HOUSING REVENUE ACCOUNT MANUAL

Guidance for Local Authorities on the operation and management of a Housing Revenue Account

November 2021

Contents

Appendices

Ministerial Foreword

Social housing is a priority for this government and I am convinced it is the right priority for the people of Wales. Social housing provides not only good quality homes but the support, when needed to ensure people can sustain their tenancies and thrive. Good quality housing is more than just a roof over your head – it supports long-term health and wellbeing for people and for Wales. It is the heart of healthy communities.

Wales has never moved away from support for social housing since the Senedd came into existence. In this term of Government, we are investing almost £2 billion to meet our target of building 20,000 more affordable homes, and build them in a sustainable way that is good for people and the planet. By providing record levels of funding in all parts of Wales, and working closely with housing associations, councils and the private sector, we are on track to achieve this ambitious target. In addition, these levels of investment benefit the economies of communities across Wales, creating jobs and training opportunities. In addition, the construction of new homes and continue to work to retrofit existing homes to reduce the production of CO2, will help drive a green recovery from the recession created by the COVID 19 pandemic.

The importance of Council housing cannot be overstated. Council houses provide secure, well managed affordable homes for families across Wales. Councils who still own and manage stock invest significant sums into the local supply chain in respect of repairs and maintenance to existing homes and, more recently, the construction of new homes.

The last time councils in Wales built more than 1,000 homes in a year was 35 years ago. I recognise that getting the 11 councils with a Housing Revenue Account (HRA) into a position to be able to deliver new, high quality homes once again, at scale and pace, is a challenge. Together I want to usher in a new golden age of council house building. The Welsh Government is doing much to assist councils to embrace their new found freedoms, to enable them to build homes again and this HRA Manual is one such tool. The Manual has been developed to support the 11 councils with a retained housing stock ensure that the homes that they manage are accounted for in accordance with primary legislation, regulation and accounting codes of practice and to provide clarity for councils on what the HRA can and can't be used for.

Council housing is an important function. I expect each Local Housing Authority (LHA) which has a HRA to have robust arrangements in place to effectively manage their housing stock and their statutory housing duties, including the quality of services they provide and how they engage with and are accountable to tenants. Typical features of a strong performing LHA are considered to be where:

- housing responsibilities form part of the portfolio of a single Cabinet member;
- the housing function is led by a single officer (a role described as a Head of Housing) whose role will be focused on the management of the council's landlord function and is likely to incorporate the delivery of the council's statutory housing functions;
- the Lead Officer for Housing reports to the Corporate Management Team on a regular basis on housing issues.

But social housing tenants in Wales, whether their landlord is a council or a housing association, face many of the same challenges in terms of holding their landlords to account. I share the view of the Regulatory Board for Wales (RBW) in their 2019 report that "……..there is an increasingly recognised

inconsistency and inequality in the nature of housing regulation between the local authority and housing associations sectors." and that "…this is an important area for debate…"

I therefore commissioned research to explore how, in Wales, the interests of all social housing tenants may be further protected and promoted through closer alignment of the regulatory and accountability regimes for local authorities and housing associations. The research seeks to understand the challenges, risks and benefits of any changes to the scope of social housing regulation in Wales. The research will not seek to consider directly the financial or governance arrangements in Local Government although possible implications for both will be considered. The review has been commissioned in association with TPAS Cymru, the Welsh Local Government Association, Community Housing Cymru and the Wales Audit Office. The research report is due shortly, we don't yet know what the research might tell us and what it might lead to but it is intended start a serious conversation which I hope will lead to real benefits for social housing tenants in Wales.

Julie James AS/MS

Y Gweinidog Newid Hinsawdd / Minister for Climate Change

1 INTRODUCTION AND BACKGROUND

This manual sets out how a Housing Revenue Account (HRA) should operate.

1.1 Since 2015, Welsh councils with a retained housing stock were able to exit the Housing Revenue Account Subsidy (HRAS) regime by exchanging subsidy surpluses for higher debt and, in 2019 the borrowing cap was lifted. The introduction of self- financing gave Local Housing Authorities (LHAs) the resources, incentives and opportunity to provide good quality, well managed council homes and plan for the long term with certainty[1]. In addition, the abolition of the Right to Buy in Wales in January 2019 provided councils with greater predictability when developing their business plans, in the knowledge that in future the disposal of property held in the HRA will be determined in accordance with their own asset management strategies. These changes have created the opportunity for councils with a retained housing stock, to commence the construction of new council homes, at a scale and pace unseen for a generation. This is an opportunity that councils themselves and Ministers are keen for councils to exploit.

1.2 This Manual is designed to act as a tool, confirming the options councils have in the operation of the HRA. Links have been made, where appropriate, to Welsh Government policy and associated requirements.

1.3 This Manual does not constitute legal or financial advice, nor is it intended to be a solely technical document. LHAs need to take their own legal and accounting advice as necessary, and satisfy their auditors about their decisions.

1.4 This Manual sets out a common set of guidelines for the operation of the HRA about what LHAs must and must not credit and debit to the HRA, so that a consistent approach is taken across Wales.

1.5 The Manual (or parts of it) may have relevance to the following:

- Welsh Government officials;
- Welsh Local Government Association (WLGA) officers; and
- audit officers (internal and external), by providing a readily available and up-to-date policy basis for internal and external auditors to carry out their auditing duties in relation to local authority accounts.

1.6 In addition, it may be of interest to council tenants in Wales, to provide them with guidance to assist them effectively scrutinise their landlord. It is however meant to be substantially a technical document for those in roles requiring decisions about HRA and its use, rather than for wider public consumption.

1.7 The Manual has been structured as follows:

- legislative and regulatory background
- the Treatment of Revenue

[1] It is acknowledged that all LHA's with an HRA receive Major Repairs Allowance (MRA) a capital grant intended to assist councils achieve the Welsh Housing Quality Standard by the end of 2020, and maintain it thereafter.

- the Treatment of Capital
- types of homes which can be provided in the HRA
- tenant consultation & the HRA
- re-opening the HRA.

1.8 **This Manual replaces Welsh Office Circular 33/95. The statutory provisions contained in the Circular, are extant, though restated throughout this Manual.**

1.9 This is the first edition of the Manual. During its development local authority practitioners were engaged to assist in shaping its content. In order to ensure that the Manual remains up to date, it is recommended that the Manual is reviewed every two years, with the first review to take place in the summer of 2023.

1.10 Throughout this manual, the reference is to Local Housing Authorities (LHAs). For the purpose of this manual the term LHA is taken to mean a council with a retained housing stock.

2 LEGISLATIVE AND REGULATORY BACKGROUND

2.1 This chapter sets out the legislative and regulatory background relating to the development and management of council homes. In the following sections the main legislation and guidance relating to the management of council homes and the administration of the HRA are summarised, more detail is provided in a series of appendices.

2.2 The chapter concludes with a clear set of principles in relation to the operation of the HRA.

Housing Act 1985

2.3 Part II of the Housing Act 1985 contains the basic powers pursuant to which councils provide housing accommodation to those in need. Such accommodation is commonly known as (and is referred to in this Manual as) “Part II Accommodation”.

2.4 Section 9 gives LHAs the power to provide housing accommodation by erecting or acquiring houses (and "houses" for these purposes includes flats, lodging-houses and hostels). This could include erecting or acquiring houses to be used for temporary accommodation.

2.5 Section 10 gives LHAs the power to provide furniture and fittings in homes provided under Section 9.

2.6 Section 11 gives LHAs the power to provide facilities for obtaining meals and refreshments and for doing laundry and laundry services. Section 11A gives LHAs the power to promote the welfare of persons for whom the LHA provides accommodation.

2.7 Section 12 gives LHAs the power (subject to obtaining the consent of the Welsh Ministers) to develop shops and recreation grounds as part of the development of Part II accommodation. Section 13 gives LHAs the power to lay out roads, streets and open spaces as part of the development of Part II accommodation.

2.8 Section 17 relates to the acquisition of land for housing purposes and sets out that an LHA may:

- acquire land to erect houses;
- acquire houses, or buildings which may be made suitable as houses, together with associated land;
- acquire land to be used to provide facilities connected with housing accommodation; and
- acquire land to carry out works to alter, enlarge, repair or improve an adjoining house;

2.9 Section 19(1) allows LHAs to appropriate for the purposes of Part II Accommodation any land vested in them or at their disposal to the HRA. A LHA has the same powers in relation to land appropriated, as they have in relation to the acquisition of land (section 17) used for the purpose of Part II. Section 19 (2) requires a LHA, where it has acquired or appropriated land for the purposes of Part II, not to appropriate any part of the land consisting of a house or part of a house, without the consent of the Welsh Ministers.

2.10 Section 24 provides LHAs with the power to set rents for its Part II properties. An LHA is under a duty to act reasonably in determining rent levels. When setting rents under this

section, a LHA in Wales must comply with any standards relating to rent or service charges set by the Welsh Ministers under section 111 of the Housing (Wales) Act 2014. A LHA must also have regard to guidance issued under section 112 of the 2014 Act.

2.11 Section 32 sets out the requirement for LHAs to obtain the consent of Welsh Ministers in respect of the disposal of HRA property out of the LHA's ownership, whether on a freehold or a leasehold basis.

Landlord & Tenant Act 1985

2.12 Section 20 of the Landlord & Tenant Act 1985, sets out that landlords are required to consult with leaseholders if works of repair and maintenance to the common areas or the structure of the block will cost any one leaseholder more than £250. In 2015, Welsh Ministers asked social landlords and leaseholders to develop guidance on how major works to blocks containing leasehold properties should be managed and a copy of the guide can be found on the Leasehold Advisory Service website.

