

Guidance on the Operation of Local Authority Housing Revenue Accounts (HRAs) in Scotland

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Ministerial Foreword



Margaret Burgess
Minister for Housing and Welfare

I am very pleased to introduce this Guidance on the Operation of Local Authority Housing Revenue Accounts (HRAs) in Scotland.

Council tenants are coming under greater and greater financial pressures which means Scottish Government must do all it can to help. The Housing (Scotland) Act 1987 set out the requirements for local authorities to maintain a dedicated housing revenue account in relation to their housing stock. This Guidance summarises the legal basis for having a separate council landlord account and lists the accounting and auditing protocols which local authorities must adhere to when submitting their housing accounts to Audit Scotland.

The aim of the Guidance is to ensure that tenants of local authorities receive the maximum benefit from their rents and ultimately the best standards of service. It will assist in promoting consistency in the way in which HRAs operate in Scotland and in by promoting the efficient use of resources. It will also help ensure transparency in the operation of the account and the recording of financial information so that tenants can better understand how their housing service is delivering benefit to them and at what cost in line with the requirements of the [Scottish Social Housing Charter](#)

A wide range of organisations and individuals have contributed to the drafting of this guidance and towards its quality assurance. I would like to thank those involved and, in particular, would like to mention the significant contributions made by Registered Tenant Organisations, the Chartered Institute of Public Finance and Accountancy (CIPFA) Scotland, Audit Scotland, the Convention of Scottish Local Authorities (COSLA), the Chartered Institute of Housing (CIH) and numerous local authority housing professionals who prepare housing revenue account returns.

My officials will continue to monitor the relevance and effectiveness of this guidance and will publish updates as required. We would be happy to receive comments which can be sent to hraguidance@scotland.gsi.gov.uk. However, if tenants or their representatives have specific concerns about the way in which housing revenue accounts are operating they should, in the first instance, contact one of a number the relevant organisations detailed on page 41 of the Guidance.

Margaret Burgess

SECTION 1: BACKGROUND AND PURPOSE

1. This Guidance has been published following a consultation with stakeholders over the period April to July 2013.

What is the purpose of the Guidance?

2. The purpose of this Guidance is to consolidate information on the role of the housing revenue account (HRA): how it must operate; who the resources contained within it are meant to benefit; and what outcomes can be expected from those resources.

3. This guidance supplements, but does not replace, the original statutory requirement for authorities to account for the costs associated with the HRA as set out in the Housing (Scotland) Act 1987. In particular, it seeks to lay out the basis for the costs of goods and services being charged to the HRA (and the revenues that accrue to the HRA) and how they should ultimately be benefiting council tenants.

Who will benefit from this Guidance?

4. The Guidance should assist and can be used as a reference point on local discussions relating to HRAs by a number of separate groups:

- a) This document will help **council tenants** to better understand and provide better transparency about what must and must not be credited and debited to the HRA in their area and why. It will also provide a basis for discussions between local authority landlords and tenants on how each landlord is achieving certain outcomes expected of them as laid out in Scottish Social Housing Charter introduced in April 2012.
- b) The wider population of **residents in mixed tenure estates, council taxpayers and taxpayers** in Scotland who fund local authority services and who can use the document to see the rationale for the possibility of charging non-council tenants for HRA paid-for services from which they might currently benefit; to see what must and must not be credited and debited to the HRA; and to see what wider housing-related costs and income must be credited and debited to the general services revenue account (General Fund) in their area and why.
- c) Though there is legislation and accounting practice relating to the HRA, it is important to set out the basis for each **local authority** landlord so they can operate to the same set of guidelines about what they must and must not be crediting and debiting to the HRA so that a consistent approach is taken across Scotland.
- d) These guidelines will provide a readily available and up-to-date policy basis for **Audit Scotland and independent firms of auditors** to carry out their auditing duties in relation to local authority accounts.

Roles and responsibilities

5. Table 1 on page 6 is a summary of the relevant roles and responsibilities of council landlords, tenants and their representative bodies, auditors, central government and professional accountancy and other bodies. It is important to be clear about these roles so that tenants in particular can align their expectations for any improvements they seek to the correct person or body.

SECTION 2: SUMMARY OF THE KEY HRA OPERATING PRINCIPLES

6. The key principles under which the HRA must operate are:

- i. it is compliant with legislation; any statutory guidance that Scottish Ministers in relation to local authority finance; and must adhere to any accounting codes of practice (**Section 5** of this Guidance)
- ii. HRA assets must be used to **benefit present or prospective council tenants** either in direct usage or as investment properties providing a financial return. If neither of these situations applies, then the assets are not benefiting the HRA and removal from the HRA should be considered (**Section 6** of this Guidance)
- iii. that there is a **robust, written methodology** for calculating and allocating HRA costs (including internal costs charged by the Council to the HRA) in sufficient financial detail for tenants to understand why costs are being charged and who is benefiting from the services these costs relate to. This must include the allocation to the HRA of the appropriate proportion of council Trading Operation surpluses attributable to council housing activities. Furthermore, the HRA cost allocation methodology must also be **updated regularly** to reflect changes in legislation, statutory guidance, codes of practice, the market for HRA goods and services and any other relevant changes (**section 7** of this Guidance)
- iv. in addition to the existing statutory obligations, local authorities must have clear, published mechanisms and procedures for consulting with council tenants and/or registered tenant representatives on any matters of **financial transparency** relating to the HRA in accordance with outcomes 2 and 3 of the Scottish Social Housing Charter (**section 8** of this Guidance)
- v. to ensure that, where legally entitled, and subject to a robust proportionality test, **non-council tenants** living in mixed tenure areas benefiting from HRA-provided services are charged for goods and services (**section 9** of this Guidance)

Table 1: Roles and responsibilities of various stakeholders directly or indirectly involved in the operation of housing revenue accounts in Scotland

Stakeholder	Type of organisation and accountability in relation to local authority housing	Roles and responsibilities in relation to local authority housing revenue accounts
Local authority landlords	Local government – democratically and legally accountable; financially accountable to Audit Scotland; accountable to the Scottish Housing Regulator through the Scottish Social Housing Charter.	To provide property and landlord services to tenants and to account for these within the confines of the law and proper accounting practice.
Council tenants/ council tax payers	Private individuals bound by their tenancy agreements and the law	Tenants must pay the rent which pays for the housing services they receive and adhere to all other terms and conditions of their tenancy agreement. Council taxpayers must pay council tax in return for non-housing services
Regional Networks of Registered Tenant Organisations (RTOs)	Private individuals representing 9 Regional Networks who in turn represent 670 RTOs in Scotland all of whom must meet specific criteria for registration as laid out in the Housing (Scotland) Act 2001.	To engage with local authority landlords and other stakeholders listed in this table to help improve the housing and well-being of tenants and residents in Scotland by promoting tenants' and residents' interests in housing, planning, community regeneration, the environment and community safety.
Scottish Government	Central government – democratically and legally accountable to the Scottish Parliament; financially accountable to Audit Scotland.	Set policies, provides funding and set the legislative framework for local authority housing and non-housing activities (under Scottish Government's devolved powers).
UK Government (UKG)	Central government – democratically and legally accountable to the UK Parliament; financially accountable to the National Audit Office.	Set policies, provides funding and set the legislative framework regarding the social security system and housing benefit in particular (under UKG's reserved powers).
Scottish Parliament	Independent from government, accountable to the Scottish population	To pass or reject legislation relating to local authority housing which is proposed by Scottish Government
Chartered Institute of	UK-wide organisation which is independent from local and national	To provide professional and technical advice on the proper accounting practices required to prepare local authority accounts by

Public Finance and Accountancy (CIPFA)	government, the Scottish and UK Parliaments.	promoting 'high standards and delivering excellence in financial management and governance across public services.
Accounts Commission	Public spending watchdog for local government. Hold councils to account and help them improve. Operate impartially and independently of councils and of the Scottish Government.	A panel of 6-12 members appointed using the public appointments system through open competition. They ask Audit Scotland or firms of accountants to provide a financial audit of local authority accounts (including HRAs) to check they are in line with legislation and accounting guidance.
Audit Scotland	Independent from local and national government. They make sure organisations that spend public money in Scotland use it properly, efficiently and effectively.	Helps the Accounts Commission to make sure that local authorities spend public money in Scotland efficiently and effectively by carrying out financial audits on its behalf. They also publish a wide range of reports on matters of public interest that are considered by the Accounts Commission and the Scottish Parliament.
Scottish Housing Regulator (SHR)	Independent from local and national government and answerable to the SHR Board and ultimately the Scottish Parliament	Monitors, assesses and reports on how landlords are performing against the Charter's outcomes and standards.
Scottish Public Services Ombudsman (SPSO)	Independent from local and national government. Give an independent and impartial decision on complaints based on a statutory role in improving complaints handling by organisations under their remit.	To look into complaints where a member of the public claims to have suffered injustice or hardship as a result of maladministration or service failure from public organisations in Scotland including local authorities. SPSO are the 'last resort', and look at complaints which have been through the formal complaints procedure of the organisation concerned.
Scottish Information Commissioner	The Scottish Information Commissioner is a public official appointed by Her Majesty The Queen on the nomination of the Scottish Parliament. The Commissioner is responsible for enforcing and promoting Scotland's freedom of information laws.	Responsible for enforcing and promoting the right to access information held by public authorities, created by the Freedom of Information (Scotland) Act 2002 (FOISA). The Act gives <i>anyone, anywhere in the world</i> , important rights to access the information held by more than 10,000 public authorities in Scotland including local authorities.

SECTION 3: THE RATIONALE FOR HRA GUIDANCE

7. This guidance complements specific HRA and wider local government finance legislation and guidance. It focuses on explaining Ministerial expectations in relation to the proper operation of the HRA and aims to allow local authorities to provide greater transparency on how tenants' rental income is spent.

8. Whilst legislation provides the specific requirement to operate an HRA and broadly sets out what may be charged (debited) to the HRA and what income should be credited to the HRA, it cannot fully answer all the questions that are likely to be asked as to whether each account is operating as was originally envisaged. This guidance is designed to help ensure that both landlords and tenants have a common understanding as to how and why the legislation applies as it does.

9. Some operating differences in HRAs are inevitable given different geographical considerations, property types and social conditions across Scotland but guidance can assist in ensuring that there is as great a consistency as possible across Scotland despite such differences. This does not mean that each HRA will operate identically as landlords will need to consider the specific needs of their area. However, guidance can lay down a set of central principles which can act as a basis for landlords and tenants discussing the particular council housing issues which exist in their area. There are, however, a number of other reasons why guidance and more transparency on the operation of HRAs in Scotland is now required:

Geographical tenure changes in traditional council housing areas

10. Former local authority housing-dominated areas now have a much greater mix of tenures across individual estates and within individual flatted blocks. This is due to the continued operation of Right-to-Buy (RTB) from its introduction in 1980 and through its various guises to the present day; private sector (with or without public funding) new build activity in previously 'mono-tenure' areas; the growth of non-traditional forms of owner-occupation such as shared equity properties in former council housing-only areas; the growth of the buy-to-let sector in private rented sector properties; and numerous partial local authority stock transfers to Registered Social Landlords (RSLs) that took place principally in the 1990s and 2000s. This has resulted in a much greater fragmentation of HRA assets than was originally envisaged and has created complexities in allocating costs between local authority accounts which this Guidance is now aiming to address.

11. At the outset of the RTB policy in 1980 there were a little over 1 million council houses in Scotland whereas today (as at September 2013) there are an estimated 315,000, a reduction of approximately 70%. Not every 'council' estate in Scotland has witnessed such a large reduction yet some will have experienced an even greater reduction. Clearly, former Scottish council estates are therefore no longer 'solely' council estates. Indeed, it is quite likely that council tenants are now in a small minority in some traditional council housing areas. It is inevitable that these tenure changes mean that costs charged to the HRA for council house services in areas that were once exclusively inhabited by council tenants, will no longer exclusively benefit council tenants. The most prominent examples of this are the

maintenance of common areas within multi-tenure flatted properties and common areas adjacent to the housing stock.

Rising expectations

12. As well as the wider economic situation, society's expectations which include those of council tenants, other residents and consumers generally have placed increasing demands on most public services including council housing services. They are frequently being called upon to provide services to meet the needs of wider communities and neighbourhoods which are beyond the traditional remit of a council landlord service. Greater clarity and transparency is therefore required on what services should normally be charged to council housing budgets and paid for by rents, and what additional, wider services should be charged either to council tenants, the wider community or shared by both.

Greater concentrations of income poverty in the council house sector

13. Whilst council housing should not be perceived as housing the poorest in society, the evidence clearly shows there is a far greater concentration of relative poverty in the social rented sector now compared to when the principal HRA legislation was introduced in the 1980s. Towards the end of that decade, typically around a tenth of council tenant households were in relative poverty. This compared to a very similar proportion in both owner-occupied households and private rented sector households i.e. poverty was much more evenly distributed across the tenures. By 2011/12, between a quarter (27 per cent) and a third (35 per cent) of households who rented from council or housing association landlords were in relative poverty depending on whether housing costs are included in the definition or not. This compares to around 7 per cent of households who own their property with a mortgage as table 2 shows.

