Appendix C

Shropshire Council - Housing Revenue Account Business Planning Principles

This document sets out the agreed principles and key information that will ensure an aligned approach between relevant parties towards the management of Council Owned Social Housing stock in Shropshire. For ease of reference, it is set out as a series of Frequently Asked Questions and responses.

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V1.0	July 2024	First agreed version between SC and STAR Housing
V2.0	October 2024	Updated and reissued via STAR and Council approval channels Oct 24 – Dec 24

1. What is the HRA?

The HRA is the Housing Revenue Account. This is a ring-fenced account which has been in existence since the 1930's. All Councils with more than 199 units of social rented stock are required to account for annual income and expenditure on those properties separately from the General Fund. The HRA is bound by legislation which defines what can and cannot be charged to the HRA. Shropshire Council has 4200+ homes comprising social rented, affordable rent and shared ownership stock which are accounted for in the Shropshire Council Housing Revenue Account.

2. What does "ring-fenced" account mean?

"Ring-fencing" means:
• Operation of a separate income and expenditure account
• Operation of separate HRA reserves (Capital and Revenue)
•HRA reserve cannot go into deficit
• There are separate rules in relation to capital and debt financing

3. What changes in legislation have affected the HRA?

• 1989 Local Government and Housing Act – ring-fenced HRA with capital and borrowing controls and a redistributive Housing Subsidy System (this was controlled by Central Government)

• HRA Resource Accounting 2001 – introduced a Major Repairs Allowance (spend on capital) and a Major Repairs Reserve

• Rent Restructuring from 2002 onwards – moving existing social rents towards a comparable rent across England based on capital values, bedroom numbers and wage levels

• Local Government Act 2003 – Prudential Code – replaced capital controls

• 2006 – 2012 – work to move to Self-Financing HRAs

• 2012 – abolition of the Housing Subsidy System and introduction of the self-financing debt settlement with a debt cap

• 2018 – abolition of the HRA Debt Cap Effectively a journey towards increasing freedom and flexibility – within the context of a legislatively controlled accounting framework.

4. Who are Shropshire Towns and Rural (STAR) Housing and what is their involvement in the Council's HRA?

Shropshire Council retains full accountability for the HRA however, at an operational level the responsibility for managing the HRA is delegated via a Management Agreement dated 28 March 2013 and updated 28 March 2023, between Shropshire Council (SC) and STAR Housing. STAR Housing is an Arm's Length Management Operation (ALMO) and a separate Ltd Company wholly owned by Shropshire Council. The Council maintains oversight of the operations of STAR Housing through a suite of KPIs and reporting to the Asset Assurance Board (AAB). Governance procedures and the detail of the Management Agreement are currently under review.

STAR Housing is mandated to deliver housing management and a range of other services as set out in the Management Agreement. Of relevance is the requirement for STAR to produce and maintain a 30-year Self-financing HRA business plan. The relevant clause is copied below.

- Produce a 30-year self-financing Business Plan (which should also cover the Housing Revenue Account) that should be reviewed not less than every 3 years. In developing the plan account should be taken of:
    - key strategic priorities of the Council
    - Housing Strategy
    - environmental analysis
    - expressed tenant priorities,
    - satisfaction drivers,
    - resources
    - benchmarked performance
    - approach to VFM
- The Self-financing business plan should be robust and ensure that:
    - cash flow is maintained over the length of the business plan,
    - financial forecasts are based on robust and reasonable assumptions,
    - risk forecasts and alternative scenarios should be built into the plan,

5. What is the HRA Business Plan?

The HRA business plan is a set of assumptions about income and expenditure over 30 years and is a financial plan for the future of Shropshire Council's housing stock. Starting from the base information that we know about the housing stock and budgets; the assumptions allow us to estimate future cashflows arising from Council housing given economic forecasts. A survey of the stock gives us a reliable idea about how much investment is needed to keep the stock in a decent condition. The remaining amounts after accounting for day-to-day budgets need to be enough to allow the Council to pay interest on its loans and/or repay its HRA debt. The Council uses Abovo-Consult's HRA Business Planning and Stress Testing Model to forecast its 30-year business plan and combines both capital and revenue funding to produce a holistic view.