Local Government and Housing Act 1989

2.13 Section 74 introduced the requirement for LHAs to keep and maintain a HRA ring-fenced account within their General Fund (now termed Council Fund), setting out what types of properties must be accounted for within an HRA and specifically excluding certain types of properties from an HRA. Section 74(4) requires LHAs which possess no property or land for housing purposes to seek the Ministers approval to close the HRA. The ring-fence was (and remains) an important accounting and financial principle to ensure that the income raised from operating council housing is spent on council housing, and that neither the HRA nor General/Council Fund are cross-subsidised. Generally speaking, no direction is required to acquire or appropriate land to the HRA, but LHA need to consider Section 74, for further clarity. LHAs proposing to dispose of Part II dwelling houses and/or land should consider carefully whether the proposed disposal falls within the detailed conditions set out in the general consent at Appendix 2 of the Manual. If not, they will be required to apply to the Welsh Ministers for specific consent.

2.14 Section 75 sets out that Schedule 4 to the Act determines how a HRA should be kept. The keeping of the HRA is governed by Schedule 4 which lists the credits to the account (Part I) and the debits (Part II). Schedule 4 to the Act is contained at Appendix 1. Where some of the debit and credit items within Schedule 4 have been subject to further legislative change since 1989, this is highlighted in the appendix.

2.15 Section 76 requires that councils prevent debit balances on the HRA.

2.16 Section 78 sets out that councils must follow any direction issued by the Welsh Ministers to ensure "proper practices. The accounting practices set out in the Code of Practice on Local Authority Accounting in the United Kingdom published by the Chartered Institute of Public Finance and Accountancy are "proper practices", as set out in Section 25 of the Local Authority (Capital Finance & Accounting) (Wales) Regulations 2003.

Leasehold Reform, Housing and Urban Development Act 1993

2.17 Section 128 gives power to the Welsh Ministers to specify by Order that either all or some of the welfare services (provided by LHAs under 11A of the Housing Act 1985) can no longer be

provided within the HRA. In Wales, the Housing (Welfare Services) (Wales) Order 1995 stipulates that the following welfare services are not to be charged to the HRA:

- assistance with personal mobility;
- assistance at meal times;
- assistance with personal appearance or hygiene;
- administration of medication; and
- nursing care.

Housing Act 1996

2.18 Part VI of the Act sets out the duties and responsibilities of LHAs in relation to the allocation of social housing. Section 169 of the Act enables Welsh Ministers to issue guidance to LHAs in relation to the allocation of homes. The Act requires Local Authorities to have regard to this guidance in exercising their functions under Part VI of the 1996 Act.

2.19 The most recent Code of Guidance was published in March 2016, following the changes introduced to homelessness duties by the Housing (Wales) Act 2014 and other minor changes. The Code of Guidance can be accessed here.

Local Government Act 2000

2.20 The Local Government Act 2000 created a discretionary power referred to as "the Well-Being Power" which enables councils to do anything that they consider is likely to promote or improve the economic, social or environmental well-being of their area and/or persons in it. The power came into force in Wales on 9 April 2011.

2.21 However, the use of the Well-Being Power does not enable a council to do anything which they are unable to do because of a prohibition, restriction or limitation set out in other legislation. Nor can the Well-being power be used to raise money. This applies to the operation of the HRA as with any other consideration, and HRA funds used in conjunction with the Well-being power, must clearly benefit HRA tenants. The Welsh Ministers may, by Order, prevent or restrict a council's use of the Wellbeing power, as specified by the Order. In Wales, no such Orders are in place restricting the Wellbeing-power for LHAs.

2.22 The 'Well-Being Power" will be replaced with the 'General Power of Competence' in November 2021 under Section 24 of the Local Government and Elections (Wales) Act 2021.

Local Government Act 2003

2.23 This Act made provision for a new system of local government capital finance to replace the scheme which existed under Part IV of the Local Government and Housing Act 1989. In Wales, the Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003 introduced the new system for Wales. The 2003 Act also introduced by regulations, the Prudential Code which means each council must set a borrowing limit for itself. The borrowing limit will be related to the revenue streams available to each council. The Act introduced the principle of "prudential borrowing" in which councils focus on the revenue consequences of capital spending rather than the Government limiting the amount of borrowing directly.

2.24 Whilst the Prudential Code applied to the HRA prior to the abolition of the HRAS, the ability to borrow prudentially under the Code was limited by the subsidy system itself. Following

the exit from the HRAS in March 2015, a borrowing cap was imposed on Welsh HRAs which was only lifted in March 2019, when the HRAS was formally abolished and voluntary agreements between LHAs and the Welsh Ministers on total borrowing, were terminated.

2.25 The Secretary of State's powers under Part 1 of the Local Government Act 2003, except section 19 and Schedule 1, are vested in the Welsh Ministers in relation to Wales. Sections 9 to 11 define a capital receipt and specify what a capital receipt can be used for. The Local Authority (Capital Finance & Accounting) (Wales) Regulations 2003 as amended, set out in greater detail the sums to be treated as capital receipts and also specifies that sums of £10,000 or less should not be treated as a capital receipt.

2.26 Regulation 18 (2) of the Local Authorities (Capital Financing and Accounting) (Wales) Regulations 2003 sets out that HRA capital receipts received after 1 April 2004 can be applied only for purposes relating to the HRA functions of the council on the following:

- capital expenditure;
- debt repayment; or
- premia (losses) in relation to council debt repayment or to meet the cost of HRA qualifying credit arrangements.

The Housing (Wales) Act 2014

2.27 The Housing (Wales) Act 2014 aimed to introduce significant improvements across the housing sector to ensure people have access to decent, affordable homes and better housing-related services, particularly for those who are vulnerable or homeless.

2.28 Part IV applies to LHAs with housing stock and enables Welsh Ministers to set standards, issue guidance, or use powers of intervention in connection with the quality of accommodation provided by LHAs, rents for such accommodation, and service charges for such accommodation. Councils and housing associations are responsible for setting the rents for social housing properties within a financial and policy framework established by Welsh Government.

Welsh Housing Quality Standard

Part IV of the Housing (Wales) Act 2014 enables a standard to be set for quality of accommodation with powers of entry and intervention and LHAs will be required to comply with the standard. The Welsh Housing Quality Standard (WHQS) was first introduced in 2002. It is the Welsh Government's target standard for all social housing in Wales and states that, as soon as possible, but no later than December 2020, all homes should:

- be in a good state of repair;
- be safe and secure;
- be adequately heated, fuel-efficient and well insulated;
- contain up to date kitchens and bathrooms;
- be located in attractive and safe environments; and
- suit the specific requirements of the household.

LHAs are also required to maintain this standard thereafter, and some LHAs have chosen to go beyond this standard. A new standard and associated guidance will be put in place for delivery post 2020 as the current standard will be met by all social landlords, to reflect the changes since the standard was originally adopted and to ensure appropriate links with policy development and direction.

Social Housing Rent and Service Charge Standard

Part IV of the Housing (Wales) Act 2014 enables a standard to be set for rent and service charges and LHAs will be required to comply with the standard. Social landlords are responsible for setting the rents and service charges for social housing properties within a financial and policy framework established by the Welsh Government. The Welsh Government's Policy for Social Housing Rents (rent and service charge standard) is developed collaboratively with social landlords and tenant bodies. The new rent and service charge standard and associated guidance will apply to social landlord's general needs and sheltered housing stock and will reflect the type, size, location and quality of the landlord's properties. The new Rent and Service Charge Standard will be developed in collaboration with Community Housing Cymru (CHC), the Welsh Local Government Association (WLGA) and the Tenant Participation and Advisory Service (TPAS) and will be subject to consultation with the representative bodies and subject to Ministerial approval with the intention of publication of the standard in late 2020 or early 2021.

2.29 Part V provided the necessary legislation which enabled LHAs to formally exit the HRA subsidy system.

Renting Homes (Wales) Act 2016

2.30 The Renting Homes (Wales) Act 2016, when commenced in Wales in the spring of 2022, will make it simpler and easier to rent a home, replacing various and complex pieces of existing

legislation with one clear legal framework. At the heart of the Renting Homes (Wales) Act 2016 are the new 'occupation contracts'. With a limited number of exceptions, the Renting Homes (Wales) Act 2016 will replace all previous tenancies and licences with just two types of occupation contract:

- secure contract - modelled on the current secure tenancy issued by councils; and,
- standard contract - modelled on the current assured shorthold tenancy used mainly in the private rented sector, but can be used by Community Landlords[2] in circumstances set out in Schedule 3 to the Act.

Fitness for Human Habitation Regulations- Renting Homes (Wales) Act 2016

Once fully implemented, the Renting Homes (Wales) Act 2016 will make it simpler and easier to rent a home in Wales, replacing various and complex pieces of existing legislation with one clear legal framework. The new 'occupation contracts' replace current tenancies and will make the rights and obligations of both landlord and contract-holder much clearer. This includes the landlord's duty, set out in section 91 of the Renting Homes (Wales) Act 2016, to ensure a dwelling is fit for human habitation (FFHH). Where a landlord rents a dwelling that is unfit, a contract-holder will be able to seek an order from the court requiring the landlord to remedy the problem. Section 94 of the Renting Homes (Wales) Act 2016 requires the Welsh Ministers to make regulations in relation to determining whether a dwelling is FFHH.

The Renting Homes (Wales) Act 2016 requires a landlord to ensure their rental dwelling is FFHH at the start of and during the length of the occupation contract. The FFHH Regulations will set out the following:

1. the prescription of matters and circumstances to which regard must be had when determining whether a property is FFHH; and
2. specific requirements of the landlord to ensure these matters and circumstances do not arise.

Abolition of the Right to Buy and Associated Rights (Wales) Act 2018

2.31 Subject to a number of exceptions, the right of secure tenants to exercise the right to buy their homes (Right to Buy) and associated rights ended in Wales on the 26 January 2019, following the passing of the Abolition of the Right to Buy and Associated Rights (Wales) Act 2018.

Welsh Office Circular 33/95

2.32 In May 1995, the Welsh Office issued Circular 33/95 which provided clarification on whether various items of income and expenditure should be accounted for in the HRA and dealt with issues associated with the operation of the ring-fence. This Manual replaces Welsh Office Circular 33/95. The statutory provisions contained in the Circular, are extant, though restated throughout this Manual.

