

Report to Cabinet
12 June 2013
Report of Chief finance officer
Subject Appropriation of property

Item

12

Purpose

To confirm the purposes for which various properties are held by the council, and to seek approval for relevant appropriations in order to give effect to these purposes.

Recommendation

That cabinet resolves that the purpose for which the properties listed in paragraph 9 are held is for non-housing service provision;

That cabinet resolves that the purpose for which the properties listed in paragraph 13 are held is for income generation and/or capital appreciation;

That cabinet approves the appropriation of these properties from the Housing Revenue Account to the General Fund to be effective from 1 April 2013.

Corporate and service priorities

The report helps to meet the corporate priority “Value for money services”.

Financial implications

The total budget impact of the proposed appropriations would be a gain of £68,586 to the General Fund and a loss of £68,586 to the Housing Revenue Account.

Ward/s: All wards

Cabinet member: Councillor Waters – Deputy leader and resources

Contact officers

Mark Smith, Finance Control Manager

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Background documents

Paper to Corporate Leadership Team “Classification of Assets”, April 2013

Report

1. The council owns thousands of properties, including council houses, commercial and industrial properties, and administrative buildings.
2. International Financial Reporting Standards require that these properties are analysed according to the purposes for which the council holds them. This analysis is reflected in the statement of accounts through differing bases of valuation appropriate to each class of asset. The main categories into which property assets are classified are *Property*, *Plant & Equipment* and *Investment Properties*.
3. As part of the council's continuous review of its assets, several properties have been identified where the council's reason for holding them has changed since the original acquisition, which requires that the properties need to be moved from one class of assets to another.
4. Where the purpose for holding a property is not related to the provision of housing under part II of the Housing Act 1985, the property cannot be held within the Housing Revenue Account ("HRA"). If a property is currently held within the HRA, usually as a result of being originally acquired under Housing powers, it must be transferred ("appropriated") to the General Fund.
5. The financial consequences of appropriation from the HRA are that the costs and any income relating to the property will subsequently fall on the General Fund, and that the value of the property is deducted from the total value of HRA assets (the "capital financing requirement" or "CFR") and consequently that the proportion of the council's borrowing costs allocated to the HRA pro rata to the HRA CFR is reduced.
6. Appropriation of dwellings from the HRA to the General Fund requires the consent of the Secretary of State under s19(2) of the Housing Act 1985, whereas appropriation of other property can be effected under s122 of the Local Government Act 1972 without requiring consent.
7. Since the properties for which appropriation is recommended are not currently held as dwellings within of the council housing stock, and where rented are let to corporate bodies on commercial rather than residential leases, it is considered that these are not appropriations of dwellings for which the consent of the Secretary of State would be required.

Property, Plant & Equipment

8. Property, Plant & Equipment assets are operational in nature. Guidance to the Code of Practice on Local Authority Accounting in the United Kingdom says:

"The definition of property, plant and equipment ... covers all assets with physical substance (tangible assets) that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period. This definition has some key characteristics:

 - There must be physical substance to the item (such as land, buildings, machines, etc)

- The item must be held by an authority for the provision of goods or services, for rental to others (as part of a service)”
9. Cabinet is asked to resolve that the following properties are being held for the provision of services, and consequently to agree their appropriation from HRA to General Fund (Property, Plant & Equipment):
- (1) Garden Land (rear of no’s 63, 65, 69 Nelson Street and land including right of way to rear of nos 59-73 Nelson Street/Nicholas Mews)
 - (2) Land rear of Southgate House
10. Further information concerning these properties are set out in Appendix A

Investment properties

11. Investment properties are non-operational in nature. Guidance says:
- “This is a separate class of property (land or a building, or part of a building, or both) that is held solely to earn rentals or for capital appreciation, or both, rather than for:
- use in the production or supply of goods or services, or for administrative purposes, or
 - sale in the ordinary course of operations.”
12. Although let, the lettings are not considered to be “as part of a service”, i.e., delivering the council’s policy objectives, and therefore cabinet is requested to recognise that the purpose of the lettings is to generate income, by resolving that the purpose for which the properties are held meets the criteria for recognition as investment properties.
13. Cabinet is asked to resolve that the following properties are being held for income generation and/or capital appreciation, and consequently to agree their appropriation from HRA to General Fund (Investment Property):
- (1) 38A Bull Close (Hall)
 - (2) Mary Chapman Court
 - (3) Units 4–6 Heigham St./Derby St.
14. Further information concerning these properties are set out in Appendix B

Integrated impact assessment



NORWICH
City Council

Report author to complete

Committee:	Cabinet
Committee date:	12 June 2013
Head of service:	Chief Finance Officer
Report subject:	Appropriation of property
Date assessed:	26 April 2013
Description:	The impact of the appropriations will be almost entirely financial, both in respect of the budget impact identified in the body of the report and appendices, and in terms of the presentation of the statement of accounts.

