

POLICY & PERFORMANCE SCRUTINY PANEL

Thursday, 11 February 2021

CABINET

Monday, 22 February 2021

OPENING A HOUSING REVENUE ACCOUNT (HRA)

Report of the Executive Head (Finance & Housing Programme)

Recommendations

It is recommended that Policy & Performance Scrutiny Panel:

- (1) consider the options for affordable housing delivery as detailed in this report and make any recommendations to Cabinet as appropriate.

It is recommended that Cabinet:

- (2) approve proposals to open a Housing Revenue Account (HRA) to record expenditure and income arising from the provision of Affordable Housing accommodation by the Council as a Registered Local Provider;
 - (3) delegate authority to the Executive Head (Finance & Housing Programme) to write to the Secretary of State declaring the intention to open an HRA.
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Summary

As a result of the abolition of the Housing Revenue Account (HRA) borrowing cap in 2018, local authorities are no longer constrained over borrowing for housebuilding and a number have reopened their HRA in order to build more homes directly. The decision to reopen the HRA depends on the individual circumstances of the local authority. Cabinet approval is sought to take steps to open the HRA, based on the options evaluated in conjunction with Savills as set out in the attached report (see Appendix 1).

Statutory Powers

Part II of the Housing Act 1985
Local Government and Housing Act 1989
Housing Act 1988
Local Government Act 2003
Localism Act 2011

Strategic Implications

1. Whilst re-opening the Housing Revenue Account (HRA) is a legislative matter, it has strategic implications because it is a mechanism for taking more direct control and influence over new affordable housing supply in the Borough. This addresses the Corporate Strategy: Housing objectives of accelerating the delivery of new homes, and encouraging a mix of housing types, tenure and sizes. The proposal also addresses the 'Tackling Deprivation' objective by potentially improving access to lower-cost housing, reducing time waiting for affordable housing and helping to reduce homelessness.
2. Cabinet endorsed an Eastleigh Homes Delivery Strategy in December 2020, which provides a direction of travel and aims for the Council's Housing Programme activity from 2021. The Delivery Strategy confirms the Council's aim to provide a more diverse supply of housing to Borough residents; and its ambition to become a landlord of choice across all tenure types.
3. The Asset Management Strategy (2020-25) identifies a key role the Council has in reviewing its own land and buildings to support housing delivery. Further, the Homelessness and Rough Sleeping Strategy (2019-2024) highlights the importance of a new build programme for housing supply and accommodating homeless households.
4. In June 2019 Cabinet also approved a Project Brief for development land west of Horton Heath to provide direction to the Council's development project team. A key aim of the Project Brief is for the development to include a minimum of 35% of new affordable homes. The Project Brief also includes an objective to explore financial models allowing the Council to retain this affordable housing (objective OR11).

Introduction

5. The Council disposed of all its housing stock back in 1996 as part of the large-scale Voluntary Transfer (LSVT) and as a result closed the Housing Revenue Account (HRA). This transfer resulted in the creation of Eastleigh Housing Association who have subsequently become First Wessex and now VIVID.
6. Since 2012 the Council has been working in partnership to deliver affordable and market rent homes in the Borough and construction on schemes started in 2016. Across six sites, nearly 150 new affordable homes are either completed or under construction. These homes are delivered and held on behalf of the Council because any 'local housing authority' that owns 200 or more social dwellings are required to account for them within an HRA.
7. The Council's Housing Programme, including delivery of a new sustainable community at One Horton Heath, means that inevitably the Council will shortly own more than 200 affordable homes. The preference is to retain these assets in future, rather than dispose of them to a housing association. For example, the Council's development team have submitted a planning application for 393 dwellings (Land west of Burnetts Lane, Eastleigh) (F/20/89500), to include 90 affordable rent homes.

8. The Council's objectives are to ensure development addresses unmet housing needs; and that residents have security of tenure and receive a high-quality management and maintenance service. For this reason, the Council have been working with the Affordable Housing team at Savills who have advised that reopening the HRA is a feasible and appropriate next step for the Council (see attached report (December 2020) (Appendix 1).

