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Local authority new build programmes and lifting the HRA borrowing caps

What is the potential and what are the constraints?

January 2020

Stockport Homes, St Thomas development (work commenced 2017)

National Federation of ALMOs

championing better homes and communities

ASSOCIATION OF RETAINED COUNCIL HOUSING

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A report by the Chartered Institute of Housing, National Federation of ALMOs and the Association of Retained Council Housing

The 'borrowing caps' that restricted investment by most councils in building new council housing were lifted a year ago. The government promised that it heralded 'a new generation of council homes' in England.

This report assesses the impact of this important change, judges whether Treasury projections are likely to be met and sets out the constraints which councils still face in building the homes that local communities need.

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Arch
ASSOCIATION OF RETAINED COUNCIL HOUSING

Nottingham City Homes, Lenton Green (built 2018)

Executive summary

The CIH-NFA-ARCH survey had 22 detailed responses from authorities ranging from five London boroughs to large cities in the Midlands and North and several medium and small authorities. Although the numbers responding were limited, the replies throw considerable light both on local authorities' new-build plans and on the opportunities and constraints they still face.

The survey findings

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:
   a. the pressures of RTB and restrictions on use of RTB receipts
   b. scheme viability and the need for more grant funding
   c. land shortages and planning constraints
   d. building industry constraints
   e. shortages of skilled staff
   f. competing priorities for resources, such as investment in existing stock.

South Tyneside Homes, Thomas Bell House skyroom and landscaped gardens (completed 2014)

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Conclusions

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.
4. **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.
5. **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.
6. **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.
7. **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.
8. **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.
9. **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.
10. **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.
11. **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).

Introduction

In her speech to the 2018 Conservative Party conference, Theresa May described solving the national housing crisis as 'the biggest policy challenge of our generation'. 'It doesn't make sense', she said, 'to stop councils from playing their part in solving it … But something is holding them back. There is a government cap on how much they can borrow against their housing assets to fund new developments… So today I can announce that we are scrapping that cap.'

A few weeks later on October 29, after a brief consultation, the caps were abolished. In the subsequent Budget, the Treasury indicated that their removal meant that councils should soon be able to build up to 10,000 new homes per year.

This project attempts to assess the impact of this important change, one year after its implementation, judge whether the Treasury's projection is likely to be met and set out the constraints which councils still face.

Background – council housing finance since 2012

In 2017 the government set a target to increase housebuilding to 300,000 new homes a year by the mid-2020s. The last – and only – time housing output approached this level, in the 1960s, councils were contributing nearly half the total. Since councils were discouraged from building from the 1980s onwards, housing associations have played a bigger role, but never enough to fill the gap. Since the 2017 white paper *Fixing our broken housing market*, the government has acknowledged the need to diversify housing supply and to end the dominance of a few big developers if it is to expand output enough to meet need, including a bigger role for councils in building new housing for social rent in particular.

In principle, councils have the potential to make a much bigger contribution. April 2012 saw the most significant change in a generation to the way council housing is financed. With the end of the unfair and unpopular housing subsidy system, councils were freed to take a long-term view of their housing and manage it for the benefit of residents in a more transparent, accountable and cost-effective way. In a joint statement issued at the time, the government and the LGA agreed that councils had a new opportunity to be both ambitious and innovative in how they manage, maintain and improve the housing stock, and to invest in new homes.

April 2012 saw a financial settlement that adjusted the debt levels of each of the local authorities that still owned council housing. Based on a valuation of each council's stock that gave a total value of £29.2 billion to council housing in England, 136 authorities took on new debt, while 34 received government payments to reduce their housing debt, with an overall net receipt to the government of just over £8 billion. The settlement was designed to leave each authority with a debt equal to a formula-based calculation of the net present value of its housing stock, roughly equal to the amount the council could afford to repay over 30 years from rent income, after allowing for the costs of managing the stock and keeping it in good repair over that period. Post-settlement, councils were free to use the whole of rental income to support investment in housing. Rather than repay debt at the rate assumed in the valuation, they could use new borrowing to finance construction of new council homes.

In the housing association sector, borrowing is limited only by what associations can afford to repay from sales receipts or rental income. The same applies, under the Prudential Code, to local authority borrowing outside the HRA, covering investment for a wide variety of mainly non-housing purposes. However, the government decided, as part of the 2012 settlement, that each local authority's borrowing repayable from the HRA would be subject to an additional limitation usually described as a 'borrowing cap.' These caps limited overall local authority housing debt to £29.8 billion.

