



Briefing 20-06

January 2020

Local authority new build programmes and lifting the HRA borrowing caps – What is the potential and what are the constraints?

To: All Chief Executives, Main Contacts England

For information: Northern Ireland, Scotland, and Wales.

Key Points

1. The borrowing caps were abolished on 29 October 2018 with the aim of assisting councils to build 100,000 new homes a year.
2. The Chartered Institute of Housing (CIH), National Federation of ALMOs (NFA) the Association of Retained Council Housing (ARCH) have conducted research into the impact of the changes and the research makes a judgement as to whether the projections made by the Treasury are likely to be met.
3. This briefing sets out an overview of the report and a summary of the key findings.

1.0. Background

At the Conservative Party conference in 2018, Theresa May announced that the borrowing cap imposed on councils was hindering them playing their part in the solution to the housing crisis. Following a brief consultation, the borrowing caps were abolished on 29 October 2018 with the aim of assisting councils to build 100,000 new homes a year.

The Chartered Institute of Housing (CIH), National Federation of ALMOs (NFA) the Association of Retained Council Housing (ARCH) have conducted research into the impact of the changes and the research makes a judgement as to whether the projections made by the Treasury are likely to be met. The report also sets out the constraints which councils are facing when building homes in their communities.

This briefing sets out an overview of the report and a summary of the key findings. The full report is available via the following link: -

Local authority new build programmes and lifting the HRA borrowing caps

2.0. The research context

The survey was conducted to gain a snapshot view of whether a 'new generation of council housing' is likely to emerge. There were 40 local authorities (in some cases their ALMOs) invited to take part in the survey, which requested both factual replies and narrative explanations of their house building programmes.

The report advises that 22 detailed responses were received from 22 authorities ranging from five London boroughs to large cities in the Midlands and North to several medium and small authorities. It is stated that although the number of responses were limited, the information received was detailed and threw considerable light both on local authorities' new build plans and on the opportunities and constraints they faced.

The survey consisted of a range of questions under two sections, how councils have developed their programmes and opportunities and constraints. The question asked in the survey are outlined below: -

How councils have developed their programmes

- (i) How many new homes are being planned?
- (ii) What mix of housing are councils proposing?
- (iii) How are they funding their programmes?
- (iv) Are councils entering into partnership arrangements for new build?
- (v) How were plans affected by the lifting of the borrowing cap?
- (vi) Do councils' current plans meet their ambitions?

Opportunities and constraints

The report highlights the key opportunities and constraints reported in response to the survey as being: -

- (i) Rent policies
- (ii) Right to Buy (RTB) and Right to Buy (RTB) receipts
- (iii) Grant funding and viability
- (iv) Land and planning constraints
- (v) Building industry constraints
- (vi) Shortages of skilled staff
- (vii) Competing priorities
- (viii) Cost of Public Works Loan Board loans
- (ix) Other constraints

3.0. Key findings from the survey

The report outlines the survey findings as being: -

1. Based on the evidence from this survey and others, most authorities which still have council housing plan to expand their housing delivery. For three-quarters, the lifting of the borrowing caps was a significant factor but generally not the only one.
2. There were major differences in planned output, ranging from several councils intending to build only around 50 new homes (or fewer) per year, to two large councils with programmes averaging 500 units per year. No councils planned to build no homes at all.
3. Around half of councils' plan to build for social rent, but usually cross-subsidised from building for sale or market rent; a minority of councils are focussed on building for Affordable Rent (AR). Cross-subsidy in some form is common.
4. Plans are very diverse; councils have different plans reflecting local circumstances and varying responses to national policies. More than half have local partnerships of some kind (usually with ALMOs or local housing companies (LHCs)).
5. While the majority are using government grant, a substantial minority rely on local resources including right to buy (RTB) receipts.
6. The plans of councils included in our survey, if typical, suggest that the Treasury estimate that local authority housebuilding will soon reach 10,000 units annually is likely to be met - and even exceeded.
7. There are mixed messages about the government's planned rents policy from 2020 onwards; while it is generally welcome, there is a vitally important need for long-term stability in council incomes, given that many are embarking on extra borrowing and ambitious investment programmes. Some councils have been left with historically low rents as a result of the end of earlier 'convergence' policies.
8. Councils continue to face other significant constraints. The most important are:
 - (i) the pressures of RTB and restrictions on use of RTB receipts
 - (ii) scheme viability and the need for more grant funding
 - (iii) land shortages and planning constraints
 - (iv) building industry constraints
 - (v) shortages of skilled staff
 - (vi) competing priorities for resources, such as investment in existing stock.

4.0. The report conclusions

The report stated that there two overall conclusions stand out:

1. Now that councils have been encouraged to embark on long-term investment programmes, stability is vital: there needs to be a consistent approach to rents policy and no wider policy changes that would compromise the major commitments which councils are now taking on.

2. Councils' approaches to new build are very diverse: they need more local discretion to give them powers and flexibility on key issues such as RTB, access to grants and local rent levels to deliver what their local communities need.

