Districts building for the future:

The impact of the removal of the HRA borrowing cap

LGiU DCN
DISTRICT COUNCILS' NETWORK

In October 2018 government answered sector calls to scrap the Housing Revenue Account cap, which would give councils the freedom to build and invest in local housing. This research, conducted by the Local Government Information Unit and District Councils' Network, has found that months on from this decision, lifting the HRA cap has already had the desired effect with districts seizing this opportunity. Two thirds of responding stock holding authorities have plans to increase building in the near future, whilst the remaining third have already increased their building, thanks to this increased freedom to borrow. Meanwhile, non-stock holding authorities are also pursuing the avenues available to them in order to build.

Based on a survey with responses from 50 DCN members, in both stock-holding and non-stock holding authorities from across England, as well as a series of interviews with housing officers across the country, this report shows the positive impact of the decision to remove the cap on the Housing Revenue Account. It also highlights councils' ambition to go further and suggests how they might be given the powers and resources to do so. The councils involved in the research represented a broad geographical spread, as well as a mix of urban and rural authorities. Officers from five councils were interviewed for the study to show a range of perspectives and experiences.

We interviewed officers from five councils:

Colchester Borough Council was chosen for its positive response in the survey showing "full commitment of its Cabinet to increase the level of affordable housebuilding as a result of the lifting of the HRA borrowing cap." The council has increased its housebuilding plans over the short, medium and long-term, including mixed-tenure and affordable schemes, and an additional phase of garage site development.

Wealden District Council indicated that they would deliver an additional 200 properties as a direct result of removing the borrowing cap. An officer from the council was interviewed to understand how this was approached but also because of the challenges that were raised around access to land for building. As detailed later in this report, acquiring sites is challenging and expensive so the council has to be innovative in its approach to building.

Preston City Council and **Eastleigh Borough Council** were chosen because, as non-stock holding authorities, they have adopted alternative strategies to building. The city deal in Preston has enabled the council to unlock significant new developments by bringing together infrastructure and housing spend. In Eastleigh the council pursues various joint venture models with developers and housing associations for building projects aimed at different scales and tenures. The council has long had an ambitious and creative approach in the way it uses its finances, which are a useful example to stock-holding authorities with new financial flexibility.

Finally, **North West Leicestershire District Council** represented councils with a more cautious attitude towards borrowing against their HRA stock, but still pursuing an active strategy of building. As outlined below, understanding and managing risk is crucial for a positive experience of borrowing, this means understanding the local market conditions, and communicating effectively the needs of the local community through elected members.

Background to the HRA cap

The Housing Revenue Account (HRA) is a ringfenced budget that draws income from rents and service charges on a local authority's housing stock. The budget can be used for building and maintaining housing in the area, and councils can borrow against the income within the HRA in order to build more, or to refurbish existing housing.

In 2012, however, the government introduced a cap on the amount that the 169 stock holding councils could borrow against this revenue stream, while allowing them to keep the rental income. The measure was introduced by the Treasury in order to maintain overall public borrowing levels, but severely limited councils' ability to build and to invest to build. The level of borrowing allowed to each council is calculated by central government and based partially on the previous subsidy system.

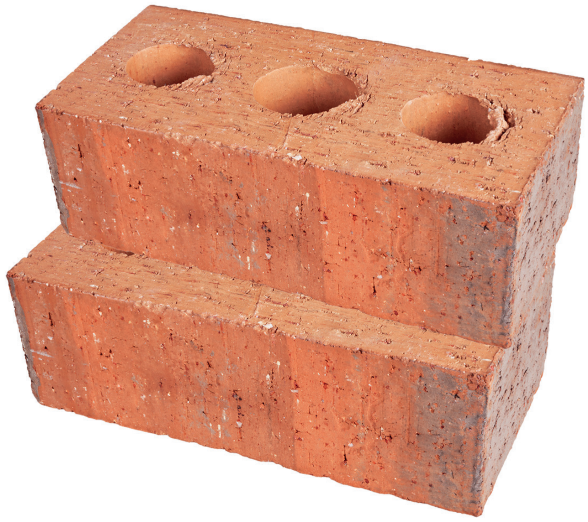
In 2013 the then Chancellor George Osborne announced an increase of £300m in total borrowing headroom for local government. Councils would be expected to bid for a portion of this money, in partnership with housing associations. Less than half of this money was allocated, however, and less than 2,000 additional homes built, due to the restrictions on bidding, the potential that housing associations would be forced to sell off their more valuable properties and the high interest that would be charged on the loans.

