Appendix 2

Pros and cons of re-establishing Housing Revenue Account (HRA).

Background

The 1950's saw a rise in local authority house building which continued through the 1960's. However, the introduction of the Right-to Buy policy in the early 1980's resulted in a sell-off of council housing stock and with restrictions placed on the use of the capital receipts, local councils could not replace the homes sold with new housing stock and the number of council houses fell.

As a result of not being able to build new homes many housing authorities choose to dispose of their housing stock through Large Scale Voluntary Transfers (LSVT) to housing associations. Housing associations were able to obtain grant funding from central government and local councils, who were able to recycle the capital receipts obtained from the LSVT through social housing grants and housing associations became the main provider of social housing.

Further changes came under New Labour who introduced the Decent Homes programme which set a target to ensure that all social housing met the Decent Home standard by 2010. Local authorities were given a choice on how to do this, either by setting up an Arm's Length Management Organisation (ALMO) or to undertake LSVT where this had not already occurred.

Those that decided to retain their stock did so under the housing subsidy system, but this ended in 2012 in England and 2015 in Wales. Local councils were given self-financing powers which allowed them to keep all their income from housing rents rather than the redistributing it via the subsidy regime. Initially, this freedom came with a cap on the HRA borrowing but in 2018 the cap was scrapped which effectively gave those councils with a HRA the freedom to borrow to provide new council homes.

The powers provided by the Localism Act 2011 have been used by some local authorities to provide housing outside of the 1985 Act powers, using their General Power of Competence and therefore removing the perceived hamstring of the HRA and Right-to-Buy through wholly owned companies. However, government guidance issued in 2019 provided local councils with the freedoms to hold up to 200 units of accommodation in the General Fund before needing to consider a HRA, thereby removing some of the perceived advantages of a wholly owned company.

As a result of the abolition of the HRA borrowing cap, local authorities are no longer constrained over borrowing for housebuilding and several local authorities have reopened their HRA to build and manage more homes directly.

Most of housing stock transfers occurred more than 20 years ago. They took place for a variety of reasons, but most often were driven by the desire to achieve the decent homes standard by unlocking investment from housing associations that councils simply couldn't afford.

Over the years, in many areas the housing delivery via stock transfer Registered Providers (RP) changed substantially, with the changing shape of the RP sector where that stock transfer RPs have merged into larger, more commercial, but less local, entities.

Currently, a combination of fire safety requirements, net zero-carbon targets and underperforming repairs services mean stock investment needs are higher than ever. These and other current dynamics mean there is a trend for acquisitions and mergers among housing associations to try to achieve ever-improving economies of scale. As a result, it is becoming increasingly likely that connections between local authorities and the organisations to which they transferred their housing stock have fractured, with a sense of a loss of control over how social housing can best be used to meet local conditions and needs.

In addition, the pressures many councils experience with the use of high-cost temporary accommodation to meet homelessness needs, as well as pressures on children's services and adult social care budgets – both of which typically come with a degree of need for some form of housing solution – it is clear that a joined-up, housing-led solution is needed.

Regulatory issues

A local authority could develop/acquire and hold up to 199 new council homes within the powers set out in Part II of the Housing Act 1985 (the 1985 Act) or Section 74(1) of the Local Government and Housing Act 1989 (the 1989 Act) without actually opening an HRA. This is provided a "direction" is obtained from the Secretary of State to waive the requirement to maintain an HRA (usually a formality). The requirement to establish an HRA would come into force once the number of properties owned reaches 200 or more.

Financial issues

Financially, the HRA is a ring-fenced account within the General Fund (GF), which broadly means that rental income cannot be used to help fund non-HRA activity. Also, GF resources cannot be used to support HRA activity – the HRA should be self-financing. This includes being able to meet any financing costs of new borrowing undertaken to fund HRA acquisitions/developments. This gives rise to one of the key potential barriers to opening an HRA to own and operate new council housing: that of financial viability.

Cashflow is key to any new organisation, particularly during the early years of operation, and for a new HRA it will be critical to help ensure regulatory compliance. Under Section 76 of the 1989 Act, the council has a duty to "prevent a debit balance on the HRA", i.e. avoid the account going into deficit. An organisation with a very small amount of stock will need to be able to recover its overhead costs, in addition to its operational costs and any debt financing costs from the income arising from a small stock base.

To ensure long-term viability, it will be vital to achieve a critical mass of properties as soon as possible: i.e. a stock base of sufficient size to enable economies of scale in respect of overheads to improve viability.

Reopening Housing Revenue Account (HRA)

The mechanics of reopening an HRA are relatively simple, requiring little in the way of formal regulatory approval, a council simply needs to make arrangements to open up a separate, ringfenced account for the purposes of developing and managing homes in its ownership. It does, however, come with the burden of a regulatory framework which has been increased by the expansion of the Regulator of Social Housing's remit to cover stock-holding local authorities, initially in respect of the application of the Rent Standard to council rents, but now also covering the application of Consumer Standards. Reopening an HRA will involve a skills and capacity challenge, as the Councils would need to understand and apply Housing Revenue Accounts rules which are not straightforward. Within its current establishment in

Housing and Finance, there are is limited experience of operating HRAs. The Council would need to consider whether any land or existing residential units (for example Whitehouse Hostel), currently within the General Fund, should be transferred to the HRA. If so, consideration would need to given to the allocation of costs and revenue on services such as grounds maintenance.