[2] A Community Landlord is defined as a LHA, a Registered Social Landlord or a private registered provider of social housing, as set out in section 80(3) of the Housing and Regeneration Act 2008

General Consents

2.33 Whilst the disposal of properties from the HRA require the consent of Welsh Ministers, a number of general consents are in place in Wales which LHAs are able to rely on. These are as follows:

- The General Consent for the Disposal of Part II Dwelling-Houses 1994 – which provides consent to LHAs disposing of both vacant and occupied dwellings subject to the conditions within the consent
- Disposal of Dwelling-Houses to Registered Social Landlords for Refurbishment – which provides consent for LHAs to transfer vacant homes to housing associations for refurbishment
- Disposal of land in Wales by Councils for Less Than Best Consideration – which provides consent for LHAs to dispose of land for less than best consideration, where the disposal will promote or improve economic, social or environmental well-being.

2.34 These are set out in full at Appendix 2.

CIPFA Service Reporting Code of Practice (SeRCOP)

2.35 The key accounting code of practice setting out the accountancy standards to be followed is the Chartered Institute of Public Finance Accountants (CIPFA) SeRCOP. All councils in the United Kingdom are expected to adopt its requirements.

2.36 CIPFA has traditionally, and continues to, split HRA expenditure in broadly three ways, as follows:

- "Repairs and Maintenance" refers to the upkeep of HRA property;
- "Special Services" refers to those services that some rather than all tenants benefit from; and
- "Supervision and Management" refers to management functions relating to all properties.

2.37 More details about the expenditure categories are set out at Appendix 3.

2.38 Welsh Government expects that LHAs will operate their HRAs in accordance with the following key principles.

KEY OPERATING PRINCIPLES FOR THE HRA

a) that it is compliant with legislation, including any statutory guidance that the Welsh Government issues in relation to council finances in general;

b) that the HRA should be primarily a landlord account within the council fund, containing the income and expenditure arising from a LHA's landlord functions;

c) under the "Who Benefits" principle, 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 is advised;

d) that councils keep the HRA in accordance with proper accountancy practices which a council is required to follow by any legislation, enactment, generally recognised published code, or generally regarded proper accounting practices;

e) 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 to demonstrate 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 Direct Labour Organisation / Direct Services Organisation 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;

f) That in addition to existing statutory consultation obligations, LHAs must have clear, published mechanisms and procedures for consulting with local authority tenants on any matters of financial transparency relating to the HRA; and,

g) That it is ensured that, where legally entitled, and subject to a robust proportionality test, non-local authority tenants living in mixed tenure areas benefiting from HRA-provided services are charged for goods and services.

CASE STUDY 1:

A LHA wishing to provide market renting housing within the HRA in order to generate additional net income to subsidise affordable housing also held in the HRA, for example by developing 100 units, renting 30 at market rent and 70 at social rent, on the basis that the units are integrated and deliverable as part of the same scheme.

It is considered that the legislation provides the powers for the LHA to do so, providing that there is an explicit cross-subsidy of the affordable housing within the HRA, and subject to the application of relevant tenancy legislation to the market rented tenancies.

In practice, such a development does not materially differ from the operation of estate shops or other commercial properties in the HRA which generate a net income to HRA resources. However, where an LHA wishes to develop a stand-alone scheme for market renting not directly linked to the development or redevelopment of affordable housing, it is considered that Part II powers would not be appropriate in providing such housing and an alternative power sought.

3 THE TREATMENT OF REVENUE

3.1 The ring-fenced nature of the HRA, within the Council Fund, and the rent policy adopted by Welsh Government has over recent years meant that HRAs across Wales have been relatively well-funded from a revenue perspective compared to other parts of the UK, as rents have been allowed to increase up to and following the ending of HRAS. At the same time, other local authority services have been significantly financially constrained. It is the Welsh Minister's expectation that HRA funds are used entirely in accordance with the key principles set out in paragraph 2.36. LHAs must ensure that there is a robust, written methodology for calculating and allocating HRA costs in sufficient financial detail to demonstrate why those costs are being charged and who is benefiting from the services these costs relate to.

3.2 This section looks at the application of this principle in more detail.

Circular 33/95

3.3 This Manual replaces Welsh Office Circular 33/95. The statutory provisions contained in the Circular, are extant, though restated throughout this Manual. As with this Manual, it is essential that councils take their own legal and accounting advice, as necessary, and satisfy their auditors about their decisions.

Core, non-core and core-plus services

3.4 The Welsh Government believes that research carried out for the Department for Communities and Local Government (DCLG) in England by the Housing Quality Network (HQN) in 2010, which has been built upon by the Scottish Government, offers a way forward for Wales.

3.5 The work undertaken by DCLG was carried out in the lead up to change from the long-established housing benefit subsidy system which involved a degree of financial inter-dependency between HRAs across England to the introduction of 'self-financing' HRAs (which commenced in April 2012). The research adopted a three-way classification which could, with further refinement, be adopted in Wales. The research sought to clarify the management and maintenance services which should be charged to the HRA, through draft guidance. Although this draft guidance was not specific to Wales and never formally adopted, and as such does not have legal status, it nevertheless represents a useful, and perhaps the best, summary of the key services which LHAs should be delivering and funding from the HRA. The Scottish Government have gone one stage further and building upon the three categories developed by DCLG in England have added a fourth category which we have added to the list of categories below. This list should capture the totality of housing expenditure at a local level. The categories of expenditure are as follows:

- 'Core' services - 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;

- 'Core-Plus' services – 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, but the service might attract funding from external sources to supplement HRA funding (such as non-rent service charges, other funding streams, grants, and the council fund);

- 'Non-Core' services, - where it is inappropriate to charge these services to the HRA. Such services might include providing non-housing maintenance of tenant gardens – unless a separate HRA charge is made for the service, street lighting and personal care services. Their costs should be met from the Council Fund.

- Council Fund housing services - these are clearly not services provided to tenants and include the statutory housing responsibilities of the LHA and as such should be charged to the Council Fund. They include the following activities: the costs associated with private sector renewal and the discharge of responsibilities in respect of housing enforcement in the private sector; the administration of the Housing Support Grant programme; the performance and administration of the homelessness function; and, the delivery of the strategic housing function of the LHA. The reason for their inclusion is to differentiate between costs that are clearly chargeable to the HRA (or part-HRA) and those which are clearly chargeable to the Council Fund.

3.6 The full breakdown of these categories of expenditure (Core, Core Plus and Non-Core) from the 2010 DCLG advice is included at Appendix 4.

Apportionment and costs between the HRA and Council Fund in respect of internal charges

3.7 The number of potential areas of cost apportionment and allocation depends on the complexity of the finances of each local authority and the way services are organised. Some councils also incur other costs which cannot be assigned directly to services but are required to manage the local authority. These are categorised as "Democratic Representation and Management and Democratic Core" as set out by CIPFA in SeRCOP. There may be other costs which cannot be directly charged to services and these are categorised as "Non-Distributed Costs". The principles of proper Accounting Practice should be adhered to at all times.

3.8 Councils should identify 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.

3.9 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.

3.10 It is recognised that not every local authority will be able to attribute all costs with total accuracy but they should still document their methodology and effectively be able to explain their approach to stakeholders. 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.

3.11 CIPFA guidance on internal charging is very clear (extract from CIPFA LAAP Bulletin 22: Promoting best practice):

> *Working papers must be kept which explain the basis of the charges to the HRA, Council 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 Council 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 councils 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."*

3.12 It is considered good practice for LHAs to maintain a list of areas where costs are shared between the Council Fund and the HRA and the methodology used for the calculation of their apportionment, which has been approved by the council (as part of the budget setting process) following scrutiny process, which involves tenants.

Permitted transfers across the ring fence

3.13 Although, as a general principle, councils do not have discretion to transfer expenditure and income between the HRA and the council fund, there is a limited number of specific instances where this can, or sometimes must, occur. The relevant statutory provision is Schedule 4 to the Local Government and Housing Act 1989 and councils should have particular regard to paragraph 3 of Part III of that Schedule. This is the paragraph relating to amenities shared by the whole community. Examples of such amenities are:

- open spaces;
- community centres; and
- playgrounds.

3.14 LHAs need to assess the benefit to the community as a whole of such amenities, rather than local authority tenants, and then make a contribution to the HRA from the council fund. The size of such contributions will vary between LHAs to reflect the differing circumstances of those councils. However, the size of the contributions has to be specifically and correctly calculated. The apportionment must reflect the reality. LHAs cannot opt out of making this calculation.

CASE STUDY 2:

A number of concerns have been raised with a Council by elected members, community groups, and local organisations, relating to an estate in its area. The concerns relate to incidents of anti-social behaviour and the quality of the environment on the estate. The Council is a stockholding authority, but only approximately 50% of the homes on the estate remain in the ownership of the Council, as a result of Right to Buy sales.

The Council has developed an action plan to tackle the issues of concern on the estate, as set out below, with a summary of whether they should be charged to the HRA, the Council Fund, or whether this was a subjective judgment to be made according to local circumstances. The general presumption would be that as the improvements relate to general neighbourhood management, rather than tenancy management, the costs should rest with the Council Fund. However the LHA has discretion to share the costs between the Council Fund and the HRA. Whilst the LHA has to form its own judgement about whether the provision is connected to Part II of the 1985 Act and have regard to Part III of Schedule 4 of the 1989 Act, an approach to sharing costs is set out below:

- The costs of consulting with local community on the action plan could be shared between the HRA and the Council Fund (in this case equally between the two)
- Environmental improvements to the park on the estate: This should be charged on a fair basis (for example a reasonable estimate of usage) to the HRA and the Council Fund.
- Investment in the Council owned Community Centre on the estate, with the employment of a full time play worker: The investment should be charged pro rata to the HRA and Council Fund (in this case equally between the two). The play worker should be charged solely to the Council Fund.
- Physical improvements to the Council owned estate office, which provides services to Council tenants, to make the office more welcoming and accessible. On the assumption that the office only houses housing staff, this should be fully charged to the HRA.
- Improvements to core Council street-scene functions, such as road sweeping and cleaning. Although the assumption is that this is a service to the general community, and therefore charged to the Council Fund, the Council can have regard to specific local circumstances (such as estate roads owned by the HRA and the street lighting on those roads)
- A greater presence from dog wardens on the estate to deal with the problem of stray dogs: This is a service to the general community and should be charged to the solely to the Council Fund.