Background to Housing Revenue Account (HRA)

9. The HRA is often referred to as a 'landlord account'. It is a ring-fenced account within the General Fund. The main items of income to the HRA are council tenants' rent and service charge payments, while a key item of expenditure is the day-to-day management and maintenance of the housing stock. The HRA is ring fenced by statute from the rest of the Council's finances- i.e. it must be self-sufficient, but it cannot subsidise the Council's General Fund.
10. The HRA is "intended to record expenditure and income on running a council's own housing stock and closely related services or facilities, which are provided primarily for the benefit of the Council's own tenants". Further information is available at www.gov.uk/guidance/housing-revenue-account.
11. Any local housing authority that owns 200 or more social dwellings are required to account for them within their HRA.
12. As a district authority the Council is a 'local housing authority' and therefore needs to account for affordable dwellings it owns in the HRA (over 200 dwellings) before it is permitted to borrow for housebuilding in line with the Prudential Code. On 29 October 2018, the government confirmed that the HRA borrowing cap was abolished with immediate effect. The Council would be able to borrow against its expected rental income from affordable dwellings, in line with the Prudential Code.

Direct provision of affordable housing

13. Following the Localism Act 2011 opportunities have arisen for local authorities to return to housebuilding, including setting up wholly or partly owned housing companies to build outside the restrictions (previously) imposed by the HRA.
14. Since the relaxation of borrowing rules for investment in Council housebuilding, there are now opportunities to exert more control and influence over what is provided and at what cost, without relying on the establishment of 'arms length' companies. The availability of grant from Homes England is also a key advantage not available to local authority companies. This is discussed in the attached report (Appendix 1).

15. The One Horton Heath development will start to deliver dwellings from 2022/23 and will increasingly form a major proportion of housing delivery in Eastleigh Borough over the following five years and beyond. Like other local authorities therefore, Eastleigh Borough Council plans to deliver affordable homes at a significant scale (as opposed to selling serviced parcels to the development industry, including providers of affordable homes). Cabinet will consider a report on the delivery of the First Residential Parcel at One Horton Heath at the Cabinet meeting 22 February 2021.

Options for affordable housing delivery

16. Affordable housing for rent is where the rent is set in accordance with the Government's rent policy for Social Rent or Affordable Rent or is at least 20% below local market rents (including service charges where applicable) (as defined by the National Planning Policy Framework). The government's policy on rents from 1 April 2020 onwards is set out in the *Policy statement on rents for social housing* (MHCLG, February 2019).
17. The attached report (Appendix 1) sets out a summary of advice and analysis from Savills' Housing Consultancy Director who was appointed to support evaluation of the options available for taking ownership of affordable housing. In summary there are four options available:
 - A. Hold up to 199 homes outside the HRA under Direction and borrowing through the General Fund;

And if the Council plans to deliver more than 200 affordable dwellings:

- B. Open a Housing Revenue Account (HRA) in order to hold social and affordable rented homes using Part II 1985 Housing Act powers;
- C. Set up a new wholly owned subsidiary company (Local Housing Company) to be a Registered Provider of social and affordable homes (under Part 1 of the Localism Act 2011);
- D. Utilise an existing subsidiary company such as Aspect (Eastleigh) Limited (AEL) and register to become an affordable provider.

Recommendations

18. The recommendation in this report is to pursue option B above, and not to pursue options A, C and D at this current time.
19. As described, there are several options available to the Council for the delivery of Affordable Homes, however due to the delivery pipeline coming forward it is recommended that the Council proceed with opening the HRA and do so in advance of delivery. It is noted that the Council can provide up to 200 Affordable Homes within the General Fund however, trying to then separate the funding out in the future is very difficult and as the delivery pipeline of the programme quickly exceeds 200 homes it is considered that opening the HRA in advance is the most efficient way of working.

