LONDON
TENANTS
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A briefing about the Housing Revenue Account

1. **The Housing Revenue Account (HRA)** is a local authority account for the running of council-owned housing stock, and closely related services or facilities for the benefit of the council's tenants. It is a ring-fenced account held within a local authority's General Fund.

   A local authority that has 200 or more homes must have an HRA.

   The main source of income in the account is tenants' rents and service charges and any special subsidies and interest received on council mortgages. Its main expenditure items are management and maintenance costs, major repairs, loan service charges, bought-in services, depreciation costs and a contingency sum. A council cannot budget for a deficit.

   The Local Government and Housing Act 1989 itemises the debit and credit items that should be recorded in the HRA. These items comprise - mostly housing and other property provided by authorities set out in the section – Provision of Housing, Part II 1985 Housing Act.

   The government publishes updated circulars about the HRA.

2. **The previous national HRA system:** Before 2012, the HRA was a national system. The government called it a 'subsidy system' (which assumed that boroughs were receiving government subsidies to manage and maintain their homes). However, it was more a redistributive system than a subsidy system. Each council was allowed to keep the amount of money collected from its tenants' rents to meet the cost it assessed was needed to manage, maintain and repair their homes and pay off some housing debt. Where an authority was to collect more in rent than required in payment for these items, any extra was distributed by the government to councils where the opposite was the case.

   Problems with this system were:

   - the government under-estimated the amount of money that was required for management, maintenance and major repairs;
   - it was questionable that tenants should be required to cover the debt repayments on the building of new homes, when they don't own their homes and don't gain from increased property values.

- for many years, most of the proceeds from Right to Buy went directly to the treasury. London Council's assessed that £300 million was being transferred on an annual basis from local to the government.

3. **2012 Devolution of the HRA – or self-financing**: Councils generally supported the reform of the HRA to enable them to retain their own income and deal with their own expenditure. Many felt this would help them to create new 'housing business' - with all the responsibilities and opportunities implied, including some being able to meet investment needs, have surplus borrowing capacity and have 'robust business plans.'

   At this time, councils were still looking at possible stock transfers and PFI deals, and partnerships with housing associations. For those with an HRA surplus or borrowing headroom - the development of new council homes seemed possible. Others also felt that there might be possibilities for some councils to combine their HRAs.

   The government and councils made a deal on devolving the HRA. This required councils to take on the existing £21 billion of national housing debt. Councils in London took on £72 billion of the total debt.

4. **HRA borrowing:** Councils are able to borrow against their rental income to invest in existing or new homes via self-financing, but initially only up a government set limit or cap set.

   The government removed the limit or cap in October 2018. It is far from clear, however, that this is helping to deliver very much council housing at social rents to date.

5. **A bit about the history of HRA ring-fencing:** The income and expenditure of most council services – such as education, environment, health and leisure - are held in councils' General Fund.

   However, since 1935, income and expenditure relating to the provision of council housing were accounted for in a separate HRA.

   However, until the 1989 Local Government and Housing Act, local authorities dipped into the HRA to pay for things that should have been paid out of the General Fund and vice versa. HRA deficits were able to be transferred to the General Fund.

   From 1990 the HRA was ring-fenced. Transfers between the HRA and the general fund can now only occur in certain prescribed circumstances.

In the run-up to the changes, the government had asked local authorities about the expenditure items they were including in their HRA. For most, it comprised items of a landlord nature, such as estate management and rent collection. But a number of councils were also using the HRA for more items including - estate shops, hostels, homelessness administration, and warden services. Early results of the assessment showed that tenants rents were covering £232m expenditure relating to these items.

Further to the legislative changes, the Court of Appeal ruled, in 1992, against the LB Ealing for including the costs for its Homeless Person's Unit, Housing Advisory Service and Sheltered Housing Service in its HRA.

The total gross expenditure on these items was over £100 million or 30p per week from each tenants' average £65 rent payments.

6. **<u>What items should be included in the HRA</u>?** The government's circular - '*operation of the HRA of the ring fence'* 10 November 2020 - provides the latest guidance.

It says that when councils decide whether income and expenditure should be accounted for in the HRA or the general fund, they should apply the test of 'who benefits?'

<u>Re: Council properties</u>. In the case of rents for council homes and expenditure on repairs, it is clear that this relates only to council tenants and should be dealt with via the HRA. Regarding commercial properties built as part of a housing estate, but are no longer connected with the tenants, the income and expenditure should likely be in the general fund – although the guidance says that the council should decide.

<u>Re: Amenities</u> including play and other recreational areas, gardens and community centres. The guidance says the local authority has to decide which account to use. The income and expenditure should be accounted for in the HRA if the amenities are managed and maintained in connection with council housing.

Where an amenity is shared by the community, as a whole, there should be contributions from the General Fund and the HRA.

Re: *<u>Management and maintenance services</u>*: These should be classified as - core services, core plus services or non-core services.

Core services may be considered to be the bricks and mortar functions of housing for which council tenants and leaseholders, not the wider community, benefit. They include:

- *Repair and maintenance*: responsive repairs, planned and cyclical repairs and major or 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, management of repairs, antisocial behaviour (low level), general advice on tenancy matters;
- *General estate management*: communal cleaning, communal heating and lighting, ground 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 and administration of Right to Buy

Core plus services. These are services that it might be appropriate to charge to the HRA in part or in full if provided as an ancillary to the primary purpose of housing which may have wider benefit to the overall community

These might include

- *contribution to corporate ASB services*
- *tenancy support*
- *maintenance of tenants' gardens (unless a separate charge is made to tenants for this service)*
- *Supporting people services* (HRA housing-related support services only) such as sheltered accommodation wardens and alarm services

Non-Core Services: These are service where it would be inappropriate to assume that they would be charged to the HRA. These include

- *street lighting*;
- *dog wardens;*
- *personal care services*;
- *homeless administration;*
- *housing advisory service*.

The test of who benefits has to be applied. If the benefit is to the wider community primarily, they should be accounted for in the general fund.

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