

**FALKIRK COUNCIL**

**Subject: SCOTTISH GOVERNMENT CONSULTATION – DRAFT GUIDANCE ON THE OPERATION OF LOCAL AUTHORITY HOUSING REVENUE ACCOUNTS (HRAS) IN SCOTLAND**  
**Meeting: EXECUTIVE**  
**Date: 18 June 2013**  
**Author: DIRECTOR OF CORPORATE & NEIGHBOURHOOD SERVICES**  
**CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 The purpose of this report is to advise Members of a Scottish Government consultation on proposed draft guidance for local authority landlords on the operation of Housing Revenue Accounts (HRAS).
- 1.2 The consultation exercise is seeking responses to 7 questions by 5 July 2013 and this report provides Members with information on the draft guidance, the potential impacts for the Council flowing from the guidance and seeks Member approval to the proposed responses.
- 1.3 A copy of the consultation document is attached in Appendix 1 as included in the volume of appendices.

**2. BACKGROUND**

- 2.1 The proposed guidance has been produced, following discussions between representatives of local authority landlords, Registered Tenant Organisations (RTOs), Audit Scotland and Scottish Government.
- 2.2 The current principal HRA legislation was put in place in the Housing (Scotland) Act 1987. Updated guidance is now considered necessary as a consequence of changes in local authority housing since the legislation was established, due to factors such as:
  - Increased mixed tenure arising from right to buy and new build properties (by RSLs and private developers) resulting in the need to scrutinise costs to the HRA to ensure a fair and reasonable share of costs is in place e.g.: common open space maintenance.
  - Increased tenants and generally public expectations and the resultant provision of services to meet the needs of wider communities and neighbourhoods beyond the traditional remit of a council landlord service.
  - A greater concentration of income poverty in the council house sectors, necessitating that HRA expenditure should be carefully targeted on council tenants to ensure the poorest households are not disadvantaged.
  - Greater local accountability to ensure that HRA capital investment plans are affordable, sustainable and prudent. This means that the impacts on rent levels when deciding to borrow to fund any capital investment plans must be clearly assessed and transparent.

- Tighter public sector budgets including that on welfare. Housing benefit accounted for over 60% of HRA income nationally in 2012-13 and current UK Government reforms could result in greater pressure being placed on HRA income.
- Increasing pressures on the HRA in relation to new legislative and non legislative demands such as providing sufficient monies to ensure that the council housing stock meets the Scottish Housing Quality Standard (SHQS) by April 2015; that the stock is more energy efficient to help eradicate fuel poverty in Scotland by 2016 and reduce carbon emissions from council housing in the period to 2020 and beyond.

2.3 The guidance is aimed at ensuring expenditure once aimed at traditional “council housing areas” provides maximum benefit to today’s council tenants. The proposed guidance is considered to supplement, but does not replace the statutory requirement for authorities to account for the costs associated with the HRA as set out in the Housing (Scotland) Act 1987. The guidance seeks to ensure that costs charged to the HRA ultimately benefit tenants.

2.4 The proposed guidance identifies that current and future tenants should expect to receive the following from their rents:

- Properties and management services of high quality which includes not only managing and maintaining the fabric of the properties but ensuring that they meet the appropriate energy efficiency and carbon emission standards that will apply in future years i.e.: ensuring SHQS standards are met and maintained
- The opportunity for affordable rent levels
- Full consultation by their landlord on important matters and also to have a say on how housing services are delivered and managed in their community
- Where affordable and sustainable for the HRA, the provision of a new supply of council houses for rent, where there is established housing need

2.5 In order for these outcomes to be achieved, the Scottish Government believes that a transparent accounting and financial framework is necessary. The consultation identifies that the make-up of costs being charged, and the income being received by each HRA should be clear and easily understandable to tenants in line with the requirements of the Scottish Social Housing Charter.

### **3. CONSULTATION**

3.1 The consultation seeks responses to 7 questions and proposed responses to the questions are attached in Appendix 2, as included in the volume of appendices, for Member consideration.

3.2 The draft guidance reflects a number of key principles that local authorities must observe i.e.:

- Ensuring compliance with existing HRA legislation
- Ensuring that HRA assets should principally benefit HRA tenants either in direct usage or as investment properties providing a financial return e.g.: shops, land and other commercial premises held on the HRA
- Properly recording the methodology for calculating and allocating HRA costs (including internal costs charged by the Council to the HRA) systematically and in

sufficient financial detail to know who benefits from the services these costs relate to e.g.: Central Support/Department recharges and Grounds Maintenance charges. A four-way cost classification is proposed i.e.: Core HRA costs; Core Plus HRA costs; Non Core HRA costs and Core General Fund Costs.

- Updating the HRA cost allocation process regularly to reflect market and other changes including the allocation to the HRA of the appropriate proportion of council Trading Operation surpluses attributable to Council housing activities i.e.: Building Maintenance and Roads Division surpluses
- Where legally entitled, charging non-council tenants benefiting from HRA-provided services that are currently only charged to council tenants e.g.: factoring services
- That regular discussions on the level and nature of HRA financial transparency takes place with tenants themselves, RTOs or other tenant representatives in relation to income credited to and expenditure charged to the HRA, in accordance with the principles underlying the Scottish Housing Charter.

- 3.3 It is expected that the guidance would be used by, and be referred to, as necessary not only by landlords and tenants but by Audit Scotland and the Scottish Housing Regulator as they see fit.

## **4. IMPLICATIONS**

- 4.1 The proposed guidance will require a full review of current methodologies relating to how expenditure and income is treated within the Council's HRA and consequently General Fund. Key areas for review include:

- Treatment of commercial and other assets held on the HRA
- Treatment of Building Maintenance and Roads Division trading surpluses and accounts
- Treatment of internal recharges
- Treatment of common area charges
- The format, content and approach to tenant discussion on HRA costs and income

- 4.2 It is too early to quantify the specific financial implications arising from the guidance until it is more fully developed. However, it is likely that the overall impact of changes arising from the guidance will result in added cost to the General Fund and corresponding benefit to the HRA. The potential impacts on Local Authority finances in general are not recognised in the guidance and will therefore require to be considered further. Work has begun to assess how the guidance will be implemented and the associated financial impacts and a further update will be provided to Members following the conclusion of this work and in conjunction with the revenue budget preparation process.

## **5. RECOMMENDATIONS**

**It is recommended that Members:**

- 5.1 Agree the proposed response in Appendix 2 be submitted to the Scottish Government by the due of 5 July 2013**
- 5.2 Note that a further report will be provided to Members on the implications arising from the proposed guidance.**

.....  
**DIRECTOR OF CORPORATE &  
NEIGHBOURHOOD SERVICES**

.....  
**CHIEF FINANCE OFFICER**

Date: 29 May 2013

Ref: AAP0613

Contact Names:	David McGhee	Ext: 0788
	Jennifer Litts	Ext: 0789
	John Flannigan	Ext: 6371

### **LIST OF BACKGROUND PAPERS**

- 1. Scottish Government Consultative Draft Guidance on the operation of Local Authority Housing Revenue Accounts (HRAS) in Scotland**