The HRA cap for each authority was based on the notional value of its housing stock, less adjustments in a few cases to allow for recent investment. In most local authorities, because of historic financing decisions, the actual housing debt was less than the notional debt derived from the stock valuation, giving 85 per cent of authorities 'headroom' for borrowing within the cap, originally worth £2.8 billion in total, or just under ten per cent of the total borrowing limit. However, 28 authorities began the new system with no borrowing headroom at all and for others it was very limited.

From the start, the debt caps were the most controversial part of the self-financing settlement. The potential of councils to borrow prudentially in 2012 in line with their self-financed business plans was assessed by the NFA, CIH and ARCH to be some £20 billion over five years if no caps had been in place, whereas councils were limited in practice to a far lower £2.8 billion.[1] The report *Let's get building* argued that if all the spare potential were devoted to new building, up to 200,000 new homes could have been provided. An ARCH survey in summer 2012 showed that councils had plans to invest an average of £9,000 per unit in their stock and would build 25,000 new homes by 2018, but could increase output by a further 60,000 homes if borrowing constraints were removed.

These plans were not, however, to be fulfilled. The debt redistribution in the self-financing settlement was based on assumptions about council rent increases and RTB sales and receipts that were soon abandoned by the government. The original settlement was premised on the assumption that rents would rise annually by 0.5 per cent above inflation, as measured by the Retail Price Index (RPI), throughout the business plan period of 30 years. However, since April 2012 successive government decisions have significantly reduced the rental income expected to be available to councils, with a corresponding impact on investment, both in the existing stock and in construction of new homes.

- From April 2012, 'reinvigoration' of RTB with significantly increased discounts led to a sharp increase in council house sales, currently running at around 12,000 a year; the loss of rent income from homes sold is only partially offset by savings in management and maintenance spending, and arrangements for replacement are not working.
- In June 2013, the government announced that from April 2015 the rent increase formula would be based, not on RPI, but on the Consumer Price Index plus one per cent, and the allowance of an additional £2 per week per unit to achieve convergence with housing association rents ended. CPI has been consistently lower than RPI by an average one per cent since November 2015.
- In July 2015, the government announced plans, later enacted in the Welfare Reform and Work Act 2016, to reduce council and housing association rents by one per cent a year for four years from April 2016. By April 2020 rents will be ten per cent lower than they were in April 2016. The effects of this change on councils' investment plans were investigated in a joint report by CIH and CIPFA.[2]
- In October 2017, the government announced that, from April 2020, local authorities will once again be able to raise rents by CPI plus one per cent for at least five years; however, this implies that rents will remain ten per cent below where they would have been before the rent reductions were applied.
- Since 2012, successive welfare reforms – the under-occupation charge, benefit cap, and roll-out of universal credit – have made it more difficult to collect rent from growing numbers of council tenants. Continuing roll-out of universal credit is likely to exacerbate this position.

[1]NFA with ARCH, CIH, CWAG and LGA (2012) Let's Get Building: The case for local authority investment in rented homes to help drive economic growth.

[2]CIH and CIPFA (2016) Investing in Council Housing: The impact on HRA business plans.

- The Housing and Planning Act 2016 included provision for a levy to be raised from councils with housing stocks to pay for discounts to housing association tenants exercising their proposed right to buy; the levy would be calculated by reference to the 'higher value' stock owned by each council. Uncertainty about future liabilities continued to blight councils' investment planning until the official announcement in August 2018 that the government would not implement the levy.

Publication of the green paper *A new deal for social housing* in August 2018 initiated a further shift in government policy, reversing many of the changes to council housing finance that had been introduced since 2012, and opening the way, as the then prime minister claimed, for a 'new generation of council housing'. Abolition of the HRA debt caps was the most significant of these changes. Others include the abandonment of the higher-value levy and the return to above-inflation rent increases from April 2020. Councils are also now able to access grant funding for new social rented homes (or London Affordable Rent in the case of GLA funding).

However, rent certainty has only been provided for five years, and the rent base to which these increases will now apply has been depleted by over ten per cent compared with 2016. Many councils which were working towards rent 'convergence' have seen this process halted and apparently unlikely to resume, leaving their rents permanently lower than they would have been.