Further developments followed a few years later, with an announcement in 2017 that some councils that performed well would be permitted to bid for increased borrowing, and another in the Autumn budget that year that £1bn in extra borrowing would be permitted in areas with high rent levels.

Finally, at the Conservative Party Conference in October 2018 the government announced that it would scrap the cap that limits councils borrowing against their HRA.

The District Councils' Network and the Local Government Information Unit have partnered to investigate the impact of removing this cap on borrowing. A survey of chief housing officers at district councils across England, with a series of in-depth interviews, demonstrates that more financial autonomy for councils has already resulted in a higher rate and better coordination of house building.

The research shows that districts are taking up the challenge and building where they can, using the tools at their disposal. Lifting the cap is a welcome decision that has already yielded positive results. However, to maximise their house building potential, further changes are needed to enable the level and quality of building that we need.



Districts are building

The District Councils' Network, LGiU and other organisations had long called for the cap on borrowing against the HRA to be removed, in order to give councils the freedom to build and invest in local housing. The only way to achieve the numbers that we need to achieve in terms of house building across the country is by allowing councils the freedom to act.

The research carried out for this report has found that lifting the HRA cap has already had the intended effect, as it has freed up stock-holding councils to increase their house building programmes and they are taking the opportunity. We have found that district councils across the country have increased their housebuilding already as a direct result of lifting the cap, or they have plans to do so, and they have ambitions to go further in the future, now that they have the ability to use their finances more creatively.

Of those stock-holding authorities who responded to the question on increased building numbers, roughly two thirds say they're considering increasing building now as a result of the cap being lifted. The pace at which councils have taken up this opportunity is considerable. The change in policy was only announced at the end of 2018 and these councils have not wasted any time in taking up the opportunity it affords them.

An officer from Colchester Borough Council, interviewed for this research, said lifting the borrowing cap ***"gives us the freedom to do our thing"*** and allows them to be ambitious and to deliver the housing they need, faster because they ***"wouldn't have to be reliant on others…We wouldn't be building at this pace if we weren't allowed to borrow, we wouldn't be able to finance it."***

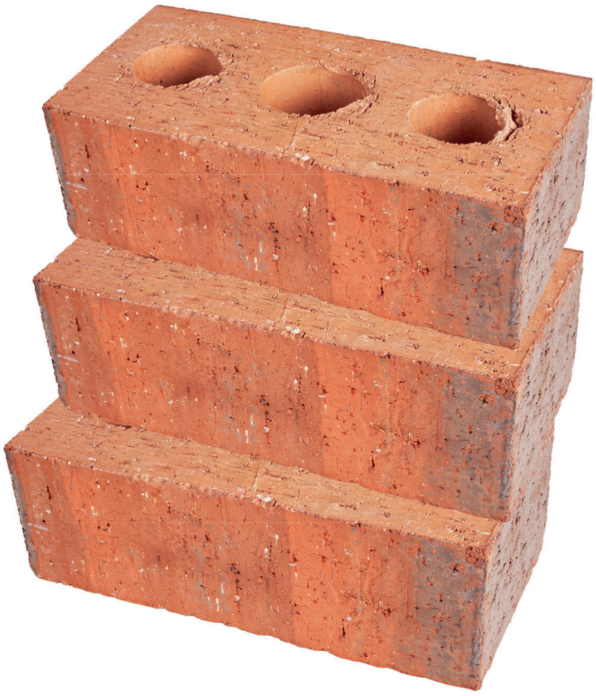
The cap had significantly reduced Colchester's thirty year business plan: ***"It left us with a much smaller pot"***, they said, ***"but the ambition stayed"***. Because the ambition to build was still there in the council and there was support from members, they were able to gear up their capacity before the cap was lifted. The council had submitted bids to central government for additional borrowing room, and had a more ambitious plan in place should they be successful. Once the cap was lifted they were able to pursue those more ambitious plans, including over one hundred affordable units over four sites and four former garage sites with between thirty five and forty affordable units at social rent, redevelopment of an existing sheltered housing scheme, and using borrowing along with Right to Buy receipts to buy back properties offered back under the Right to Buy covenant. For a council like Colchester ***"it is not just about numbers"*** but ***"being able to provide the type and quality of housing we need to meet the housing needs of our residents."***

