

Crawley Borough Council

**Report to Cabinet
25 November 2020**

Appropriation of Garages from the HRA to the General Fund

Report of the Head of Corporate Finance – **FIN/511**

1. Purpose

- 1.1. To seek approval to transfer assets from the HRA to the General Fund.

2. Recommendation

- 2.1. To the Cabinet

The Cabinet is recommended to:

Request the Full Council to approve:

- a) **the appropriation of all garages from the HRA to the General Fund as at 1 April 2021, with the exception of those garages that are included within a Crawley Homes' tenancy agreement**
- b) **that when any of the garages currently included within a Crawley Homes' tenancy agreement falls outside of that tenancy, the Head of Corporate Finance in consultation with the Head of Crawley Homes be given delegated authority to use the powers under Section 122 of the Local Government Act 1972 to transfer such garages from the HRA to the General Fund.**

3. Reasons for the Recommendation

- 3.1. Property has to be accounted for within the HRA if it is currently provided under Part II of the 1985 Housing Act. Where property no longer meets that purpose, the Council should consider removal from the HRA.
- 3.2. The proposed transfer will reduce the debt on the HRA and fund the building of new homes.
- 3.3. The proposed transfer will reduce the budget gap in the General Fund as laid out in the Budget Strategy.

4. Background

- 4.1. Garages were originally provided by the Council under Housing Act powers in connection with the housing provided by the Council. However, over time, these have mostly been let on a commercial basis to generate a rent. Around 74% of the

garages are now let to non-HRA tenants. Consequently, it can no longer be claimed that the primary purpose of these assets is to contribute to the achievement of a housing objective.

- 4.2. Under section 122 of the Local Government Act 1972 the Council may appropriate land which belongs to the Council and is no longer required for the purposes for which it is held.
- 4.3. As the garages are no longer being used for meeting the housing objective, it is intended to use the powers under section 122 to transfer the garages from the HRA to the General Fund.

5. Information & Analysis Supporting Recommendation

- 5.1. An alternative option is to do nothing. The garages have been held in the HRA since they were built, and although they may no longer be held for housing purposes, the Council only has to consider transferring them.
- 5.2. Another alternative would be to split the garage stock between those that are let to HRA tenants and those that are not, and to only transfer the latter. Whilst this could be a valid option, it would complicate the administration and management of them and increase costs. Garages would move between the HRA and General Fund each year depending on the status of the tenant that lets them.
- 5.3. There are 5,022 garages owned by the Council. 108 of these are linked to HRA tenancies, and it is proposed that these are not transferred at this time but to be transferred as and when those tenancies end. Therefore, 4,914 garages will be initially transferred on 1 April 2021. See Appendix 1 for further details.

6. Implications

- 6.1. The financial implications of the transfer are that all the income and expenditure relating to the garages will transfer to the General Fund. The budgeted income from the garages is £2,385,000 and the administration and management expenditure is £85,500. There are also budgets for responsive repairs of £200,000 and planned repairs of £350,000 that will also now fall on the General Fund.
- 6.2. An adjustment to the Capital Financing Requirement (CFR) of the General Fund and HRA will be made that is equivalent to the value of the garages:

	General Fund	HRA
	£'000	£'000
Opening CFR	0	260,325
Book value of garages*	17,614	(17,614)
Closing CFR	17,614	242,711

* Book Value as at 1 April 2020 – this will be updated at the proposed date of transfer (1 April 2021).

- 6.3. The HRA would be able to use this reduction in CFR to fund the building of new homes. The premiums that would be payable on the early redemption of the PWLB loans would make the repayment of these loans poor value. £11m of PWLB loans reach maturity in March 2023.
- 6.4. The General Fund would have to take on borrowing. This would require paying a Minimum Revenue Provision (MRP) and interest. MRP is an amount set aside in its

revenue budget to repay the borrowing. It is also allowed to undertake additional voluntary payments (voluntary revenue provision – VRP). MRP does not apply to the HRA.

- 6.5. The estimated revenue impact in the first year of the proposal is shown in the table below:

	General Fund £'000	HRA £'000
Rent	2,385	(2,385)
Administration	(67)	67
Management	(18)	18
Responsive Repairs	(200)	200
Planned Repairs	(350)	350
MRP	(828)	0
Interest	(115)	115
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	807	(1,635)

- 6.6. The proposed transfer is cost neutral to the Council. For the General Fund, the additional net income would be used to reduce the budget gap identified in the budget strategy.
- 6.7. For the HRA, any in-year surpluses are transferred to the Major Repairs Reserve to spend on new capital projects. Whilst this proposal does show that there would be a reduction in this transfer of £1.6m per annum, the HRA is getting a one-off contribution of £17.6m to invest in new homes or to pay off existing debt.
- 6.8. The figures in the table above are indicative and will change based on the valuation of the garages at 1 April 2021 and the interest rates prevailing at that date.

7. Background Papers

Budget Strategy 2021/22 – 2025/26 – Cabinet, 25 November 2020 [report FIN/508 refers]

[Treasury Management Strategy 2020/2021](#) – Cabinet, 5 February 2020 [report FIN/493 refers]

[MHCLG Guidance: Operation of the Housing Revenue Account ring-fence](#) – published 10 November 2020

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Summary of Garage Stock

Area	Occupied	Void	Total to Transfer at 1st April 2021	Currently Linked to HRA Tenancies	Total Garages
Ifield	489	29	518	0	518
Langley Green	415	113	528	0	528
Tilgate	590	63	653	1	654
Southgate	314	50	364	13	377
Northgate	308	35	343	0	343
Pound Hill	364	29	393	0	393
Three Bridges	298	15	313	0	313
Broadfield	624	60	684	62	746
Gossops Green	391	30	421	0	421
Furnace Green	237	16	253	18	271
West Green	278	39	317	0	317
Bewbush	97	15	112	14	126
Maidenbower	15	0	15	0	15
Total	4,420	494	4,914	108	5,022