

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Leader and Cabinet 8 March 2007
AUTHORS: Chief Executive / Principal Accountant (Housing)

CAPITAL RECEIPTS POOLING - UPDATE

Purpose

1. To update Members on the situation regarding the “pooling” of receipts from equity share sales.
2. To illustrate to Members the consequences of a notified and anticipated reduction in the allocation of housing capital grant from 2007/08 onwards.
3. To alert Members to the consequential impact on the funding available for the approved capital programme.

Background

4. From April 2004 Authorities have been required to send part of the receipts from the sale of Housing Revenue Account (HRA) assets to the Department for Communities and Local Government (DCLG); these funds are then redistributed for housing purposes on the basis of need. This process is known as “pooling”. Locally, South Cambridgeshire District Council has not and is not expected to benefit directly from any of the redistributed resources.
5. Prior to the implementation of the Pooling Scheme, guidance and correspondence in relation to the Scheme were received from the government all indicating that, whilst pooling would be unavoidable in relation to receipts from Right to Buy (RTB) sales, it could be avoided for most other receipts provided there was a formal resolution in place to use them for housing purposes.
6. The situation with our own equity share scheme was queried with the Office of the Deputy Prime Minister (the predecessor to the DCLG) on several occasions prior to the implementation of the pooling arrangements; with all the responses being to the effect that receipts from equity share sales could be retained locally and recycled. However, it later came to light that a reference in the actual legislation was in contradiction to these assurances.
7. Officers from the DCLG visited the Council last May and agreed to propose a change in the Regulations in order to allow the pooling of the receipts from equity share sales to be avoided. At the meeting it was suggested that, hopefully, the change would be in place by October 2006. Consequently, although no alteration to the legislation had been made by October, the estimates were produced on the assumption that, after the end of the current financial year, 100% of equity share sale proceeds would be reusable.
8. Following consultation on draft amendments to the regulations in relation to equity share receipts, an email has been received from Stephen McAllister of the DCLC in which he states that:

“The Department is aware that a number of local authorities operate their own shared equity schemes and wanted, as a result of the consultation process, to

arrive at amendments that would incorporate the features of those schemes, but in the inclusion of the features of one scheme not exclude another.

The responses to the consultation have demonstrated that, if those objectives are possible at all, they are going to result in a set of amendments far more complex than the Department had originally envisaged.

The result of this is that shared equity amendments will not be in place for 1 April 2007. I realise that this will be a disappointment but consider that it is important that if the capital finance regulations are amended, the robust nature of the pooling regime is maintained and that changes to the regulations are fully informed. “

9. At the meeting held in May, Mr McAllister intimated that he would only be prepared to consider altering the legislation once. Whilst therefore it is disappointing that no relevant changes will be made before April 2007, it would seem preferable to suffer a delay, rather than revised regulations be issued which do not satisfactorily resolve the situation.
10. The government has recently announced the housing capital grant allocations for 2007/08. This is an annual allocation, which from the current financial year, comes in the form of a capital grant. The grant for 2006/07 was £356,220 and, on the assumption that SCDC's grant would reduce year on year, £250,000 has been included in the estimates. In the event, the amount allocated for 2007/08 is only £180,818, a shortfall of around £70,000. By implication the figures included for this grant 2008/09 and 2009/10 estimates, are also likely to be in excess of the allocations.
11. Consideration is given below to the impact on the level of usable capital receipts included in the approved Capital Programme of a delay in revising the Pooling Scheme to allow the Council to wholly recycle any receipts from equity share sales and the lower than anticipated housing capital grant allocation.

Considerations

12. The Capital Programme (for the period to the end of March 2010) approved by Full Council on 22nd February 2007 (**Appendix A**) was produced on the assumption that from 1st April 2007 100% of equity share sale proceeds would be reusable and that the housing capital grant allocations would be £250,000, in 2007/08, £185,000, in 2008/09 and £120,000, in 2009/10. The shortfall in funding in 2009/10 under this scenario is estimated to be £1.7 million.
13. **Appendix B** shows the summary of the approved Programme, adjusted to illustrate the impact of the continuation of pooling and updated by information on the actual 2007/08 allocation of housing capital grant. This allocation is only about half of the current years figure and it has been assumed, for the purpose of the adjusted programme, that (as shown below) the allocation will also halve in each of the following years.