The account will be maintained and monitored through a local authority's existing accounting channels. Permission is not required from the Secretary of State to open an HRA, however the Ministry of Housing, Communities and Local Government requests a letter to the Secretary of State declaring the intention to open an HRA.

Potential benefit

There are potential benefits arising from reopening an HRA. Primarily, these benefits are around the opportunity for the council to intervene directly, and at scale, in providing more social housing in its area.

As well as the critical objective of meeting local housing need, reopening an HRA may also have other advantages, such as the benefits of more direct control over developing and delivering business plans for social housing and delivering net zero carbon in the housing stock.

HRA can also support elected members in ensuring that effective governance, finance and business planning processes are in place and are operating effectively and help provide transparency to tenants, members and officers on how the housing business is being managed. The principles can be used by tenants and members as a framework against which to hold the authority to account.

It can also assist in evaluation of where the council may need further support and assistance.

Some key policy changes as announced in the Autumn Statement may ease the pressure on HRA sustainability, such as:

- **A sustainable post-2025 rent settlement:** With a new policy for rents, it is vital that the post-2025 settlement enables the sector to deliver on the growing number of under-funded priorities. It is also vital the post-2025 rent provides certainty for the future, by setting out a long-term policy approach.
- **Support for new housing delivery:** Additional support for new build affordable housing would support the viability of development programmes and a reduction in HRA financial pressures.

Potential challenges

As well as providing great potential to address housing need, such a decision will bring significant challenges.

Reopening an HRA involves skills and capacity, as councils work to understand and apply HRA rules. At least initially, one of the key capacity challenges will be around financial and business planning expertise, as councils work to develop a viable HRA business plan. Councils will need to consider whether any land or existing homes, currently within the

General Fund, should be transferred to the HRA. If so, councils will need to consider the allocation of costs and revenue on everything from grass cutting to garages.

A multitude of policies will also need to be prepared if they do not already exist, covering areas from allocations to voids, such as:

- Abandoned Properties
- Adaptations / Disabled Adaptations Policy
- Allocations Policy (already in place)
- Anti-Social Behaviour and Nuisance Policy
- Assignment and Succession Policy
- Consent and Alterations Policy
- Direct Lettings
- Fire Safety Policy
- Gas Safety Policy
- Leasehold Management Policy
- Mobility Scooter Policy
- Mutual Exchange Policy
- Pets and Animals Policy
- Rechargeable Repairs Policy
- Rent Management / Income Collection Policy (Rent Arrears)
- Rent Setting and Service Charge Policy
- Right of first Refusal Policy
- Tenancy Policy
- Voids and Re-let Policy.

HRA self-financing was introduced by government in 2012, since then local authorities have been expected to balance HRA budgets according to rules set out by central government. The most relevant of these rules is the government defined policy on rent setting. At present official government policy sets out that social rents can rise by a maximum of inflation (measured by the Consumer Price Index, CPI) plus an additional 1% (CPI+1%).

Despite self-financing, in five of the past seven years government has intervened to set policies well below inflation. In 2023/24 the government imposed a 7% ceiling on rent increases. With CPI reaching 10-11% for much of the previous year, this cap has meant that costs have risen heavily above income. In 2024/25 CPI figure was 1.7 +1% which gave the maximum rent increase of 2.7%.

Savills' analysis project that in the scenario that LAs pursue their maximum entitlement of a CPI+1% rent increase rise, the HRA account will end up in budget surplus due to rents catching up with formula rent over the long-run as properties are re-let.

The interaction between inflationary pressures and rent setting policy is one of several financial pressures on HRAs. Social housing providers are being asked to deliver a greater number of services and investments with lower funding available for delivery. Additional pressures include:

- **Raising standards:** Repairs and maintenance budgets have suffered inflationary pressures, and many boroughs have set aside dedicated funding for tackling damp and mould. Legal disrepair cases as well as Housing Ombudsman maladministration cases are on the rise.
- **Responding to legislative and regulatory challenges:** The new proactive regulatory regime from the Regulator of Social Housing, as well as the expected improvements to the Decent Homes Standard (DHS), will increase the investment needed into existing stock. The new professionalisation requirements mean that 25,000 employees across the country need to take up further training or new qualifications without any new burdens funding so far.
- **Viability challenges for new build:** High construction cost inflation has rendered large number of new housing development unviable. New building safety requirements such as the need for a second staircase in buildings over 18m have put further pressures on these programmes. However, investment in new council-led housing improves the sustainability of local authority finances with access to social housing providing direct savings on temporary accommodation, homelessness and benefits budgets.
- **Decarbonisation:** local authorities need to plan for the delivery of decarbonisation schemes to hit Net Zero targets.
- **Estate Regeneration:** For many boroughs, outdated and obsolete stock means fighting an uphill battle against high repair and refurbishment costs. There is an increasing risk that these homes will fall into dangerously low standards. However, insufficient funding for estate regeneration has hampered the ability of local authorities to take programmes forward while entrenching high ongoing maintenance costs.

Options Appraisals

As with any approach under consideration, a detailed options appraisal is required.

Options open to councils do not just include direct delivery (through the HRA or a housing company): they also include partnerships (with RPs, or the private or third sector), acquisition and management of existing stock (potentially through the HRA), or site disposals (potentially through a development agreement which includes social housing obligations over and above planning policy).