Of those who gave an estimate as to how much more they were able to build thanks to the new borrowing, responses varied widely, reflecting differences in geography, scale, local economy, housing markets and appetites for risk. In one council in the South the result has been particularly striking. A respondent said that ***"lifting of the cap has been combined with a new business plan and housing strategy to deliver at least 600 new affordable homes by March 2026."*** Other ambitious authorities, responding to the survey, estimated that they will deliver 500 more houses as a result of the increase borrowing.

In more urban and populated areas across the country some say potentially 400 new homes, subject to successful acquisition of land and planning approval. Some, such as a rural authority in the South West, said they are delivering an extra 15-20 units a year, while some estimate that over the next five years between 200-300 additional affordable homes will be delivered.

There is clearly an appetite for increasing those plans and taking advantage of the extra freedom and capacity in the future, one respondent, from a council near the South coast, said that their increased plans included ***"200 initially - more as the additional rental income generated by the properties is recycled into building"***. Another respondent in the East Midlands said that they were taking the opportunity to plan how they could get the most value out of the extra borrowing: ***"We have recently commissioned Savills to appraise the capacity of the HRA Build Programme to deliver additional homes beyond our existing HRA development programme."***

Another respondent said that lifting the cap has enabled the council to speed up its building plans: ***"Removal of the cap has allowed units to be delivered sooner as our new build programme is based on affordability and deliverability. If the cap had not been lifted the units would still have been built just at a later time. Typically 20 units would have been delivered annually and this has increased to 30 units annually over the next 10 years."***



For one council in the East Midlands, lifting the cap has encouraged a renewed business plan. They said ***"Whilst there is a strong political ambition to address our local housing needs through direct delivery, we have recognised a need to fully understand our development potential to enable us to innovate in the delivery of new homes. Accordingly, following the announcement of the lifting of the borrowing cap, officers are undertaking a work-stream to capture information regarding our assets, our tenants and the unmet housing need in our district."***

As well as using HRA borrowing to finance housebuilding, districts are pursuing other avenues, often in combination. Most districts take a practical and positive approach in this regard. One interviewee from Wealden, in the South, said ***"We see ourselves as an enabler, or 'unlocker' of less viable or more challenging sites"***. As well as bringing together the infrastructure and forging the partnerships, ***"we bring the good community stuff together."*** While Wealden's plans have not so far involved using the increased headroom directly, the practical and pragmatic approach has helped to speed up delivery.

