Briefing Paper

Scottish Local Authority Housing Revenue Accounts

August 2013

Introduction

The Housing Revenue Account records expenditure and income relating to council houses and the provision of services to tenants. This includes management and the repair and maintenance of stock and the rent and income from other sources.

The legal requirement to keep a Housing Revenue Account

The Housing (Scotland) Act 1987 came into force on 1st April 1988. This defined what transactions should be recorded in the Housing Revenue Account

Authorities maintain Housing Revenue Account balances – made up of surpluses that have been carried forward from previous years. An authority can make a deficit in a particular year, but cannot make a cumulative deficit. The Act specifies what a local authority can charge to its Housing Revenue Account and what income can be credited there. This requirement creates the 'ring fence'.

The Housing (Scotland) Act 1987 also introduced the Housing Support Grant that was designed to assist Scottish local authorities with meeting capital financing costs but has now been discontinued. Some other grants are available. In practice, levels of Housing Support Grant and other grants are low and many authorities do not receive any at all.

The Local Government in Scotland Act 2003 introduced the power of 'well being' that allows local authorities to spend money on anything that they consider would promote the 'well being' of local people as long as there is not other legislation that specifically prevents them from doing so. The Act also introduced 'Prudential Borrowing' – a new system of local authority borrowing that is considered further below.

Local authorities produce accounts that are based on a set of accounting rules that are contained in the Statement of Recommended Practice (SORP) that is issued by the accountancy profession and that leads to accounts being prepared in a similar way to private sector bodies. This includes an 'Income and Expenditure Account' for the Housing Revenue Account. However, there are some differences between the requirements of the Statement of Recommended Practice and the provisions of the Housing (Scotland) Act 1987 regarding what should be credited or debited to the Housing Revenue Account. These mainly relate to the treatment of 'non-cash' items that are chargeable to the Housing Revenue Account under the Statement of Recommended Practice that are disregarded by the Housing (Scotland) Act 1987; and the treatment of cash transactions that are chargeable to the Housing Revenue Account under the Housing (Scotland) Act 1987 that are disregarded by the Statement of Recommended Practice.

An example of a Housing Revenue Account is shown below:

Expenditure	**£m**
Supervision & Management	6.2
Maintenance	9.2
Increase in bad debt provision	0.1
Depreciation and Impairment	3.8
Other Expenditure	0.9
Sub-Total	20.2
Income	
Gross rental income	18.2 Cr
Other rent income	0.8 Cr
Other Income	1.9 Cr
Sub-Total	20.9 Cr
Net cost of HRA services per Income and Expenditure Account	0.7 Cr
Share of Corporate and Democratic core	0.2
Net cost of HRA services	0.5 Cr
Gain on sale of HRA fixed assets	1.4 Cr
Interest payable	1.1
Interest and investment income	0.2 Cr
Expected return on pensions assets	0.1 Cr
Surplus on HRA activities	0.9 Cr
Net additional amount required by statute to be debited to the HRA balance for the year	0.8
Increase in the HRA balance	0.1 Cr
Balance brought forward	0.9 Cr
Balance carried forward	1.0 Cr

The net additional amount required by statute to be debited to the HRA balance for the year comprises the following items:

	£m
Items included in the HRA Income & Expenditure account but Excluded from the movement on HRA balances	
• Gain on sale of HRA fixed assets	1.4
• Depreciation and impairment of fixed assets	3.8 Cr
• Charges made for retirement benefits (FRS17)	0.9 Cr
Items not included in the HRA income & Expenditure account But included in the movement of the HRA balance for the year	
• Pension contributions and direct payments to pensioners	1.1
• Loans fund principal	2.0
• Capital expenditure funded from the HRA	1.0
Total	0.8

The following notes describe what these items contain in more detail.

Expenditure

Supervision and Management

Supervision and Management Expenditure is often considered to include two elements: General expenses and Special expenses.

General Expenses refer to costs relating to the whole housing stock or all tenants. It includes rent collectors, costs of letting properties, most of the management of the Housing Department, computer costs and support costs such as accountancy and legal.

Special expenses apply to only some of the tenants. They include cleaning communal areas of flats and maintenance of open spaces.

Maintenance

This includes the cost of maintaining the Council's housing stock including the management of the maintenance function. 'Maintenance' includes repainting, responsive repairs, planned maintenance and works to voids. It does not include major repairs – for example, replacement bathrooms, electrical rewiring or re-roofing.

Increase in Bad Debt Provision

Local authorities are usually owed significant amounts in arrears of rent or other income. Sometimes this income is uncollectible and has to be written off. It is good accounting practice to make a provision for such bad or doubtful debts.