Table 2: Proportion of households in relative poverty before housing costs (BHC) and after housing costs (AHC) by tenure

Tenure	Percentage of households in relative poverty (BHC) - %	Percentage of households in relative poverty (AHC) - %
Rented privately - furnished or unfurnished	19	34
Rented from council or housing association	27	35
Owned outright	16	10
Owned with mortgage	7	7
Total all households	16	18

Source: DWP Family Resources Survey Households Below Average Income Dataset: 2011/12

Note: All figures rounded to the nearest 10,000 individuals or 1 percent.

14. The relative incomes and indeed economic activity profile generally of today's 'cohort' of council tenants is therefore very different to that of the late 1980s cohort. This concentration of income poverty in specific tenures requires close attention to ensure that the financial resources that were intended to be targeted on council

housing such as HRA expenditures are not displaced or misplaced to the wider population who are much less likely to be in income poverty. If HRA expenditure is therefore not carefully targeted on council tenants, this expenditure will not benefit some of the poorest households in Scotland that it was, and is, still intended to benefit.

Greater local authority autonomy and the impact on rent levels

15. HRA capital investment, to improve or enhance existing properties or to build new housing, is now undertaken within an entirely different financial regime to that which existed in 1987. The Local Government in Scotland Act 2003 places a local authority under a statutory duty to determine the amount they can afford to allocate to capital expenditure. In doing so they are required to have regard to the Prudential Code issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This requirement is contained in SSI 2004/29, the Local Authority Capital Expenditure Limits (Scotland) Regulations 2004 (insert link). The Prudential Code requires that the capital investment plans of the local authority are affordable, prudent and sustainable.

16. A local authority can borrow for capital investment and is responsible for making their own decisions about how much they can afford to borrow to support capital expenditure plans. In relation to HRA, the council, as a landlord, has responsibility for ensuring the HRA operates in accordance with the law but also that HRA capital investment plans are affordable, sustainable and prudent. This means that they must consider the implications of capital expenditure on council rent levels when deciding whether to borrow to fund capital investment plans.

17. Local authorities must also consider the implications of rising operating costs on the HRA and rent levels. HRA cost, and thus rent, increases that are not transparent as to their purpose or benefit will come under increased scrutiny from tenants when they are contributing to the prospect of higher rent levels.

Tighter public sector budgets

18. Wider economic circumstances are seeing significant restraint on public sector spending including spending on welfare. Around six out of ten council tenants in Scotland claim either full or partial housing benefit (as at 31 March 2013). Current UK Government reforms to the welfare system, including housing benefit, could result in greater pressure being placed on HRA income. Up to 60% of tenants of local authority landlords could be adversely affected by both tight public sector budgets and welfare spending reform. Moving to direct payment of housing costs to tenants (under Universal Credit) are likely to mean that rent levels and the value for money of rental and service charges will come under increasing scrutiny from tenants in the future. Under this system, tenants are more likely to feel that they are paying rent from their own pockets and some will inevitably therefore take a greater interest on how it is spent and accounted for. It is therefore important that the council housing sector is well positioned to respond to any future pressures on rents and service charge costs in order to continue to protect the interests of council housing tenants at a time of tight public sector budgets and welfare reform.

SECTION 4: WHAT SHOULD THE HRA BE DELIVERING FOR TENANTS?

19. Good housing outcomes in the council housing sector need to be delivered by local authority landlords working in close collaboration with their tenants. Clarity and landlord-tenant agreement are required before we know what good outcomes look like in each area. The Scottish Social Housing Charter (the Charter) requires local authority and Registered Social Landlords (RSLs) to achieve 16 separate outcomes that relate to performance.¹ In terms of what council tenants' rents can help deliver, outcomes 13, 14 and 15 of the Charter are particularly relevant:

Outcome 13:

- *Social landlords manage all aspects of their businesses so that tenants, owners and other customers receive services that provide continually improving value for the rent and other charges they pay*

Outcome 14:

- *A balance is struck between the levels of service provided, the costs of the services and how far current and prospective tenants and service users can afford them*

Outcome 15:

- *Tenants get clear information on how rents and other money is spent including information on items of expenditure above thresholds agreed between landlords and tenants*

20. The Charter focuses landlord attention on financial transparency and accountability. It is important that council tenants understand what the HRA should be delivering for the money they invest in the account. The Charter covers all social landlords in Scotland but local authorities (as opposed to other social landlords who may charge separately for factoring and whose services are usually more targeted) find themselves providing services to much wider groups of residents often without any specific charges involved. It is therefore not always clear in the case of local authority landlords in particular what is being delivered to whom and at what price as required by outcomes 13-15.

21. There are a number of key services which local authorities must deliver from HRA rental income. Current and prospective council tenants should expect to receive:

- a) **Property maintenance services of high quality** including maintaining the fabric of the properties in respect of the repairing obligations of the Housing (Scotland) Act 2001 and ensuring that they continue to meet the appropriate housing quality, and/or energy efficiency and/or carbon emission standards (Charter outcomes 4 and 5)

¹ [Scottish Social Housing Charter](#)

- b) **Property management services of high quality** with such fundamentals as the provision of advice and information on a range of housing related issues such as improving access to housing through an efficient allocation process (Charter outcome 7)
- c) The **opportunity to rent** different types of accommodation (e.g. general needs or supported accommodation or sheltered housing) which take into account, amongst many other factors, affordability to tenants (Charter outcomes 7, 8 and 9). This includes advice and information to prospective council tenants
- d) **Full consultation** by their landlord on sufficiently important matters. The Charter (as discussed later in section 8) sets out regulatory consultation and participation expectations and provides clear context information to tenants on what constitutes an HRA 'important matter' (Charter outcomes 2 and 3)
- e) Getting **value for money** from all of the services provided through HRA resources whether purchased externally or internally through central charges to the HRA (Charter outcomes 13, 14 and 15 as discussed above)
- f) Receive services that provide **value for the rent and other charges they pay**. This covers the efficient and effective management of services. It includes minimising the time houses are empty; managing arrears and all resources effectively; controlling costs; getting value out of contracts; and giving better value for money by increasing the quality of services with minimum extra cost to tenants, owners and other customers (Charter outcome 13)

22. There is a **choice or trade-off** between these (arguably 'core' service levels and the charges made for them). The obligation on landlords to provide a quality service should allow for tenants to choose their own balance between the cost and quality of the service that they receive. Whilst there is a minimum standard to be met in terms of both the physical qualities of the properties as well as management services, it should be for the tenants to choose if they wish to pay more for a higher level of service and/or standard of property. The nature of this choice may vary over time with the availability of resources or changing tenants' preferences (Charter outcome 14).

23. In addition, where affordable and sustainable for the HRA, the provision of a **new supply of council houses** for rent where there is an identified need is also a desirable outcome. Investment priorities for affordable housing should be set out in a local authority's Strategic Housing Investment Plan, informed by its Local Housing Strategy. Where affordable housing proposals will deliver new council houses for current or future council tenants, then the HRA should pay for the provision of the houses. However, where housing proposals are primarily aimed at non-council tenants (e.g. housing owned by another social landlord or aimed at first time buyers) then the General Fund should ultimately be the source of any subsidies or contributions. Any such HRA contributions to non-council housing projects require the consent of Scottish Ministers under Schedule 15 of the Housing (Scotland) Act 1987 and/or Section 92(5) of the Housing (Scotland) Act 2001. The minimum

expectation would be that both Scottish Ministers and the relevant council tenants, who would require to be consulted, are fully aware of the impact on existing rents and/or services of the proposal and that, with such knowledge, are ultimately in a position to properly judge the proposal.

24. In their discussions, councils and their tenants might also agree on the need to provide services (partly or wholly funded by the HRA) which **extend beyond the outcomes** relating solely to housing management, repairs and quality. This desire reflects the remaining outcomes contained within the Charter. For example, outcome 1 in respect of equalities; outcome 6 in respect of estate management; and outcome 11 in respect of sustaining tenancies and particularly the rights of tenants to have their individual needs taken into account where they have specific access requirements or require tenancy support. This is considered particularly significant given the councils' strategic priority of supporting older people to live independently in the Community.

25. In summary, councils must prioritise the services it spends resources on and be sure that tenants understand how these services are benefiting them.

SECTION 5: COMPLYING WITH LEGISLATION, STATUTORY GUIDANCE CODES OF PRACTICE AND SERVICE EXPENDITURE ANALYSIS

Key principle 1

The HRA must operate such that it is compliant with legislation; any statutory guidance that Scottish Ministers have or may issue in relation to local authority finance; and must in all material respects adhere to any accounting codes of practice from the relevant professional bodies

26. In delivering these outcomes, the local authority must comply with legislation on the specific operation of an HRA and more generally with wider legislation that relates to local authority expenditure more generally. Local authorities must also observe all relevant areas of statutory accounting guidance and the relevant code(s) of practice by the relevant professional accounting bodies which may or may not include details of 'service expenditure' analyses on which basis auditors carry out a financial audit. This will seek to identify all material compliance issues, not just those relating to service expenditure analysis.

Relationship between the HRA to the General Fund of the Council

27. Section 93 of the Local Government (Scotland) Act 1973 requires a local authority to have a General Fund. A local authority is required (with some specific exceptions) to receive all income into this Fund and pay out all expenditure from this Fund. Section 96 of the 1973 Act requires a local authority to keep different accounts for the purposes of distinguishing transactions for different purposes. The Housing (Scotland) Act 1987 (section 203) makes specific provision for the local authority to keep a Housing Revenue Account (HRA). The HRA is therefore one of a number of accounts forming part of the General Fund of the Council.

HRA-specific legislation

28. Much of the current policy framework regarding the operation of HRAs in Scotland is contained in primary legislation i.e. in section 203 and Schedule 15 to the Housing (Scotland) Act 1987. However, there are more recent pieces of legislation that also impact on the operation of HRAs.² Whilst the 1987 legislation is still appropriate to today's council housing properties, the landscape in which council houses sit has itself changed considerably since then as outlined in Section 3. This means the original primary legislation is operating in a very different (and continually changing) environment than it was a generation ago.

29. Whilst the various pieces of legislation can be complex, it is important that both landlords and tenants are aware of the legal requirements and have a common understanding of it so discussions between them can progress with clarity.

Correctly assigning HRA assets and liabilities

30. A property has to be accounted for within the HRA if it has been provided under Part 1 of the 1987 Act (entitled Provision of Housing) and various earlier equivalents.

31. If a property is not provided under the powers listed in paragraph 1 of Schedule 15 (entitled *Application of the Account*) to the 1987 Act, or in directions under section 203 of that Act, the authority must not assign it to the HRA. For example, land that is being bought by a local authority for a future sale to a third party for a non-housing purpose, or for development by another person, must be charged outside the HRA.

32. Equally, properties which may originally have been provided under Part 1 of the 1987 Act (or its predecessor powers) may no longer fulfil their original purpose in benefiting tenants or, in the case of investment properties, may not generate a financial return to the HRA.³ This financial return may take the form of rental income from service charges over and above the costs of maintaining the asset or may be in terms of future capital appreciation. If there is no benefit to tenants either through the properties as investment properties or tenants not directly using such assets, the authority should consider the removal of the property from the HRA. Examples of properties which might fall into this category are estate shops and other commercial premises, such as banks, post offices, workshops, industrial estates and surgeries or any other property where there is no longer any connection with the local authority's housing stock. Individual garages or blocks of garages that are not being let to local authority tenants as part of their tenancy and/or are not providing a positive financial

² The Housing (Scotland) Act 1987 is relevantly amended by the Housing (Scotland) Act 1988, the Leasehold Reform, Housing and Urban Development Act 1993, and the Local Government etc. (Scotland) Act 1994.

³ Local authorities may hold investments in accordance with regulations made under Section 40 of the Local Government in Scotland Act 2003. The Local Government Investments (Scotland) Regulations 2010 permit local authorities to make investments subject to them gaining the consent of Scottish Ministers. The Regulations came into force on 1 April 2010. Finance Circular 5/2010 provides the consent of Scottish Ministers and sets out the requirements attached to the consent when local authorities make investments. Schedule 16, paragraph 2(1) (g) of the Housing (Scotland) Act 1987 provides a specific reference to carry investment income to the credit of the HRA.

return and/or which are geographically distant from the housing stock may no longer part of a local authority's housing function. There should be a distinction made however between those assets which are providing (or might provide) a positive financial return to the HRA and those which are not. These are decisions for the local authority, though they must either involve or be able to explain retention and disposal decisions as well as the terms of any disposals to their tenants and auditors if required to do so in line with the expectations set out in the Charter. They should also be able to explain the basis of their decisions to Scottish Government when Scottish Ministers' consent is required for disposals.