20. As in C & D above, Affordable Homes can be provided through an external vehicle however this is not considered appropriate for a number of reasons including;
 - i. There are less funding options available to an external vehicle,
 - ii. The level of regulation is the same (i.e. regulatory compliance with regards to being a Registered Provider would still apply),
 - iii. The risk that governance and decision-making become increasingly independent of the Council as the company grows,
 - iv. The inability to take advantage of the security the Council brand represents.
21. As discussed with advisers from Savills, it is not uncommon for HRA authorities to operate housing companies alongside the authority's direct delivery, and to register one or more of the companies with the Regulator. The process for registration is highly procedural however and typically takes 12-15 months.
22. Registering AEL as an affordable provider with the Regulator is therefore not recommended at this current time. As AEL currently provides market rental products it is considered important to ensure that the different tenure types can be treated in the most appropriate way both strategically and within the market and having two different delivery vehicles gives the Council the most flexibility.

Steps to reopen the HRA

23. The Council can maintain and monitor the HRA through its existing accounting channels. Before doing so, the Council would need to declare its intention to open an HRA by writing to the Secretary of State. Guidance from MHCLG confirms the following steps to open an HRA:
 - Understand the requirements of an HRA,
 - calculate your Capital Finance Requirements,
 - plan your HRA budget,
 - open an HRA. You will report on your HRA in your usual annual audit.
24. Provision of affordable homes in the HRA means that the Council would become a Public Registered Provider of Social Housing subject to Regulatory Standards set by the Regulator of Social Housing.

Financial Implications

25. There are no direct financial implications as a result of this report as the process of reopening an HRA will be managed by existing staff and any further support from Savills will be funded from existing budgets.
26. The HRA is a ring-fenced account and will be administered by the existing finance team, it should be noted that any net financial surplus generated within the HRA must remain within this account and cannot be used to fund General Fund activities. Once opened a further report will be presented to seek approval for the business plan and running costs of the HRA.
27. In addition, any new dwellings to be built or purchased within the HRA will also be presented to Cabinet for formal approval ensuring that all future decisions are cost effective and meet the Council's overall Housing Strategy.

Risk Assessment

28. The legislative features of operating the HRA are discussed in the attached report (Appendix 1) but these are all using existing legal and statutory powers and as such do not present a new risk. Also the decision to re-open an HRA does not present any risks until such time as it undertakes any activity and these risks will be addressed in future reports as approval is sought.

Equality and Diversity Implications

29. The Equality Act is not relevant to the decision in this report because it is a report dealing with internal matters only. The decision to open the HRA does not relate to eliminating discrimination, advancing equality of opportunity, or fostering good relations between different people with protected characteristics. Provision of affordable and social housing does have the potential however to advance equality of opportunity to certain groups e.g., people with disabilities, some BAME groups, and people on low incomes. In future, decisions related to the expenditure (included in the account) e.g. major repairs, may be subject to an Equalities Impact Assessment (EIA), although it is worth noting the HRA account is not a separate fund itself.

Climate Change and Environmental Implications

30. The decision to open the HRA does not present any immediate implications for mitigating or adapting to climate change. However, having more direct control over a further element of housing delivery will help support the environmental aims as set out in the Eastleigh Homes Delivery Strategy.

Conclusion

31. Detailed advice has been received addressing the legislative, financial, and accounting provisions and frameworks that apply to the Housing Revenue Account and local housing company options. In the context of the Council's established housing programme and emerging affordable housing ambition, it

is recommended that the Housing Revenue Account is opened during 2021, to record expenditure and income arising from the provision of new affordable homes by the local housing authority.

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Appendices Attached: 1

LOCAL GOVERNMENT ACT 1972 - SECTION 100D

The following is a list of documents which disclose facts or matters on which this report or an important part of it is based and have been relied upon to a material extent in the preparation of this report. This list does not include any published works or documents which would disclose exempt or confidential information.