



**REPORT TO: HOUSING AND COMMUNITY SAFETY COMMITTEE ON 15
NOVEMBER 2022**

SUBJECT: HOUSING RESERVES POLICY

**BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND
FINANCE)**

1. REASON FOR REPORT

- 1.1 The purpose of this report is to present the draft Housing Reserves Policy for consideration and approval.
- 1.2 This report is submitted to Committee in terms of Section III G (1) of the Council's Scheme of Administration relating to the management of budgets.

2. REASON FOR URGENCY

- 2.1 This report is submitted to Committee in terms of the Local Government (Access to Information) Act 1985, on the Chair certifying that, in his/her opinion it requires to be considered on the grounds of urgency in order to give early consideration to the proposed policy for setting reserves in the HRA, in advance of the annual budget setting process for 2023/24.

3. RECOMMENDATION

3.1 It is recommended that the Committee:

- (i) considers the requirement for a Housing Reserves Policy as detailed in Sections 3 and 4;**
- (ii) approves the draft Housing Reserves Policy set out in APPENDIX I; and**
- (iii) notes that this Policy will have implications for the HRA budget setting process.**

4. BACKGROUND

- 4.1 The Council, as a social landlord, has a statutory duty to account for local authority housing provision as defined by the Housing (Scotland) Act 1987.

- 4.2 The Housing Revenue Account (HRA) must operate in accordance with legislation, any statutory guidance that Scottish Ministers issue in relation to local authority finance and must adhere to any accounting codes of practice from relevant professional bodies.
- 4.3 In any given year, expenditure on the day-to-day maintenance and management of council housing tends to be less than the income from council house rents. The surplus income is spent on capital investment in housing including new council houses and improvements to existing stock (these improvements are in addition to the day-to-day maintenance) or added to the HRA reserves.
- 4.4 In accordance with [Guidance on the Operation of Local Authority Housing Revenue Accounts \(HRAs\) in Scotland](#), it is prudent practice for a 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 on a deficit arising/being anticipated, this would negate the need for a General Fund contribution, or reserves can also be accrued for future planned investment.
- 4.5 Housing rent pays for the upkeep of the properties and therefore it is vital that there is sufficient funding in place to support the investment required, the HRA cannot be subsidised by the General Fund without the consent of Scottish Ministers. Reserves established through the Housing Revenue Account can only be applied within that account.
- 4.6 The value of balances is included in modelling undertaken to determine the 30 year Business Plan and enables the Housing Service to plan and address peaks in lifecycle and maintenance costs of the housing stock.
- 4.7 Reserves play an important part in the HRA's medium term financial strategy and are held to create long-term budgetary stability. The uncommitted balance held on the HRA is necessary for the purpose of managing the changing needs of the tenants and the housing stock that they live in. They mitigate future risks, such as increased demand and costs and help absorb the costs of future liabilities.

5. HOUSING RESERVES POLICY

- 5.1 The draft Housing Reserves Policy (**APPENDIX I**) sets out the framework for managing HRA reserves in order to mitigate financial risk. This effectively codifies the current practice in relation to setting reserves and will ensure that available balances are managed and utilised in accordance with legislation, guidance and effective governance principles and provide transparency and accountability.

5.2 The draft Housing Reserves Policy will assist the Housing Service to comply with the following in a transparent and accountable manner:

- measure the risks that exist for the service;
- provide the assurance that there is the ability to act in the event of any unforeseen events;
- ensure adequate provision for planned maintenance/investment within the HRA; and
- preserve a robust position in relation to contingent liabilities that it may be exposed to in the future. These potential liabilities are regularly reviewed and updated.

5.3 The draft Housing Reserves Policy:

- sets out the type of the reserves and their purpose;
- outlines the circumstances for use of reserve balances;
- details governance arrangements for the management and use of reserves;
- details the approach used to determine the appropriate levels of reserves to be held in the HRA; and
- details the monitoring and reporting framework to ensure accountability in the management and use of reserves.

5.4 The level of Reserves is kept under continual review. Reserves are monitored and reported as part of the annual HRA Budget Setting report, quarterly budget monitoring reports and the review of the Housing Business Plan.

5.5 In line with the approach used for setting reserves for the General Services account, reference will be made to holding a minimum proportion of budgeted expenditure in general reserves, augmented by earmarked reserves where applicable.

5.6 Specific risks which will be considered when setting and reviewing reserve levels are interest rates and inflation levels, with consideration of the impact of changes in each of these. Other risks which have historically been incorporated include retention of a flood reserve for Elgin, prior to the impact of the flood alleviation evidencing a reduced risk profile.

5.7 A quantitative review of relevant baselines will take place, considering actual expenditure arising from risks over a rolling three year period and scenario testing utilising both tangible projections and relevant policy context, e.g. changes in government/regulatory approach, rent setting.

6. FUTURE ACTIONS

6.1 The HRA reserve level will be set each year as part of the annual HRA budget process, with proposed levels determined by Council.

7. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

The aims of this report are closely aligned to those of the Corporate Plan and LOIP.

(b) Policy and Legal

There are no policy or legal implications arising from this report.

(c) Financial implications

Whilst there are no direct financial implications arising from this report, the policy will ensure that relevant legislative and regulatory standards are met in managing the HRA.

(d) Risk Implications

The Housing Reserves Policy will enable the Housing to effectively manage risks associated with financial sustainability and provide enhanced management and oversight of the HRA.

(e) Staffing Implications

There are no staffing implications arising from this report.

(f) Property

There are no property implications arising from this report.

(g) Equalities/Socio Economic Impact

There are no specific equalities/socio economic impacts arising from this report. An Equality Impact Assessment is not required.

(h) Climate Change and Biodiversity Impacts

There are no climate change/biodiversity impacts arising from this report.

(i) Consultations

Consultation on this report has taken place with Officers within the Housing Service, Lorraine Paisey (Chief Financial Officer), Georgina Anderson (Legal Services Senior Solicitor) and Lindsey Robinson (Committee Services Officer) and any comments have been incorporated into the report.

8. CONCLUSION

8.1 This report provides the draft Housing Reserves Policy for consideration and approval.

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Background Papers:	Held by author
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