And there is now a second major area of uncertainty around the future impact of RTB. Current policy aims at one-for-one replacement of homes sold (technically, not all homes sold but the extra numbers sold as a result of 'reinvigoration' of the right to buy in 2012) by allowing local authorities to use receipts to finance construction of new homes. But the rules governing the use of receipts for this purpose are widely acknowledged to be too restrictive, and the one-for-one replacement policy is not working. In September 2018 the government consulted on relaxing these rules but, more than a year later, it has not issued any response to this consultation. Indeed, neither has there been any confirmation of the wider proposals in the 2018 green paper.

Reasons for the survey and how it was carried out

One year after the lifting of the borrowing caps, this survey by CIH, NFA and ARCH is intended to give a snapshot view of whether a 'new generation of council housing' is likely to emerge. Although covering only a sample of the 163 local authorities which own council housing stock, it enables a provisional judgement on whether the Treasury's projection of 10,000 newly completed homes will be met. More significantly, it gives a picture of the diversity of responses by councils to the new potential to investment in housebuilding, as well as revealing the possibilities many are exploring and the different constraints that they all face. The aim is both to assist government and grant-funding bodies (Homes England and the GLA) in promoting the programme and point to ways in which the significant remaining constraints could be addressed.

CIH, NFA and ARCH invited 40 local authorities (and in some cases their ALMOs) to take part in the survey, which requested both factual replies and narrative explanations of the state of their housebuilding programmes. The survey received 22 detailed responses from authorities ranging from five London boroughs to large cities in the Midlands and North to several medium and small authorities. Although the numbers responding were limited, the quality of the survey is demonstrated by the detail and considered nature of all the responses received. They throw considerable light both on local authorities' new build plans and on the opportunities and constraints they still face.

To enable detailed quotes to be made while preserving anonymity, the authorities are labelled 'council A', 'council B' and so on in the text below. The 22 councils and ALMOs are listed in an annex.

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How councils have developed their programmes

How many new homes are being planned?

Councils were asked to set out their new-build plans over the five years to 2023/24. All respondents did so, and some explained the difference between their plans before and after the announcement of the removal of the borrowing caps. Several were able to set out plans beyond 2023/24. This summary excludes parts of council building programmes that are specifically for market sale or rent, where these are separately identified, although in practice (as noted below) several councils' programmes are a mix of affordable and market housing, for cross-subsidy purposes.

Not surprisingly, 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. Some councils had separate, additional programmes via partnership arrangements, and several were pursuing property acquisition as well as new build (but we have ignored this aspect in the study unless the acquisitions are clearly new build under s106 agreements). None of the councils who responded had zero new-build plans, even those who had not recently built new council housing.

The 22 responding councils together plan to build more than 3,000 units per year over the next five years. This would seem to indicate that - assuming they are typical of the 163 stock-holding councils – the government's forecast of achieving around 10,000 additional new build units per year (as envisaged in the November 2018 Budget, as a result of lifting borrowing caps) is well within the bounds of possibility within two-three years. This would be the case even allowing for considerable slippage in councils' plans and the fact that a minority of councils not included in the survey may not be planning any new build at all. In fact, the planned output from councils who responded suggests that government forecasts might even be exceeded.

What mix of housing are councils proposing?

The overall picture is one of considerable diversity, a result of councils aiming to meet local needs (aiming to fill gaps in affordable provision not being met by housing associations, for example for dwellings for large families) combined with a requirement to create packages that are capable of being funded within the different rules on access to grant and use of receipts.

While a few councils are planning only new build funded within their HRAs, many have mixed plans involving non-HRA investment too, and a small number have not yet decided the mix or are still re-evaluating it after the lifting of the caps. Councils building outside the HRA are often doing so via ALMOs or LHCs.

Only one council, with one of the smallest programmes, is planning to build exclusively social rented dwellings. Around half of respondents' programmes are at least 50 per cent social rent. The majority who are planning social rent programmes also plan to have low-cost homeownership (LCHO) or market rent or sale properties, to cross-subsidise the social rent output.

Perhaps surprisingly, seven councils had programmes concentrated specifically on AR. Two of these were in the North, four in the Midlands and one in the East of England. Some councils had mixed programmes involving AR, for example a large northern authority (council P) is planning a mix of AR and LCHO units. In some regions this may be because the differences between AR and social rent are smaller than in London and the South. An emphasis on AR may also reflect past rules about social rented dwellings not being eligible for Homes England grant; in at least one case it is because the council's social rents are very low given the ending of the earlier 'rent convergence' policy.