CASE STUDY 3:

A council recognises the difficulties that people on low incomes, who are reliant on Universal Credit, experience meeting all of the costs associated with their tenancies. The Council wants to deliver a support service to enable tenants to access services which will provide them with advice to maximise their incomes, access benefits and manage debts to enable them to successfully sustain their tenancies.

The Council already provides a homelessness prevention service, which provides similar service to people who are threatened with homelessness, funded by the Council Fund.

In this instance, if the Council were to extend the coverage of the Homelessness Prevention Service to HRA tenants, to enable them to successfully maintain their tenancies, it would be appropriate for the HRA to meet some of the costs of the service, on the basis of usage.

4 THE TREATMENT OF CAPITAL

4.1 LHAs became self-financing for HRA purposes following the successful exit from HRAS on 2 April 2015. As part of this process, a number of key decisions were reached by the Welsh Government which have implications for the management of the HRA in respect of capital finance and expenditure.

4.2 This chapter sets out the rules relating to the treatment of capital financing within the HRA.

Use of capital receipts

4.3 The HRA is a revenue account and therefore the statutory ring-fence from the 1989 Act applies to revenue and not to capital. From a primary legislative perspective, this means that if dwellings or other assets are sold or otherwise transferred out of the HRA, any capital thereby released or 'generated' is theoretically available to the local authority in its corporate (Council Fund) capacity, subject to specific rules which otherwise arise (above a basic threshold of £10,000):

- Capital receipts arising from Right To Buy sales (now abolished in Wales), other sales to secure tenants for less than market value and some shared ownership sales were all subject to pooling (i.e. 75% pooled to government, 25% retained) - after various deductions - unless the LHA has entered into an agreement with the Welsh Government regarding the use of such receipts for investment in new affordable homes.
- Other capital receipts were not subject to pooling and if they are used to meet capital expenditure on Council Fund assets they are deducted from the opening HRA Capital Financing Requirement (HRA CFR) for the ensuing financial year in which the receipts are used (to produce a closing HRA CFR) except for expenditure on affordable housing and regeneration projects.

4.4 Regulation 18 (2) of the Local Authority (Capital Finance & Accounting) (Wales) Regulations 2003 imposes general restrictions on the use of capital receipts. Permitted uses include:

- meeting capital expenditure;
- repaying debt principal; and
- paying a premium charged on an amount borrowed.

This is a fundamental principle of local authority accounting in the UK: that capital receipts cannot be applied to finance day-to-day revenue/service delivery.

4.5 The Welsh Government's HRAS Subsidy Exit Paper on Capital Receipts confirmed the treatment of capital receipts should continue with "existing regulations"[3]. The existing regulations allow 100% of HRA and non-HRA capital receipts to be retained by councils. In the case of HRA receipts, regulations set out that receipts since 1 April 2004 can only be used to fund HRA capital expenditure, or to repay HRA debt. This therefore effectively clarifies the use of HRA capital receipts via regulation.

4.6 This approach retains councils' devolved responsibility to decide how to use these HRA capital receipts as long as these are used to finance capital expenditure for HRA assets (or repay debt by reducing the HRA CFR). Treasury management strategies within the self-financing system ensure that councils are managing repayment of debt prudently without

[3] The Local Authorities (Capital Financing & Accounting)(Wales) Regulations 2003

the need to specifically stipulate via regulation that receipts should also be set aside to repay debt.

4.7 HRA capital receipts will therefore continue to be unavailable for housing purposes outside of the HRA.

HRA debt within a local authority's loan pool

4.8 The CIPFA Prudential Code has a section that is specific to councils with housing functions. It requires such councils to ensure that they:

- consider the impact of acceptable rent levels when considering the affordability of capital plans; and
- make separate calculations for their HRA and non-HRA elements and for the estimated impact on rents as well as Council Tax.

4.9 It also requires councils with housing functions to comply with the treasury management implications of the housing self-financing reform for councils in Wales. The guiding principle for the Prudential Code is that, ultimately, all costs not met by capital receipts or grants, will have to be funded from revenue. The mechanism by which councils account for the long-term consequences of borrowing to meet capital expenditure is via the Capital Financing Requirement (CFR) – essentially the underlying need to have borrowed in order to finance capital expenditure. Because of the revenue ring-fence, councils with an HRA must also determine an HRA CFR. This is then the basis upon which revenue debt charges are debited to the HRA.

4.10 While there are no specific requirements for councils with housing to calculate separate treasury management indicators for the council fund and the HRA, such councils may wish to consider the benefits of preparing local indicators in this area.

4.11 The exit from the HRAS system required LHAs to take on additional borrowing. In addition, LHAs will need to allocate existing and future borrowing costs between housing and the council fund as the current statutory method of apportioning debt charges between the council fund and the HRA ceased.

4.12 A single solution was not imposed and LHAs may pursue methods of their choosing provided that they achieve the principles detailed in their approved treasury management strategies. The principles upon which the allocation of loans should be based are as follows:

- councils are required to deliver a solution that is broadly equitable between the HRA and the council fund;
- the underlying principle for the splitting of loans, at transition, must be that of no detriment to the council fund and the HRA;
- future charges to the HRA in relation to borrowing are not influenced by council fund decisions, giving a greater degree of independence, certainty and control; and
- un-invested balance sheet resources which allow borrowing to be below the HRA CFR are properly identified between council fund and HRA.

4.13 It is an expectation of Welsh Government that if a council seeks public subsidy to assist in the development of new council homes in its area, its own borrowing costs will be charged at the PWLB base rate. Where a council is charging its HRA a pooled rate which is greater

than the PWLB rate, for a development or developments, the additional costs of borrowing will be borne by the HRA.

Establishing an appropriate charge to reflect the repayment or reduction of debt

4.14 Proper accounting practice sets out that there should be a charge to a revenue account to reflect the consumption of assets in the form of a depreciation charge and recognition of impairment or revaluation losses. How this is applied in practice to local authority accounts has changed over time and these charges are often dis-applied and replaced by a statutory charge in the form of the Minimum Revenue Provision (MRP). Transition to actual charges for depreciation or impairment and revaluation losses for existing assets is often not affordable.

4.15 The aim of councils becoming self-financing for HRA purposes was to put councils in a position where they can manage their homes from the income generated by those properties and to provide stability of funding so that they can plan for the long term. On that basis, it was agreed by Welsh Government to base the capital finance charge on current practice for non-HRA assets. Under this approach this means continuing to dis-apply the depreciation, impairment and revaluation loss charges and applying similar guidance to that which applies to the prudent provision for non HRA assets as outlined in the Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2008.

4.16 Essentially, the current regulations and guidance for non-HRA assets give councils four options for the method of calculating the capital financing charge on capital expenditure on non-HRA assets that is financed wholly or partly by borrowing or credit arrangements:

- Option 1: Regulatory Method – charge MRP in accordance with the Local Authority Capital Finance & Accounting (Wales) Regulations 2003;
- Option 2: CFR Method – charge MRP at 4% of the council fund CFR at the end of the preceding financial year;
- Option 3: Asset Life Method – MRP is determined by reference to the life of the asset;
- Option 4: Depreciation Method – MRP is equal to the provision required in accordance with proper accounting practices relating to depreciation.

4.17 Options 1 and 2 can only be used in relation to capital expenditure incurred before 1st April 2008.

4.18 Changes agreed by the Welsh Ministers immediately prior to the ending of the HRAS enabled the HRA MRP to be charged at 2%, rather than 4%[4]. In addition, the Ministers agreed to the use of Option 1 & 2 to be extended until April 2021. Debt incurred after April 2021 must use either Option 3 or 4 and LHAs must ensure that set aside for new borrowing from 1 April 2021 is written down over the life of the asset that it is financing, which is more in line with proper accounting practice.

Appropriations and the Capital Financing Charge

4.19 LHAs in Wales are required to make an adjustment to the HRA CFR to reflect any appropriations of land, dwellings and other property in and out of the HRA in order to protect the HRA ring-fence. Appropriations are to be based on 100% of the certified value,

[4] The General Determination of the Item 8 Credit and Item 8 Debit (Wales) 2015

meaning the market value certified by the District Valuer or by a qualified valuer employed by the local authority. The market value will depend in the use to which the asset/land will be put after the appropriation.

4.20 It should be noted that, although property can be transferred for accounting purposes between the HRA and the Council Fund (subject to obtaining any necessary consent), in legal terms there is no transfer or lease of the property (and there cannot be so) because the Council's HRA and Council Fund are not separate legal entities and the Council cannot contract with itself. This means that the appropriation does not realise a capital receipt. However, where HRA assets are appropriated to the Council Fund, in practice, this will generate borrowing and investment potential as the HRA CFR is reduced.

4.21 LHAs will need to ensure that all appropriate consents are obtained prior to any appropriation taking place. LHAs should seek appropriate legal and other professional advice on any appropriations that they are considering and any resultant impact on the HRA CFR.

4.22 Where an asset is appropriated to the Council Fund from the HRA, the certified value of the asset is assessed as required and the HRA CFR is reduced by the amount of that value. This does not constitute a capital receipt to the HRA in the sense that there are restrictions on how the amount can be spent. In reducing the HRA CFR, this reduces the extent to which the HRA has been required to borrow to finance capital expenditure, and therefore, as it is a reduction in the amount of net borrowing required in the HRA, represents a de facto capital receipt to the HRA which can then be refinanced through borrowing.