6. Where do the assumptions about future inflation come from?

The underlying estimates of Consumer Price Inflation (CPI) and Retail Price Inflation (RPI) for the next 5 years are taken from the estimates of the Office for Budgetary Responsibility (OBR) published figures. Thereafter, for business planning purposes inflation assumptions revert to the BOE's long term target rate of 2%.

7. What income is included in the HRA?

Revenue income comes from:

- tenants' weekly rents on homes and garages
- charges for services and facilities
- miscellaneous land and property rents such as shops and land.

The HRA may also receive contributions from the General Fund toward expenditure incurred where costs are borne in respect of activities outside the permitted function of the HRA, such as where housing stock is used to support wider council services or specific general fund activities such as temporary accommodation.

Within statute it can also include sums directed by the Secretary of State that are classified as income in accordance with the Code.

Revenue income may be used to finance revenue expenditure in the HRA and may also be used to finance capital expenditure alongside grants and other available non-debt funding, thus reducing the amount of borrowing that would otherwise have been required.

8. What is Capital Income?

Capital income either arises from the sale of Council Housing land and property or from grants given to support the financing of new development or other capital projects. Capital income can only be used to finance future capital spend and cannot be used to fund revenue expenditure in the HRA. Examples are Right to Buy sales receipts, income from equity sales in shared ownership properties, grants from Homes England, sales of land in the HRA, S106 developer contributions, other central government funded programmes and contributions to works from leaseholders. Money borrowed is also capital income.

9. How are social rents calculated?

Social rents are usually historical rents that have been moved towards a formula based "target" rent since 2002. Many rents will have converged with the formula or target rent, but others may not yet have done so. The social rent formula aimed to allow rents to converge to a formula rent originally by 2013. The formula rent is calculated for each property by local authority area with an allowance for the size of the property (number of bedrooms), its capital value compared to the national average and an affordability adjustment by comparing wages in an area to the national average. Capital values were set in 1999. The formula is a weighted average figure by property, considering 30% of the value in relation to the value and 70% in relation to the wage effect. The formula also differentiates in its calculation between general needs and supported housing.

Since 2002 Council house rents in Shropshire were increased annually based on the Government's recommended formula rent calculation set out above. This approach was followed by the former District and Borough Councils in Bridgnorth and Oswestry from 2002 and by subsequently Shropshire Council from 2009.

In May 2014 the coalition Government issued new Guidance on Rents for Social Housing. This guidance ended the previously complex formula rent calculation and replaced it with a simple annual inflationary uplift determined by the preceding September Consumer Price Index (CPI) plus 1%. The new guidance took effect from April 2015 and was intended to apply for 10 years.

Following the general election in May 2015 the Chancellor announced in his Budget Statement made on the 8th July 2015 that the new Government intended to abandon the 10 year guidance and instead impose a requirement for local authorities and housing associations to cut rent by 1% for 4 consecutive years commencing in April 2016. This policy was subsequently incorporated in the Welfare Reform and Work Act 2016 and was applied to rents up to and including 2019/20.

Prior to the 4-year period of imposed rent reductions, the Government had used the Rent Rebate Subsidy Limitation scheme as a mechanism to prevent local authorities from applying rent increases above their recommendation, however the move towards Universal Credit meant this control could no longer be applied. Consequently, in October 2017 the Government announced that from April 2020 local authority rent would be subject to the rent standard for social housing providers that had previously only applied to housing associations. This permitted a return to the previous policy of annual increases on both social and affordable rent of up to the preceding September CPI plus 1%.

Flexibility exists to set rents up to 5% above the formula rent (10% in the case of supported housing) calculation – this is known as the 'rent flexibility level', however this approach has not been implemented by Shropshire Council since the Government's formula rent calculation was adopted in 2002.