33. The 'removal' from the HRA of assets that are no longer connected to the housing stock or are not providing a financial return can take two forms – sale (or lease) to a third party or transfer to the General Fund. There is no requirement for the General Fund to receive HRA assets no longer required by the HRA. A transfer will only occur where the local authority determines there is a benefit to the General Fund by retaining the asset. The default transfer value is the market price of the asset as outlined in existing guidance on the disposal of HRA assets. If transferring to the General Fund at market price, a local authority has the option to keep the asset and use it productively as a General Fund asset; sell the asset on; or enter into a commercial lease of the asset at the prevailing market rent. Equally, if HRA assets are sold or leased to third parties then the market value or best value is the default position. This approach ensures the HRA receives the full financial compensation for any disposal of HRA assets. Assets may be sold for less than the market value but this requires the consent of Scottish Ministers. Further information on disposals is contained in paragraph 43-49 below.

Correctly accounting for HRA income and expenditure that relates to correctly assigned assets

34. Schedule 15 to the Housing (Scotland) Act 1987 lists what should and should not be credited and debited to the HRA and thus states how local authorities must legally account for HRA income and expenditure.

35. Schedule 15 details the income and expenditure which should be charged to the HRA. The main items of income and expenditure to be accounted for are, on the **income** side:

- a) **Rental income** from houses (and other HRA assets) which makes up the vast majority of total income;
- b) Income from the **investment of HRA monies** (whether interest on cash balances or monies received from the sale of HRA land or property);

And, on the **expenditure** side:

- c) Expenditure on **managing, maintaining, repairing and improving** the council housing stock;
- d) Expenditure on **debt (loan charges)** relating to amounts borrowed to fund capital expenditure on HRA properties (existing or new) some of which may have already have been disposed of;

36. An **estimated debit or credit** should be made where the actual expenditure or income is not known.

37. Schedule 15 also sets out items that should not be debited to the HRA and these include:

- a) Expenditure required for the **provision of shops, laundry facilities and furniture** (though provision of garages and some other tenant facilities can be debited);
- b) Any expenditure which **exceeds the expenditure required** for the provision of the service to tenants (an important consideration)
- c) Any expenditure on items in Schedule 15 Scottish Ministers **might instruct** authorities to exclude from the HRA

38. In turn, it is a legal requirement for local authorities to ensure that only the above items of HRA income and expenditure are recorded in the HRA. Local authorities must subsequently submit income and expenditure estimates of this HRA income and expenditure to Scottish Ministers for the following year according to section 204(4) of the Housing (Scotland) Act 1987. The Scottish Government publishes these estimates in the annual HRA statistical bulletin which is [Local Authority Housing Income and Expenditure 1997-98 to 2013-14](#).

Powers of Scottish Ministers regarding the HRA

Exclusion of charges/income being made/credited to the HRA

39. Paragraph 6 of Schedule 15 to the 1987 Act states that local authorities may, with the consent of Scottish Ministers, exclude any items of income or expenditure from the HRA. This might arise should a local authority wish to do so following discussions with auditors and/or tenants.

Correcting improper credits or debits

40. If the HRA has been improperly credited or debited, Scottish Ministers may, after consultation with the local authority concerned, give directions for the appropriate credits or debits to be made to rectify the Account. For example, the legislation (Schedule 15, paragraph 4(b)) is clear that any expenditure incurred on site works and services should be no more than that required for the provision of the house. If such expenditures did exceed the actual cost of providing the housing site works and services (e.g. the provision of new roads or new play areas which are proper General Fund charges), then such payments would not comply with the 1987 Act and rectification would appear necessary. In order to eliminate any potential risks to the General Fund of having to pick up any improperly assigned HRA costs it is therefore vital to efficiently manage capital projects in the HRA. Such a situation could arguably be unfair to council tax payers who may, in theory, become liable for some of the costs of capital inefficiencies in the HRA.

General Fund Contributions to the HRA

41. Under paragraph 9(2) of Schedule 15 to the 1987 Act, if an HRA deficit arises in any one year, the local authority must make a contribution to make good the deficit from the General Fund. Scottish Ministers consent is not required for this contribution. Prudent practice is for the local authority to hold HRA reserves (either as a specific reserve or an earmarked part of the General Fund reserves). HRA reserves are the result of years where the HRA income exceeds the HRA expenditure, i.e. a surplus rather than a deficit. These surpluses (reserves) will therefore be available to apply to the HRA in any year when a deficit arises negating the need for the General Fund contribution.

42. Until March 2010, a limit of zero was set annually (under the power at section 204(1) of the 1987 Act) on any estimated contribution the General Fund could make to the HRA. This limit applied to all local authorities in Scotland with HRAs. This effectively meant that the General Fund could not contribute resources to the HRA in terms of a budgeted contribution. Since April 2010 no limits have been set on estimated financial contributions from the General Fund to the HRA. Though no limit has been set, should local authorities wish to make one, a contribution from the General Fund to the HRA requires the consent of Scottish Ministers under paragraph 2(5) of schedule 15 to the 1987 Act. Given the limit has been set to zero until fairly recently, Scottish Government will consider whether a specific process will be required to assist with applications.

Disposals or internal transfer of HRA assets

43. A local authority can borrow to fund new capital investment, such as the provision of new HRA housing and for other expenditure which can be capitalised in accordance with proper accounting practices. Borrowing to fund this expenditure creates a liability (a debt) for the HRA. The amount borrowed must be repaid, together with interest on that debt (loan charges). Scottish Ministers permit the borrowing for housing to be repaid over a period of up to 60 years.

44. A local authority may not mortgage its assets. This means that the borrowing will not be secured against specific HRA housing. Whilst some local authorities may hold records identifying the borrowing costs for specific housing, there is no legal requirement for such a record. Many local authorities will therefore only maintain a record which identifies the value of outstanding debt for the HRA as a whole, split between housing and non-housing assets.

45. This approach to borrowing for the HRA should be borne in mind when a local authority disposes of an HRA asset. A capital receipt (the money received from the sale of HRA land or property) may only be used to fund new capital expenditure of the HRA or for the redemption of debt. As the main income to the HRA is rental income then any disposal will reduce that income stream, placing a higher debt burden on the remaining assets, and reducing the rental income available to fund other expenditure costs. A local authority should therefore give careful consideration as to the application of capital receipts – whether it is best to use these monies to reduce debt or fund new capital investment.

46. It is expected that local authorities will sell their assets at the best price they can achieve i.e. at market value. There may be occasions where a local authority, for policy reasons, may wish to dispose of an asset at less than the best price. For the HRA such disposals require the permission of Scottish Ministers. Whilst it may not be possible to identify the outstanding debt for a specific housing asset, it is possible to identify the impact of that disposal on the HRA. This is important as the HRA will be providing a subsidy or grant to the body that is acquiring the asset for a sum less than could be obtained if sold on the open market. The local authority needs to consider the opportunity cost to the HRA. The opportunity cost is the amount foregone from the sale that could be used for new capital investment or to reduce the existing debt costs (redeem debt). The local authority should therefore quantify the cost to the HRA in terms of (i) the revised debt per housing dwelling, and (ii) the revised loan charge cost per dwelling. The calculations should assume the capital receipt is used to redeem debt. As a result of these calculations it should be possible to identify (a) the current debt per dwelling, (b) the revised debt per dwelling based on the actual receipt proposed and (c) the revised debt per dwelling if the asset had been sold at market value.

47. Where the local authority wishes to dispose of an HRA asset at less than market price to support wider housing policy reasons it should also consider whether the asset should first be transferred to the General Fund at market value. The HRA would in such cases receive the full financial compensation for the sale. The General Fund could then dispose of the asset at a reduced price, the General Fund therefore providing the subsidy or grant.

48. Authorities should be aware of both the powers available to them to hold land or property when they are considering whether to dispose of it, or transfer it, out of the HRA and to the General Fund or vice versa. Section 12(7) of the 1987 Act requires authorities to obtain Scottish Ministers' consent before an HRA asset, or part of an HRA asset, can be disposed of (with a few exceptions, such as sales to a sitting tenant, surplus property or property that is hard to let). If an asset is transferred between the HRA and the General Fund, this may require adjustments to the HRA in accordance with the relevant consent under section 203(2).

49. Disposals of land, buildings or any other assets from the HRA irrespective of size or value usually require the consent of Scottish Ministers principally under section 12(7) of the 1987 Act. This requirement is in addition to the requirements of the [Disposal of Land by Local Authorities \(Scotland\) Regulations 2010 \(SSI 2010/160\)](#) on disposals of land for less than best consideration. Where local authorities wish to dispose of HRA land for less than best consideration, they must both follow the procedures in the Regulations and obtain Ministerial consent under section 12(7) of the 1987 Act, where required. Scottish Government guidance published in October 2012 for local authorities on the [process for applying to Scottish Ministers for consent when disposing of HRA assets](#) is available. The Guidance contains a standard application form to be completed for each asset being disposed or transferred into or out of the HRA.

Best Value and accountability legislation that relates to local authorities' functions including HRAs

50. Local authorities, whether in terms of HRA or non-HRA financial matters, must also observe Part 1 of the Local Government in Scotland Act 2003 in a number of respects.

Duty to secure best value

51. The [Local Government in Scotland Act 2003](#), places a statutory duty of Best Value on local authorities in the discharge of their functions. This system was agreed with COSLA following a series of Best Value pilots in local authorities in the late 1990's.

52. Part 1, section 1 of the Local Government Scotland Act 2003 states that is the duty of a local authority to make arrangements which secure best value. Best value is defined as "*The continuous improvement in the performance of the authority's functions.*" Authorities are required to maintain an appropriate balance among:

- a) the quality of the performance of their functions (which include local authority housing);
- b) the cost to the authority of that performance (the costs which the HRA incurs in managing and maintaining the houses or other costs being charged to the HRA for whatever HRA-related reason); and
- c) the cost to persons (council tenants through rents or the wider population through any charges that are made to them) of any service provided by the council for those persons on a wholly or partly rechargeable basis.

53. Part 1, section 2 of the 2003 Act points out that, in the pursuance of best value, local authorities must have regard to any statutory guidance on securing best value issued by Scottish Ministers and also to any code(s) of practice that are generally recognised. [Statutory guidance](#) was issued to local authorities in 2004.

Proper accounting practices

54. Part 1, Section 12 of the 2003 Act places a duty of a local authority to observe proper accounting practices whether contained in (i) primary or secondary legislation; (ii) statutory guidance issued by Scottish Ministers or (iii) the relevant accounting code(s) of practice published by recognised bodies such as CIPFA. Moreover, in the event of any conflict between any of these three, the order in which they must be observed is legislation first, statutory guidance second and proper accounting practices such as those contained in code(s) of practice third, reflecting the primacy of the legal system. Though this legislation is not aimed exclusively at the HRA, HRAs are included in its scope. This means that local authorities must ensure they observe proper HRA accounting practice of whatever form.

55. The Code of Practice on Local Authority Accounting in the United Kingdom (The Code) is the main generally recognised code of practice. In addition to the Code, local authorities should also observe the specifications of the *Service Reporting Code of Practice (SeRCOP)* and the total cost principles therein to comply with the Local Government Scotland Act 2003, section 12(2)(c).⁴ Since 2001, and in addition to the 1987 HRA legislation, the annual HRA accounts should be prepared on the basis of SeRCOP. SeRCOP sets out which costs and incomes should be accounted for under which departmental service head. It also requires central support costs to be attributed to individual services such as the HRA. This is prepared in accordance with the requirements of the Code. SeRCOP applies to all local authority services (including HRA) throughout the United Kingdom for the preparation of the budgets, performance indicators and statements of accounts in the financial year that is about to begin. The Code is reviewed annually to ensure that it develops in line with the needs of modern local government, transparency, best value and public service reform. In Scotland, the requirement to follow SeRCOP's Service Expenditure Analysis (SEA) is specified in the Code of Practice on Local Authority Accounting which itself must be followed to comply with the 2003 Act.

Summary on legislation relevant to the HRA, statutory guidance and accounting codes of practice

56. The statutory basis of the HRA is that it is one of a number of accounts forming a part of the General Fund of the Council but that the account should be effectively be treated as a designated 'landlord account.' Councils must, firstly, accurately assign assets to the account i.e. it must only hold certain types of asset relevant to tenants. Secondly, councils must ensure that income and expenditure arising from those 'correctly assigned' assets accurately reflects a housing authority's landlord functions. If costs appearing in the account are not landlord-related then the account should not be charged for them unless there is a clear rationale for the HRA paying a proportion of the costs and they fall within the categories set out at paragraphs 3 to 4A of Schedule 15 to the 1987 Act. Scottish Ministers have the power to require the local authority to add in or remove certain items of expenditure completely and may request the local authority to adjust values of any items of expenditure if evidence is brought forward to suggest that they are being inappropriately charged. Local authorities must follow all legislation and statutory guidance relevant to the HRA even if this is not specific to the HRA. Councils may wish to seek clarification of the law and proper accounting practices from their legal advisers or professional accountancy bodies respectively.

