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## Housing and Community Safety Committee

Tuesday, 15 November 2022

The undernoted report(s) has been added to the agenda for the meeting of **Housing and Community Safety Committee** at **14:00**, in terms of Section 50B (4)(b) of the Local Government (Access to Information) Act 1985 by reason of special circumstances on the Chair accepting the report as urgent business.

### NOTE REFERRED TO:-

10a. **Housing Reserves Policy**

**3 - 12**

Report by Depute Chief Executive (Economy, Environment and Finance)





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**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  
Ref: SPMAN-1285234812-1209



# Moray Council

## Draft Housing Reserves Policy

<b>Author</b>	Housing and Property Services
<b>Date agreed</b>	TBA
<b>Date of next review</b>	

## **1. Scope of the policy**

- 1.1 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.
- 1.2 This policy sets out the framework for the management of Housing Revenue Account reserves in order to mitigate financial risk and facilitate planned investment for the housing stock.

## **2. Principles and objectives**

- The Council seeks to ensure that the policy complies with the legislative framework, guidance and good practice.
- Ensuring resources are effectively prioritised.
- Achieving stable and sustainable budgets.

## **3. Legislation, good practice and regulation**

- 3.1 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 the relevant professional bodies.
- 3.2 The primary legislation regarding the operation of HRA is laid out in the Housing (Scotland) Act 1987:
  - Section 203 makes specific provision for local authorities to keep a HRA;
  - Schedule 15 details the income and expenditure which is to be charged to the HRA.
- 3.3 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 for Finance in Local Authorities 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). The Prudential Code requires that the capital investment plans of the local authority are affordable, prudent and sustainable.
- 3.4 The Code of Practice on Local Authority Accounting in the United Kingdom is the main generally recognised code of practice. In addition, 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 in Scotland Act 2003, section 12(2)(c).

- 3.5 The Scottish Social Housing Charter sets the standards and outcomes that all social landlords should aim to achieve when performing their housing activities. The Charter focuses landlord attention on financial transparency and accountability as detailed in the following outcomes:

**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.

**4. The Housing Revenue Account**

- 4.1 Income and expenditure in relation to a local authority's own direct provision of housing must be recorded separately within a Housing Revenue Account (HRA). The HRA is a ring-fenced account. In general terms, a HRA in Scotland is a separate account within the General Fund of a local authority.
- 4.2 The HRA is expected to be self-financing, that is the budgeted income is sufficient to cover budgeted expenditure. It cannot operate in deficit. It is prudent practice for local authorities to hold HRA reserves (surpluses). These are 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 will therefore be available to apply to the HRA in any year when a deficit arises alleviating the need for contribution from the General Fund. The HRA cannot be subsidised by the General Fund without the consent of Scottish Ministers.
- 4.3 The annual HRA budget can be set to spend more than the income received in the year (e.g. to fund capital or loan repayments from HRA reserves) but this "deficit" will be taken from the reserve to leave the overall HRA total positive after doing so.
- 4.4 The HRA Business Plan is regularly reviewed and is updated annually to reflect the available budget, tenants' priorities, rent strategies and economic conditions to ensure it continues to be affordable and sustainable. In addition it will recommend the minimum surplus that must be retained to offset risks or facilitate investment.

## 5. Operation and management of reserves

- 5.1 When reviewing their medium-term financial plans and preparing annual budgets, local authorities should consider the establishment and maintenance of reserves. Primarily, reserves are held to establish:
- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
  - a contingency to cushion the impact of unexpected events or emergencies;
  - a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities or commitments.
- 5.2 The balance of HRA reserves normally comprise of the following elements:
- funds which are earmarked or set aside for specific purposes;
  - funds which are not earmarked for specific purposes but are set aside to deal with unexpected events or emergencies.
- 5.3 There is no guidance on the minimum level of reserves that should be held. In determining the appropriate target, the Head of Housing and Property must take account of the strategic, operational and financial risks facing the Housing Service as identified in the HRA Business Plan annual review and the financial environment at that time.

### Types of reserves:

#### General reserve

- 5.4 Money held in the general reserve is, therefore, not being directly used to deliver the Housing Business Plan but is set aside for contingencies.

#### Earmarked reserves

- 5.5 It is common for specific activities to impose a financial commitment on the HRA. For this reason, the Council will occasionally earmark sums from within the HRA balances. These are often repairs based, where work has been ordered but not yet started, or in relation to specific potential liabilities. This ensures that the HRA meets the obligations.
- 5.6 Expenditure relating to earmarked reserves must specifically relate to the purpose of the reserve, and new earmarked reserves can be created, normally occurring at the end of the year as part of the year-end review processes or during the annual budget setting process.
- 5.7 Where an earmarked balance is underspent, it may be carried forward within the earmarked reserve at the end of the year.

## **6. Setting the HRA reserve and review**

- 6.1 The approach to setting the HRA reserve level mirrors that for the General Fund General Reserve, where a risk assessment has been used to test the reasonableness of the reserves policy amount.
- 6.2 In line with the approach for the General Fund a percentage of budgeted expenditure will be retained in reserves in response to the risk profile, augmented by earmarked reserves for specified purposes where applicable. Whilst this will be determined on an annual basis according to this methodology, an absolute minimum of £500k will be retained.
- 6.3 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.
- 6.4 The HRA reserve level will be set each year as part of the annual HRA budget process, with proposed levels determined by Council.

## **7. Use of reserves**

- 7.1 Any movement within Revenue Reserves is accounted for in line with normal budgetary processes and is therefore transparent. Entries within a reserve are specifically restricted to 'contributions to and from the revenue account' with expenditure charged to the service revenue account.

## **8 Monitoring and accountability**

- 8.1 HRA reserves are monitored and reported as part of the quarterly financial performance reporting and included in both the budget setting reporting and annual accounts reported to Housing and Community Safety Committee.
- 8.2 The Council receives reports on the levels of reserves as part of the annual budget setting process, the preparation of the annual accounts and at other times should circumstances require it.

## **9. Policy review**

- 9.1 The HRA reserves policy will be reviewed on a three yearly basis, or in line with changes in statutory or regulatory guidance as required.