4.23 The approach to valuation for appropriation purposes should be informed by a range of considerations. Reference to “market” valuation are able to be interpreted in the context of the use to which the site will be put once appropriated. The valuation of a site is different for different purposes. Offering on the open market for commercial uses would result in a different valuation to offering purely for residential. Offering for 100% private sale residential will be a different valuation to offering for planning compliant residential use and different again for 100% affordable purposes. Valuation on the basis of the provision of a mixed or 100% affordable site to be delivered in the HRA should be considered in respect of the viability, sustainability, funding and subsidy requirements and would be expected to be low or zero to reflect such use. Valuation for appropriation on this basis would avoid the HRA “overpaying” for the site compared to if it was valued on an “open market” basis. This approach to “value in use” is an established and supportable basis for valuation.

CASE STUDY 4:

A council has determined that a vacant piece of HRA land should be appropriated to the Council Fund as part of the assembly of land for the wider regeneration of a local shopping centre. The valuation of the appropriation) and consequent reduction in the HRACFR) should be undertaken on the basis of the commercial value of the land in the context of the proposed scheme. For example, in the case of a site valued at £1million, the HRACFR would be reduced by £1million, and there would be a resultant reduction in the debt interest charge to the HRA at the prevailing interest rate – if this was 4%, then £40,000. £1million additional borrowing capacity would be available to finance HRA capital expenditure elsewhere in the programme. The revenue cost no longer charged to the HRA would fall on the Council Fund. Reduced revenue costs charged to the HRA would increase revenue charges to the Council Fund without a change in the Council's overall CFR and debt position.

Where an asset is appropriated from the Council Fund to the HRA, this will in most cases be as a result of a decision to use the land/asset for council housing. The certified value of the amount appropriated (and therefore increase to the HRACFR) would reflect the use to which the asset was going to be put.

CASE STUDY 5:

If a Council wanted to appropriate a car park, former school playing field, or public open space etc to the HRA for the redevelopment for new homes. In this instance, the value of the appropriation would reflect the fact that subsidised social housing was going to be built. The decision to make the appropriation in the first place, as opposed to, for example, selling the asset/site on the open market, and the reduced valuation for use as council housing will have been taken into account in the asset disposal appraisal decision-making process. If the site was being sold on the open market for a mixed commercial/private residential development, depending on the local market, the valuation might be expected to be higher than if the site was being appropriated for 100% social housing.

For example, in the case of a site valued at £1 million for council housing purposes, the HRACFR would be increased by £1million and there would be a resultant increase in the debt interest charge to the HRA at the prevailing interest rate – again, if this was 4%, then £40,000. This would represent the use of £1million of borrowing capacity and the Council would need to satisfy itself that this is able to be funded sustainably from the HRA. Additional revenue costs charged to the HRA would reduce revenue charges to the Council Fund without a change in the Council's overall CFR and debt position.

An appropriate charge for interest, premia and discounts

4.24 All income and expenditure to the HRA in relation to interest and capital financing in both England and Wales are set out in the Item 8 – Part II determinations of the Local Government & Housing Act 1989. Whilst the Act gives powers for any debits and credits for any purpose to be directed under this determination, in practice the Item 8 determination applies to the revenue treatment arising from borrowing and the operation of reserves.

4.25 The Item 8 credits to the HRA, which are related to interest receivable that are common to both England and Wales are:

- interest receivable on a negative HRA CFR[5];
- interest receivable on notional cash balances;
- interest receivable on loans made to enable the borrower to acquire a dwelling within the HRA; and
- a share of the discounts' receivable on rescheduling of debt.

4.26 The Item 8 debits to the HRA which are related to interest payable that are common to both England and Wales are:

- interest payable on a positive HRA CFR;
- interest payable on negative notional cash balances;
- a share of the premia payable on rescheduling of debt.

4.27 The Local Authorities (Capital Financing & Accounting) (Wales) Regulations 2003, set out the methodology for calculating these elements and places emphasis on councils following proper accounting practice in calculating the appropriate credits and debits relating to interest, rather than prescribing the detail of the calculation.

4.28 Credits and debits to the HRA in relation to interest receivable and payable will also be audited as part of the statutory audit of the annual statement of accounts each year.

4.29 Where proper accounting practice requires immediate recognition of a premium or discount on the early repayment of a loan, regulations permit councils to defer recognition of those charges. Premiums may be amortised over a period not exceeding the longer of the unexpired term of the repaid loan or the term of the new loan. Discounts may be credited over the shorter of the unexpired term of the repaid loan and 10 years.

4.30 The authority would need to set out the calculation of the total amount of premia or discounts to be charged to the local authority's revenue account in any financial year. A local authority should then apply proper accounting practice to determine the apportionment of premiums and discounts between the Council Fund and HRA. Further to that determination, councils would have the option to amortise premiums apportioned to the HRA over a period not exceeding the longer of the unexpired term of the repaid loan or the term of the new loan, although they may choose a shorter period. Discounts would be credited to the HRA over the shorter of the unexpired term of the repaid loan and 10 years.

[5] This relates to a former period where some authorities were debt-free; for a LHA, this is very unlikely following the ending of HRAS

5 WHAT TYPES OF HOMES CAN BE PROVIDED IN THE HRA

5.1 This chapter sets out what should and should not be accounted for in the HRA and the tenure of homes provided in the HRA.

Property within the HRA

5.2 Property has to be accounted for within the HRA if it comprises houses and other buildings provided under Part II of the Housing Act 1985 or any of the other powers specified under Section 74(1) of the Local Government and Housing Act 1989.

5.3 Property within the HRA includes an authority's principal housing stock and (with the Minister's consent) could extend beyond the units of accommodation to include also shops, garages (which are let to tenants), recreation grounds and other buildings or land (Section 12 of the Housing Act 1985).

5.4 The other principal category of HRA property comprises land which has been acquired or appropriated for the purposes of Part II of the Housing Act 1985. If property is not provided under the powers listed in Section 74(1) of the Local Government and Housing Act 1989, or in directions made under that Section, the Council must not account for it in the HRA.

5.5 A hostel, used as temporary accommodation for households who are homeless, can qualify as housing accommodation. This means it may be provided by a Council under section 9 of the 1985 Act and if it is, it must be accounted for in the HRA. If it is not provided under any of the powers specified in section 74 of the Local Government and Housing Act 1989, it must be accounted for in the Council Fund.

5.6 Section 74(3) of the 1989 Act specifically excludes certain property from the HRA:

- land, houses or other buildings disposed of by sale of the freehold or by assignment or grant of a lease (not for shared ownership) for a term exceeding 21 years
- land acquired for the purpose of disposing of houses provided, or to be provided on the land, or of disposing of the land to a person who intends to provide housing accommodation on it (or related facilities)
- houses provided on the land so acquired
- such land, houses or buildings as the Secretary of State may direct.

5.7 In England, the HRA (Exclusion of Leases) Direction 1997, made under section 74(3)(d) applies, which excludes from the HRA leases of up to ten years for dwellings taken out by LHAs for the purpose of housing homeless households in temporary accommodation. This Direction was, however, never introduced in Wales and LHA's can theoretically account for such leases in the HRA. In such instances where LHA's account for leases for the purpose of housing the homeless in the HRA, they will need to be mindful of the Key Operating Principles for the HRA (see page 12) and the description of core, core plus and non-core categories of expenditure set out in paragraph 3.5.

5.8 Sites and pitches provided to gypsies and travellers do not fall within the definition of housing accommodation for the purposes of Part II of the Housing Act 1985. This means that rent/income from, and expenditure on, such property must be accounted for in the council fund, not the HRA.

Tenures within the HRA

5.9 The overwhelming majority of homes provided within a LHA's HRA will be let on the basis of a secure tenancy/secure contract, i.e. social housing, some of which will be at social rent and Welsh Government rent policy will apply. However, LHAs are able to provide other forms of tenure within the HRA, these are as follows:

- **Private Rented and Intermediate Market Rented homes** – LHA's are able to develop and let rented homes which are let on the basis of market or intermediate rents. The purpose of providing private rented homes is first and foremost to provide a return for the HRA (in accordance with Key Principle c of the Key Operating Principles for the HRA). Such accommodation may also meet a need in the local housing market and be a means of providing a greater tenure mix on new developments. LHA's, as Community Landlords, are able to let such homes using the Standard Contract, in accordance with paragraph 15, Schedule 3, Renting Homes Act 2016, once commenced in the spring of 2022. LHAs may also provide intermediate rented properties within the HRA using Part 2 1985 Act powers, providing the properties are rented at a sub-market rent appropriate to the provision of intermediate homes within the location. Typical examples might include properties provided for low income working households that would be unlikely to qualify for social housing but unable to access private market housing.

- **Shared Ownership** – in such cases a resident buys a share of between 25% and 75% of the equity of a property and pays rent on the amount of the unsold equity. They are able to be provided under Part II of the Housing Act 1985 and similarly the disposal exemption to the HRA outlined above does not apply as shared ownership would not satisfy the definition of a disposal. Section 74(5) of the 1989 Act indicates that "shared ownership leases" are specifically excluded from the disposal definition.

- **Shared Equity** – in such a case the LHA disposes of up to 75% of the equity of the property, but retains the remaining equity, but does not charge rent for its interest. Such property is able to be provided under Part II of the Housing Act 1985 and similarly the disposal exemption to the HRA outlined above will not apply as shared ownership would not satisfy the definition of a disposal. Section 74(5) of the 1989 Act indicates that "shared ownership leases" are specifically excluded from the disposal definition. LHAs will want to consider which account (the HRA or the Council Fund) has an interest in the LHAs equity share of any shared equity properties it provides. When a LHA holds shared equity properties for wider powers than the 1985 Act (for example as part of a LCHO ownership scheme for key worker or relatively lower income working households), therefore, under the "Who Benefits principle", the interest in the equity share should more appropriately be held by the Council Fund. In instances where the property is being sold to an existing tenant of the LHA, under the "Who Benefits Principle", the interest in the equity share should more appropriately be held by the HRA.

The development of homes for market sale

5.10 Section 9 of the Housing Act 1985 is the basis on which councils are able to develop units for market sale on HRA land.