On changes of tenancy for a property it is possible to re-let at the formula rent in cases where the previous charge was below that permitted by the calculation; historically this approach has not been adopted by Shropshire Council and it has been common practice to date to relet properties at the prevailing rent, as it was initially set plus inflation, therefore missing the opportunity to reset to target rent. The effect to this is to create a drag on overall income levels to the HRA.

Approval is being sought for all relets to be realigned to Target Rent in line with the government's prescribed formula as part of December 2024 approval processes and forward planning instruments assume that this practice will become redundant from Jan 2025 onwards.

NB: In 2023/24 the Government imposed a maximum rent increase cap of 7% for this year only.

10. How are affordable rents calculated?

Affordable rents can be set for properties that are developed or purchased using grant for the purpose of affordable housing – this includes the use of Right to Buy 1-4-1 receipts. Affordable rents are set at first and subsequent re-lets by taking the market rent for a similar property and then setting the rent at a maximum of 80% of that figure. The 80% figure is deemed to be inclusive of property-based service charges and in most cases the identified service charges cannot be added on to the affordable rent separately after calculating the 80% of market rent. The exception to this is in the case of older persons properties where the rent can be set at 80% plus attributable property-based service charges. In all cases, tenancy-based service charges such as IHM and personal alarms can be added to the calculated rent (or relevant LHA rate whichever is lower as per the Council's policy noted below). It may often be the case that the market rate does not cover the actual cost of services provided, but this is a risk that must be considered at the time of taking the grant support. The market rent will set the value that people are prepared to or are able to pay, the reduction to 80% of that value is designed to make the property affordable at the time of letting to a social tenant. The Council has its own policy of setting affordable rents at the lower of the calculated value and the relevant Local Housing Allowance.

Rents are increased each year in accordance with the Government's Rent Standard which allows rent to rise by the preceding September CPI plus 1%. Shropshire Council has historically applied an additional policy ensuring affordable rents do not exceed the LHA resulting in increases being capped to the LHA level for a similar sized property.

11. How are shared ownership rents calculated?

Under Shared Ownership the purchaser buys a share of the home (typically between 40% and 60%) and pays rent to the Council initially set at 2.75% of the unsold equity market value. Each subsequent April the rent is increased in accordance with the terms specified in the lease agreement which will be either the preceding September CPI plus 1% or the preceding September RPI plus 0.5%. These terms are specified in the lease agreements between the Council and the purchaser and are not affected by the requirements of the Welfare Reform and Work Act 2016 or the Government Rent Standard. On 12th October 2023 the Department for Levelling Up, Housing and Communities (DLUHC) announced a change from RPI to CPI as the basis of the annual rent review for all new Shared Ownership leases. The change in policy, which takes effect from 12th October 2023, changes the basis of the annual rent review for relevant leases from a maximum of RPI plus 0.5% to CPI plus 1%, thereby aligning Shared Ownership rents with the maximum annual rent increase for both Social and Affordable rented homes. For existing homes and homes where funding has been agreed prior to 12th October 2023 continuation of RPI-based leases is permitted.

12. How can rents be increased?

Social rents including affordable rents from 2020 are regulated by the Regulator of Social Housing (RSH) in the same way as Housing Associations. Rents must be set in line with the Rent Standard and breaches must be reported to the RSH. The Rent Standard states that social rents (i.e. those set by reference to the "formula rent") that are less than or equal to the formula rent + allowed flexibility may increase by a maximum of the CPI (based on September in the year prior to the April increase) + 1%. The rate of CPI in September 2023 was 6.7%, so the maximum allowable increase in rents in April 2024 was 4.1%. This increase can be assumed for up to the next two financial years and then further guidance will be required. Social rents that are less than the formula or "target" rent may be increased in a rent year to that target if the property is re-let to a new tenant and this approach, whilst not historically adopted by Shropshire Council, is now deemed to be valid. This amendment to policy has been put forward for approval as part of December 2025 Council decision making and sign off.