Other conclusions also follow from the details of the survey responses.

3. **Rents.** The new five-year policy is welcome but there is a need for ten years of stability, combined with some flexibilities for councils to address the historic anomalies in their rents which were left with the ending of the 'convergence' policy. RTB. Sales are a severe disincentive to building, as new homes might have to be sold after only three years, possibly at less than the cost of building. This could easily prejudice loan repayments. Many local new build programmes are not addressing needs because they are only replacing, or even failing to replace, the homes sold through RTB.
4. **RTB receipts.** Current rules, due to be revised by government but with no decision yet taken, are a severe impediment. Issues include the proportion of the receipt taken by the Treasury, the 'three-year' and '30 per cent' rules about reuse of receipts, and the rule preventing the use of receipts with grant or s106 money in the same scheme.
5. **Grant.** Availability of grant (especially as programmes expand) and grant levels are key issues, especially for councils wanting to build for social rent. Margins are tight and availability of grant covering the right proportion of scheme costs is vital in many cases.
6. **Land and planning constraints.** These put severe limitations on almost all councils. Physical availability of land, availability only of small sites, and the cost of land are all important. Planning procedures can hold up development even if councils are running the building programmes. Councils require powers to intervene more effectively and quickly to get the land they need.
7. **Building industry constraints.** Building industry capacity and skills are constraints, although ranking below land and planning issues in importance. More help is needed through the apprenticeship levy and wider use of modern methods of construction. Staff shortages. Difficulty in recruiting skilled staff is a major obstacle, although one that London councils seem to have been able to overcome with fewer difficulties than councils elsewhere. Continuing to provide councils with help, via the GLA and Homes England, is vital as programmes expand.
8. **Competing priorities.** Government must bear in mind and make provision for councils' commitments beyond new housebuilding, especially investment in their existing stock (which for some, post-Grenfell, is a major challenge). The long-term viability of each council's Housing Revenue Account (HRA) depends on being able to make this reinvestment as well as on factors such as rental income.

9. **Cost of Public Works Loan Board (PWLB) loans.** While the recent increase is within the margins which most councils appear to have allowed, it undoubtedly tightens the finances for new build within their HRAs. In many cases, where councils depend on LHCs to mount their new build programmes, it will increase their costs (as loan charges are linked to PWLB rates)

APSE Comment

The fifth APSE and Town and Country Planning Association (TCPA) research, [Housing for a fairer society - The role of councils in ensuring stronger communities](#) was published in July 2019 and drew on feedback and insight from an online survey which received 159 responses, a series of case studies and a high-level stakeholder roundtable, to produce a report and set out recommendations for Governments to enable councils to deliver more and better homes of all tenures.

The APSE and TCPA research highlighted similar constraints that were expressed in the Local authority new build programmes and lifting the HRA borrowing cap. The Housing for a fairer society – The role of councils in ensuring stronger communities sets out 10 recommendations which were drafted based on the evidence received during the research. These included the following: -

Recommendation 2: Government should make significantly more investment available for social rental homes as well as other genuinely affordable tenures. While the removal of the HRA borrowing cap is very welcome, this does not substitute the need for direct grant funding for genuinely affordable housing. Government should also clarify how much of the funding announced to date is available for social rent, as opposed to more intermediate 'affordable housing' products.

Recommendation 3: Government should suspend the Right to Buy in England as happened in Scotland and Wales. If the Right to Buy continues, Government should enable councils to retain 100% of their Right to Buy receipts to reinvest into building new affordable housing.

Recommendation 4: Government should further reform the viability test in planning to close the loophole on land valuation enabling developers to avoid building affordable housing. Government should also make changes to the compensation code to remove 'hope value.'

Recommendation 9: The government should take a proactive role to incentivise domestic production of equipment and sustainable raw materials alongside exploring options for scaling offsite production and modern methods of construction. The government should produce a national labour strategy to support the expansion of the construction industry, recognising the current capacity constraints on delivery due to

factors such as the availability of skilled workers. The government should also ensure accessibility, sustainability, and low carbon innovation is at the heart of a national labour strategy. This will assist the British construction sectors to become world leaders in creating high-quality sustainable homes that enhance people's health and wellbeing

In addition, the APSE and TCPA report provided detailed case study examples of Local Authorities who are building new homes to meet the needs of their communities.

APSE member authorities have access to a range of membership resources to assist in delivering council services. This includes our regular advisory groups, specifically designed to bring together elected members, directors, managers and heads of service, together with trade union representatives to discuss service specific issues, innovation and new ways of delivering continuous improvement.

The Housing and Building Maintenance advisory group is an excellent forum for sharing ideas and discussing topical service issues with colleagues from other councils throughout the UK. Advisory groups are a free service included as part of your authority's membership of APSE and all end with an informal lunch to facilitate networking with peers in other councils.

Further details of the Housing and Building Maintenance advisory group, APSE Briefings and other resources available to APSE Member Authorities can be located on the APSE Website.

[APSE](#)

Vickie Hacking
APSE Principal Advisor.