Depreciation and Impairment

Depreciation is a way of reflecting the cost of capital assets in a revenue account. It is usually calculated by looking at the cost of the capital asset and making an assumption about its useful economic life. The cost is then spread over the years of useful economic life. For example, a building costing £60,000 with a sixty year economic life would attract a depreciation charge of £1,000 a year. Because local authorities hold housing as an operational asset rather than as an investment asset it is often considered appropriate to charge depreciation on them.

Impairment is a similar concept to depreciation but occurs when an asset loses its value for an unexpected reason. For example, a house may suffer impairment if it is affected by contaminated land or if the demand for that type of housing falls.

Depreciation and Impairment are charged into the Income and Expenditure Account in accordance with the Statement of Recommended Practice; but are not charged into the statutory Housing Revenue Account. These entries are therefore reversed out of the statutory Housing Revenue Account as described below.

Other Expenditure

Other expenditure can include rents, rates and taxes; charges made for retirement benefits under FRS17; and other expenditure that does not fall within any of the other headings described above.

Financial Reporting Standard 17 (Financial Reporting Standards are rules that accountants follow in preparing accounts) covers situations where the pension funds that employers subscribe to have a shortfall of assets in relation to their future liabilities to pay pensions. In these situations FRS17 obliges local authorities to show a future liability on their balance sheet and a corresponding charge in their Income and Expenditure Account. However, in practice any shortfall will be made up from increased future employer's superannuation contributions and so this is not treated as a charge on the statutory Housing Revenue Account. This entry is therefore reversed out of the account before the statutory Housing Revenue Account balance is calculated.

Income

Gross Rental Income

Gross Rental Income represents rents collected from the letting of council housing. It includes rents collected from tenants and rents paid by the housing benefit service on behalf of tenants who are eligible for housing benefit.

The gross rental income is shown net of voids. Voids are the income that is lost due to homes being un-let.

Other Rent Income

This includes rents collected from garages and shops on council estates.

Other Income

Other Income includes service charges, rent collected in hostels and lodging houses and contributions towards expenditure.

Service charges are charges made, including heating, cleaning, welfare services and payments by leaseholders. Leaseholders are ex-tenants who have bought their council flat on a leasehold basis.

Where benefits or amenities are shared by the whole community the General Fund can make a contribution towards the cost. This can include payments from social work departments. Contributions towards expenditure also include contributions from leaseholders for rechargeable repairs.

Net cost of Housing Revenue Account services per Income and Expenditure Account

The difference between total expenditure and total income on the Income and Expenditure Account is described as the Net cost of Housing Revenue Account services per Income and Expenditure Account.

Share of Corporate and Democratic Core and Other Amounts

The Corporate and Democratic Core costs are those that are incurred by a local authority because it is a local authority rather than because it provides specific services. This includes the cost of corporate management and civic ceremonials. A share of these costs is charged to the Housing Revenue Account. Similarly there are other minor costs and incomes that are partly apportioned to the Housing Revenue Account.

Net Cost of Housing Revenue Account activities

The net cost of Housing Revenue Account activities is the net cost of Housing Revenue Account services per Income and Expenditure Account plus the adjustments for the share of the Corporate and Democratic Core and other amounts.

Gain on sale of Housing Revenue Account Fixed Assets

If a Local Authority sells a Housing Revenue Account fixed asset for an amount that exceeds its book value it has made a gain and this is credited to the Housing Revenue Account under the Statement of Recommended Practice. However, a local authority is not permitted to spend such a gain in the Housing Revenue Account under the Housing (Scotland) Act 1987 and so this entry is reversed out of the accounts before the Housing Revenue Account balance is calculated.

Interest Payable

This includes the interest paid on any outstanding housing revenue account loans.

Interest and Investment Income

When a local authority has surplus cash it will invest it and will receive an investment income. Local authorities can also receive interest on cash balances. These receipts are credited to the Income and Expenditure Account.

Expected Return on Pensions Assets

Local authorities and their employees make contributions to the Local Government Superannuation Scheme to fund current and future pensions for employees. Where it is expected that there will be a return on pension assets this is credited to the Income and Expenditure account.

Amortisation of Premiums and Discounts

If a local authority has a fixed rate loan at a high rate of interest it may wish to make an early repayment so that it can switch to a loan at a lower rate of interest. In these cases the lender usually charges a premium. In such a case the local authority has to charge the premium into the Income and Expenditure account, but it usually does this over a number of years so that the cost can be offset against the reduced interest payments. This is called 'amortisation of premiums'.

Where a local authority makes an early repayment of a low interest loan it can sometimes receive a discount from the lender. Where this occurs it is common to spread the benefit of the discount over a period of years. This is called 'amortisation of discounts'.