The Rent Standard also applies to affordable rents (i.e. those set by reference to 80% of the market rent) and the same principle applies. Affordable rents can increase by a maximum of CPI + 1% until 31 March 2025. On re-let, an affordable rent must always be referenced back to the market rent for a similar property including service charges and a rent set at a maximum of 80% of the market rent. Market rents can go up and down. The Council has its own policy which limits an affordable rent to the Local Housing Allowance (LHA) for the area that the property is within. If the affordable rent is below the LHA, but an increase of CPI + 1% would mean that it will be above the LHA, then the LHA rate is the rent that will be set. The LHA rate was increased from 1 April 2024.

Shared ownership rents are increased in line with the relevant lease agreements as noted above.

The Government can intervene at any time and has done so in the past. Between 2016 and 2020, rents were cut by 1% per annum in cash terms (about 12% in real terms) and in 2023/24 inflationary increases in social rents were capped at 7% with Shropshire Council also electing to cap rent increases for all properties (including affordable rents and shared ownership rents) in line with the cap for social rents.

13. How are service charge fees calculated?

Some properties receive services that are specific to their property. This is more usually for flats and blocks of properties. Examples are warden/sheltered unit support charges, communal area heating and lighting charges, water and sewage charges and repairs recharges. The costs of these services are recharged to the tenants who specifically benefit rather than every tenant. The charges made in total must not exceed the cost of those services to the HRA each year.

14. What are tenancy-based service charges?

Tenancy based service charges are charges for services provided to tenants which are linked to the tenants' specific personal circumstances and not the HRA owned property. As such they are outside the scope of HRA activities, albeit that charges are levied alongside rent and property-based service charges and therefore initially collected into the HRA. Costs incurred in delivering the tenancy-based services, typically undertaken by STAR Housing, are charged to the HRA leaving the HRA always in a cash neutral position. Examples of tenancy-based service charges include IHM (Intensive Housing Management) and personal trip/fall alarms.

15. What are leaseholders

Leaseholders are people who have purchased properties which were formerly owned by the HRA, for example under the Right to Buy scheme. The leasehold property will have communal parts which are still owned and maintained by the HRA. It is therefore necessary to charge these private owners for services they receive in the maintenance of these communal areas through a lease arrangement.

16. What expenditure can be counted as revenue expenditure in the HRA?

The HRA can be charged with the costs of:

• Repairs and Maintenance.

• Supervision and Management.

• Rents, rates, taxes and other charges.

• Depreciation and impairment of non-current assets (e.g. homes, garages, shops).

• New build development feasibility costs.

• Debt Management Costs including interest on loans

• Sums directed by the Secretary of State that are expenditure in accordance with the Code.

17. What can be counted as capital expenditure?

The key principle is that everything is revenue unless you can prove its capital. There are three "routes" for qualification as capital and a large cost alone does not mean it is a capital cost.

• Spending which creates a non-current asset

• Spending which meets a definition specified in regulations made under the Local Government Act 2003 (does not create a non-current asset)

• If the Secretary of State makes a direction that spending can be treated as capital (does not create a non-current asset).

Shropshire Council has a clearly defined capital expenditure guidance policy based on the above principles which is followed by the HRA.

18. What is an asset?

An asset is:

• An item held for use by the authority

• Used for more than one financial year

• Its cost must be reliably measured

• The authority must gain future economic or service benefits form its ownership

19. What process does the HRA go through to accept a new asset?

Assuming the asset qualifies as a housing asset and meets the above criteria it must also be established that acquisition of any new asset (e.g. home) into the HRA is a value for money decision.

This is achieved by carrying out an appraisal of the acquisition and demonstrating the short and long term impact on the HRA. A payback period more than 50 years is not permitted.

Abovo Consulting has provided a development appraisal tool which initially allows a standalone assessment of the viability of an acquisition but importantly also allows the proposal to be fed into the overall business plan to assess the overall impact on the Golden Rules. In this way the acquisition can be said to have been fully considered against all factors as a robust acquisition or otherwise.

