

LAAP BULLETIN 92

The Accounting Transactions in Relation to the Settlement Payments Determination 2012

(Housing Revenue Account (England))

March 2012

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THE ACCOUNTING TRANSACTIONS IN RELATION TO THE SETTLEMENT PAYMENTS DETERMINATION 2012 (HOUSING REVENUE ACCOUNT (ENGLAND))

INTRODUCTION

1. This LAAP Bulletin covers the accounting entries required for authorities making or receiving settlement payments to or from the Secretary of State in preparation for the commencement of self-financing of the Housing Revenue Account (HRA) from 1 April 2012. As set out below, these transactions take place in the 2011/12 financial year.

THE SETTLEMENT PAYMENTS TRANSACTIONS

2. Section 170(6) of the Localism Act 2011 sets out that the settlement payments transactions if paid by a local housing authority are deemed to be capital expenditure and if made to a local housing authority are deemed to be a capital receipt.
3. The Settlement Payments Determination 2012 sets out the amount each local authority will either pay to the Secretary of State or receive from the Secretary of State on (or before in the case of payments to the Secretary of State) 28 March 2012 in order to exit the subsidy system. It also sets out the way in which the payments will be made.
4. The example illustration in the Bulletin relating to payments made by the Secretary of State is drafted on the basis that the Settlement Payments made by the Secretary of State will relate to Public Works Loan Board (PWLB) debt. CIPFA understands that this will be the case for the majority of authorities. However, any authorities where this is not the case will need to adapt the relevant parts of the examples.
5. The example illustration in relation to payments made to the Secretary of State is drafted on the basis that the local authority is required to make a payment to the Secretary of State and will take out a loan for an equivalent amount to fund the payment (it is anticipated that the loan will usually be taken out with the PWLB). This may not be the case, however, and authorities may use other (cash) resources (eg surplus cash balances) available to them to make the payment. In such cases local authorities will need to adapt the example transaction c (i) to show the relevant amount of the loans taken out (if any).
6. The illustrations in this Bulletin are based on CIPFA's understanding of events and circumstances arising from the Settlement Payments. Authorities are reminded that the example illustrations below may need to be adapted to meet local circumstances.

SETTLEMENT PAYMENT FROM THE SECRETARY OF STATE – PAYMENTS MADE TO LOCAL HOUSING AUTHORITIES

7. The Settlement Payments Determination 2012 confirms the payments that the Secretary of State will make to local housing authorities. The Department for Communities and Local Government (DCLG) has clarified that the payments made for the redemption of PWLB debt will be on behalf of local authorities.

EXAMPLE ILLUSTRATION 1 – SETTLEMENT PAYMENTS TO LOCAL HOUSING AUTHORITIES

8. The Settlement Payment Determination sets out that Pursayus Council will be receiving a payment of £250m from the Secretary of State. The Secretary of State will therefore redeem PWLB debt of £250m. The early debt redemption has led to a

premium payment of £15m which in accordance with the Settlement Payment Determination will also be met by the Secretary of State.

9. It is anticipated that the consideration paid to extinguish the liability will normally equal its carrying amount. However, if there is a difference between the carrying amounts of the liability and the consideration paid to extinguish it (as may be the case for a Lender Option Borrower Option (LOBO) loan) this difference will be charged to the Surplus or Deficit to the Provision of Services. Authorities will need to consider whether in their own particular circumstances it is appropriate to charge this amount to the Housing Revenue Account or whether this would need to be apportioned on a fair basis between the General Fund and the HRA Balances. Practitioners will need to consider the general principle that there should be no cross subsidisation between the General Fund and HRA.
10. The loan will be derecognised in the Balance Sheet. The matching credit made to the HRA is a gain to the authority. This gain is a benefit received by the authority in having its loan obligations cancelled. The credit is effectively a government grant or contribution to the authority. The journal entries are thus:

<i>a (i)</i>		
Dr	Long-Term Borrowing (Loans)	£'000 250,000
Cr	HRA Income and Expenditure Statement - Capital Grants and Contributions ¹	250,000
To derecognise the debt in accordance with the Settlement Determination and recognise the gain in the form of a capital grant or contribution (LAAP recommends that this item be identified separately as a material item of income on the face of the HRA). NB an authority following this recommendation would need to ensure that it is reported with the line in the HRA that it is associated with.		

<i>a (ii)</i>		
Dr	HRA (balances) via the Movement in the Housing Revenue Account Statement	£'000 250,000
Cr	Capital Receipts Reserve	250,000
To recognise that the payment from the Secretary of State is a Capital Receipt in accordance with the requirements of the Localism Act 2011 (see paragraph 2).		