⁴ Details of SERCOP can be found [here](#)

SECTION 6: HRA ASSETS PROVIDING BENEFITS TO COUNCIL TENANTS EITHER DIRECTLY OR AS AN INVESTMENT PROPERTY PROVIDING A FINANCIAL RETURN

Key principle 2

HRA assets must benefit HRA tenants either in direct usage or as investment properties providing a financial return. If neither of these situations applies, then the assets are not benefiting the HRA and removal from the HRA should be considered

57. Councils must regularly review the role of HRA assets to determine whether those assets continue to provide tenants with exclusive and/or substantial benefits either directly through usage or through a positive financial return as investment assets. If an HRA asset no longer provides such benefits to council tenants, the council, as landlord, must consider the options for that asset. These include a change of use but remaining on the HRA; disposal to a third party; or transfer to the General Fund if a more valuable or relevant use can be found and any other options the local authority wishes to consider. There must be a financial adjustment in favour of the HRA to reflect the transfer of value if the market value of the asset is positive. Whilst the local authority is required to regularly review HRA assets there is no requirement to dispose immediately if it is determined the asset is surplus to requirements. As with any asset, the local authority should determine the appropriate time for disposal taking into consideration the current economic climate.

Good asset management

58. The council must demonstrate good stewardship of all of its assets including all of its housing stock. This must begin with keeping an HRA asset register. Statistical returns to Scottish Government (March 2014 estimates) published in Local Authority Housing in Scotland Income and Expenditure 1997-8 to 2013-14 suggest that there are approximately 363,323 properties on the 26 housing revenue accounts in Scotland as shown in Table 3:

Table 3: Types of properties on the housing revenue accounts in Scotland

Type of property	Estimate (March 2014)
Number of lettable dwellings	314,914
Number of other properties held on HRA of which are:	48,409
- Unlettable dwellings	1,292
- Hostels	236
- Garages and lock-ups	43,850
- Shops	934
- Other	2,097
Total properties on the HRA	363,323

59. Assets placed on an HRA asset register should provide details of the buildings and land which is owned (or leased) by the HRA. These assets should be actively managed and periodically reviewed to ensure they continue to provide a positive

benefit to the HRA. General guidance on asset management in local government can be found from Scottish Government in this [2005 advisory guidance note](#) and [later in 2009 from Audit Scotland](#). Thirdly, separate recommended practice from the Scottish Housing Regulator (SHR) from 2012 specifically covers the [management of social housing assets](#).

60. Dwellings should be managed and deliver outcomes as set out in the Scottish Social Housing Charter i.e. outcomes 13, 14 and 15 as outlined in Section 4 above.

61. Councils should ensure that any land it holds continues to be held for a specific HRA purpose. Should the land no longer be held for a specific HRA purpose the council should consider all the available options for it as well as the economic climate for disposing of such assets. If the asset is of a significant scale, then the Council should consult with tenants accordingly as laid out in Section 8.

62. Land held and/or maintained by the HRA which is available and accessible to other residents of the area (e.g. recreational areas), is by definition not held for the exclusive use of tenants. In such circumstances it is reasonable for tenants to expect a financial contribution from elsewhere reflecting the wider use of that land beyond council tenants. This may be happening already but in some cases may not especially if the costs of administering the process exceeds the benefits that can be derived. The level of materiality should feature in discussions between councils and RTOs. If charging is too complex a process in comparison to the financial benefit from the charges, the Council may wish to go further and transfer the land out of the HRA in line with the principles outlined in guidance on the disposal and transfer of assets referred to in paragraphs 42-48.

63. An investment property (land or building) held by the HRA also requires active asset and risk management. Councils should regularly review investment property to ensure that holding investment properties provides a positive financial benefit to the HRA. The holding of investment property in the HRA must also be in accordance with legislation. Local authorities may invest money with the consent of Scottish Ministers. The conditions attaching to Scottish Ministers consent are set out in [Finance Circular 5/2010](#). The conditions include the requirement for an annual Investment Strategy and an annual Investment Report. The annual Strategy is required to set out procedures for reviewing the holding of longer term investments, particularly those held in properties or shareholdings in companies or joint ventures. There is no statutory requirement to have a separate HRA annual strategy or annual report but HRA investment properties must be covered in both documents.

Council tenants' and other residents' involvement to decisions on HRA assets

64. It is clear that tenants (or other residents) might wish to be involved in any consideration of the future of particular HRA assets whether they are being sold to a third party or if they are being transferred to or from the General Fund. Further details of this in relation to the Charter can be found in section 8.

SECTION 7: COSTS AND REVENUE ALLOCATION TO THE HRA AND OUTSIDE THE HRA

Key principle 3

There must be robust, written methodology for calculating and allocating HRA costs (including internal costs charged by the Council to the HRA) in sufficient financial detail for tenants to understand why costs are charged to the HRA and who is benefiting from the services these HRA costs relate to. This must include the allocation to the HRA of the appropriate proportion of council Trading Operation surpluses attributable to council housing activities.

Furthermore, the HRA cost allocation methodology must be updated as appropriate to reflect changes in legislation, statutory guidance, codes of practice, the market for HRA goods and services and any other relevant changes.

65. It is likely that different councils will take different approaches to cost methodology and some will be more formal about this than others. This section outlines the current cost categorisation in the HRA and proposes that a more formal HRA written methodology should be developed.

Councils' current expenditure and income HRA cost categorisation

66. There are three principle sources for establishing cost allocation processes when allocating costs to the HRA reflecting requirements for internal financial management, the production of statutory accounts and the need to make financial returns to Scottish Government. These sources are:

- Schedule 15 to the Housing (Scotland) Act 1987 – the legislation
- CIPFA's Service Expenditure Analysis (SEA) – the professional accounting body's principles including the format of accounts and break down of costs and income for the HRA in line with the 1987 Act
- HRA estimates from local authority returns published in the Scottish Government HRA statistical bulletin – estimates of HRA income and expenditure. These are unaudited estimates for the year in which the statistical returns are requested, near actual figures for the previous year and actual i.e. audited for the previous year to that following publication of the accounts.

67. The sources are not widely recognised beyond the practitioners of local authority housing finance. This lack of wider awareness is itself an issue as the availability of such information is important to help achieving greater financial transparency for tenants as well as council tax payers.

Laying out the detailed cost and income categories

68. This section adds more detail to the legal and accounting principles in section 5 and in effect lays out the methodology, together with some further proposals for improvement.

For HRA purposes

69. Tables 4 and 5 below compares the main categories of HRA income and expenditure as used in the legislation, the CIPFA SeRCOP classification system and the Scottish Government HRA statistical bulletin. Further details of these cost and income categories can be found in Tables 1 and 2 in Appendix 1.

Legislation

70. Schedule 15 of the 1987 Act provides broad categories of expenditure to be charged to the HRA but does not specify sub-categories. Local authorities and their tenants must start their discussions on how the HRA operates with this list as it is the list of legally permitted HRA expenditures. Table 4 splits the allowable costs into 6 broad cost categories; loan charges on HRA capital expenditure; supervision and management of HRA assets; repairs and maintenance of HRA assets; rent arrears and void losses (rental income not collected yet must be charged to the HRA); taxes and other charges on HRA assets; and any cost directions from Scottish Ministers. Within the loan charges category there are 6 cost sub-divisions (Table 1 Appendix 1) specifying more detail on what capital items local authorities are allowed to charge loan charges.

71. On the income side, the legislation lays out a five way categorisation as summarised in table 5 namely rental income, other income, Housing Support Grant (abolished from April 2013); income directed by Scottish Ministers; and income directed by local authorities with Scottish Ministers' consent. Councils must not charge the HRA with costs or credit the HRA with income that doesn't fall into these categories and they must be unambiguous about this in their discussions with tenants.

Table 4: Main cost headings for HRAs in Scotland

	Legislation (Housing Scotland Act,1987 Act)	CIPFA Sercop Service Expenditure Analysis	SG HRA income and expenditure statistical bulletin
1	Loan charges	Depreciation and impairment of fixed assets	Loan charges
2	Supervision and management	Supervision and management	Supervision and management
3	Repair and maintenance	Repair and maintenance	Repair and maintenance
4	Rent arrears and void rent losses	Bad or doubtful debts	Movement in allowances for bad debts
5	Taxes, feuduties, rents and other charges	Rent, rates, taxes and other charges	Other expenditure
6	Cost directions from Scottish Ministers	Sums directed by the Minister that are expenditure in accordance with IFRS	

Table 5: Main income headings for HRAs in Scotland

	Legislation (Housing Scotland Act, 1987 Act)	CIPFA SerCOP Service Expenditure Analysis (HRA Income)	SG HRA income and expenditure statistical bulletin
1	Rental income	Dwelling Rents (Gross)	Rental income from lettable dwellings
2	Other income	Non-Dwelling Rents (Gross)	Rental income from Hostels
3	Housing Support Grant (now abolished)	Housing Support Grant (now abolished)	Rental income from other HRA assets/properties
4	Income directed to HRA by Scottish Ministers	Leasehold Service Charges	Service charges to tenants
5	Income directed to HRA by local authorities with the consent of Scottish Ministers	Charges for Welfare Services	Government Grants (HSG and Hostels)
6		Hostels	Interest received
7		Other income	Other income
8		Sums directed by the Minister that are income in accordance with IFRS	

72. CIPFA highlights the importance of legislation as shown in this extract from a 1996 best practice bulletin:

Extract from CIPFA LAAP Bulletin 22: Promoting best practice

“Local authorities should look at the legislation and ensure that the principles they adopt in including income and expenditure within the HRA comply with statute.”

SeRCOP Service Expenditure Analysis (SEA)

73. Table 4 above shows that this classification method contains 6 main cost sub-headings: depreciation and impairment of fixed assets; supervision and management of HRA stock; repairs and maintenance of HRA stock; bad or doubtful debts; rent, rates, taxes and other charges; and sums directed by the Minister that are expenditure in accordance with International Financial Reporting Standards (IFRS). Beneath these 6 categories there are 19 sub-divisions of costs as outlined in Table 1 in Appendix 1.

74. On the income side (Table 5), CIPFA specify an 8-way classification; dwelling rents; non-dwelling rents; Housing Support Grant (now abolished); Leasehold service charges; charges for welfare services; hostels income; other income; and sums directed by the Minister that are income in accordance with IFRS.

Scottish Government HRA statistical bulletin

75. Scottish Government collates statistical information on the HRA to comply with section 204(4) of the 1987 Act. Table 4 notes the 5 broad cost divisions (loan charges; supervision and management; repair and maintenance; movements in bad debts; and other expenditure). This is an aggregation of up to 81 sub-divisions of costs reflecting 27 cost categories x 3 asset groups (dwellings, hostels and other assets) as outlined in Table 1 Appendix 1.

76. Table 5 identifies 7 stated categories of income required by the statistical return. Three of these relate to rental income (lettable dwellings, hostels and other HRA properties) and the remaining four relate to service charges to tenants; government grants; interest received and other income.

Beneficiaries of HRA income and expenditures

77. The cost categories in Table 4 largely relate directly to council housing properties and thus the council tenants who occupy these houses. This is the essential nature of the HRA - a council landlord account. However, as it is possible that HRA assets can be non-housing in nature such as hostels, shops, lock-up garages (as shown in Table 3 above). Alternatively, as HRA assets can also be common areas within flatted properties shared with non-council tenants or amenity land open to all residents. Local authorities, when discussing the operation of the HRA with tenants, must be clear about who benefits from these assets. This is an area for discussion between the landlord and tenants or RTOs.

For non-HRA purposes i.e. the General Fund

78. SeRCOP provides further accounting advice for allocating General Fund 'housing' expenditures that relate to wider groups of people or activities beyond council tenants. Detailed tables provided in SeRCOP are also used by Audit Scotland and independent auditors who audit local authority accounts. The 15 cost categories which CIPFA advises should be charged to the General Fund are shown in table 6 (on the following page) organised by the Scottish Government into the relevant service beneficiary categories.

Table 6: CIPFA General Fund Revenue Account broad cost categories for Scotland¹

General housing activities	Non-council tenants	Vulnerable groups	Housing benefits administration	Council tenants
Housing strategy	Registered social landlords	Homelessness	Housing Benefits payments	Contribution to the HRA
Housing advice	Private sector housing renewal	Welfare services	Housing Benefits administration	
Housing advances	Other council property	Housing support services (supporting people)	Rent rebates including HRA rebates & discretionary additions	

1. The category headings have been added by Scottish Government but the individual categories are those specified by CIPFA in SeRCOP 2013-14.

79. Further details of the 33 sub-cost categories of General Fund housing expenditures are given in Table 4 in Appendix 1. Tenants should use the classifications as a basis for discussion with councils on how costs are allocated between accounts systematically working through the different cost categories. A list of cost categories is required to work through systematically. Not all cost categories and sub-categories will apply to all councils but both councils and tenants should focus on which of the costs are relevant to their HRA or their General Fund. Table 4 in Appendix 1 is provided as a guide to ensuring that these particular costs are left out of the HRA and remain in the General Fund.

Beneficiaries of these General Fund expenditures

80. Unlike tables 4 and 5 above, the broad service cost categories in table 6 (specified by Scottish Government but based on information from CIPFA) are relevant to much wider groups of residents (e.g. private rented sector housing tenants) rather than just council tenants in terms of both tenure and much wider activities than 'housing provision' (e.g. support and welfare services). Thus, it is not surprising that the accounting principles state that such costs should fall to the General Fund and not to the HRA.