There are also two key additional factors that need to be considered where an acquisition may be viable but competing with other acquisitions/development projects. Where the project is supporting wider Council initiatives and generating benefits elsewhere, then a proportion of those benefits should flow back to the HRA to maintain its ringfenced nature as the HRA is not permitted to fund wider Council activities. Secondly, the funding decision should always be the optimal for the HRA which typically means borrowing as a last resort. This approach conflicts with that which the Council seeks to adopt which encourages borrowing from the Council's General Fund to create an income stream to the GF which is likely to be sub-optimal for the HRA.

20. What is a stock condition survey?

A stock condition survey provides an independent view of the profile of expenditure that will be needed to maintain the Council's housing stock and estate assets at a particular standard (minimum is the Decent Homes Standard) over 40 years. The profile will not give the same amount of money every year as it considers the lifecycle of elements within the homes such as kitchens, bathrooms, roofs, etc. The information is used in the business plan to indicate how much money should be spent each year with inflation added on and provide budgets for the capital programme The information can also be used to procure programmes of work more efficiently from having accurate data about the work required. It can also be used to consider options for stock other than maintenance to achieve value for money.

21. What happens if the Council does not maintain its existing stock?

The Council must maintain its stock to at least the Decent Homes Standard (DHS). The DHS is not a high standard but ensures that a property is kept warm and weathertight with functioning kitchens and bathrooms. Failure to invest in properties at the right time can lead to an increase in unlettable properties which leads to a loss of rental income. Less rental income leaves less money to invest in the properties without borrowing. Failure to maintain a roof for example can lead to other issues such as damp and mould and eventually an increasing number of "spin-off" repairs in addition to significantly increasing risks arising from tenants falling ill etc. Money spent on additional repairs reduces the money available in the HRA to maintain or improve the service and develop new homes.

22. What money can be used to finance the capital programme?

The capital programme can be financed from the following sources:

- Grants specifically for major works and/or development projects
- Shared ownership sales receipts on staircasing of existing S/O units or new build first tranches

• Capital receipts from the sale of land in the HRA

• Major Repairs Reserve funds

• Income set aside in earmarked reserves for example for new build (if the programme contains the type of expenditure agreed for the reserve)

• Receipts arising from RTB sales specifically for the replacement of homes – if and only if development / acquisition is in the plan

• Other allowable receipts that can be retained from RTB sales

• Revenue contributions to capital outlay (RCCO) from the HRA

• Borrowing

23. How much can the HRA borrow?

When self-financing was introduced for the HRA, the Council was given a debt cap, or maximum borrowing allowed of £83.5 million. In 2018, the Conservative Government removed the debt cap for all Councils and allowed them to borrow if the borrowing was prudent. The HRA business plan is a method by which the Council can estimate how much the HRA can afford to borrow and when it is required.

24. What is the value of loans in the HRA now?

In March 2012, at the start of self-financing, the Council had a zero debt. However, the debt settlement allocated £83.35 million to the Council, which meant it had to borrow this sum from PWLB to pay to the Government to start self-financing. The £83.35 million was made up of 10 loans repayable between 2039/40 and 2048/49 at a rate of 3.51%. The loans at the time were on preferential low rates available only on a specific day to Councils needing to borrow for self-financing settlements. The £83.35 million was not based on the cost of the housing stock but was a calculated value to work out how much debt the Council could afford based on what income it expected to receive and expenditure it needed to make over 30 years from 2012. This was a Government calculation. The borrowing envelope (capacity) has subsequently increased to £122 million because of the approved new build development programme and drawn debt against this facility is currently c£92 million.

25. How much more can the HRA Borrow?

At present the HRA can only borrow up to the approved borrowing envelope. This is currently set at £122m.

26. How and when should the HRA borrow more?

If the borrowing envelope is going to be breached yet there is a clear requirement to borrow more to fulfil the statutory obligations of the HRA, to ensure ongoing sustainability or to meet newly agreed priorities.