Where there is expenditure or income due to the amortisation of premiums and discounts it is shown among these adjustments to the accounts.

Surplus on Housing Revenue Account Activities

When the financial adjustments described above are made to the Net cost of Housing Revenue Account services the resulting balance is the surplus on Housing Revenue Account activities.

Net additional amount required by statute to be debited to the Housing Revenue Account balance for the year

This is the adjustment that is made to the surplus on Housing Revenue Account activities to arrive at the surplus or deficit on the statutory Housing Revenue Account. It includes a number of items as described below.

Items included in the Housing Revenue Account Income & Expenditure account but Excluded from the movement on Housing Revenue Account balances

These are items that have been described above that are included in the Income and Expenditure Account as a requirement of the Statement of Recommended Practice, but are excluded from the statutory Housing Revenue Account. They include:

- Gain on sale of Housing Revenue Account fixed assets
- Depreciation and impairment of fixed assets
- Charges made for retirement benefits

Items not included in the Housing Revenue Account income & Expenditure account but included in the movement of the Housing Revenue Account balance for the year

These are items that are not included in the Income and Expenditure Account because the Statement of Recommended Practice does not regard them as having an impact on the net worth of the local authority, but are required by the Housing (Scotland) Act 2007 to be charged to the statutory Housing Revenue Account because they are a call on the local authority's cash resources. These items are described below.

Pension contributions and direct payments to pensioners

These are additional pension contributions made by the local authority and payments that are made directly to pensioners by the local authority rather than through the local government superannuation scheme.

Loans Fund Principal

These are repayments of the principal on loans. The Statement of Recommended Practice does not regard these repayments as a 'cost' as the reduced level of cash is matched by a reduced level of debt. However, the Housing (Scotland) Act 1987 requires local authorities to charge such repayments to the Housing Revenue Account balance as it is a consumption of cash.

Capital Expenditure funded from the Housing Revenue Account

Capital Expenditure funded from Revenue is where a local authority uses revenue resources to finance capital expenditure. The Statement of Recommended Practice does not regard this as a 'cost' because the reduced level of cash is matched by an increased level of capital assets. However, the Housing (Scotland) Act 1987 requires local authorities to charge such payments to the Housing Revenue Account balance as it is a consumption of cash.

Housing Revenue Account Balance

After taking account of the Net additional amount required by statute to be debited to the Housing Revenue Account balance for the year there is a deficit on the statutory Housing Revenue Account with the result that balances decrease.

Councils maintain housing revenue account balances. Surpluses on the housing revenue account are added to these balances while deficits are charged into balances.

Housing Support Grant

Housing Support Grant was introduced under the Housing (Scotland) Act of 1987. The purpose of Housing Support Grant was to provide central financial support to Scottish Housing Revenue Accounts and it is calculated with reference to a number of factors, but principally the level of capital financing costs incurred by the authority. Since the 1980s, Housing Support Grant has been phased out as rents have increased and housing benefit has been increasingly used to support tenants' housing costs. Housing Support Grant is no longer paid.

The Scottish Government also provides local authorities with a specific grant to support the costs of hostels.

The National Position

The National Position for 2011/12 (actual) and 2012/13 (estimate) is shown in the table below. This includes the transactions in the Housing Revenue Accounts of all local authorities in Scotland during those years:

	2011/12 £m	2012/13 £m	Variation £m	Variation %
Rental Income	933.6	967.8	34.2+	3.7%+
Other Rents	30.3	29.7	0.6 -	2.0% -
Service Charges	13.8	13.4	0.4 -	2.7% -
Grants	5.5	5.4	0.1 -	1.9% -
Interest Received	2.2	1.3	0.9 -	42.3% -
Other Income	37.0	30.2	6.8 -	18.2% -
Total Income	1,022.3	1,047.8	25.5 +	2.5%+
Management	232.8	249.1	16.4 +	7.0% +
Maintenance	339.4	346.6	7.2 +	2.1% +
Bad Debts	11.7	12.1	0.4 +	3.4% +
Voids	16.6	16.3	0.3 -	2.0% -
Other Expenditure	36.6	28.2	8.4 -	22.9% -
Capital funded from revenue	154.9	167.1	12.2 +-	7.9% +
Loan Charges	223.1	249.1	26.0 +	11.7% +
Total Expenditure	1,015.1	1,068.6	53.6 +	5.3%+
Surplus / Deficit (-)	7.3	20.8 -		

Rents for council houses account for over 90% of revenue income on councils' housing revenue accounts. Managing and maintaining the houses accounts for 66% of the expenditure, while loan charges (the cost of servicing housing debt) account for about 27%. Other sources of income for local authorities include rents on hostels and other properties such as garages or lock-ups and also interest, grants from central government, and other charges to tenants for special services. Money is also spent on things such as upkeep of hostels (in some council areas) and other properties, writing off rent arrears and paying council tax on void properties.