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How are they funding their programmes?

The combination of resources that councils might use to fund their programmes consists principally of:

- HRA reserves
- HRA or non-HRA borrowing by the authority itself
- Receipts (principally RTB)
- Grant from Homes England or GLA
- Section 106 finance or units (developer contributions)
- Cross-subsidy from market sale or rent
- Private borrowing by an ALMO or LHC, including borrowing from the council's general fund.

All of these are of course underpinned by rental income, both from the new units and (in the HRA) the rest of the council's stock.

Unsurprisingly, all of these sources of funding were represented in the councils who responded to the survey. Equally as expected, all those responding were using HRA resources as part of their funding mix (since all councils in the survey have HRAs).

However, there is quite a strong contrast between seven councils who make little or no use of government grant, and rely on HRA resources and RTB receipts, and the majority who use grant, with it sometimes funding a significant proportion of the cost of their programmes (in one case, 40 per cent). In part this is of course due to restrictive rules about not combining the use of receipts and grant in the same schemes, but it may also reflect the wish by councils to control their own programmes rather than having to comply with Homes England requirements (but not GLA requirements: all five London boroughs were using GLA grant to some degree).

One or two councils were planning to bid for grant to expand their programmes, but this issue was also identified as one of the constraints they face (see below). RTB receipts can be a significant contributor to the costs of development, in several cases being used to fund 30 per cent of a programme (the maximum allowed under RTB receipts rules).

Cross-subsidy is a common method of finance. For example, council A, which has one of the largest programmes, plans almost one-third of the output to be for market rent or sale, to subsidise the bulk of the programme which will provide homes at social rents. A similar proportion is being used by a London borough, council H. Council X has a significant market rent programme via its ALMO, funded by a general fund loan.

Only a quarter of councils mentioned use of s106 but this may under-represent the picture given that government data show considerable reliance on developer contributions. (There are other issues about use of s106, such as viability tests, not explored in the survey.) One council mentioned private borrowing by its ALMO, but this is also likely to under-represent the true extent of private finance being used, especially if LHCs are also taken into account.

One or two ancillary methods of funding were mentioned. For example, council B has received a significant grant from the NHS.

Are councils entering into partnership arrangements for new build?

Fewer than half of the councils responding had no specific partnership arrangements for new build except the 'incidental' ones needed for s106 contributions or with contractors to build the houses. Seven had ALMO partners and five had LHCs. Some had or were exploring housing association partnerships. One specifically mentioned joint ventures for regeneration schemes. There were as many differences in the nature of the partnership arrangements as answers to this question: for example, where councils have ALMOs, some take the lead on new build, whereas other ALMOs simply manage the new stock.

The survey did not cover authorities with no housing stock, which may be more likely to use LHCs, but – as noted below – two respondents had backed away from using LHCs.

How were plans affected by the lifting of the borrowing caps?

One conclusion from the survey is that councils' new-build plans were already due to make a significant difference to the sector's output, even before the lifting of the cap. It is clear that many councils had responded to other incentives, such as the prospect of more stable rents and the availability of grant for social rent programmes, prior to the announcement that the caps would be removed.

In fact, a quarter of respondents said the change had made no immediate difference to their plans. One small council (council J) was not using borrowing at all for its programme, only using HRA reserves. One council, a London borough (council V), made the useful point that even if the cap was not an obstacle, the fact that now councils have to follow prudential borrowing rules and make a business case (rather than simply staying below an artificial cap) is a helpful reform that 'changes the paradigm of what might be possible.' Another London borough (council U), where the policy change had made a difference, also said that it '…gives local authorities flexibility to decide what level of borrowing they can support.'

One small council (council C) said that it had limited ability to finance new debt and that this had not altered with the lifting of the cap. For this reason it was not even fully replacing lost RTB stock. Although the number of small authorities with limited programmes included in the survey was itself small, the answers highlight the problems faced by them, the limitations of their HRAs and their consequent inability to build more than a small number of new homes annually, irrespective of local need.

For three-quarters of councils, the lifting of the cap had made a significant difference - in some cases quite a dramatic one. For some, the changes are organisational. For example, two councils that were exploring setting up LHCs have now decided not to do so, saving on the set-up costs. Others have switched the emphasis of their programmes back towards working within the HRA and possibly increasing the proportion of the programme going towards social rent dwellings, as now being feasible and offering output more attuned to local needs.