27. Where does the HRA borrow from?

HRA debt does not have to be supported by actual loans, it can also be financed internally. The HRA Capital Financing Requirement (CFR) is simply the total historical outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness, or the underlying borrowing need. The HRA normally borrows within the Council's overall treasury management policy as borrowing relates to the Council as a whole. Loans are available at short notice from the Government via the Public Works Loan Board (PWLB). PWLB loans can be short terms or for very long periods (> 50 years) and rates of interest are set by the Government. Loans can also be taken from external funders and also the HRA can borrow internally from the General Fund, if there are spare cash resources available.

28. How is approval to borrow more secured?

The HRA must demonstrate that the new borrowing envelope is sustainable in terms of meeting all the agreed Golden Rules. The process for increasing the borrowing envelope is determined by Shropshire Council internal approval procedures.

29. What is the risk to the Council in borrowing?

The HRA no longer has a limit on how much it can borrow. Borrowing needs to be prudent which means that there is sufficient income over time to service the debt. Borrowing in the HRA is not backed by a charge over the homes, so there is no risk of the properties being repossessed by a bank. The HRA is not obliged to set aside a Minimum Revenue Provision each year to build up to repay a debt (unlike the General Fund). The business plan over 30 years gives a good estimate of whether the debt taken on is sustainable or not. Loans at present are at low interest rates and PWLB loans are available to Councils for very long periods of time. Loan repayment terms on PWLB are usually "bullet payments" which means interest is paid annually on the full amount loaned for the period of the loan and the amount borrowed is paid at the end of the loan period. Borrowing to fund new development for example should provide an income stream with which to repay the loan. Development requires upfront expenditure to deliver cashflows over the future. The self-financing assumptions did not assume any development, so the income from existing homes is only enough to cover the management and maintenance and debt relating to those homes. Borrowing to maintain existing housing stock should ensure that the rents from these properties continue to contribute to the HRA and tenants' properties remain safe and warm.

30. How is interest calculated and charged to the HRA on debt?

There are several ways that Councils account for HRA borrowing and this can affect the time and the amount of loan that is repaid and similarly the interest charged. Some Councils have a single "pot" of borrowing which includes many loans all with differing rates and repayment dates. They calculate the amount of debt that the HRA is responsible for and work this out as a percentage of the total loan pot. They then work out what the average interest rate across the whole pot of debt is and make a charge to the HRA equivalent to the HRA's proportion of the interest each year. As new loans are taken out or old loans repaid, the interest on the pot will change each year, but can be estimated accurately. Alternatively, the Council can have two pots – one pot of debt for General Fund borrowing and a separate one for HRA borrowing. The interest charged to the HRA will be based on the annual interest on the loans in its own dedicated pot rather than a hybrid calculation across all debt in the Council. Shropshire Council takes the former approach.

31. When do loans need to be repaid by in the HRA?

Whilst there is no requirement in the HRA for a Council to become debt free over time, the Council's loans to PWLB and external funders do have repayment dates. If there is insufficient cash at the time of repayment, then the loan can usually be refinanced. This is a matter for the Council's treasury management strategy. Unlike the General Fund, the HRA is not required to set aside a Minimum Revenue Provision (MRP) each year to meet debt repayments.

There are several methods by which Councils use HRA funds to repay debt:

• Annual set aside, payment to GF – the HRA pays over an annual proportion of its total debt each year to the General Fund. The General Fund then uses this money either to pay down debt as it falls due, uses it to pay off other loans or to reduce the need to borrow at the time. The HRA assumes that its debt is reduced and it also pays a reduced interest charge as a result.

• Annual set aside, held in a reserve for repayment of debt – the HRA pays over an annual proportion of its total debt into an earmarked account to be used to repay debt as it falls due. As the loan is due for repayment, the money in the reserve is used to repay the debt. The HRA does not assumes that its debt is reduced and it also pays the same amount of interest as it would have done without set aside. Setting aside HRA balances in this way means that they can no longer be used to fund revenue activities and can only be used for capital.