In any given year, Income on councils' revenue accounts generally exceeds expenditure. The majority of this surplus is invested back into the housing stock as part of the Capital Programme (Capital Funded from Current Revenue). In most years balances carried forward at the end of the year broadly match balances inherited at the beginning of the year.

In the long-term a combination of reducing stock numbers and increasing capital financing costs could put increased upward pressure on rents.

In 2012/13 average expenditure on management was £757 a unit. This represents an increase of £54 (7.6%) when compared with the 2011/12 figure of £703. There are also significant differences in expenditure in 2012/13 between authorities as shown below:

Perth & Kinross - £1,271
Aberdeenshire - £1,258
Edinburgh - £986
Renfrewshire - £947
Angus - £931
South Lanarkshire - £856
Clackmannanshire - £826
Orkney - £824
Midlothian - £772
Dundee - £750
South Ayrshire - £749
Stirling - £748
Falkirk - £747
East Renfrewshire - £738
East Lothian - £727
East Dunbartonshire - £724
West Lothian - £698
East Ayrshire - £680
West Dunbartonshire - £678
Highland - £672
Moray - £668
Aberdeen - £663
Fife - £614
North Ayrshire - £600
North Lanarkshire - £553
Shetland - £425

In 2012/13 average expenditure on maintenance was £1,089 a unit. This represents an increase of £25 (2.3%) when compared with the 2011/12 figure of £1,064. There are also significant differences in expenditure in 2012/13 between authorities as shown below:

Orkney - £1,590
Falkirk - £1,426
Dundee - £1,411
South Ayrshire – 1,303
Shetland - £1,220
North Lanarkshire - £1,209
North Ayrshire - £1,188
East Renfrewshire - £1,136
West Lothian - £1,099
Aberdeen - £1,086
Highland - £1,082
South Lanarkshire - £1,069
East Dunbartonshire - £1,068
East Ayrshire - £1,059
Moray - £1,039
Edinburgh - £1,026
Fife - £1,019
Midlothian - £1,012
West Dunbartonshire - £1,009
Stirling - £1,004
Aberdeenshire - £988
Clackmannanshire - £926
Angus - £872
East Lothian - £870
Renfrewshire - £865
Perth & Kinross - £685

In 2012/13, average expenditure on management and maintenance was £1,845 per house, an increase of 4.4% or £78 per house over £1,767 in 2011/12.

In September 2012 the Scottish Government published statistics on local authority housing income and expenditure and concluded that the main headlines were:

- There were an estimated 315,800 council houses in Scotland on 30th September 2012, a fall of a little under 600 in the year from September 2011.
- Average council rent being paid into the Housing Revenue Account in 2012/13 was £58.94 per week, an increase of £2.20 (3.9%) per week since 2011/12. Average rent ranges from £45.44 per week in Moray to £80.78 per week in Edinburgh.
- Council rents have increased by 1.0% per year on average in the fifteen year period from 1997/98 to 2012/13 in real terms – above the Retail Prices Index.
- Average expenditure on management and maintenance is expected to be £1,845 per house, an increase of £78 (4.4%) per house since 2011/12. Within this total:-
    - Supervision and management costs are expected to be £757 per house in 2012/13, an increase of £53 (7.6%) per house since 2011/12 and have risen faster than rents over the period since 1997-98.

  - Repairs and maintenance costs are expected to be £1,089 per house in 2012/13 that is £25 per house (2.3%) higher than in 2011/12. These costs have also risen faster than rents in the period since 1997/98.
- Councils expected to lose £16.3million due to voids in all properties on their housing revenue accounts in 2012/13. This represents 1.7% of the standard rental income on these properties and is at about the same level as the three previous years, well below the peak of 3.7% in 2002/03.
- At 31st March 2012, rent arrears on all properties on councils' housing revenue accounts stood at £36.3million, representing 3.8% of the standard rental income on these properties. This is a reduction of £0.3million (0.6%) since 31st March 2011.
- Local authorities budgeted to spend £249million on loan charges (which include interest, capital repayment and loan fund expenses) in 2012/13, an increase of £26.1million (11.7%) over 2011/12. Estimated loan charges per house in 2012/13 vary from £276 per house in Angus to £2,304 per house in Edinburgh and £1,596 in Shetland.

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About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

Our mission statement is 'Independence, Integrity, Value'. We therefore provide support to clients from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

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