5.11 Section 9(1) of the Housing Act 1985 provides councils with the power to provide housing accommodation by constructing houses. Furthermore, Section 9(3) specifically states that this power may equally be exercised in relation to land acquired for the purpose of disposing of houses provided, or to be provided, on the land. The same section makes clear that councils can buy property in order to build, convert, alter, enlarge, repair or improve for sale.

5.12 This Section gives councils the clear power to sell units on HRA land at market value where it knew at the time it acquired the land that it was with a view to disposal. Neither statute nor case law is clear on whether councils can sell units on HRA land for market sale where they did not know at the time it acquired the land that it was with a view to disposal, however where there is a clear need that market housing (sale or rented) is provided in order to cross-subsidise council housing, this has generally been taken as within the scope of the legislation.

5.13 LHAs are therefore able to sell units constructed on HRA land at market value, where they comprise one element of balanced, mixed tenure housing developments.

CASE STUDY 6:

In the development of a mixed tenure scheme of (for example) 100 units planning compliant with 70 for sale, 15 for shared ownership and 15 for social rent, if the scheme is to be built on land that is already accounted for in the HRA, the entire scheme is able to be financed using HRA capital sources (HRA capital receipts, grants, borrowing and direct revenue contributions). The receipts from the sales to private residents and from initial tranche shared ownership sales would be accounted for as capital receipts in the usual way and provide a cross-subsidy to assist the financing of the remaining HRA assets after scheme completion.

Section 9 of the 1985 Act gives similar powers for a council to acquire land and develop such a mixed tenure scheme, with land value costs included in the costs of the scheme.

In the case of an appropriation of land from the Council Fund to the HRA, the increase in the HRA CFR as a result of the appropriation would need to be taken into account in the financing costs of the scheme.

Welsh Development Quality Requirements 2021: Creating Beautiful Homes and Places

5.14 Welsh Development Quality Requirements 2021: Creating Beautiful Homes and Places is the proposed new housing quality standard that replaces Development Quality Requirements (DQR). The standard and associated guidance sets out minimum functional quality requirements for new and rehabilitated general needs homes and encourages housing providers and their consultants to look at other sources of best practice and guidance. All new council homes in Wales, developed using Welsh Government subsidy will have to comply with the standard and the grant framework.

5.15 The standard and guidance focuses on quality, calling for homes and their environs to be visually attractive as a result of good space planning and architectural design, be of high

quality and meet family and individual needs recognising that housing quality is as much about the value of the external spaces created as it is about the design of the homes.

5.16 The standard and guidance puts the responsibility for producing well designed homes in the hands of housing providers and the consultants they employ, requiring them to exercise their responsibility and take a critical interest.

6 TENANT CONSULTATION & THE HRA

6.1 LHAs are required to consult with their tenants on matters of housing management and this section of the guidance sets out LHAs responsibility to consult with tenants on matters of financial transparency and the HRA, and outlines good practice around consultation and the financial management of the HRA.

6.2 In England and Wales tenant participation for secure tenants is enshrined in Sections 104, 105 and 106 of the Housing Act 1985, which provides individual tenants with the rights to:

- information about their tenancy terms, their landlords' policies and procedures for allocating homes, their rights as tenants, and their landlords repairing obligations
- be consulted about changes in housing management
- information about their landlords' arrangements for consulting tenants

6.3 Guidance on tenant consultation produced to support the Housing Act 1985 in England and Wales, recognised that tenant representatives and tenant groups need to be able to play a full role in making decisions about the direction of the housing service.

Tenant consultation and the management of the HRA

6.4 Paragraph (f) of the Key Operating Principles of the HRA sets out that LHAs must have clear, published mechanisms and procedures for consulting with local authority tenants on any matters of financial transparency relating to the HRA. Good practice would suggest that LHAs discussions with their tenants about financial transparency 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.

6.5 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.

6.6 Good practice would also suggest that such discussions take place on a regular basis (possibly bi-annually) and that agreement reached on the appropriateness of what is and isn't being debited and credited to the HRA is reported to Council, as part of the budget setting process, and is also reflected in the LHAs management of the HRA.

6.7 Local Authorities are expected to work in line with the Welsh Language Standards, and not treat the Welsh language less favourably than English. From the outset LHAs must ensure that discussions with tenants are conducted in the preferred language of tenants. Opportunities for tenants to participate through the medium of Welsh should be actively promoted and all information should be provided in both Welsh and English.

7 RE-OPENING A HRA

7.1 Some LHAs who have previously gone through a stock transfer process have, in recent years been reviewing their options as to their role in the future delivery of housing growth in their areas, including the direct delivery of housing. A common query is whether they need, in these circumstances, to re-open a HRA.

7.2 Section 74(1) of the 1989 Act, requires LHAs to keep a HRA in respect of land, houses or other buildings which are provided, acquired, appropriated or otherwise held under certain housing powers, primarily Part II of the Housing Act 1985. Section 74(4) of the 1989 Act states that a council which no longer has property, held for Part II purposes, cannot close the HRA without the consent of the Welsh Ministers. Following the completion of the transfer of housing stock from the 11 Welsh councils to the respective Large Scale Voluntary Transfer (LSVT) housing association, each council applied for, and was granted consent by the Welsh Ministers to close the HRA, in accordance with Section 74(4) of the 1989 Act.

7.3 Section 74(3)(d) gives the Welsh Ministers the power to direct that land, houses or other buildings, which would otherwise be accounted for within the HRA, be accounted for outside of the HRA. Each of the 11 councils which transferred their housing stock was advised in the letter which accompanied the Section 74(4) Direction, that should they acquire housing at some point in the future they would be required to re-open a HRA, unless they had fewer than 50 properties which should be accounted for in the HRA, in which case they could apply for a Section 74(3)(d) Direction. Properties which should not be accounted for in the HRA include the following:

- accommodation acquired by the LHA to discharge their obligations under Part 2 of the Housing (Wales) Act 2014,
- accommodation provided under wider powers than Part II of the 1985 Act, such as shared equity or shared ownership accommodation for key workers or households priced out of owner occupation
- accommodation held in subsidiary companies.

7.4 Therefore, if a LHA has more than 50 properties which fall within the scope of S.74 of the 1989 Act, they need to re-open their HRA.

7.5 It is accepted that in some areas within Wales councils are facing extreme pressures on the availability of social housing due to high levels of second home ownership and high demand for holiday accommodation. This acts to drive up house prices, making access to home-ownership and good quality private rented accommodation more difficult to secure for households on average incomes. In such instances, where the Council is able to demonstrate to Ministers that they are experiencing such pressures, Welsh Government may grant an exception to allow the number of homes owned by the council to increase to 200, without the council needing to re-open their HRA.

7.6 Councils who are considering re-opening a HRA, need to give thorough consideration to the following:

- whether it has exhausted all means of providing additional social rented housing in its locality with its partner housing associations, such as using its ability to on-lend to housing associations with development expertise and management skills to boost the numbers of good quality, well managed social rented homes available locally
- whether the council has the appropriate level of skills and expertise to develop new homes and critically to effectively manage a housing stock in accordance with Welsh Government expectations. Where the council recognises that it does not have the appropriate level of skills and expertise to manage its own housing stock, it will need to consider how it can acquire these skills in a competitive market, ensuring its development activity represents value for money from the public purse
- the additional accountancy resource requirement and cost of maintaining a HRA.

7.7 Councils who have determined that re-opening a HRA is the most effective means of boosting the numbers of good quality, well managed and maintained social rented homes in their area, will need to write to the Welsh Ministers advising of their intention to re-open the HRA.

Appendix 1 - Schedule 4 - Local Government and Housing Act 1989

SCHEDULE 4 - The Keeping of the Housing Revenue Account

Part I Credits to the Account

For each year a local housing authority who are required to keep a Housing Revenue Account ("the account") shall carry to the credit of the account amounts equal to the items listed in this Part of this Schedule.

Item 1: rents

The income of the authority for the year from rents and charges in respect of houses and other property within the account.

This item includes rent remitted by way of rebate.

Item 2: charges for services and facilities

The income of the authority for the year in respect of services or facilities provided by them in connection with the provision by them of houses and other property within the account—

(a) including income in respect of services or facilities provided under sections 10 and 11 of the Housing Act 1985 (power to provide furniture, board and laundry facilities); but

(b) not including payments for the purchase of furniture or hire-purchase instalments for furniture.

Item 3: Housing Revenue Account subsidy

Housing Revenue Account subsidy payable to the authority for the year (no longer relevant).

Item 4: contributions towards expenditure

Contributions of any description payable to the authority for the year towards expenditure falling to be debited to the account (for that or any other year).

If the Secretary of State so directs, this item shall not include so much of any such contributions as may be determined by or under the direction.

Item 5: housing benefit transfers

Sums transferred for the year from some other revenue account of the authority in accordance with section 30(6) of the M2 Social Security Act 1986 (housing benefit transfers) (no longer relevant)

Item 6: transfers from the Housing Repairs Account

Sums transferred for the year from the authority's Housing Repairs Account in accordance with section 77(5) of this Act (credit balance for year).

Item 7: reduced provision for bad or doubtful debts

The following, namely—

(a) any sums debited to the account for a previous year under paragraph (a) of item 7 of Part II of this Schedule which have been recovered by the authority during the year; and

(b) any amount by which, in the opinion of the authority, any provision debited to the account for a previous year under paragraph (b) of that item should be reduced.

If the Secretary of State so directs, no sums shall be credited under paragraph (a) above, and no amount shall be credited under paragraph (b)above, except (in either case) in such circumstances and to such extent as maybe specified in the direction.

Item 8: sums calculated as determined by Secretary of State

Sums calculated for the year in accordance with such formulae as the Secretary of State may from time to time determine.

In determining any formula for the purposes of this item, the Secretary of State may include variables framed (in whatever way he considers appropriate) by reference to such matters relating to the authority, or to (or to tenants of) houses and other property which are or have been within the account, as he thinks fit.

