57