The biggest difference for some councils is in the size and length of their programmes. A large northern authority (council N) said that it is '…now in a position to set out a long-term programme on a much more ambitious scale.' Another (council P) said that lifting the cap was 'critical to accelerating' its programme. A Midlands authority (council Q) said that it '…provides [the] opportunity to investigate larger and more complex schemes.' Another Midlands authority (council T) gave figures to show that its plans had grown from about 670 units within the cap, to an extra 1,000 HRA units (and 450 non-HRA) over the four years to 2024/25, post-lifting of the cap. Yet another authority now planned to double the new build output from its HRA and in the long-term now plans to build nearly 3,000 homes.

Our conclusion is therefore that lifting of the cap has made a significant difference to most councils, with two caveats. One is that the effects will take 2-3 years to work through into higher output, and the other is that several authorities qualified their approval of the change with reminders about the other constraints on their programmes (see below).

Do councils' current plans meet their ambitions?

A third of councils are satisfied with the size of their revamped programmes but the rest – to varying degrees – still want to do more: for example, council K said it is building 'far below' projected need levels. Three authorities said that they can now replace RTB losses but are still making no impact on addressing new needs. Others say that even with enhanced programmes they are failing to achieve one-for-one replacement of RTB sales. Clearly the majority want to build more homes than they can within current programmes but of course are mindful of the various constraints – of which RTB and the rules about RTB receipts were the most frequently mentioned.

Opportunities and constraints

Because of the detail of the replies to the surveys, perhaps the most valuable aspect of the findings is how they show the opportunities or – more often – the constraints that affect the size and make-up of council new build programmes. This section is divided into topic headings reflected the main opportunities and constraints which councils identified.

Rents policy

Councils were asked to comment on whether the new rents policy that takes effect in April 2020 is a significant advantage. In responding to this question, councils also made comments on wider aspects of rents policy.

- **Significance of the change**. Only one or two councils said the rents policy change is 'very significant' although most welcomed it in some form. For one (council D) the main impact was on investment in the existing stock. Council K said that it brought relief after their area 'suffered badly' from the recent rent reductions. A London borough (council H) said that the earlier reductions had 'substantially undermined' their capacity to invest in existing and new stock. One council even described the new policy as 'a damaging initiative' which meant that self-financing 'has effectively finished' because rent convergence has been halted.
- **Issues about the change**. One authority noted that the new policy's value would depend on whether the council decided to raise rents to the new limits. Another pointed out that councils have lost the ability to decide their own rent increases, if these would breach the policy's limits. For some councils the policy change would keep rents at artificially low levels because of the dropping of the policy of rent convergence. Several councils would therefore like a policy with more flexibility and/or a return to rent convergence. A London borough (Council W) made the point that target rents would now be the same as the GLA's London Affordable Rent if the earlier cuts had not taken place.
- **Wider issues about rents policy**. A comment made by several authorities is that a longer period of stability than five years is required given that investment plans stretch over 30 years. Council M said that certainty is 'very much welcomed' and council J urged the government to make no further rent freezes. Council G had priced in the new policy and hoped it would be succeeded by one which kept real-terms increases in rents. Council T called for a ten-year policy, as did council X which said that confidence is 'curtailed' by having only a five-year time frame. Some councils mentioned the impact of welfare reforms, and specifically universal credit, as having an effect on their rental income.

Having embarked on 'long-term, expensive and complicated' investment plans that in several instances are very ambitious and in most cases represent a step-change for individual councils, respondents emphasise above all the need for stability on rents and for the government to avoid making sudden changes of the kind that occurred in 2015 and 2016. One council said that since self-financing of council housing took place, the 'on-going meddling from the centre' had been 'incredibly frustrating' and that there needed to be a commitment not to bring in schemes such as pay-to-stay, high-value asset sales and further restrictive rules on receipts or rents, all of which impact negatively on councils' investment plans.

RTB and RTB receipts

The constraint most frequently mentioned in replies to the survey was, in some form or other, RTB. Councils evidently feel frustrated by RTB itself, having to address losses in their stock first before they can address new needs, and in many cases either only replacing losses or even failing to do so. The scheme does not properly allow for one-for-one replacement, nor does it provide any protection for high-demand stock such as bungalows (noted by council N). Council P, with one of the largest programmes in the survey, was nevertheless 'only just keeping pace' with RTB losses.