• Allow HRA balances to build up to allow the repayment of the loan as it falls due. The revenue is then paid at the loan repayment date to the Council to extinguish the debt. Balances remain available to meet revenue issues over time. Interest charges assume that debt is repaid on the repayment date. It should be noted that whilst long term loans can be repaid early, there is usually a financial penalty incurred should this happen. The penalty reflects the loss of interest to the lender that I would have assumed it would get together with an allowance for having had cash at an earlier date than expected. Where there is a cost, this is known as a "premium", in the event of a saving (i.e. if interest rates allow) then this is known as a "discount". If there are insufficient funds, the HRA can refinance a loan at the point of repayment. This may result in a lower rate of interest then the original loan.

The business plan currently assumes that all non-PWLB debt is repaid in accordance with loan terms and that the PWLB debt is refinanced when due.

32. How much of the receipt from a Right to Buy Sale can the Council keep?

The proportion of annual Right to Buy sales receipts (after discount) that the Council and/or HRA can keep depends on how the cumulative sales receipts since April 2012 compare to that expected in the self-financing calculation. For each sale, the Council can keep £1,300 to pay for the administration of the sale. Each year, the Treasury expects to receive an agreed sum from RTB sales and this sum is shared or allocated to Councils based on their RTB sales pre 2012. There is a proportion of the receipt that the Council may keep for each sale – this is known as the LA share. Other parts of the receipts in the year depend on whether the Treasury's share has been reached or not. If the Council regularly sells more properties than the self-financing debt settlement assumed, then it will be compensated for effectively having taken on more debt than it should have. The income from rents (after management and maintenance costs) from homes is assumed to be used to pay HRA debt off. If the number of sales is more than expected, then the net income will be lower than expected leaving less revenue to pay off debt. In this case, the Council can keep part of the receipts to help it plug this gap. If after accounting for the administration fee, the LA share, the Treasury Share and the Allowable Debt, there are still some receipts left, then these are known as 1-4-1 Replacement Receipts and these must be used within 5 years to finance the cost of replacing homes or returned to the Government for redistribution.

Guidance issued in July 2024 introduced temporary increased flexibilities on the use of Right To Buy receipts. This has changed the current rules to:

For the two financial years 2024-2025 and 2025-2026:

• The maximum permitted contribution from Right to Buy receipts to replacement affordable housing will increase from 50% to 100%.

• Right to Buy receipts will be permitted to be used with section 106 contributions.

• The cap on the percentage of replacements delivered as acquisitions each year (currently 50%) will be lifted.

The lifting of the cap for the two years 2024-25 and 2025-26 will allow for the 100% application of currently held RTB balances to ongoing capital scheme developments.

33. What are RTB 1-4-1 receipts and how can they be used?

RTB 1-4-1 receipts are a share of the sales receipts arising from RTB sales. They are generated when the number and values of sales exceed set limits for the Council each year. These receipts were originally designed to help fund replacement of additional social homes lost because of an increase in 2012 in the level of discount offered to tenants wishing to buy their own home. The expectation was that the money could replace the additional sales on a 1-4-1 basis. RTB 1-4-1 receipts can only be used to fund:

• New build development of homes in the HRA

• Acquisition of homes in the HRA

• Purchase of S106 homes, as long as RTB receipts haven't been used to build the property initially

• Development by another Registered Provider Unused receipts after a time limit are returned to Government with interest at 4% above the bank base rate. From 1 April 2012 to 31 March 2020, the 1-4-1 receipts could only be used to finance up to 30% of a purchase / scheme – the rest needing to be financed from revenue / borrowing. From 1 April 2021 the proportion is 40%. This cannot be combined with any grant income. From 1 April 2012 to 31 March 2020, the 1-4-1 receipts had to be spent within 12 quarters of it being earned. Quarterly reporting was required. From 1 April 2021, the time allowed is 5 years from the year in which the receipts arise. Originally, receipts could only be used to fund social and affordable rented properties in the HRA. From 1 April 2021, they can be used to fund shared ownership and First Homes (discounted market sales) tenures.

GOLDEN RULE: For business planning purposes a Golden Rule is set that requires that RTB receipts are fully reinvested and not returned to Government.