Item 9: sums directed by Secretary of State

Any sums which for the year the Secretary of State directs the authority to carry to the credit of the account from some other revenue account of theirs.

Item 10: credit balance from previous year

Any credit balance shown in the account for the previous year.

This item does not include so much of any such balance so shown as is carried to the credit of some other revenue account of the authority in accordance with paragraph 1 or 2 of Part III of this Schedule.

Part II Debits to the Account

For each year a local housing authority who are required to keep a Housing Revenue Account ("the account") shall carry to the debit of the account amounts equal to the items listed in this Part of this Schedule.

Item 1: expenditure on repairs, maintenance and management

The expenditure of the authority for the year in respect of the repair, maintenance, supervision and management of houses and other property within the account, but not including expenditure properly debited to the authority's Housing Repairs Account.

If the Secretary of State so directs, this item shall include, or not include, such expenditure as may be determined by or under the direction.

Item 2: expenditure for capital purposes

Any expenditure of the authority in respect of houses and other property within the account which—

(a) is capital expenditure (other than excluded expenditure) for the year; or

(b) is excluded expenditure for the year, or any previous or subsequent year, which the authority decide should be charged to a revenue account for the year.

In this item "capital expenditure" means expenditure for capital purposes within the meaning of Part IV of this Act and "excluded expenditure" means expenditure excluded from the obligation in section 41(1) of this Act.

Item 3: rents, rates, taxes and other charges

The rents, rates, taxes and other charges which the authority are liable to pay for the year in respect of houses and other property within the account.

Item 4: rent rebates

The rent rebates granted for the year to tenants of houses and other property within the account.

(No longer relevant)

Item 5: sums transferred under section 80(2)
Sums transferred for the year to some other revenue account of the authority in accordance with section 80(2) of this Act (Housing Revenue Account subsidy of a negative amount).

Item 6: contributions to Housing Repairs Account
Sums transferred for the year to the authority's Housing Repairs Account.

Item 7: provision for bad or doubtful debts
The following, namely—

(a) any sums credited to the account for the year or any previous year under item 1 or 2 of Part I of this Schedule which, in the opinion of the authority, are bad debts which should be written off; and

(b) any provision for doubtful debts which, in their opinion, should be made in respect of sums so credited.

If the Secretary of State so directs, no sums shall be debited under paragraph (a) above, and no provision shall be debited under paragraph (b)above, except (in either case) in such circumstances and to such extent as maybe specified in the direction.

Item 8: sums calculated as determined by Secretary of State
Sums calculated for the year in accordance with such formulae as the Secretary of State may from time to time determine.
In determining any formula for the purposes of this item, the Secretary of State may include variables framed (in whatever way he considers appropriate) by reference to such matters relating to the authority, or to (or to tenants of) houses or other property which are or have been within the account, as he thinks fit.

Item 9: debit balance from previous year
Any debit balance shown in the account for the previous year.
This item does not include any such balance so shown which is carried to the debit of some other revenue account of the authority in accordance with paragraph 1 of Part III of this Schedule.

Part III Special Cases
Balance for year 1989-90
(1) The following, namely—

(a) any debit balance shown in a local housing authority's Housing Revenue Account for the year beginning 1st April 1989;

(b) so much of any credit balance so shown as exceeds the limit mentioned in sub-paragraph (2) below,

shall be carried forward and debited or credited, as the case may require, not to their Housing Revenue Account for the year beginning 1st April 1990 but to some other revenue account of theirs for that year.

(2) The limit referred to in sub-paragraph (1) above is £150 multiplied by the number of dwellings in the authority's Housing Revenue Account on 31st March 1990 or £5 million, whichever is the lesser amount.

Credit balance where no HRA subsidy payable

2A local housing authority to whom no Housing Revenue Account subsidy is payable for any year may carry the whole or part of any credit balance shown in their Housing Revenue Account for that year to the credit of some other revenue account of theirs.

Amenities shared by the whole community

(1) Where benefits or amenities—

(a) arising from the exercise of a local housing authority's functions under Part II of the Housing Act 1985 (provision of housing); and

(b) provided for persons housed by the authority, are shared by the community as a whole, the authority shall make such contributions to their Housing Revenue Account from some other revenue account of theirs as, having regard to the amounts of the contributions and the period over which they are made, will properly reflect the community's share of the benefits or amenities.

(2) The Secretary of State may give such directions as he considers appropriate as to the performance by local housing authorities of their duty under sub-paragraph (1) above.

(3) Where it appears to the Secretary of State that an authority have failed to comply with sub-paragraph (1) above or any directions under sub-paragraph (2) above, he may give them such directions as appear to him appropriate to ensure compliance.

(4) A direction under sub-paragraph (3) above may contain particulars as to the amounts of the contributions and the years for which they are to be made.

Appendix 2 – General Consents

The General Consent for the Disposal of Part II Dwelling-Houses 1994
Under this consent:

Vacant Dwelling-Houses

- A local authority may dispose of a vacant dwelling-house to an individual, who intends to use it as their only or principal home, for a consideration equal to its market value.
- A local authority may dispose of a vacant dwelling-house to any person for a consideration equal to its market value where the dwelling-house is in need of substantial works of repair, improvement or conversion and that the person enters into a covenant to carry out those works and then to dispose of the dwelling-house or any dwelling-house created from it to an individual who intends to use it or any dwelling-house created from it as their only or principal home.
- A local authority may dispose of a vacant dwelling-house to a priority purchaser, who intends to use it as their only or principal home, for a consideration equal to its market value less a discount of, in the case of a flat which has previously been let, not more than 40% and, in any other case, not more than 30%.
- A local authority may dispose of a vacant dwelling-house to a secure tenant who intends to use it as their only or principal home and who would have the Right To Buy it under section 118 if they had a tenancy of it at a price which is not less than that which would be payable were they acquiring it under that right.
- A local authority may dispose of a vacant dwelling-house to a registered housing association for a consideration equal to its market value, where the dwelling-house was not constructed by or for any local authority for the purpose of providing housing accommodation.
- A local authority may dispose of a building held for the purpose of Part II to any person for consideration equal to its market value where the building –

    (a) was not constructed by or for any local authority for the purpose of providing housing accommodation;
    (b) comprises both residential and non-residential accommodation;
    (c) the greater part of the ground floor consists of non-residential accommodation; and
    (d) the residential accommodation is vacant.

Occupied Dwelling Houses (not included here as the Right to Buy in Wales has been abolished).

National Parks etc.

- Where a dwelling-house is situated in a National Park or one of the areas mentioned in section 37(1) and a covenant of the kind mentioned in section 37(1) is not imposed, the local authority may impose a condition reserving the right of pre-emption, providing the right is exercisable –
    (a) within ten years of the date of the disposal; and
    (b) at the market value of the dwelling-house at the date the right is exercised less any repayment of a discount demand by the local authority under the covenant mentioned in section 35(2).

Dwelling-houses for the elderly etc

- Where a dwelling-house is within paragraph 7, 9 or 10 of Schedule 5 (or would be within one of those paragraphs if it were one of a group which it was the practice of the local authority to let for occupation by a person of one of the descriptions mentioned in those paragraphs) or is within paragraph 11 of that emption, provided the right is exercisable –

  (a) within twenty one years of the date of disposal; and
  (b) at the market value of the dwelling-house at the date the right is exercised less any repayment of discount demanded by the local authority under the covenant mentioned in section 35(2).

Limitation on pre-emption

- No disposal under this consent shall reserve a right of pre-emption to the local authority except one permitted under paragraph A6 or A7.
- In this paragraph, "a right of pre-emption" has the meaning given in paragraph A2.2, except that the period referred to in sub-paragraph (b) of that definition may be any specified period.

Joint purchasers

- If a local authority may dispose of a dwelling-house under this consent to an individual it may dispose of it to that individual together with on or more other individuals on the same terms as it would have disposed of it to the individual.

Subsequent disposals

- The further consent of the Minister shall not be required under section 133 of the Housing Act 1988 to the subsequent disposal of a dwelling-housing which has been disposed of in accordance with this consent.

Disposal of Dwelling-Houses to Registered Social Landlords for Refurbishment

Under this consent:

- A local authority may provide a registered social landlord, for the purposes of or in connection with the matters mentioned in section 24(1) of the 1988 Act, with any financial assistance or any gratuitous benefit consisting of the disposal of a dwelling-house to that registered social landlord for the purposes of –
  a) the carrying out of works of conversion, rehabilitation or improvement to the dwelling-house; and
  b) the dwelling-house being used after the works either wholly as housing accommodation or as housing accommodation and other facilities which are intended to benefit mainly the occupiers of the housing accommodation.

Consent is given on condition that -

- the housing accommodation is vacant when the disposal is completed; and
- completion of the disposal is by transfer of the freehold, assignment of a lease with an unexpired term of 99 years or more or grant of a lease for a term of 99 years or more; and
- the terms of the disposal provide that the works shall be completed by a date which is not more than three years after the completion of the disposal, but provision may be made for

that date to be varied in the event of circumstances beyond the registered social landlord's control; and

- the local authority is not, under any agreement or other arrangement made on or before the disposal, entitled to manage or maintain the housing accommodation in the dwelling-house after the works; and
- in relation to the housing accommodation in the dwelling-house after the works, the terms of the disposal shall not reserve for the local authority any right to nominate tenants for more than 75 per cent of the vacancies which arise after the initial letting of the accommodation, which limit shall be calculated by excluding any letting arising from the transfer of a tenant to other accommodation owned by the registered social landlord.

The aggregate number of dwelling-houses included in the disposal and any previous disposal by the local authority under this consent in the same financial year shall not exceed 50. A certificate that the aggregate number of dwelling-houses so disposed of does not exceed the ceiling, given by the chief executive or chief financial officer or chief legal officer of the local authority (whatever the actual titles of those officers), shall be conclusive for the purposes of this paragraph.

