Shelter: Options for Reducing HRA Debt
Executive Summary

EXECUTIVE SUMMARY

This paper summarises an analysis of Housing Revenue Account (HRA) debt in England and the potential for debt reduction to unlock investment in existing stock and new social homes.

We conclude that current debt levels materially constrain delivery and that substantial debt write-down, potentially up to full write-off, is required to deliver capacity to invest in the existing HRA stock to the standards now required including net zero carbon, whilst unlocking capacity to make a meaningful and at-scale contribution to the delivery of new social rent homes by local authorities.

1. Background and Context

The 2012 HRA self-financing settlement totalled around £29bn of debt to local authorities. Since then, rent reductions, higher Right to Buy discounts, new regulatory standards, and inflation have undermined the financial assumptions. HRA debt has risen to approximately £31.8bn, significantly inhibiting the ability of authorities to invest in both existing stock and new homes.

Shelter commissioned Savills Affordable Housing Consultancy to deliver research to understand the scale of debt removal necessary and the impact of debt removal on social rent delivery nationally, regionally and locally.

2. Financial Pressures

Local authorities face rising borrowing costs (currently above 6% for new loans), refinancing risks, increasing capital expenditure for their existing stocks, rising development costs, increased regulatory pressures (from the Regulator of Social Housing’s consumer standards and from the Building Safety Regulator), as well as from general inflationary pressures.

Financial metrics show sustained pressure, with little or no capacity to finance new development. Authorities have been scaling back their development plans for new homes delivery as these financial pressures have increased, especially since 2020.

3. Analytical Approach

The review and analysis combines modelling of the HRA at the national level with local authority business plan data and engagement.

When compared to the original debt settlement of 2012, there are significantly higher capital investment requirements (on average around £74,000 per property over 30 years at today's prices) within business plans now. This is before additional costs to achieve Net Zero Carbon (estimated £17,000 per property) are added to plans.

4. Debt reduction scenarios

Our modelling indicates a minimum required debt reduction of around £21.6bn to cover all current and future investment needs including net zero carbon (on the assumption that there is no additional capital subsidy provided directly for decarbonisation). However, such an approach does not fully provide for the financial challenges that have already applied to HRAs.

Applying these current standards retrospectively to 2012, therefore, implies full debt write-off: currently £31.8bn.

It is emphasised that full debt write-off is consistent with principles of the self-financing settlement of 2012 i.e. providing the capacity for authorities to address conditions (i.e. safety and quality) within the existing stock without recourse to borrowing.

A full debt write-off would therefore allow authorities to secure the future for their existing stock and provide the capacity and headroom for a contribution at scale to help meet the Government's target of 1.5 million homes.

5. Delivery potential

Debt reduction could unlock significant new supply of social rent homes.

Per £1bn of debt written off, around 8,900 new social rent homes could be delivered.

Borrowing can never cover the full cost of delivery, particularly given rising costs of development and construction. Such additional delivery would require additional subsidy – which could be from grant funding, section 106 schemes and/or cross-subsidy from the rest of the HRA, though the latter would necessarily be constrained by the need to provide for the existing stock.

Nationally, this equates to around 190,000–280,000+ social rent homes depending on the scale of write-off.

6. Local Authority evidence

We have engaged a representative sample of ten local authorities as part of this project. Key themes have been:

- Debt levels and financing costs are a structural constraint and a major factor limiting new investment.
- There has been a shift toward existing stock investment, increasing prioritisation of safety and compliance (e.g. building safety), decarbonisation (Minimum Energy Efficiency Standards, Decent Homes Standard), service quality improvements - in many cases, this is crowding out new build capacity.
- There are reduced or constrained new build programmes with viability challenges in development.
- There is tension between ambitions to deliver homes at Social Rent and the “financial reality” that with all other constraints including current debt levels, rents would otherwise need to be higher to make schemes work.
- There is a desire for greater financial flexibility: debt write-down or restructuring gives the greatest “agency” for local authorities to take their own decisions in the context of their local strategies, but this should be seen as part of a wider group of initiatives including, for example, greater HRA flexibilities, a stable policy environment, long-term rent policy etc.

All authorities engaged within the project would be open to a “compact” or equivalent form of commitment to deliver new social rent homes if HRA debt were reduced or written off. Authorities therefore support debt reduction, perhaps as part of a wider package of measures and initiatives, and would commit to increased delivery.

7. Conclusions

The original HRA self-financing settlement has been fundamentally undermined by successive policy changes and adverse movements in the markets and economy.

Current debt levels restrict both investment in the existing stock but, critically, the delivery of new social rent homes at scale by local authorities.

Only large-scale or full write-off of HRA debt restores capacity to both maintain the existing stock and build at scale.

8. Recommendations

- Government should commit to the write-off of all Housing Revenue Account debt – this is consistent with the principles of the self-financing settlement; only a complete write-off enables local authorities to deliver the investment needed within the existing stock and unlocks the capacity and potential to deliver new social rent homes at scale and make a contribution at scale to the Government's 1.5million homes target.

- Establish a Housing Delivery Compact linking debt write-off to new delivery.

- Maintain and potentially significantly enhance capital grant programmes for local authorities, especially to support the delivery of new social rent homes.

- Government to consider reform of the fiscal rules to support local authority housing investment.

- The Government should commit to long-term rent policy certainty, which is critical for local authorities to unlock investment into new social rent homes.