Internal charges being levied on the HRA

81. This has been an area of concern for tenants and some other stakeholders and is one where greater clarity and insight is highly desirable. This is an area where a systematic recording mechanism for calculating costs charged to the HRA will lead to much greater certainty in the allocation of costs and therefore greater accuracy and ultimately fairness.

82. Internal charges include costs such as central staffing/overhead costs and internal service charges (or re-charges as they are referred to) that are being charged to the HRA should be calculated and recorded systematically. This will lead to greater transparency in costs and address the generally acknowledged difficulty across local authorities on such charges which is in part down to the complex nature of such costs. Scottish Government recognises the complexity of splitting these costs logically between accounts as does CIPFA itself. CIPFA overtly recognises this as a 'subjective' element (i.e. each specific 'type' of expenditure that is recorded separately) which they recommend as an approach of preparing the accounts.⁵ Table 3 Appendix 1 lists the types of centralised costs that are 'subjective.' The HRA may not be liable for its 'fair share' of all of the cost categories as the list covers the entire span of local authority spending and many of these will be beyond the scope of local authority housing. They are referred to as subjective as the basis for their calculation is less clear cut, individual to each council and, to an extent, the allocation of cost will be based on judgement as well as hard evidence. Simply having a list of cost categories to work through systematically should benefit any tenant/council discussions on transparency on these subjective costs.

83. The number of potential areas of cost allocation depends on the complexity of the finances of each local authority. Some councils also incur other costs which cannot be assigned directly to services but are required to manage the Council. These are categorised as 'Democratic Representation and Management and Democratic Core' as set out by CIPFA in SeRCOP 2013-14. There may be other costs which cannot be directly charged to services and these are categorised as Non Distributed Costs. Table 7 (an extract from the detailed Table 3 in appendix 1) gives an example of the kind of centralised costs that the HRA should be asked to pick up a share of if tenants benefit indirectly from such services.

Table 7: CIPFA Service Expenditure (Subjective) Analysis extract

Code	Divisions and subdivisions
5050	Finance
5051	IT
5052	Human Resources
5053	Property Management/Office Accommodation
5054	Legal Services
5055	Procurement Services
5056	Corporate Services
5057	Transport Functions

84. Councils and tenants should agree a) which costs the HRA should be charged a share of and b) the methodological basis of such charges bearing in mind the possibly subjective nature of allocating a share of these costs. Councils may not be

⁵ The terms 'subjective' and 'objective' have specific meaning in costing terms. 'Objective' is the cost centre which denotes the reasons for expenditure e.g. education. 'Subjective' denotes what resources are actually spent on e.g. employees, support services etc. Departmental and central support costs will inevitably require an element of judgment as to how they are allocated. It is possible that different councils will make different judgments and will therefore allocate some costs differently.

able to attribute all costs with total accuracy but they should still document their methodology and effectively be able to explain their approach to tenants. They should also compare their approach with other councils (or CIPFA) who may have greater experience or internal expertise and who may have looked at these issues already.

85. Depending on how calculations are currently made, this may require the Council to effectively revise its dataset but this can be part of a gradual process of moving towards a more transparent system in line with Charter agreements between each council and the RTOs. Initially, this may raise practical issues for councils in cost/resources terms if they require an adjustment to their central support recharge approach. However, this may not be necessary if current approaches are clearly laid out and considered to be an accurate way of allocating costs. Once again, if experiences are shared between councils and advice is taken from organisations such as CIPFA, then the practice of councils who address the issue first could be replicated more widely and thus save considerable time, effort and duplication. Councils may even be able to share data development costs such as software as well as expertise.

86. In some local authorities, service costs that relate to both council tenants and wider groups such as anti-social behaviour posts may be fully funded by the HRA. Applying the principle of 'who benefits' may reveal that costs should be shared between the HRA and General Fund or with the wider beneficiaries of the service. This aside, tenants must recognise that in some instances projects or initiatives may cease if some form of whole or partial General Fund resources are requested even if it is clear that the General Fund should bear some of the costs. Transparent discussions with tenants will again be crucial in such cases.

87. CIPFA guidance on internal charging is very clear and is provided with permission:

Extract from CIPFA LAAP Bulletin 22: Promoting best practice

“Those principles need to be kept under review as circumstances are changing. For example the move from being a provider of housing to a housing enabler, working through housing associations, may mean that more management costs need charging to the General Fund rather than the HRA. Alternatively office changes, e.g. the relocation of staff or the use of less office space, may mean a rework of accommodation charges.

“Working papers must be kept which explain the basis of the charges to the HRA, General Fund and also contributions in respect of shared amenities for both direct charges and support service charges. Even if in certain instances assessments have to be very subjective it is essential that splits are made and the authority can show that it has at least considered the issues.

“Ideally where costs need to be split between the HRA and General Fund then there is some detailed method behind the split, such as time sheets filled in by staff on a weekly/monthly basis showing the split. Failing this staff will need to make best estimates. Sometimes if the pattern of work is consistent on a weekly

or monthly basis it may only be necessary to keep records for a particular week or month.

“Where tenants, leaseholders or residents are unhappy with the apportionment, officers may wish to meet them to explain the bases used and the reasons they were selected.

“As stated above the ideal is for there to be a detailed analysis on which to base charges to the HRA. If this does not exist local authorities will have to use their judgement. However any judgement must be as well founded as possible. Where no data exists to support it, it must appear to be based on a reasonable judgement. Authorities must not look at what is the maximum or minimum they can charge to the HRA but what is the correct amount.

“In arriving at the correct amount they will need to be mindful of the overriding principle that costs charged to the HRA, whether direct or in respect of support services, must relate to the management and maintenance of the housing stock.”

Improving methodology building on the existing categories

88. A significant issue in establishing a transparent allocation of HRA costs is the actual quality of data on costs which is sometimes data that lies ‘somewhere between’ the HRA and General Fund responsibilities. Where responsibility isn’t clear, such data can be overlooked. To illustrate the point, below are two possible scenarios to illustrate the importance of having good quality management cost data:

- **Scenario 1:** Service A is not handled by the housing department but by another council department and the housing department pays a recharge for that service. However, the basis for the figure the housing department is charged is not clear and this may result in the HRA (and council tenants) being charged inappropriately. It should be possible to accurately track who is using the service and then to calculate a cost i.e. it might be all council tenants, all non-council tenants and owner-occupiers or a mixture of the two. It is suggested that good practice would be to base this on a ‘total cost’/ ‘full cost’ basis (i.e. including associated fixed costs/overheads which represent real resources used to provide HRA tenants with benefits/ services not just on a ‘marginal cost’ basis. This could be flagged in the housing management system or in their customer information systems (e.g. customer contact centre). The same information could be made available to the department in charge of the service so that when charging for the service they can cross reference cases and accurately charge according to whether tenants, the wider community or a mixture of the two are the users.
- **Scenario 2:** Service A is fully paid for by the General Fund, even though a proportion clearly relates to council tenants. The same issue as above applies i.e. the non-recording of information by management systems as to whether council tenants or non-council tenants are using the service. However, in this scenario, it is not only the HRA not paying a fair share which is the issue but also the local authority is not realising (through a lack of management data) that they are providing the service to tenants of housing associations and/or

owner-occupiers in their area. The local authority could, if they wished, suggest that a fair proportion of the costs are paid by the housing association based on data evidence. In the face of charges, this will incentivise the housing association to re-direct their own service to their own tenants. If the housing association was not properly recording data either, they too might even be providing a 'free' service to non-housing association tenants.

Getting better cost methodology and data over time

89. A more systematic cost recording approach will also bring about greater scope for accurate benchmarking in order to compare costs locally, regionally or nationally with both other councils and with housing associations.

90. Complicated cost methodology can be more fully explained and understood by documenting it and sharing it with tenants. It is a reasonable expectation from tenants that a written methodology should be available as this provides transparency and will give confidence that cost allocations are appropriate. The capacity to do this should exist within organisations given their considerable experience of working within the legislation, using the SeRCOP classification and making statistical returns to Scottish Government. Advice would also be available from organisations such as CIPFA.

'Core, 'core plus' and 'non-core' costs

91. Though the existing cost classifications are available in their various forms, there is no current sense for which groups these services are benefiting. Work carried out for the Department of Communities and Local Government (DCLG) by the Housing Quality Network (HQN) in the run-up to 'self-financing' HRAs in England from April 2012 involves a three-way classification of costs. This classification reflects the relative centrality (and thus the specific relevance) to council tenants of some costs rather than others. We believe that the general methodological approach involved in this work is sound and could be developed further. As a result we have outlined some of the ideas behind the categories of "core, core plus and non-core" in Appendix 2. Scottish Government would like stakeholders to consider this as a potential approach for the future given that it does offer a way of designating 'who benefits' from various services provided. The involvement of landlords, tenants, Regional Networks of RTOs and the professional bodies in local authority housing and accountancy in such work could result in a more systematic cost methodology for HRAs in Scotland.

92. Whilst we are not proposing a switch to this classification, we have developed a variation to that balances the benefits of an agreed nationwide approach whilst retaining some local flexibility to reflect geographical or social issues in certain areas. See Appendix 2 for more details.

Updating the existing categorisations regularly and applying a more formal methodology

93. The methodology that underpins current cost categorisation on HRA charging (including any internal charges made by General Fund), should be kept up-to-date.

This includes the methodology for calculating any Trading Account surpluses that should be returned to the HRA as client. In doing this and to avoid the potential for inaccurate charging, local authorities should take account of:

- Market prices of goods and services purchased by the HRA change over time and with the economic cycle in particular
- Improved procurement methods for purchasing goods and services can deliver cost savings irrespective of market conditions and the HRA should be sharing in these improvements
- The changing cost base of the central services charged to the HRA by the General Fund is not appropriately or proportionately calculated and/or regularly reviewed i.e. if the General Fund is making cost efficiencies then these should be reflected in the allocation of costs to HRA and the benefit passed to tenants as laid out, for example, in the legal requirement in paragraph 27(b) above
- New costs may arise and old costs disappear from the HRA each year

94. An updated methodology is therefore not only preferable from an accuracy perspective but is more transparent and fairer to all parties. One of the benefits of adopting a more systematic and dynamic classification of costs as proposed in paragraph 93 and Appendix 2 is that it could be very useful to help generate future thinking on how council housing services can go on providing Best Value in an uncertain financial landscape. Alternatively, it may help in thinking about an alternative charging basis to help fund the provision of HRA services. Keeping any methodology updated would also promote much better awareness of how reductions (or indeed expansions) in services would affect council tenants and non-council tenants alike.

A checklist for councils and tenants

95. The Charter is the main vehicle for establishing financial transparency in terms of the HRA and approaches and timetables must be agreed locally. However, the following checklist may be useful for those that are considering reviewing the way their HRA operates:

- i. Use this document to **agree** an approach to improve transparency on costs and the HRA in line with the Scottish Social Housing Charter (see section 8)
- ii. **Allocate HRA** costs and incomes (as laid out in tables 3, 4 and 5 above and in Tables 1, 2 and 3 in Appendix 1) using established cost categories and proper accounting practice: HRA and Best Value legislation, accounting guidance and the HRA statistical return cost categories
- iii. **Allocate General Fund** housing-related costs and incomes correctly (as laid out in Table 6 above and Table 4 in Appendix 1) using established cost categories: HRA and Best Value legislation and accounting guidance
- iv. Under (ii) and (iii) above, **establish** which costs should:
 - continue to be appropriately charged to the HRA

- should receive contributions from the General Fund
- continue to be charged to the General Fund

and establish a written, evidence-based allocation mechanism for doing this

- v. If councils or tenants not satisfied with current methodology (content or transparency), councils should **meet** with tenants to discuss the issues and agree a programme with tenants for improvement if required
- vi. **Record** the HRA methodology used in writing for the benefit of internal council colleagues, tenants and auditors thus bringing greater transparency in terms of procedures
- vii. **Keep** working papers on the methodology being used
- viii. **Consider** the use of an HRA cost/revenue database linked in some way to the HRA asset register.
- ix. **Update** the cost methodology regularly in conjunction with new information and in conjunction with tenants' views.
- x. If in doubt whether to charge the HRA or the General Fund, **consider** the 'who benefits' principle as a simple guide
- xi. **Seek** advice on difficult methodological issues such as central recharges, trading operation surpluses and the recouping of resident recharges from CIPFA/Audit Scotland and consider opportunities to share/learn from best practice with/from other councils.
- xii. **Consider** other more formal improvement mechanisms such as:
 - employing the services of cost benchmarking specialists;
 - the [Improvement Service](#);
 - the [Public Sector Improvement Framework \(PSIF\)](#)
 - Setting up a working group of council practitioners and RTOs under the auspices of, for example, the Association of Local Authority Chief Housing Officers(ALACHO) or other relevant body

96. Scottish Government recognises that a process of cost reallocation as described above can be complex. We recognise it requires resources and may create issues for services which are the potential losers. However, the pursuit of financial transparency is important and if it identifies that improvements can be made, then these should begin at the pace agreed by individual councils and tenants as laid out in the Charter.