Disposal of land in Wales by Local Authorities for Less Than Best Consideration
Under this, consent is given as follows:

In any case where a local authority would be empowered, under sections 123(1) and 127(1) of the Local Government Act 1972, to dispose, other than by way of a short tenancy, of an interest in land for the best consideration that can reasonably be obtained, consent is granted for that local authority to dispose of such an interest for a sum which it considers to be less than the best consideration that can reasonably be obtained where the following conditions are met:

- the local authority considers that the purpose for which the interest in the land is to be disposed is likely to contribute to the achievement of any one or more of the following objects in respect of the whole or any part of its area, or of all or any persons resident or present in its area:
  a. the promotion or improvement of economic well-being;
  b. the promotion or improvement of social well-being;
  c. the promotion or improvement of environmental well-being;

  a) the difference between the unrestricted value of the interest to be disposed of and the consideration accepted does not exceed £2,000,000 (two million pounds).

Appendix 3 – CIPFA Service recording code of practice (SeRCOP)

Repairs and Maintenance

Repairs and Maintenance is further split as follows:

Repairs and Maintenance Subdivisions	Includes
Responsive repairs	As the name implies, these repairs are in response to, for example, tenant requests to maintain the accommodation, eg repair a broken window, fix handles on doors, unblock a drain, fix a broken boiler in an individual dwelling. (Note: responsive maintenance of lifts/ boilers/entry systems is included in the Special Services divisions of service described in more detail below.)
Planned repairs	As the name implies, these are planned and cyclical repairs to maintain the accommodation, eg repainting, patching roofs, replacing windows. Included here are all repairs and maintenance costs which do not relate to enhancement. Enhancement works, being capital in nature, will be either funded from capital resources or accounted for in revenue contributions to capital expenditure.
Associated costs	This subdivision is not for the planning and clerical processing of repairs, which are classified as a management item, not repair. Other types of cost associated with repairs, such as professional fees for specifying and inspecting work, may be included here.

Special Services

Special Services are the running costs (e.g. maintenance contracts and cyclical safety checks) of those services that benefit specific groups of tenants (e.g. lifts, shared boilers, stair lighting, caretaking). These can represent significant costs for some local authorities, whereas others may provide few shared services. Under the *Comparison* element of Best Value it is, therefore, important to separate these costs out from the general management of all property common to all LHAs.

The subdivisions of service represent an indication of the services that could be included as Special Services. Local authorities should separately identify any services they provide that are not included in the suggested subdivisions of service. Included within Special Services are costs which are recovered from tenants and leaseholders as service or heating charges. It is important that these costs are accurately assessed so that they can be fully recovered from the users of the services.

Supervision and Management

Supervision and Management is further split as follows.

Supervision and Management Subdivisions	Includes
HRA policy and management	Include the costs of: • HRA share of strategic management costs • ALMO liaison (note that there are no ALMOs in Wales) • PFI management • Keeping registers and records of dwellings and property, tenants, and repairs work undertaken • Voids management and reduction • Receipt and transmission of requests for repairs • Management of improvement and modernisation • Management of planned/programme maintenance • The administration of council house sales (please note the guidance about inconsistent accounting treatment regarding the extraordinary credit allowed here, by regulations issued under the LGA 2003, as an appropriation from the usable capital receipts reserve) • Option appraisals • Consultation with tenants under s105 of the Housing Act 1985 • Reviewing and setting rent levels, service charges and Supporting People charges.

Managing tenancies	Include the cost of: • Giving information and advice on tenancy matters • Statutory consultation with tenants about large-scale voluntary transfers of council housing stock (LSVT) • Receiving tenancy applications/accessing eligibility • Waiting list management relating to HRA properties only (dwellings and other property) (include HRA share only in situations where a common housing register is maintained) • Transfers and exchanges • Tenancy regulations and agreements • Advising tenants groups • Facilitation of tenant participation • Support to tenant management organisations formed under right to manage provisions of the Leasehold Reform, Housing and Urban Development Act 1993 • Producing/distributing tenants' reports • Anti-social behaviour • Community wardens.
Rent collection, recovery and accounting	Include the costs of: • Preparation of the rent roll • Rent collection • Recovery of arrears, court action and evictions • Advising tenants on benefit entitlement to minimise risk of arrears • Rent accounting including internal audit activity.
HRA contribution towards Corporate and Democratic Core (CDC) and Non Distributed Costs (NDC)	Local authorities should ensure that they satisfy the appropriate legislative requirements and statutory provisions when accounting for the HRA. Local authorities wishing to make a contribution to the GF/CF for CDC would calculate such contributions depending on local and organisational circumstances. To do this, a local authority will need to calculate the resources used by officers and members and other corporate management costs to estimate accurately the proportion of its CDC costs that relate to its own housing stock. Similarly, local authorities may consider it necessary to make a contribution to NDC from the HRA. (See Section 2 of S*e*RCOP for CDC and NDC definitions.)

Trading Operations

The HRA is a statutory account. Local authorities should ensure that they satisfy the appropriate legislative requirements and statutory provisions when accounting for the HRA. Material balances of internal trading operations providing services to the HRA should be repatriated to or from the HRA.

Where local authorities have established arm's-length management organisations (ALMOs) – though there are no ALMOs in Wales - or tenant/resident management organisations (TMOs/RMOs), they need to ensure that these organisations supply financial information in the format local authorities need, in order to comply with preparing the HRA in accordance with the Code and the SeRCOP.

Leasehold Services

The large number of flats and maisonettes sold under Right to Buy now means that many local authorities have a sizeable proportion of leasehold property within their HRAs. The costs of services provided to leaseholders under Supervision and Management, Repairs and Maintenance and Special Services need to be recovered from leaseholders. Local authorities must ensure that they accurately identify such costs and that they have procedures in place to ensure their recovery. Particular care needs to be taken in assessing the costs of management and administration to be recharged to leaseholders. Organisations providing leaseholder services [6] must provide cost information sufficient to enable enforceable service charges to be raised.

Inconsistent Accounting Practices

CIPFA have highlighted that the accounting treatment of certain items in the HRA and the council fund is currently inconsistent between different local authorities. The cumulative effect of such inconsistency potentially reduces the usefulness of comparisons under Best Value or for other purposes such as benchmarking.

Specific examples of such inconsistent accounting treatment is set out below, together with CIPFA's recommended practice in each case. Such recommended practice should be followed in order to greatly improve the comparability of local authority housing accounts. CIPFA's Housing Panel will continue to review these and may issue its own guidance on each issue at some future date.

[6] https://www.lease-advice.org/files/2016/09/Major-Works-Landlords-English.pdf

Inconsistent Accounting Treatment	CIPFA Recommended Practice
There is an inconsistent HRA interpretation of general management and of repairs. Some local authorities include the management of repairs as Supervision and Management; others include it as Repairs and Maintenance.	DOE Circular 10/94 *Tenants' Reports* included the planning and clerical processing of repairs as a management item, **not** repairs. Alternatively, the *Housing Revenue Account Manual* paragraph 12.1.5 specifies that repairs include all revenue expenditure on repairs. To reconcile the apparent conflict in the advice, it is recommended that overall planning and clerical processes be treated as Supervision and Management. Revenue costs associated with the actual repair, eg professional fees to specify the work or inspect it, are classed as Repairs and Maintenance.
Housing Strategy (GF/CF) and 'Policy and management' within Supervision and Management (HRA) are still widely interpreted by some local authorities, while others hardly identify any costs here.	Housing strategy and policy-related costs must be split between the GF/CF and the HRA. The guidance in Section 2 above, if followed, represents a narrow definition of these costs and leaves little scope for interpretation.

APPENDIX 4 – 'CORE', 'CORE-PLUS', and 'NON-CORE' SERVICES

Background

As outlined at paragraph 4.4 above, research, sought to clarify the management and maintenance services which should be charged to the HRA and categorised expenditure as either "Core", "Core-Plus", or "Non-Core" Services. These categories are explained in more detail below.

'Core' services

The following (identified in the guidance as 'core services') should be charged to the HRA – but a council fund contribution must be made to reflect the general community's share.

- Repair and maintenance
    - Responsive
    - Planned and cyclical
    - Rechargeable repairs

- General tenancy management
    - Rent collection and arrears recovery
    - Service charge collection and recovery
    - Void and re-let management
    - Lettings and allocations of HRA properties only – "any work carried out in respect of non-HRA properties should be charged to the council fund"
    - Management of repairs
    - Anti-Social Behaviour: low level
    - General advice on tenancy matters

- General estate management
    - Communal cleaning
    - Communal heating and lighting
    - Grounds maintenance
    - Community centres
    - Play areas
    - Estate officers and caretakers
    - Neighbourhood Wardens
    - Concierge
    - CCTV

- Policy and management
    - HRA share of strategic management costs
    - Setting of rent levels, service charges, and supporting people charges
    - Administration of the Right to Buy (now abolished in Wales[7])

[7] The Abolition of the Right to Buy and Associated Rights (Wales) Act 2018

‘Core-Plus’ services

The net cost of the following ‘Core-Plus’ services to the HRA "should be taken into account through locally programmed management and maintenance provision, funded primarily from rental income" – but might attract funding from external sources to supplement HRA funding (such as non-rent service charges, other funding streams, grants, and the council fund):

- Contribution to corporate Anti-Social Behaviour services (“Where the service is entirely charged to the council fund, it may be appropriate for the HRA to contribute to these costs")
- Tenancy support
- HRA housing-related support services only
    - Sheltered accommodation wardens
    - Alarm services

The degree to which those services attract alternative sources of income, together with the degree to which they are taken up by the local authority's own tenants, would influence any decision as to where they should be accounted for under the 'Who benefits?' principle – key operational principle c. Tenants should be involved in those decisions.

‘Non-core’ services

For the following ‘Non-Core’ services, it is inappropriate to charge these services to the HRA. Their costs should be met from the council fund:

- Administration of a common housing register – costs should be split between the HRA and council fund
- Maintenance of tenants' gardens
- Street lighting
- Dog wardens
- Personal care services
- Homeless administration
- Housing advisory service.