	Impact			
Economic (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Finance (value for money)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Will improve the accuracy of the statement of accounts, reduce the likelihood of audit concerns, and reduce the likelihood of increased audit costs.
Other departments and services e.g. office facilities, customer contact	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
ICT services	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Economic development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Financial inclusion	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Social (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Safeguarding children and adults	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<u>S17 crime and disorder act 1998</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Human Rights Act 1998	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Health and well being	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

	Impact			
Equality and diversity (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Eliminating discrimination & harassment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Advancing equality of opportunity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Environmental (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Natural and built environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Waste minimisation & resource use	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Pollution	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Sustainable procurement	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Energy and climate change	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Risk management	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Reduces the likelihood of audit challenge leading to qualification of audit opinion on the statement of accounts.

Recommendations from impact assessment	
Positive	
Subject to cabinet's agreement with the stated purposes for which these properties are held, the appropriations will have a positive impact.	
Negative	
Neutral	
Issues	

APPENDIX A

Appropriations to General Fund (Property, Plant & Equipment)

<i>Property</i>	Garden Land (r/o nos 63, 65, 69 Nelson Street and land including right of way to rear of nos 59-73 Nelson Street/Nicholas Mews)
<i>Acquired for</i>	Housing Act (1959)
<i>Currently held as</i>	HRA Non-Dwelling
<i>Current use</i>	Garden land
<i>Long term use</i>	Garden land
<i>Current value</i>	Deminimus
<i>Annual income</i>	£125 iro land r/o no 63 Nelson Street.
<i>Comments</i>	Although this was acquired under Housing powers, it is not used for housing purposes and should be accounted for in GF as property, plant and equipment. Income impact would be loss of £125 to HRA, gain of £125 to GF.
<i>Action</i>	Appropriate to General Fund (Property, Plant & Equipment)

<i>Property</i>	Land rear of Southgate House
<i>Acquired for</i>	Housing Committee - 20 Nov1968
<i>Currently held as</i>	HRA Non-Dwelling
<i>Current use</i>	Garden land
<i>Long term use</i>	Garden land - steeply sloping embankment with chalk subsoil making it unsuitable for development.
<i>Current value</i>	Deminimus
<i>Annual income</i>	£1
<i>Comments</i>	Although this was acquired under Housing powers, it is not used for housing purposes and should be accounted for in GF as property, plant and equipment. Income impact would be loss of £1 to HRA, gain of £1 to GF.
<i>Action</i>	Appropriate to General Fund (Property, Plant & Equipment)

APPENDIX B

Appropriations to General Fund (Investment Property)

<i>Property</i>	38A Bull Close (Hall)
<i>Acquired for</i>	The (Tenant and Unfit) Housing Act (1957)
<i>Currently held as</i>	HRA Non-Dwelling
<i>Current use</i>	Let on a long lease to St Edmunds Society
<i>Long term use</i>	Continued use by St Edmunds until at least 2016.
<i>Current value</i>	£50,000
<i>Annual income</i>	£5,250
<i>Comments</i>	Although this was acquired under Housing powers, it is not used for housing purposes and should be accounted for in GF as investment property. Capital charges impact would be gain of £2,500 to HRA, loss of £2,500 to GF. Income impact would be loss of £5,250 to HRA, gain of £5,250 to GF.
<i>Action</i>	Appropriate to General Fund (Investment Property)

<i>Property</i>	Mary Chapman Court
<i>Acquired for</i>	Assumed acquired under housing powers
<i>Currently held as</i>	HRA Non-Dwelling
<i>Current use</i>	Let to UEA for student accommodation until September 2016.
<i>Long term use</i>	Site may be considered for redevelopment by housing but no firm plans.
<i>Current value</i>	£1,176,000
<i>Annual income</i>	£123,850 to HRA
<i>Comments</i>	Although it is assumed that this was acquired under Housing powers, it is not used for housing purposes and should be accounted for in GF as investment property. Capital charges impact would be gain of £58,800 to HRA, loss of £58,800 to GF. Income impact would be loss of £123,850 to HRA, gain of £123,850 to GF.
<i>Recommendation</i>	Appropriate to General Fund (Investment Property)

<i>Property</i>	Units 4–6 Heigham St./Derby St.
<i>Acquired for</i>	Acquired under Housing powers as part of land for neighbouring HRA estate
<i>Currently held as</i>	HRA Non-Dwelling
<i>Current use</i>	Industrial units let by NPS
<i>Long term use</i>	Continued use as industrial units
<i>Current value</i>	£37,044
<i>Annual income</i>	£2,660
<i>Comments</i>	Although this was acquired under Housing powers, it is not used for housing purposes and should be accounted for in GF as investment property. Capital charges impact would be gain of £2,000 to HRA, loss of £2,000 to GF. Income impact would be loss of £2,660 to HRA, gain of £2,660 to GF.
<i>Recommendation</i>	Appropriate to General Fund (Investment Property)