CIPFA The Chartered Institute of Public Finance & Accountancy

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Council plans to build 500,000 homes thwarted by government

A plan with potential to build over 500,000 new homes over thirty years has been undermined by successive government policies, a report published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Housing (CIH), claimed today.

The report, 'Investing in council housing: The impact on HRA business plans', examines the 2012 'self-financing settlement' that put in place a robust long-term plan for council house building. The settlement encouraged councils to take on £13bn extra debt to finance building against the promise of future rental income. However, successive policy changes have cut rental income so that today, just 45,000 new homes are expected, no more than were planned before the settlement was made.

Rob Whiteman, CIPFA Chief Executive, said:

"The situation is desperate. Families across the country will not get the homes they need because the Government keeps on tinkering with housing policy without properly thinking it through. At best, successive governments have turned a blind eye to the consequences of inconsistent housing policy, at worst they have deliberately set out to undermine local authorities' best laid plans.

"By reducing rents to soften the blow of welfare cuts, the Government has choked the revenue streams that were meant to fund new house building. At the same time, the Right to Buy policy has led to assets being sold off, further reducing the ability to councils to finance new homes.

“We need urgent action to reset the self-financing settlement, with assurances that its foundations won't be pulled away the moment government attention turns to something else."

Terrie Alafat, chief executive of the Chartered Institute of Housing, said:

"If the government is to achieve its aim of building one million homes over the next five years then it must ensure that all parts of the housing industry are building new homes, and not rely solely on the private sector. In 2012, with the introduction of the self-financing deal, local authorities looked to have excellent opportunities to contribute to the numbers of homes we need.

"But just four years later, significant policy change has hampered this ability, notably the reduction to the rents that local authorities can charge. The report we're launching today, shows that the effect on the ability of local authorities to invest is dramatic, at the current rate many will struggle to maintain their current rates of house building, let alone raise it. CIH and CIPFA are urging government to look again at the policy decisions which have undermined the 2012 settlement, and consider offering councils a new deal over their rents and borrowing, in return for a commitment to increase the numbers of homes they build."

The report makes a series of recommendations to government and to councils to get council house building back on track.

CIH and CIPFA recommend that government:

- review policy impacts on councils finances and act to restore their investment potential;
- moderate the remaining three years of planned HRA rent reductions;
- review the next-stages of welfare, particularly measures that would mitigate the impact of universal credit, such as direct payments to landlords;
- compensate councils on high value asset sales by allowing them to invest receipts to generate future income streams; and
- offer stock-holding councils a refreshed deal with flexible borrowing caps.

The Institutes also recommend that councils:

- urgently review their HRA business plans; and

- consider what commitments could be made to the Government to improve housing supply.

Notes to editors

The report is available at: http://www.cipfa.org/cipfa-thinks/insight

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