Housing Delivery Officer-Member Working Group

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Subject: Financial Workstream Briefing 1 - HRA funding for affordable Housing

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Purpose

1. To provide the Working Group with an idea of how much financial capacity the Housing Revenue Account (HRA) has to increase affordable housing supply over 30 years.

Background

1. The Housing Revenue Account is a statutory ringfenced account for council housing. The main sources of income are rent and service charges from council tenants. The HRA cannot be subsidised by the General Fund, nor can it subsidise the General Fund. HRA operating surpluses are preserved within the HRA and cannot be transferred to the General Fund.
2. In Luton we hold circa 7,600 housing stock and about 1,700 garages in the HRA. The rental income for both dwellings and non-dwellings in 2023/24 totalled £37.8m.
3. In 2012, a new national funding arrangement (‘self-financing’) was announced for Housing Revenue Accounts. At that time, Luton took on £89.4m of debt within its HRA. The council is continuing to meet interest expense from income but is not repaying the principal as it rolls over debt at maturity. This is the practice adopted by most councils when the self-financing regime was implemented.
4. Since 2012, councils have been required to undertake a 30-year business plan for the HRA showing its sustainability over the medium to long term. Council may approve the use of available HRA funds to enhance properties or estate amenities, and to build more affordable homes either directly or indirectly through other parties. HRA funds cannot be used to build or acquire houses specifically for market rent or sale.
5. Additional borrowing has been allowed since 2018, and a main use of this borrowing is new affordable council homes. The council has been funding new council housing primarily through borrowing and capital reserves subsidised by use of Right-To-Buy (RTB) receipts. At the time of writing, HRA debt was £132.9m and reserves were £14.0m.
6. Council tenants have a right to buy their home within their tenancy. The current government has limited the discounts applicable and is also consulting on further restrictions to limit right to buy sales and protect investment in stock improvement and new homes.
7. The Working Group has met twice to discuss ideas about increasing affordable housing supply. Initial conversations centred around the availability and options for the use of land. Luton has some limitations on the availability of land to work with potential partners.
8. Regulatory freedoms around the use of HRA right to buy capital receipts and the surpluses generated from operations mean that Luton could use these combined funds to boost affordable housing supply. This briefing note outlines how much HRA funds could be made available to meet housing growth targets subject to the necessary approvals being obtained.

RTB Legislative Changes in 2024

1. Government increased the maximum permitted contribution from RTB receipts to replacement affordable housing from 50% to 100% for 2024-25 and 2025-26. Also, cap of 50% on replacements delivered as acquisitions has been lifted. Changes from 2026-27 onwards have not been announced so the financial modelling here has assumed a 50% limitation. This means that council needs to finance the other 50% of new build.
2. From 21st November 2024, discount levels for RTB disposals were reduced to pre-2012 levels. This is expected to reduce the number of sales each year. In scenario modelling, sales have been reduced from 44 to 30 houses per annum. Consequently, the amounts of RTB capital receipts are projected to be lower than previous years but remain above £4m per annum. Hence, council would need to find at least £4m per annum from other resources to match its 50% share.

Borrowing Prudence

1. HRA will continue its practice of refinancing £132.9m of historical loans at maturity. Interest repayments for legacy debt will continue at about £4.5m per annum. Interest cover ratio will be kept at no less than the sector benchmark of 1.25, that is, there is enough money to repay loans after meeting all other financial commitments.
2. Preference will be to use HRA balances (aka reserves) to contribute to capital expenditure to avoid taking out new loans. New loans will be arranged as needed then repaid as soon as surplus funds become available from operations. Both reserves and loans make up council’s 50% share under the RTB 1-4-1 replacement regime.

Grants, s106 and other Third-Party Contributions

1. Grants, s106 and other third-party contributions have been excluded from the base scenario. If external funds were available, it would reduce borrowing requirements.

Financial Profiling

1. Schemes under construction (Buckle and Freemans Green), The Stage Block C, and capital bids for MTFP 2025-26 are profiled based on approvals or submissions.
2. Prospective buybacks and ‘extra’ affordable housing or gifts are based on profiles that:
   1. Make full use of RTB capital receipts to avoid repayments to HM Treasury,
   2. Use HRA balances whilst keeping an indexed assurance buffer, and
   3. Borrowing to make up the difference.

What if RTB capital receipts are not used

1. From Year 13 (2036-37) onwards, £107m of capital receipts would be paid back.
2. Interest to be paid to HM Treasury would total £56m.