97. Section 3 pointed to some major funding issues heading the way of housing revenue accounts over the next 3 years. Dealing with those issues would be difficult enough so having a written robust methodology which is capable of being updated to deal with possible financial distress would be a very valuable asset with which to help respond to those prospective changes.

SECTION 8: LANDLORD-TENANT DISCUSSIONS ON FINANCIAL TRANSPARENCY WITHIN THE HRA

Key principle 4

In addition to the existing statutory obligations, local authorities must have clear, published mechanisms and procedures for discussing with council tenants and/or (RTOs) any matters of financial transparency relating to the HRA in accordance with outcomes 2 and 3 of the Scottish Social Housing Charter.

Building on advances in tenant participation

98. This guidance acknowledges the existing good practice by Councils to engage with tenants on such HRA matters. However, under the Charter, council tenants must in future be able to obtain clear information from all social landlords on how rent and other money is spent including information on items of expenditure above thresholds agreed between landlords and tenants (Outcome 15). This transparency must be premised upon the notion of regular and meaningful discussions on the level and nature of income credited to and expenditure charged to the HRA. Importantly, this will require the development of clear engagement structures and mandates for this level and type of representative tenant scrutiny.

Legislation regarding tenant participation and consultation

99. All local authority landlords must comply with tenant participation legislation in the same way that they must comply with any other legislation referred to in this Guidance. The statutory basis for tenants becoming involved in decision-making processes of councils (and RSLs) dates back to the Housing (Scotland) Act 2001.

100. Sections 25, 53 and 54 of the Housing (Scotland) Act 2001 provide the statutory basis for tenant consultation in respect of the operation of the HRA. These sections specifically relate to giving notice of an individual's change in rent and service charges; the preparation of a tenant participation strategy covering such important areas as housing management, repairs and maintenance; and the process for consulting on changes in rent levels. Specifically, the legislation says;

Section 25: Notice of increases in rent or service charges to tenants

101. **Section 25** requires landlords to give an individual tenant notice of "*.....not less than four weeks*" before increasing their rents or other charges. Where a landlord proposes a general increase in rents or other charges, it must first consult those individual tenants who would be affected. It must then demonstrate that it has considered the views of those tenants before implementing the increase. In practice, this will mean giving an explanation to tenants for the rent increase and answering the case as to how the increased rent has come about including whether any of the increase was brought about by specific events regarding the proper operation of the HRA in that year.

Section 53: Statutory Requirement for a tenant participation strategy

102. **Section 53** requires local authorities and RSLs to have tenant participation strategy in place as directed by the Scottish Ministers. This strategy should set out a number of things including:

- how the document was developed and who was involved;
- its aims and objectives;
- a commitment from senior management to put tenants at the heart of their business activities;
- the benefits of tenant participation;
- how to keep tenants informed, consulted, involved and provided with feedback;
- links to other strategies and services and performance standards;
- how to work with RTOs;
- a statement of resources to support effective tenant participation;
- training provision;
- a commitment to equal opportunities;
- and how the strategy will be monitored and reviewed.

103. **Section 53** also places a duty on councils to maintain a register of tenant organisations meeting certain criteria. Subsection (4) entitles Scottish Ministers to make an order setting out the criteria for registration or removal from the register and the procedures to be followed in relation to such registration and removal and subsection (5) provides a right of appeal for such groups in relation to registration and de-registration.

Section 54: Consultation with tenants and tenant organisations

104. **Section 54** provides for both individual tenants and registered tenant organisations to be consulted by the landlord on issues significantly affecting them. This includes the service standard implications of any proposals concerning the management, repair and maintenance of the stock all of which are HRA functions as outlined in section 4. Subsection (1) requires the landlord to have regard to representations by tenants or tenants groups made within a reasonable timescale. Subsection (2) sets out the relevant proposals to which this applies. This section is particularly important in relation to the HRA as service standards will be strongly dictated by what is and isn't being debited and credited to the HRA.

The Scottish Social Housing Charter

105. The relevance of the Charter to some key HRA outcomes (notably 13, 14 and 15) was discussed in section 4. However, it also has relevance to tenant participation which in turn has relevance to the operation of a transparent HRA.

106. The Charter requires all social landlords in Scotland (both councils and RSLs) to achieve 16 separate outcomes in relation to the performance of each landlord. Whilst the Charter replaces the previous performance standards set out in November 2006 the guidance that the Scottish Ministers issued under section 79 of the Housing

(Scotland) Act 2001, it does not replace any of the legal duties that apply to social landlords. However, in several cases, the outcomes describe the results social landlords should achieve in meeting their legal duties. Outcomes 2 and 3 of the Charter relate to the tenant/landlord relationship in terms of how the HRA might operate. The outcomes every social landlord is expected to achieve in this respect are as follows:

Outcome 2: Communication

107. This outcome states social landlords manage their businesses so that:

“Tenants and other customers find it easy to communicate with their landlord and get the information they need about their landlord, how and why it makes decisions and the services it provides.”

108. The Charter goes on to say that:

*“This **outcome** covers all aspects of landlords’ communication with tenants and other customers. It is not just about how clearly and effectively a landlord gives information to those who want it. It also covers making it easy for tenants and other customers to make complaints and provide feedback on services, using that information to improve services and performance, and letting people know what they have done in response to complaints and feedback. It does not require landlords to provide legally protected, personal or commercial information.”*

109. In HRA terms, this means that landlords are obliged under the Charter to give specific information on the operation of the HRA (including breakdowns of cost if required) in their area if it is being sought so long as it is not legally, personally or commercially privileged. This also means that if tenants are not satisfied about the operation of the HRA (for example) they must first lodge a complaint to the Council concerned before taking other action (see section 10 below).

Outcome 3: Participation

110. This outcome states that social landlords manage their businesses so that:

“Tenants and other customers find it easy to participate in and influence their landlord’s decisions at a level they feel comfortable with.”

111. The Charter goes on to say that:

“This outcome describes what landlords should achieve by meeting their statutory duties on tenant participation. It covers how social landlords gather and take account of the views and priorities of their tenants; how they shape their services to reflect these views; and how they help tenants and other customers to become more capable of involvement.”

112. In HRA terms, this means that councils must take account of council tenants’ views and be able to demonstrate that they have taken account of them. This can

extend to the way in which the HRA operates if tenants feel it is not operating in accordance with the law, statutory guidance, codes of practice or to their satisfaction. Councils must also be able to demonstrate how they are encouraging tenants to offer their views more readily in future. This includes views on the operation of the HRA and on the use of HRA assets.

Discussions with tenants about the operation of the HRA

113. Landlords should have regular, open discussions with their tenants about financial transparency e.g. this includes what is and isn't being debited and credited to the HRA and whether these individual debits and credits are at levels reflecting the functions of the HRA. These discussions must be based around what is allowable under the legal and accounting frameworks as outlined in section 5. For this reason, the HRA legislation from the 1987 Act (in particular Schedule 15), statutory guidance, codes of practice including the SeRCOP classifications of Service Expenditure Analysis (SEA) and the annual HRA statistical returns to Scottish Government should provide a number of possible starting points for beginning (or continuing with) those discussions. We have included a series of tables in Appendix 1 which councils and RTOs can use as a means of facilitating their discussions on what should and should not be included in HRA costs and incomes.

114. Discussions could take many forms. Initially, councils and tenants might wish to discuss general principles underlying what the HRA should be charged with. Thereafter there could be further dialogue on what is happening in each account and even result in detailed discussion on a "line-by-line" itemisation of costs depending on what councils and tenants agree locally. The point is that engagement with tenants on HRA charges must follow some kind of systematic process that addresses the concerns of tenants on the operation of the HRA, if there are any concerns. In return, tenants must be clear about what their concerns are so that councils can clearly answer any questions they may have.

115. The Charter (outcome 15) also states that as well as the items of expenditure, the thresholds for the inclusion of certain expenditure items should be agreed between landlords and tenants. The discussion of expenditure thresholds in HRAs, and the way in which information is provided, how often and in what form, should therefore feature in the regular discussions between councils and/or tenants/RTOs. As the Charter states, the important point is that discussions a) take place and b) reflect the views of tenants in whatever way necessary.

Tenant involvement in decisions about HRA assets

116. Consideration of the asset's alternative options must, where significant, involve the views of tenants as early in the process as possible. The definition of 'significant' will vary by local authority and the appetite of local tenants to be involved will also vary. The degree to which tenants should be involved should therefore be determined between each local authority and its RTOs in line with outcome 3 (Participation) of the Charter. Both parties must decide how tenants will be involved in making decisions about particular assets and what structure this involvement will take.

117. Local authorities and tenants should agree operating principles on the types and values of asset which are significant enough to matter to tenants or their representatives. We do not envisage that tenants will be involved in decisions on small or relatively low value assets. In such cases, and unless the asset had some special significance, the particulars of smaller disposals may not require discussion. Councils and tenants must agree how disposals or transfers in relation to both small pieces of land or single, low market value assets will be dealt with. Decisions on what is and isn't published are for local discussion between councils/RTOs as per the Charter.

118. In larger or more complex land or property cases, tenants may feel entitled to a fuller say on the future of the asset. Local authorities must consider how they evidence that their views are properly considered and take this into account when reaching final decisions about these assets. There may be circumstances where wider service or corporate priorities require the Council to consider a different course of action than that recommended by tenants and for this reason authorities may feel that tenants should not have the final say on the future of such assets. The local authority must balance its legal and financial responsibilities for the asset with its responsibilities to be accountable to its tenants. Such cases should also be dealt with transparently and in line with outcomes 2 and 3 of the Charter. Once again, what is and isn't published is for local discussion between councils/RTOs as per the Charter.

SECTION 9: CHARGING NON-COUNCIL TENANTS FOR THE PROVISION OF SHARED SERVICES AND THE REPAIR AND MAINTENANCE OF COMMON AREAS

Key principle 5

To ensure that, where legally entitled, and subject to a robust proportionality test, non-council tenants living in mixed tenure areas and benefiting from HRA-provided services are charged for goods and services.

119. There are clear situations where the HRA should seek to charge for services provided to non-council tenants who live in flatted blocks containing a mix of council tenants and non-council tenants (e.g. other social rented sector tenants, private rented sector tenants or owner occupiers). Examples include a number of shared services such as the maintenance of internal common areas, lift maintenance, grass-cutting of common external areas, maintenance of paths around flatted properties, and maintenance of drying areas.

120. The title deeds of individual non-council tenanted properties set out the rights and responsibilities ("burdens") of property owners in relation to the maintenance, repair and management of common areas. However, wide variation is found between the burdens imposed by title deeds across Scotland. Where title deeds include provisions about the maintenance of common property, these should be enforced by councils and observed by property owners. Title deeds are ultimately enforceable in the courts.

121. In some cases, title deeds may be silent or unworkable in relation to common repairs. If this is the case, the provisions of the Tenement (Scotland) Act 2004 (“the 2004 Act”) will apply. This Act does not replace the title deeds for properties but is intended to fill any gaps by means of a Tenement Management Scheme. This is a ‘default’ scheme which ensures that every communally owned property in Scotland has proper rules for management and maintenance.

122. The 2004 Act is intended to make it easier for owners to reach decisions and, ultimately, reduce the number of disputes over the management and maintenance of common property. If the title deeds are silent, are defective or have gaps with regard to the management and maintenance of common property, the Tenement Management Scheme (introduced by the 2004 Act) can be used by local authority landlords to instigate action including obtaining contributions from owner-occupiers.

123. Local authorities are within their legal rights to charge owners for their share of the maintenance of common parts, and, in terms of fairness to tenants and the proper operation of the HRA, they should be doing so. HRA service charges should be implemented to ensure that all residents pay for the services they receive. In doing this, each local authority should be aware of the rights of the homeowners, and not assume a blanket right to levy charges regardless of proper consultation, title deeds, voting majorities, the Tenement Management Scheme and the requirements of the [Property Factor Code of Conduct](#).

Property factoring

124. The Property Factors (Scotland) Act 2011 regulates property factors and provide a more transparent relationship between them and homeowners. It aims to protect homeowners by providing minimum standards for property factors. It applies to all residential property and land managers whether they are private sector businesses, housing associations or local authorities so the Act is fully relevant to the operation of the HRA.

125. Currently, a number of councils appear to undertake factoring work on behalf of tenants of other social landlords or owner-occupied properties. At the time of writing, some 19 out of the 32 local authorities have applied and have been entered on the [Property Factor Register](#) and therefore consider themselves to be factors within the definition of the Property Factors (Scotland) Act 2011.

126. Councils operating as a property factor often provide this service to properties that have been sold under the Right-to-Buy. In some circumstances councils will own or share ownership of common parts of a building and they have a duty to protect the condition of their housing stock where there are still council tenants in a block.

127. Councils should charge private owners their share of any works carried out. For repairs, this will meet the criteria stated in the title deeds or the cost agreed in accordance with the Tenements (Scotland) Act 2004. Where owners would experience financial hardship if the full cost has to be paid immediately, the council should discuss and agree a reasonable and affordable repayment period with the owner.

