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Chancellor can free councils to build 15,000 more homes in Budget

Ahead of next week's Autumn Budget the National Federation of ALMOs (NFA) and the Association for Retained Council Housing (ARCH) call on the Chancellor of Exchequer to free up local authority borrowing limits for Housing Revenue Accounts and remove the barriers to council house building across England.

The NFA and ARCH, have today published a new report, Raising the Roof that investigates the extent of unutilised borrowing headroom within Housing Revenue Accounts (HRA) in England.

The analysis, undertaken by Savills, sets out how local authorities could deliver at least 15,000 more homes were they able to manage their HRA business plans according to the existing local government Prudential Code.

This would replace the current arrangement where local authority HRAs are bound by a 'debt cap', set by the Government.

The key findings of the research include:

- The overwhelming majority of local authorities (over 80%) are operating their business plan within 20% of the HRA debt cap

- 60% of national financial headroom beneath the current debt cap is shared among local authorities that are within 20% of their debt cap

- Only a very small minority of authorities are what might be termed significantly 'under-borrowed'

- Local authority landlords hold significantly less in reserves against future uncertainties than their housing association counterparts and cannot rely on revenue reserves to act as a buffer against future business plan uncertainties to the same degree as housing associations.

The analysis challenges the suggestion that there is sufficient unused borrowing headroom to increase the delivery of new council homes.

The report demonstrates that while local authorities are willing to invest in new homes, both clarity of national policy and a new approach to seeing borrowing as investment are crucial to succeed.

Comparing the council housing sector and the approach to investment by housing associations, the report highlights the opportunity for the government to adopt a fresh approach to how it views council borrowing.

It could be treated as an investment in homes made as part of a long-term viable business plan in which local authorities are able to extend borrowing facilities prior to embarking on new development programmes – just as is common practice among housing associations.

Countering suggestions of under-utilisation of HRA borrowing headroom, this analysis shows that the overwhelming majority of local authorities are operating their housing business plan within 20% of HRA borrowing limits.

This is a level at which housing associations might be expected by both funders and the Social Housing Regulator to seek extended funding facilities.

We argue that the maintenance of some headroom beneath the debt cap is essential to prudent financial management. The regulator expects housing associations to maintain a financial buffer, and rates their financial viability accordingly – the same financial principles should be applied across the housing sector.

Eamon McGoldrick, Managing Director of the NFA, says:

'A review of the 2012 HRA borrowing rules to enable councils to sensibly invest in the supply of new homes is long overdue. There is currently significant disparity in the way local authority borrowing is treated compared to the housing association sector.

'Councils are being told to maximise their current lending facility (headroom) to invest in new homes and yet 89% are already operating within 20% of HRA borrowing limits. If the Social Housing Regulator was to apply a viability rating to those authorities within 20% of their maximum funding facility – similar to that used to rate housing associations – there is a risk that the viability rating would be unacceptably low, thus leaving the council subject to regulatory criticism.

'Changes are essential if councils are to embark on investment programmes in a manner which can mirror the operation of business planning in the housing association sector.'

The report also found that local authorities report that the Right to Buy policy is the single biggest reason why they might not invest via borrowing to build new council housing.

Specifically, councils are concerned at the high level of discounts and the operation of the rules for the recycling of receipts as this means in many cases they are unable to replace homes sold on a one-for-one basis.

The report also highlights some evidence of retrenchment around council borrowing levels, principally driven by an increase in Right to Buy sales and uncertainty around the implementation of the High-Value Asset Levy under the Housing and Planning Act 2016.

Given ongoing uncertainties around the implementation of the High-Value Asset Levy and the impact of Universal Credit on councils' rental income streams, it is not surprising we are seeing councils take a cautious approach.

ARCH and NFA have never supported the proposal for a levy on HRA assets to reimburse housing associations for Right to Buy discounts.

The statutory Right to Buy for council tenants was introduced without any form of reimbursement from central government. Councils were expected to absorb and manage the impact on HRAs without help.

John Bibby, Chief Executive of ARCH, adds:

‘The research clearly shows that the overwhelming majority of authorities are managing their HRA borrowing in the context of prudent housing business planning and that stock-retained councils will invest, given policy clarity and the opportunities and the right climate to do so.

‘The approach taken by councils to borrowing is part of long-term housing business planning. This takes into account future income and revenue and capital spending needs. When councils do not spend up to their debt cap this is entirely sensible and consistent with the behaviours of any prudent landlord, building in risk buffers and protections, essentially acting like any self-financing business would.

‘HRA borrowing ceilings are already accounted for in the national accounts and if the current debt caps were to be raised, any addition to public debt would only be to the extent that HRA borrowing began to exceed the existing prevailing debt caps which have been in place since 2012.

‘This research shows that there will inevitably always be a degree of borrowing headroom between actual debt and the individual authorities HRA debt caps (at whatever level they are fixed) and therefore there is a strong case to consider the lifting of HRA debt caps – perhaps in the first instance by a margin of 10-20% - without necessarily increasing the actual HRA debt beyond the current borrowing ceilings accounted for by HM Treasury in the current national accounts.’

The analyses set out in this report should not be seen as advocating the abolition of maximum ceilings on borrowing within the HRA.

However, the differences in the current operation of housing association and local authorities sectors with regard to debt suggests that the government should consider the case for adopting a new approach to the setting of maximum borrowing limits within HRAs. This would place HRAs firmly within the wider context of prudent financial management by local authorities.

The Prime Minister has promised ‘a new generation of council housing’ to help address the need for new housing of all tenures.

As the Chancellor prepares for the Budget, the NFA and ARCH renew their calls for the government to back local authorities to build and to lift the HRA Debt Caps and allow individual authorities to set their own borrowing and financing limits within the context of a long-term business plan, and in line with the operation of the Local Government Prudential Code.

We also push for early clarity regarding the implementation of the proposed High-Value Asset Levy, without which the confidence required to support long-term business planning investment would not be possible.

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Under imposed embargo status until 08:00hrs 17 November 2017

Useful documents:
Raising the roof: Analysis of Housing Revenue Account Headroom (Savills 2017):
NFA and ARCH submission and supplementary submission to Chancellors Autumn Statement:

Notes:
NFA -The National Federation of ALMOs www.almos.org.uk
There are 33 ALMOs (arm's length management organisations) across England managing 452,275properties across 38 local authorities.

ARCH - Association of Retained Council Housing www.arch-housing.org.uk
Working on behalf of local authorities who own and manage their properties, we are here to get the best deal for councils and tenants.

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