34. What is a buy back

When a property which has been sold through Right to Buy comes back onto the market the HRA has first refusal to repurchase the property. The decision to do so should be assessed through a viability appraisal assessment.

35. Does the HRA have to account for depreciation on assets?

Yes, depreciation is effectively a cash charge to the HRA which moves an allowance from HRA revenue reserves to the Major Repairs Reserve each year. It is designed to reflect the need to finance the replacement of components within homes over time. There are several options for calculation:

• Straight line based on property value;

• Linked to major repairs expenditure needs (e.g. using a survey);

• Componentised approach – each component in a house e.g. doors & windows, kitchen, bathroom, electrics, boiler, roof have replacement lifecycles ranging from 15 years top 60 years depending on the item. The sum charges to the HRA is transferred into the Major Repairs Reserve (MRR). If the amount of depreciation charged to the HRA based on the calculations of past costs is insufficient to meet the longer term capital spending estimates, a Council can "top up" the figure from the HRA reserves. Adding further sums into the MRR means it can only be spent on capital expenditure or repayment of loans.

36. What is the Major Repairs Reserve used for?

Councils with an HRA must have a Major Repairs Reserve (MRR). The Major Repairs Reserve is used to build up capital sums that can be used to finance the capital programme and repayment of housing debt. The income to the reserve is based on the depreciation charge made to the HRA. It can also be "topped up" with further HRA contributions. The funds in the MRR are capital. A minimum balance can be set on the MRR, but most Councils utilise the balance on the MRR each year to fund the capital programme alongside other capital receipts, revenue contributions and borrowing. The MRR is used less now as a means of building up reserves as within self-financing it is possible to forecast the use of revenue income to fund the capital programme.

37. What is the minimum level of HRA reserve allowed?

The HRA reserve must not either fall into negativity or be budgeted to do so. An annual HRA budget can be set to spend more than the income received in the year (e.g. to fund capital or loan repayments from HRA reserves) but this "deficit" will be taken from the reserve to leave the overall reserve total positive after doing so. The Council can set its own minimum level of working capital that it doesn't want to fall below.

Golden rule: The business plan adopts a Golden Rule minimum revenue reserve position of £250 per property which is in line with the industry standard approach.

38. What is the interest cover ratio used for?

Interest cover is the number of times that the annual interest charge could be paid out of the annual net income (income – revenue spend) – or operating surplus. This figure is before any loan repayments or interest have been made. For example, if the annual net income to the HRA is £2 million and the interest charges are £750,000, then the interest cover is £2million / £750k which is 2.67 times. The ratio is used to measure how affordable debt is in the HRA via its ability to pay interest on the loans. A prudent minimum interest cover is 1.25 times. Borrowing to build new homes may reduce the interest cover during the building phase as interest is increased. However, as the properties begin to generate rental income, the net income will rise (new homes need less maintenance) and thus the number of times that the operating surplus will cover the interest charged will increase. This is being used as a measure of affordability rather than the actual level of debt held.

GOLDEN RULE: For business planning purposes a Golden Rule is set that requires that interest cover of 1.25 is achieved throughout the business plan period.

39. What is the loan to value measure used for?

Loan to value (or gearing) measures the proportion of the value of the Council's housing stock that is covered by loans. This measure is used by housing associations but is less meaningful to Councils at the present time. The value of the Council's housing stock is not what it cost, it is valued at its existing use value as a social home – this can be revalued and thus changes the figure. Housing associations are typically required to allow their banks to take a charge over their assets in return for borrowing money. The bank would want to control the level of loans they have provided against the value of the properties to ensure adequate security headroom was maintained in the event of default. Councils do not have this requirement when borrowing, but Councils have not until recently been involved in large development programmes. The debt cap pre-2018, meant that Council debt was lower by comparison than housing association debt.

Golden Rule: For business planning purposes LTV/gearing (defined as net debt (gross debt less closing HRA surplus)) divided by total housing assets does not exceed 70%. This ensures headroom is maintained in borrowing capacity from a 'security' perspective in line with sector norms.