128. As well as ongoing maintenance, some SHQS (Scottish Housing Quality Standard) capital works which would invariably be paid for from HRA funds, will require work to common parts (for example, repairs to building fabric or cavity wall insulation of flatted dwellings). This will require councils to seek to charge owner occupiers in mixed blocks for their share of the cost. If social landlords cannot get owners to contribute to the cost of SHQS capital work, they may be able to justify an exemption from some elements of SHQS. Guidance on this is available in the [SHQS Guidance notes \(Annex I\) from 2011](#)

129. Councils have powers under the Housing (Scotland) Act 2006 to issue works notices to owners to ensure properties are kept in a reasonable state of repair. If the owner fails to do the work the council can enforce the notice. Councils also have a power, under the Act, to issue maintenance orders where the council considers that the house has not been, or is unlikely to be, maintained in a reasonable standard. This requires that the owner of the house prepares a maintenance plan detailing what work will be carried out over a period of not more than 5 years. The 2006 Act also provides broad discretionary powers to provide assistance to owners who have difficulties in carrying out work. Assistance can include financial assistance, such as grants or loans, practical help, and advice and guidance.

130. Councils also have powers to require owners to carry out work to address statutory nuisances, including any premises in such a state as to be prejudicial to health, under the Environmental Protection Act 1990 and to require owners to paint common stairs and passages under the Civic Government (Scotland) Act 1982. These powers contain provisions for recovery of costs from owner-occupiers that could be credited to the HRA.

131. As identified in section 3 there is a greater concentration of income poverty in the council house sector. Seeking to charge non-council tenants for their share of expenditure to maintain and repair the property is both desirable and reasonable to reduce the financial burden on the HRA and council tenants. Councils should fully explore their legal capabilities to charge non-council tenants for both shared service and repairs to ensure council tenants are not burdened with these costs. Being clear on what can legally be charged is an important consideration when planning for the provision of services and maintenance.

132. Councils must scope out the potential costs and benefits of charging non-council tenants and not assume the costs of collection are disproportionate to the revenues. Councils should make this analysis available to tenants/RTOs should they require it.

SECTION 10: REVIEWING AND MONITORING THE APPLICATION OF THIS HRA GUIDANCE

133. This HRA guidance will be kept under review in the following respects:

- a) it will reflect any policy changes Scottish Ministers might wish to implement regarding council housing and/or the operation of the HRA
- b) it will reflect any future changes in Scottish or UK legislation which significantly affect the operation of HRAs including any possible future decisions of Scottish Ministers to issue statutory guidance on the HRA specifically or on issues relating to local authority finance more widely
- c) it will reflect changes in the accounting codes of practice as they affect the financing of council housing services in Scotland
- d) it will reflect any regulatory changes regarding local authority housing for example in relation to the Scottish Social Housing Charter which is itself periodically reviewed

134. Scottish Government will continue to monitor the use and relevance of this Guidance in consultation with RTOs, local authorities, Audit Scotland and will engage with CIPFA on matters of best practice.

135. As laid out in Table 1, though Scottish Government is responsible for setting out policy on the HRA it is not responsible for investigating tenants' (or others') concerns in relation to the proper operation of the HRA by particular local authorities.

136. If there are concerns on the operation of the HRA then tenants or their representatives must initially put their concerns to the Council(s) concerned and await a reply from the Council(s). This may or may not involve further correspondence and/or meeting(s) between councils and tenants. For tenants who feel that the council(s) has ultimately failed to address their concerns or provided them with an unsatisfactory response, there are a number of agencies that may be interested in hearing from them:

- [Audit Scotland](#) - if there are significant issues of a financial nature.
- [The Scottish Housing Regulator](#) (in relation to matters concerning the Scottish Social Housing Charter).
- [The Scottish Public Sector Ombudsman](#) (SPSO) is a body where citizens can go to when the complaints procedure of the organisation in question has been exhausted.
- [The Scottish Information Commissioner](#) (in relation to a request for particular information from a Scottish local authority) can be contacted by anyone, anywhere in the world.

137. In order to deal with the concern efficiently, tenants (or others) wishing to raise any issues should initially try to match their concerns to the roles and responsibilities of each organisation in table 1 i.e. they should try to identify which organisation(s) is/are the most relevant to their particular concern.

138. Though Scottish Government cannot investigate concerns or provide legal advice, questions on the application of this Guidance can be made to (hraguidance@scotland.gov.gsi.uk). Councils should first seek guidance from their relevant CIPFA and Audit Scotland contacts and take other internal advice, including legal advice, on such matters if necessary.

Directorate for Housing, Regeneration and Welfare
Scottish Government
February 2014

Table 1, Appendix: 1 HRA chargeable expenditures comparison			Service Expenditure (Objective) Analysis		Scottish Government (SG) HRA Statistical Return	
Schedule 15 Housing (Scotland) Act 1987						
	Actual text of legislation	Plain English version	CIPFA coding	Divisions and subdivisions	SG coding	Categories of HRA expenditure recorded by Scottish Government Statistical Return
Reference	1. Loan charges		1209	Depreciation and impairment of fixed assets	1.0	Loan charges
Section	(a) the loan charges which the local authority are liable to pay for that year 'in respect of money borrowed by a local authority for the purpose of:	Capital and interest payments on outstanding HRA debt	10740	Depreciation and impairment – dwellings	1.1	Debt principal
	(i) the provision by them after 12th February 1919 of housing accommodation under the enactments referred to in paragraph	New build council housing	10741	Depreciation and impairment – hostels	1.2	Debt interest
	(ii) the provision or improvement by them of dwellings in 'accordance with improvement proposals approved by the 'Secretary of State under section 2 of the Housing (Scotland) Act 1949 c. 61 1949 or under section 105 of the Housing (Scotland) Act 1950 or 1950 c. 34. 'under section 13 of the Act of 1968	Capital improvements to existing housing	10742	Depreciation and impairment – all other HRA assets.	1.3	Debt management expenses
	(iii) meeting expenditure on the repair of houses and other property to which the account relates	Capital repairs to HRA properties				
	(iv) the improvement of amenities of residential areas under section 251 on land to which the account relates,	Capital expenditure on residential amenities (but included at a time when estates were predominantly council estates and not multi-tenure)				
	(v) the alteration, enlargement or improvement under section 2(3) of any house	Capital works (alteration, enlargement or improvement under section 2(3) of any house)				
	2. Supervision and management		1206	Supervision and management	2.0	Supervision and management (with subdivisions of dwellings, hostels and other HRA properties)
Section	(c) the expenditure incurred by the local authority for that year in respect of the repair, maintenance, supervision and management of houses and other property to which the account relates, other than the expenditure incurred by them in the administration of a rent rebate scheme;	Supervision and management of HRA property excluding the administration of housing benefit which is General Fund expenditure	10715	Policy and management	2.1	Records of properties and tenants
			10716	Managing tenancies	2.2	Waiting lists and application processing
			10733	Rent collection and accounting	2.3	Lettings, tenancy agreements and transfers
			10738	Special services	2.4	Rent collection and accounting
			10739	Hostels	2.5	Advice services to actual or prospective council tenants
					2.6	Property insurance
					2.7	Caretaking
					2.8	Cleaning
					2.9	Grounds maintenance
					2.10	Management of planned maintenance or modernisation programmes e.g. SHQS
					2.11	Administration of repair requests from tenants

Schedule 15 Housing (Scotland) Act 1987			Service Expenditure (Objective) Analysis		Scottish Government (SG) HRA Statistical Return	
	Actual text of legislation	Plain English version	CIPFA coding	Divisions and subdivisions	SG coding	Categories of HRA expenditure recorded by Scottish Government Statistical Return
	3. Repairs and maintenance		1205	Repairs and maintenance	3.0	Repairs and maintenance (with subdivisions of dwellings, hostels and other HRA properties)
Section	(c) the expenditure incurred by the local authority for that year in respect of the repair, maintenance , supervision and management of houses and other property to which the account relates, other than the expenditure incurred by them in the administration of a rent rebate scheme;	Repair and maintenance of HRA property excluding the administration of housing benefit which is General Fund expenditure	10712	Responsive	3.1	Planned repairs and improvements: to <u>maintain</u> current property standards (eg. re-painting, replacing windows)
			10713	Planned	3.2	Responsive repairs as requests arise (eg. to fix a broken window)
			10735	Void repairs	3.3	Void repairs to make property suitable for reletting
			10736	Special services	3.4	Running costs and maintenance of shared services: heating, lighting, lifts, concierge schemes.
			10737	Hostels	3.5	Staff costs for third-party tradesman carrying out repairs and other similar expenditure such as recharges to the HRA from trading operations
	4. Rent arrears and void rent losses		1210	Bad or doubtful debts	4.0	Movement in allowances for bad debts
Section	(e) the arrears of rent which have been written off in that year as irrecoverable , and the income receivable from any houses to which the account relates during any period in that year when they were not let	Rent arrears <u>written off</u> (rent arrears being still being pursued are not charged to the HRA until they are declared written off) and rents not collected due to voids	10743	Increase/reduction in provision.	4.1.1.	Dwellings - Movement in allowances for bad debts
					4.1.2	Hostels - Movement in allowances for bad debts
					4.1.3	Other HRA properties - Movement in allowances for bad debts
	5. Taxes, feuduties, rents and other charges		1211	Rent, rates, taxes and other charges	5.0	Other expenditure
Section	(b) the taxes, feuduties, rents and other charges which the local authority are liable to pay for that year in respect of houses and other property to which the account relates;	Council tax, water charges and other charges of empty HRA properties that are charged by the Council	10744	Lease rentals	5.1	Expenditure on housing stock which is no longer available for letting, such as that awaiting demolition (security etc.)
			10745	Vacant properties: council tax	5.2	Costs associated with the maintenance of shops, lock-ups, garages etc. held on the HRA.
			10746	Vacant properties: rent	5.3	Costs incurred on owner-occupied stock which should be re-charged to the HRA
			10747	Irrecoverables	5.4	Council tax on void properties, rents and rates.
			10748	Rates and water charges payable on nondwellings.	5.5	Rebates for protected tenants on housing support
					5.6	Other miscellaneous payments that are not part of the normal upkeep of properties, or normal dealings with tenants.
	6. Direction from Scottish Ministers					
Section	(g) such other expenditure incurred by the local authority as the Scottish Ministers direct shall be debited to the housing revenue account	Any expenditure not listed above that is directed by Scottish Ministers				

Table 2, Appendix: 1 HRA income comparison			Service Expenditure (Objective) Analysis			Scottish Government (SG) HRA Statistical Return	
Schedule 15 Housing (Scotland) Act 1987							
	Actual text of legislation	Plain English version	CIPFA coding	Divisions of service (Mandatory)	Subdivisions of service (Discretionary)	SG coding	Categories of HRA expenditure recorded by Scottish Government Statistical Return
Reference	1. Rental income			1. Dwelling rents (Gross)		6.0	Rental income from lettable dwellings
Section	(a) the income receivable by the local authority from standard rents;	This is rents from houses, garages, shops, land and any other assets				6.1	Gross rents
						6.2	Loss of rents from voids
						6.3	Net rent income
	2. Other income relating to taxes and service charges			2. Non-dwelling rents (Gross)		7.0	Rental income from Hostels
Section	(b) any income receivable by the local authority for that year in respect of service charges, supplementary charges, feu duties and any other charges in respect of houses and other property to which the account relates;	Other income which does not come from standard rents			(a) Garages	7.1	Gross rents
					(b) Shops	7.2	Loss of rents from voids
					(c) Rental from land	7.3	Net rent income
	3. Housing Support Grant			3. Housing support grants		8.0	Rental income from other HRA
Section	(c) the housing support grant payable to the local authority for that year	Housing Support Grant was a revenue grant paid by Scottish Government that was paid to local authorities who had difficulty balancing their HRA. It was abolished from April			(a) Housing support	8.1	Gross rents
					(b) Hostel support	8.2	Loss of rents from voids
						8.3	Net rent income
	5. Investment income			4. Leasehold service charges		9.0	Service charges to tenants
Section	(g) income, and receipts in the nature of income, being income or receipts arising for that year from the investment or other use of money carried to the account;	This includes interest on any cash balances in the HRA plus income from any HRA investments				10.0	Government Grants (HSG and Hostels)
						10.1	Housing support grant
						10.2	Hostel grant
						10.3	Other government grants
Section	(i) such other income of the local authority as the Scottish Ministers may direct	Any income not listed above that is directed by Scottish Ministers to the HRA				11	Interest received
Section	(5) For any year, the local authority may, with the consent of the Secretary of State, carry to the credit of the account, in addition to the amounts required by the foregoing provisions of this Schedule, such further amounts, if any, as they think fit.	Any income not listed above that local authorities wish to go to the HRA but only with Scottish Ministers consent		7. Other income		12	Other income
						12.1	Non-rental income relating to hostels
						12.2	Payments from owner occupiers which are credited to the HRA.
						12.3	Commissions, legal fees etc.
				6. Hostels			
				8. Sums directed by Scottish Ministers that are income in accordance with IFRS			