What if HRA holds assets and use all RTB capital receipts

1. To use up RTB capital receipts on a 1-4-1 basis, over 30 years, circa £66m would be spent on buybacks and circa £462m on new build. New capex of £528m excludes current approvals for Buckle Close (£11m), Freemans Green (£7m), The Stage Block C (£25m) and conversions (£2.5m).
2. Tenanted stock over the 30 years increases from 7,602 to 7,833. Current approvals total 146 units, buybacks total 138 units and new build 859 units, on average 38 additions per annum, which would be a net gain of 8 units after assumed RTB sales of 30 per year. This means that the third and private sectors need to make up the shortfall of 47 units to get to targeted new affordable homes of 85 units pa.
3. New loans totalling £13m would finance this asset-owning scenario and would be taken out for The Stage contributions between 2024/25 to 2026/27.
4. The charts below provide a high-level summary of this asset-owning scenario.
   1. Figure 1 shows the number of homes added over 30 years.
   2. Figure 2 conveys the key message that the HRA is sustainable over 30 years if stock in maintained in rentable state, and a prudent approach is adopted for buybacks and new build.
   3. Figure 3 shows the amount of 1-4-1 receipts generated through sales.
   4. Figure 4 shows the use of funds for capital schemes.

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What if HRA gifts all RTB capital receipts to an external party

1. RTB capital receipts of £183m is generated from 2024/25 to 2053/54. If these receipts are not used, then they would need to be paid back with interest to HM Treasury. Also, over 30 years, operating surpluses before loan repayment amounts to £217m. Therefore, there is about £400m generated to buy land or transfer for affordable homes.
2. If LBC retains a small repurchase programme, which delivers 145 homes over 30 year, the stock will reduce by 605 to 6,995 over 30 years. Remaining RTB receipts could be gifted to another provider for the provision of additional homes outside of the HRA. However, the HRA remains sustainable and meets its statutory obligations as reserves are projected to be within tolerance range.
3. LBC would negotiate nomination rights over those properties for which it had made a financial contribution. Circa £398m would be ‘gifted’ or invested into schemes with nomination rights. How many homes become part of the deal(s) will be modelled separately.
4. Key metrics for the gift scenario are shown below:
   1. Figure 1 shows that after The Stage, new build decreases to nil.
   2. Figure 2 shows that HRA remains on or above its indexed assurance buffer over 30 years. The level of reserves is not as healthy as under asset ownership scenario because rental income from new build is not available.
   3. Figure 3 is the same as under the asset-ownership scenario.
   4. Figure 4 shows match funding from 1-4-1 receipts and contributions from revenue balances (RCCO), after borrowing for The Stage.

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Development risk

1. Development risk has not been factored into the financial model. Where HRA remains the asset owner, 1,005 houses will need to be built over 30 years of which 859 are for speculative sites or schemes (that is, planning applications or business cases not submitted).

Partnership costs

1. The formative and operating costs of gifting or investing into a partnership arrangement howsoever defined has been excluded from the base financial model. Separate models will be developed for various scenarios based on further discussions.

Examples of previous decisions on land and investment

Transfer of land from HRA to General Fund

1. In February 2021, Executive approved the sale of the land of the former Parrot public house to Foxhall Homes. As the land was held in the HRA it had to be transferred to the GF prior to disposal. HRA benefited from reduction in borrowing, and the GF would eventually benefit from FH dividends with the homes offered at market rent or sale. HRA is not permitted to charge market rent for its tenancies.

Gift of RTB receipts to Housing Association

1. Executive approved on 25th June 2018 a £2m grant to Hightown HA for the development of 30 houses at Charles Street. In exchange, LBC would retain:
   1. 100% of nomination rights for first lettings at local LHA rates, and
   2. 75% of nomination rights for subsequent lettings at up to 80% of market rent, that is, the definition of affordable rent.

Disposal of land to a Housing Association

1. In 2013, Executive approved the transfer of Abigail Close land at nil cost to Paradigm HA. Paradigm agreed to build 11 homes to accommodate mental health clients.

Transfer of land to a private developer

1. Former Drill Hall Old Bedford Road was transferred from General Fund to HRA at nil cost. GF incurred circa £2m to demolish buildings, decontaminate the land and relocate a Temporary Accommodation centre. Executive between 2013 and 2015 approved a series of proposals for the development of new housing. HRA transferred the land to Cheyne Capital / Touchpoint Housing to build 80 homes. Touchpoint Housing acted as landlord and LBC as tenant under the headlease. HRA managed the tenancies for a fee through an underlease. There were put options to acquire the properties in Years 6 and 7 at contracted rates based on property size.

**Appendix 1**

Table 1 below compares two scenarios where the HRA holds new build, or where HRA funds are invested into houses with nomination rights.



**Appendix 2**

**HRA Capital Programme Asset Owner Scenario**





**Appendix 3**

**HRA Capital Programme Gift Scenario**



Note that The Stage and 5-year programme of conversions and extensions influence 2025-26 to 2029-30, irrespective of scenarios that are modelled.