<i>a (iii)</i>		
Dr	Capital Receipts Reserve	£000 250,000
Cr	Capital Adjustment Account	250,000
To recognise that the capital receipt has been immediately applied to the repayment of the debt.		

¹ When consolidated in the Comprehensive Income and Expenditure Statement this would be the Taxation and Non- Specific Grant Income Line

Payments for the Early Redemption of Debt on the Settlement Payment

11. The Settlement Payments Determination indicates that any charges for the early repayment of these loans will be met by the Secretary of State. It appears that this transaction, as a payment to a local housing authority under the Settlement Payments Determination 2012, is a capital receipt. CIPFA has consulted with officials at the DCLG and they have confirmed that the premium payments are payments under the Localism Act 2011 and should therefore be treated as capital receipts. Note that as this is a notional transaction – the payment for the early redemption of debt is that of the authority and has been met on behalf of the authority by the Secretary of State. There is no increase or decrease in the net worth of the authority.

<i>b (i)</i>		
Dr	HRA Income and Expenditure Statement – Interest Payable and Similar Charges	£'000 15,000
Cr	HRA Income and Expenditure Statement Capital Grants and Contributions	15,000
To recognise the charges incurred by the authority on the redemption of debt by the Secretary of State (both these transactions would normally be set against cash but both the incurring of the expense by the authority and the contribution from the Secretary of State to pay the premium result in no cash flows for the authority).		

<i>b (ii)</i>		
Dr	HRA (balances) via the Movement in the Housing Revenue Account Statement	£'000 15,000
Cr	Capital Receipts Reserve	15,000
To recognise that the payment made by the Secretary of State is a capital receipt in accordance with statutory requirements.		

<i>b (iii)</i>		
Dr	Capital Receipts Reserve	£'000 15,000
Cr	HRA (balances) via the Movement in the Housing Revenue Account Statement	15,000
To recognise the application of the capital receipt to the payment. Capital receipts are transferred to the HRA Balances to finance the premium.		

12. As detailed in their "Operational letter to receiving authorities" on 12 January 2012 (which can be found in the self-financing section of their website www.PWLB.gov.uk), the PWLB will be providing to each receiving authority "a detailed statement of the loans being repaid". This statement will be sent via email by the end of Monday 26 March and will include details of any charges for the early redemption of debt made in accordance with the requirements of the Settlement Payments Determination 2012.

LOCAL HOUSING AUTHORITIES REQUIRED TO MAKE PAYMENTS TO THE SECRETARY OF STATE

13. Where the Settlement Payments Determination 2012 requires that local authorities make payments to the Secretary of State on or before 28 March 2012² this is a relatively straightforward transaction, as is the taking on of new debt in order to make this payment.

EXAMPLE 2 – SETTLEMENT PAYMENT MADE TO THE SECRETARY OF STATE

Belle Aireofon Council is required by the Settlement Payments Determination 2012 to make a payment to the Secretary of State for £150 million. It has decided to finance this payment by means of a loan.

<i>c (i)</i>		
Dr	Cash	£'000 150,000
Cr	Long-term Borrowing (loans)	150,000
To recognise the receipt of cash and the new loan.		

<i>c (ii)</i>		
Dr	HRA Income and Expenditure Statement (as a part of the net cost of HRA Services) – Payment to the Secretary of State	£'000 150,000
Cr	Cash	150,000
To recognise the payment made to the Secretary of State in accordance with the requirements of the Settlement Determination (LAAP recommends that this transaction is identified separately as a material item of expenditure on the face of the HRA). NB an authority following this recommendation would need to ensure that it is reported with the line in the HRA that it is associated with.		

<i>c (iii)</i>		
Dr	Capital Adjustment Account	£'000 150,000
Cr	HRA (balances) via the Movement in the Housing Revenue Account Statement	150,000
To write the revenue transaction out of the HRA as this is defined by statute (see paragraph 2) to be capital expenditure (see paragraph 4.6.3.3 of the Code).		

Where other sources of financing are used to finance the transaction in full or in part authorities will need to refer to the relevant examples in the Guidance Notes³ for the accounting entries.

² In accordance with the requirements of the Settlement Payments Determination 2012 issued by DCLG 1 February 2012

³ Code of Practice on Local Authority Accounting in the United Kingdom, Guidance Notes for Practitioners 2011/2012 Accounts, CIPFA, December 2011

14. CIPFA understands from the DCLG that the Settlement Payments transactions including the premiums will need to be easily identifiable within the financial statements of local authorities for Whole of Government Accounts purposes. This supports LAAP's recommendation that these transactions are reported separately on the face of the HRA, per the comments above. LAAP also recommends that consideration be given to whether or not these transactions are material items of income or expenditure on the face of the Comprehensive Income and Expenditure Statement.