Table 3, Appendix 1
Chartered Institute of Public Finance and Accountancy

Service Expenditure (Subjective) Analysis	
Code	Divisions and subdivisions
501	Employees
5001	Direct employee expenses
5002	Indirect employee expenses
5003	Contributions to employee-related provisions
5004	Debits relating from soft loans - employees
502	Premises-related expenditure
5005	Repairs, alterations and maintenance of buildings
5006	Energy costs
5071	CRC allowances
5007	Rents
5008	Rates
5009	Water services
5010	Fixtures and fittings
5011	Apportionment of expenses of operational buildings
5012	Cleaning and domestic supplies
5013	Grounds maintenance costs
5014	Premises insurance
5015	Contributions to premises-related provisions
503	Transport-related expenditure
5016	Direct transport costs
5017	Recharges
5018	Contract hire and operating leases
5019	Public transport
5020	Transport insurance
5021	Car allowances
5022	Contributions to transport-related provisions

504	Supplies and services
5023	Equipment, furniture and materials
5024	Catering
5025	Clothes, uniform and laundry
5026	Printing, stationery and general office expenses
5027	Services
5028	Communications and computing
5029	Members' allowances
5030	Expenses
5031	Grants and subscriptions
5032	Private Finance Initiative and Public Private Partnership schemes
5033	Contributions to provisions
5034	Miscellaneous expenses
505	Third party payments
5035	Independent units within the council
5036	Joint authorities
5037	Other local authorities
5038	Health authorities
5039	Government departments
5040	Voluntary associations
5041	Other establishments
5042	Private contractors
5043	Other agencies
5044	Transport operators (in respect of concessionary fares)
5045	Debits relating from soft loans - third party payments
506	Transfer payments
5046	Schoolchildren and students
5047	Adult Social Services clients (Social Work clients in Scotland)
5048	Housing benefits
5049	Debits relating from soft loans - transfer payments
507	Support services
5050	Finance
5051	IT
5052	Human Resources
5053	Property Management/Office Accommodation
5054	Legal Services
5055	Procurement Services
5056	Corporate Services
5057	Transport Functions

508	Depreciation and impairment losses
5058	Depreciation
5059	Revaluation losses
5060	Loss on impairment of assets
5061	Amortisation of intangible fixed assets
5062	Movement in fair value of investment property
509	Income
5063	Government grants
5064	Other grants reimbursements and contributions
5065	Customer and client receipts
5066	Interest
5067	Recharges
5068	Credits resulting from soft loans
510	Capital financing costs
5069	Interest payments
5070	Debt management expenses

Table 4 Appendix 1: CIPFA Service Expenditure Analysis for housing-related activities			
General Fund Revenue Account Scotland 2012-13 and 2013-14 Final			
	Divisions and subdivisions		
108	Housing Services		
1069		Housing strategy	
1122		Registered social landlords	
1071		Housing advice	
1072		Housing advances	
1073		Private sector housing renewal	
10360			Administration of renovation and improvement grants
10192			Renewal activity
10361			Control orders
10362			Closing orders
10363			Slum clearance (unsubsidised)
10364			Slum clearance (subsidised).
1075		Homelessness	
10201			Hostels (non-HRA support)
10202			Bed/breakfast accommodation
10365			Leasehold dwellings
10209			Other temporary accommodation
10366			Homelessness administration.
1076		Housing benefits payments	
10367			Rent allowances paid
10214			Non-HRA rent rebates
10368			Discretionary additions in respect of HRA rebates.
1123		Rent rebates	
10369			Rent rebates

1077		Housing benefits administration	
10370			Rent allowances
10371			Rent rebates
1124		Contribution to the HRA	
1079		Other council property	
10218			Travellers' sites
10372			Non-HRA council property.
1125		Welfare services	
1126		Housing support services (supporting people)	
10373			Administration and commissioning costs <input type="checkbox"/>
10374			Payments to providers.

APPENDIX 2 DEVELOPING A LONGER TERM 'CORE' COSTS APPROACH

Why a longer term approach is required?

1. In sections 5-7 in particular, the Guidance sets out the current approach to allocating HRA cost and income and proposes some incremental measures that will lead to greater transparency in the short-to-medium-term as required by the Scottish Social Housing Charter. However, a longer-term, more structured approach is highly desirable to 'normalise' transparency within housing revenue accounts. This approach could take many forms and this Guidance is effectively a starting point for further work on improving transparency to levels that all social housing tenants are entitled to under the Charter. We are including material in this appendix not to outline current policy but to bring forward dialogue between councils, tenants and other representative bodies as to what might be required in future to deliver further, significant and permanent improvements in financial transparency.

Building on existing research and ideas

2. Research carried out for the Department for Communities and Local Government (DCLG) in England by the Housing Quality Network (HQN) could suggest a way forward Scotland. The work was done in the lead up to change from the long-established housing benefit subsidy system in England which involved a degree of financial inter-dependency between housing revenue accounts across England to the introduction of 'self-financing' HRAs (which commenced in April 2012). The research has adopted a three-way classification which could, with further refinement, be adopted and then adapted for Scotland.

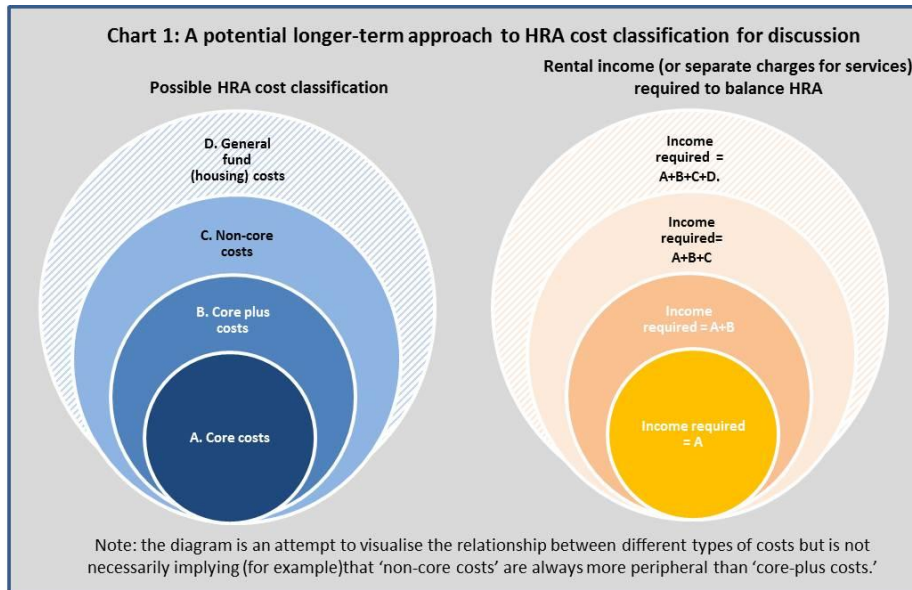
3. This alternative approach uses the following classification as laid out in the research for DCLG:

- i. **'Core' services/costs** – this might include 'traditional' landlord services, including repair and maintenance, rent and service charge collection and arrears recovery, management of repairs, lettings and allocations of HRA properties
- ii. **'Core plus' services/costs** – where it is difficult to gain a consensus around a strict definition of 'core' HRA costs, it may be necessary to itemise a range of services where there is a general expectation that council landlords will provide a service and where a proportion of cost might be met from the HRA e.g. tenancy support, contributions to corporate anti-social behaviour services
- iii. **'Non-core' services/costs** – such services might include providing non-housing maintenance of tenant gardens – unless a separate HRA charge is made for the service, street lighting, personal care services, homelessness administration

4. Scottish Government would also propose a fourth class of housing costs however which mirrors the legal and accounting treatment outlined earlier in Section 7 of the Guidance but which may straddle the 'core plus' and 'non-core' categories:

- iv. **General Fund (housing) costs** – these are clearly not the responsibility of tenants and include areas as laid out in Table 6 in Section 7 of the Guidance. This category includes such things as private sector renewal and housing support services (formerly Supporting People). The reason for their inclusion is to differentiate between costs that are clearly HRA (or part-HRA) and General Fund.

5. Appendix 2 Chart 1 illustrates the relationship (as judged by Scottish Government) between these costs though, equally, other parties may see different possible graphical representations emerging.



6. Chart 1 essentially shows two things. The left hand side in blue shows that the more core/core plus/non-core and (incorrectly assigned) general fund (housing) costs are attributed to the HRA (moving outwards from the dark blue circle (A) to the light blue shaded circle (D)) then the greater will be the total costs in the HRA. However, significantly, the rental income (or service charge income or other income) required to balance these total HRA costs is shown in the right-hand hand side of the diagram. Other things equal, admitting only core costs into the HRA will involve collecting rental (and other) income equivalent to **Area A**. However, if progressively more costs are admitted to the HRA, the rental (or other) income that will have to be charged to balance the HRA lie somewhere between **Area A** and **Areas A+B+C+D**, other things equal. Councils should know, and tenants will be expecting to know under the Scottish Social Housing Charter, the size of the areas A, B, C and D as that will explain the make-up of their weekly rents.

7. Though not currently a legal or an accounting requirement, Scottish Government believes a greater degree of HRA cost classification of this kind is very much in keeping with the principles outlined in the Charter. We are therefore content to adopt the principle of such a classification so that further work can be carried out by stakeholders. The eventual construction and publication of a standardised accessible HRA income and cost spread sheets or databases based on these categories (in conjunction with using the existing legislative, CIPFA and Scottish Government Statistical Bulletin cost and income categories) would help illustrate the necessary

methodology changes and thus bring further transparency. Some of the costs in such a database will include the (perhaps complicated or necessarily subjective) charges the General Fund has made to the HRA for whatever goods and services are provided internally such as legal services, human resources, IT, and finance services in Table 7 of Section 7 of the Guidance as well as the more 'objective' cost categories listed in Tables 4, 5 and 6 in Section 7 of the Guidance.

Previous HRA cost research in Scotland

8. Scottish Government has previously looked into this wider subject area with a selection of social landlords. An activity-cost benchmarking pilot in Scotland ran from June 2010 until January 2011. The evaluation of the HouseMark Activity Cost Benchmark Pilot (2011) which involved a number of local authorities reported the following on the calculation of such costs in section 3.16 of the report¹:

“Several of the pilot participants reported difficulties with capturing financial data on central charges, office costs, and the costs of IT. The pilot experience highlighted to several of the participants how little they knew about how charges for central services are put together and whether they represented good value for money for their tenants. Several of the participants, particularly from local authorities, indicated that in the light of this, they may wish to have discussions with their central teams about these charges.”

9. Indeed, the local authority landlord can in some instances, be very well placed to provide wider services for neighbourhoods and communities that go beyond 'Core' HRA services but the issue is whether the HRA (tenants); the General Fund (council taxpayers and taxpayers); or specific groups of local residents (e.g. owner-occupiers) should be paying. The previous research into the HRA management and costs in England (which have not yet been verified by research in Scotland) found that:

“A large and growing proportion of management costs, perhaps up to 40%, are being incurred in 'non-core' service areas and whilst a proportion of these costs are recovered through a diverse range of income streams including grants, service charges and other contributions, the net cost of these services is significant and growing.”²

10. Given the geographical complexities of delivering council housing services as outlined in Section 3 of this Guidance, this implies a greater degree of accurate cost allocation is more necessary now than it was a generation ago. Further research (local or national) and on-going discussions between councils and their tenants and accounting best practice organisations like CIPFA is therefore imperative if the costs are to be understood and allocated appropriately.

¹ The report is published [here](#).

² The DCLG consultation document listing core, core plus and non-core costs (Annex D) is published [here](#):

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/8553/1512947.pdf

Practical issues

11. As noted in paragraph 8 in this appendix, the HouseMark evaluation reported that significant challenges to disaggregate HRA staffing information and time apportionment data across corporate functions. The proposed 'core/core plus/non-core/general fund housing cost categorisation provides an opportunity or indeed a framework to classify/record some of the more complex or contentious cost apportionment or internal re-charge issues which can then be discussed and decided on by each local authority in consultation with tenants.

12. There is recognition that this may initially be a time consuming process in some cases given the (likely) variable practice in existing cost accounting arrangements. Scottish Government also recognises that process is made more complex by the recent removal of ring fencing of certain local government expenditure, the development of single outcome agreements for business improvement, more corporate business delivery models and mixed tenure subsidy models. All of these could be said to militate against the splitting of costs between the HRA and General Fund but once again, these are not reasons not to try and improve transparency in the HRA. Indeed, they make the objective of accuracy in apportioning costs even more important.

Moving to a clearer approach

13. Scottish Government's objective, and indeed on the balance of comments received from respondents when asked in the limited consultation, was that further research, evidence and clarification is required to reach a consensus between all local authorities on the cost items that would fall under each of these categories. This categorisation could have significant implications on how costs are currently recorded within individual HRAs but, whatever the outcome, it will require all local authorities to have a more detailed understanding of how HRA funded services are being delivered and to whom they are being delivered. Knowing these metrics will be of great value to each council and their tenants and is something that will be highly desirable, if not essential, under the Scottish Social Housing Charter.



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