The existence of RTB with its present rules also inhibits new development because, as respondents pointed out, a new house can be subject to RTB after only three years. Council G said that not only had it been forced to sell very soon after the three-year time period, even with the 'cost floor' in place, but that it feared that sales would accelerate once that falls away after 15 years. Council N noted that the cost floor is based on market values not actual building costs, creating problems in low-value areas. Council Q was pursuing shared-ownership schemes in certain areas vulnerable to RTB, as an alternative to social rent.

Councillors in some areas are deterred from building new homes at all because of potential RTB losses. This can be the case even in a large local authority such as council F. Apart from the existence of RTB, the size of discounts was specifically mentioned by two councils as being too high. Council G pointed out that it had made a number of recent RTB sales in which the buyer received a discount higher than the total they had paid in rent, and 'this clearly cannot be right.' It called for new homes to be exempt from RTB as 'no sensible investor would risk an investment in an asset that might have to be sold at a 70 per cent discount later.' Council T argued for regional caps on discounts related to local property values, akin to those applying in the Help to Buy scheme. Council X called for RTB to be suspended completely.

Another frequently mentioned constraint relates to the rules for reusing RTB receipts. Most frequent of these were the rule preventing receipts from being combined with capital grant or with s106 contributions, the rule on receipts only providing 30 per cent of programme costs, and the fact that the Treasury takes a large proportion of each receipt. Council T asked the government to issue its long-awaited response to last year's consultation paper on RTB receipts. It proposed allowing councils to reuse currently held receipts for five years instead of three, although the three-year rule could be kept for future receipts. It also said that councils should be able to 'top up' inadequate receipts with Homes England grant.

Grant funding and viability

We noted above that grant funding is not an issue for a minority of councils, but for the majority the availability of grant is important. Constraints occur because of limits on Homes England and GLA budgets, the levels of grant available especially for dwellings to be let at social rent and expectations about grant being available (or not) in the future. Some councils that want to build social rent dwellings are not eligible for Homes England grant for this purpose, under rules which restrict it to certain areas. Several councils mentioned the tightness of viability requirements and/or their wish that grant funding could be combined with receipts or s106 money. Council K says that, even after the lifting of the caps, its real challenge remains 'the cost of delivery with very little margin available due to high-value land and materials.' Council R, in the North East, finds grant levels inadequate to fund social rented dwellings. Council S, in the North West, can fund social rented units with grant and is concerned that this continues with future programmes - and that this is soon confirmed.

Even a London borough such as council H, eligible for grant at £100,000 per unit, said that this 'falls significantly short' of what will be required as (for example) cross-subsidy from market sales becomes more difficult in a static housing market. Grant currently meets only around ten per cent of their programme costs. They called for grant levels in London to be increased substantially.

Land and planning constraints

Practically all respondents mentioned land and planning constraints in some form. Land availability was a key factor for many, often compounded by high land values. Difficulties in and costs of assembling sites and 'upfront' activity such as buying out leaseholders was mentioned by two London boroughs (councils F and V). Some councils called for more favourable compulsory purchase order rules that would provide for lower compensation for greenfield sites and hence cheaper land. Council K said that it was 'landlocked' and often 'held to ransom' on sites that may well be contaminated land. Council

H suggested that planning authorities should be able to refuse permission for private development if the land is required for social housing. Council J suggested enforced distribution of surplus public land for affordable housing delivery, via One Public Estate.

Council T made specific points about the benefit-cost ratio used in connection with the government's infrastructure funding. This does not take into account local circumstances where land can have a negative residual value. It was suggested that this issue be specifically looked at in partnership with other low-value areas. Council V also identified infrastructure funding as unattractive.

Planning constraints were mentioned slightly less frequently; one issue for at least one of the councils is insufficient skilled planning staff. Council J suggested being able to revoke permission or forcing the sale of stalled private development sites with outstanding permissions. Council L said that councils need to ask if their planning services are prepared for significant new build activity, otherwise 'this could seriously delay progress,' so increased planning resources may be required. Some authorities mentioned the general slowness of planning procedures. Council W noted that 'legacy' sites with planning permission are problematic because they may no longer be viable.