Estimate of Housing Capital Grant allocation included in the:	Year		
	2007/08 £	2008/09 £	2009/10 £
Approved Capital Programme	250,000	185,000	120,000
Adjusted Capital Programme	180,820	90,000	45,000

14. The estimated effect of the continuation of the pooling of equity share sales is shown in the table below.

Estimate of transfer to the DCLG pool included in the:	Year		
	2007/08 £	2008/09 £	2009/10 £
Approved Capital Programme	1,650,000	1,650,000	1,650,000
Adjusted Capital Programme	2,280,000	2,350,000	2,350,000
Difference	630	700	700

15. The shortfall in funding in 2009/10 under the scenario used for **Appendix B** is estimated to be £4.0 million.
16. **Appendix C** shows the summary of the approved Programme, with the same adjustments in relation to the housing capital grant allocations that have been used in Appendix B but with the pooling of receipts from equity share sales only continuing for 2007/08. It has been assumed that revised legislation, which enables the Council to recycle 100% of equity share receipts, will be in place before 1 April 2008. The shortfall in funding in 2009/10 under this scenario is estimated to be £2.6 million.

Implications

17. Financial	The financial implications are contained in the body of the report
Legal	At present, the Authority is legally obliged to pay a part of any capital receipts from equity share sales to the DCLG. There is a legal obligation to repurchase the majority of equity share properties whenever a leaseholder wishes to surrender.
Staffing	There do not appear to be any immediate staffing implications, however, a reduction in the Capital Programme would be likely to impact on staffing levels in the longer term.
Risk Management	Around 85% of the programme relates to expenditure on HRA property and it is likely, therefore, that most of any shortfall will fall on the HRA. Any significant reduction in major repairs to homes and infrastructure, such as paths, could result in an increase in the need for revenue expenditure and have safety and insurance implications for the Council. The decent homes standard may not be fully maintained if there is a substantial shortfall in funding for the HRA part of the capital programme.
Equal Opportunities	There do not appear to be any equal opportunities implications

Effect on Annual Priorities and Corporate Objectives

18. Affordable Homes	Any significant reduction in resources is likely to have an adverse effect on the Authority's ability to achieve its corporate objectives in the longer term.
Customer Service	
Quality, Accessible Services	
Village Life	
Sustainability	
Partnership	

Conclusions/Summary

19. Information regarding the housing capital grant allocation and the situation regarding the pooling of capital receipts has recently been received from the government. The Capital Programme, approved by Members at the Council meeting held on 22

February has, therefore, been re-examined and two possible alternative scenarios (discussed in the considerations section above) illustrated at **Appendix B** and **Appendix C**.

20. The two developments place additional pressure on the Council's Capital Programme. A report will be presented to April's Cabinet that sets out a process by which pressures on the Capital Programme could be mitigated through further consideration of future housing options.
21. Without the ability to reuse equity share receipts, the Council's equity share scheme is unsustainable in the longer term. The amendment will now not be made in time for this April. However, as Officers at the DCLG have indicated that they are only prepared to consider revising the legislation once, to enable the Council to avoid the need to pool receipts from equity share receipts, a delay is far preferable to any amended legislation being passed, which would not satisfactorily resolve the situation.
22. In view of the fact that amendments to legislation would not be retrospective, the Chief Executive has asked the DCLG to consider writing off the amount owing in relation to the pooling of receipts from equity share sales back to 2004/05 (estimated at £2.2 million).
23. Amendments to the pooling legislation are still under consideration and it is to be hoped, therefore, that the recycling of receipts from equity share sales will soon be permissible. As a consequence, the adjusted Capital Programme shown in **Appendix C** (where pooling is avoidable from April 2008 and the funding shortfall in 2009/10 is £2.6 million) is felt to illustrate the most likely scenario.

Recommendation

24. It is recommended that Cabinet note the content of this report.

Background Papers: the following background papers were used in the preparation of this report:

Capital and Revenue Estimates, Council Tax and Prudential Indicators 2007 - Item 3 of the 8 February 2007 Cabinet Agenda

Local Authority Housing Capital Grant Allocations 2007-08 – Letter of 19 February 2007 from Solma Ahemed of GO-East

Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2007 – An informal note on changes to the proposed regulations - DCLG

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