Building industry constraints

Building industry capacity and skills were mentioned by eight councils. High building costs were mentioned by council D but may well be an unmentioned issue for others. A London borough (council U) mentioned the need for a pan-London approach to tackling problems such as building industry capacity. Council J said that it had difficulty finding contractors interested in building for the local authority: '…with our red tape of tendering, procurement and competency checks, in rural areas in particular, [we] are not the contractor's first choice when seeking work.' Council M made similar points and had put in place a 'wider procurement framework' covering two council areas. Council R argued for more flexibility, and funding, from the government's apprenticeship levy.

Council N regarded the uncertainty surrounding use of modern methods of construction (MMC) as a constraint; council A had used MMC in a pilot project and planned to expand its use and council K was also exploring MMC.

Shortages of skilled staff

Three-quarters of respondents noted that lack of skilled staff is a significant constraint. These skills varied from straightforward project management, procurement and development skills to the ability to handle the financial challenges of large-scale projects, associated business planning and investment requirements. Several councils mentioned the relatively low salaries they can offer when skilled staff can earn more elsewhere. One London borough, council F, said that it had not had an in-house new-build team for many years, and the skillset would have to be sourced again if it were to be re-established. On the other hand, another borough, council V, pointed to the advantages of 'growing your own' project management capacity, which will eventually 'reap dividends.' Council W, also in London, had managed to solve its initial staff shortage problems.

Council H had made specific use of £500,000 from the GLA home building capacity fund to boost recruitment of skilled staff. They have adopted peer review to compare their approaches to those of neighbouring boroughs. They make the point that the government needs to work with Homes England, the GLA and other funding bodies to invest in a 'skills academy' for local authority developers and the enabling functions that support development. They also suggested that housing associations 'be directed' to share their skills and expertise.

Competing priorities

A quarter of councils noted that investment in new build competes with reinvestment in the existing stock, in one case mentioning post-Grenfell requirements and the need for a new programme akin to the earlier 'decent homes' programme (council H). In practice some councils are very badly affected by post-Grenfell requirements and others not at all. Some respondents may have missed this as a factor as the survey was specifically about new build, but it would be a surprise if this constraint did not affect more of those taking part in the survey. More generally, one noted that the long-term viability of the HRA is at issue if there is insufficient investment in the existing stock. Another said that it was having to re-procure maintenance contracts to include new, as well as existing, stock.

Other constraints

Council D felt constrained by having to maximise value by building for sale, presumably ideally wanting to build more homes for rent. Council V noted that 'market conditions' are important (presumably in the context of cross-subsidising from market sales). Councils R and X noted the lack of regeneration funding as an obstacle.

Council L said that 'having the optimum delivery vehicle' is an important requirement. It listed several advantages from having its own LHC including more financial freedom and 'de-risking' the HRA.

Cost of PWLB loans

An issue that arose just after the survey was completed was the Treasury's decision to increase the interest rates on new lending from the PWLB by one percentage point. Three councils which had already submitted survey replies were asked to comment on the change. The consensus was that councils are likely to have 'priced in' possible interest rate increases of this magnitude, or possibly higher, but that of course it has an impact on their programmes as it reduces the protection they have against cost increases in other areas.

A specific issue arises with councils that are funding LHCs, whose borrowing is based on a percentage above PWLB rates. This will potentially have a direct effect on LHC output, more so than for councils building themselves within their HRAs.

An investigation by Savills of councils' borrowing capacity for HRA investment following the change in the PWLB rate suggests that it is still considerable.[3] Even so some councils, including Nuneaton and Bedworth, Stevenage, Plymouth and two London boroughs, none of which were part of the survey, have publicly reported difficulties resulting from the higher rate.

It has also been reported that 36 London boroughs have written to the chancellor asking him to reverse his decision about PWLB rates.[4]

St Leger Homes, Bristol Grove (built 2018)

[3]Stothart, C. (2019) 'Councils build capacity in face of PWLB', in Social Housing, November.

[4]See Hill, J. (2019) 'PWLB rates rise branded a tax on regeneration', in Local Government Chronicle, 11 October; Egan, D. (2019) 'The PWLB rate hike will seriously hamper local authority new build efforts', in Public Finance, 29 November.

Findings of other surveys on the impact of lifting the borrowing caps

This survey is of course not the only one which has investigated this issue. Here is a brief summary of some other surveys or sources, comparing their conclusions with those from this survey.

Bids under previous government scheme

The lifting of the caps brought a premature end to a scheme which saw councils which met certain criteria bidding for an additional £1 billion of borrowing approvals, over and above their previous caps. In January, *Inside Housing* revealed the result of FoI requests which showed that 75 councils had bid for a total of £2.9 billion in extra borrowing.[5] Had the scheme gone ahead, it was estimated that some 20,500 new homes would have been built over five years. Demand for the programme was split evenly between London boroughs and councils outside the capital, though the four largest bids all came from London.

Inside Housing subsequently produced a survey illustrating how nine different councils had significantly expanded their programmes after the lifting of the caps.[6]

Assessment by Savills

In 2017, Savills had carried out an assessment of the impact of lifting the borrowing caps for ARCH and the NFA.[7] Based on this earlier work, they responded to the October 2018 announcement by suggesting that councils would borrow an additional £10-15 billion and build more than 15,000 new homes per year.[8]

Survey by the LGA

The LGA carried out a survey which received replies from 63 councils and whose results were published in March 2019.[9] Only three of those responding expected to have no additional building programmes. The ones that had or were likely to develop programmes were not asked how many houses they planned to build, but they were asked a number of questions about their reasons for building and the constraints they faced. The main constraint raised was lack of expertise and access to skilled staff, with many wanting 'external' support. Other issues were similar to those raised in our survey, such as the impact of RTB and the desirability of using MMC (and questions about how to go about it).

District Councils' Network

In July, the DCN published its own report on the impact of the removal of the borrowing cap, based on a survey of its members, which received 50 replies.[10] Two-thirds were planning increased building programmes, although DCN did not tabulate replies or make an overall assessment of numbers. The main issues which inhibited district councils were the impact of RTB (both the effect of discounts and the rules on spending receipts), land availability, access to skills and other, ongoing funding pressures.

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[5]See www.insidehousing.co.uk/news/councils-have-plans-for-more-than-20000-homes-with-borrowing-flexibility-59637

[6]See www.insidehousing.co.uk/insight/insight/are-new-borrowing-freedoms-sparking-a-revival-of-council-housebuilding-62091

[7]Savills (2017) Raising the Roof (see www.arch-housing.org.uk/news/latest-news/%E2%80%9Craising-the-roof%E2%80%9D-an-analysis-of-hra-borrowing-headroom.aspx).

[8]See www.savills.co.uk/insight-and-opinion/savills-news/267259/savills-responds-to-hra-debt-cap-abolition-announcement

[9]LGA (2019) Housing Revenue Account Cap Removal: Survey Results (see www.local.gov.uk/housing-revenue-account-cap-removal).

[10] DCN (2019) Districts building for the future: The impact of the removal of the HRA borrowing cap.

DCN called for:

- Long-term certainty over future funding programmes and levels of grant
- Strengthening and growing the capacity within local authorities
- Further co-ordination and support from agencies such as Homes England
- Devolution of powers to set RTB discount levels and the time limit within which receipts can be used
- Allow councils to retain all HRA capital receipts with no restrictions on use

Ongoing research by Royal Town Planning Institute

RTPI research led by Janice Morphet is looking at wider issues about local authorities' role in delivering new housing, and in July they issued an interim report[11]. Broadly it confirms the findings of other surveys that most councils are responding to the lifting of borrowing caps by enhancing their new build programmes. RTPI work focuses on councils which are using LHCs, and it says that 78 per cent of those it surveyed either have an LHC or were planning one, although it acknowledges some hesitation about setting up new ones after the borrowing caps announcement. It identifies land availability as being a principal constraint on development and has a range of recommendations about how the planning system can support direct housing delivery by local authorities.

One question mark about the research is that its survey findings indicate that over 13,000 new homes were delivered by English local authorities in 2017/18 – the highest since 1990. This would represent a massive increment on the official figures, even before the caps were lifted, and so there must be some scepticism about the results. Nevertheless, it supports the view that it is perfectly feasible that growth in output will more than match the Treasury projections.

Overview

The various surveys noted above were carried out in the early stages after the lifting of the caps. Nevertheless the findings broadly support those from the current survey and give added weight to its conclusions.

Queens Park (Blackpool Coastal Housing, completed 2019)

[11] RTPI (2019) Local authority direct delivery of housing: Continuation research.

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Derby Homes, Coronation Avenue (completed 2017)

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