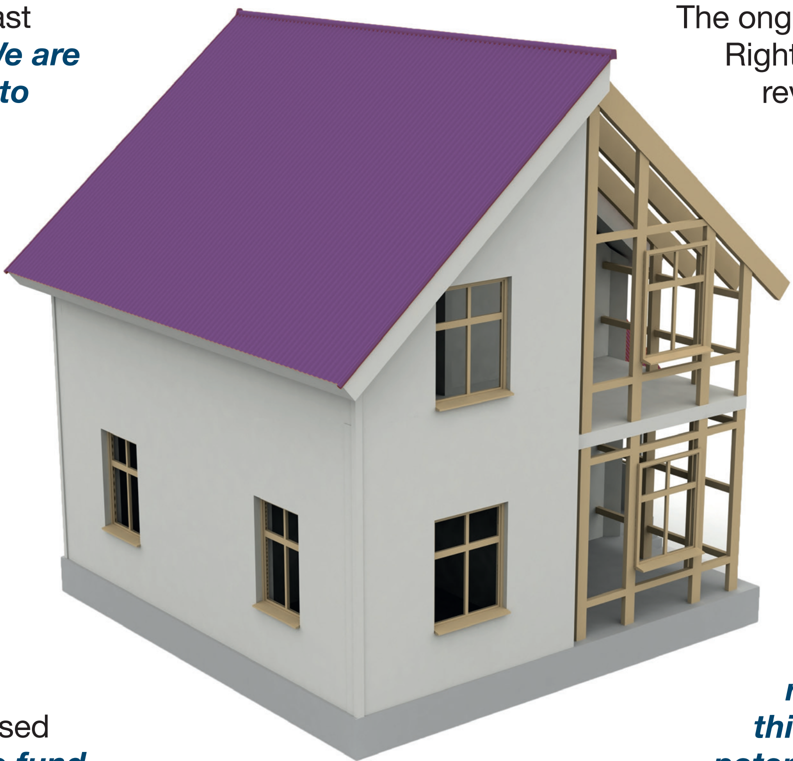
Not all district councils hold housing stock which they can borrow against, however, and many of these councils are still putting together ambitious plans to build. Preston City Council, in Lancashire, uses City Deal funding to invest in infrastructure to allow the release of new development sites, has a joint venture vehicle in partnership with a local housing association, as well as City Centre Housing Action Zone work with Homes England.

Meanwhile, other councils have set up, or are setting up, joint ventures to deliver more housing. Eastleigh is particularly advanced in this area, and several JVs have been established there for different purposes and at different scales. In South Norfolk, the survey found that the wholly owned company model has enabled the council to deliver above its affordable homes target.

Experience of borrowing

Many councils are taking a more entrepreneurial approach and engaging in more creative financial activity, which was reflected both in the responses to the survey and subsequent interviews. Therefore managing and being realistic about risk, and ensuring appropriate measures are in place, are all key to ensuring a positive experience of borrowing. This was certainly the case for Colchester Borough Council, which was described as having a "healthy" approach to borrowing. The council has modelled carefully its debt projections over the next nine, 12 and 30 years against revenue and shows the capacity to carry out a more ambitious programme of building.

Among those who are not already actively borrowing to build, there are some councils investigating the possibilities, and gauging the risk involved. One respondent from a council in the East Midlands said: ***"We are actively seeking to understand the opportunities and risks arising from additional borrowing capacity."***



For some councils, the risks involved with borrowing was a negating issue. An officer from Preston City Council said that concerns were raised with ***"how will we fund the revenue cost, even with the low rates from the Public Works Loan Board?"*** It is important that risk is fully understood and appraised before deciding options for activity. ***"Members would be keen to borrow"***, the officer said, ***"but housing is not the only thing they would look at."*** Meanwhile a council in the Midlands responded that ***"The main obstacle for us are a lack of land holdings, and the appetite for risk."***

The ongoing impact of Right to Buy on future revenues was a particular concern that effected the appetite for risk, because council houses may be sold off at a discount under the scheme. An officer from a council in the south west highlighted this issue: ***"We have not utilised 'beyond-cap' borrowing; the right-to-buy makes this a risky and potentially prohibitive course of action."***

Some councils are wary of investing in new stock that might be sold at a reduced rate in the future.

Issues and challenges

Removing the cap on borrowing against their HRA has enabled councils to build more houses, and the research in this report shows that many are seizing the opportunity to do so.

The research also shows that they have ambitions to go even further, to build more and to play an active role in the country's housing agenda. There are other ongoing challenges to house building, however, that have been highlighted in the responses to the survey and in the subsequent interviews. Some of these relate to the increase in financial freedom, and present challenges for councils to use that flexibility and capacity to its full potential. Other issues relate to distinct policy areas, but deserve attention as they demonstrate the experience of councils that want to be active and ambitious.

The ongoing impact of the discounts associated with Right to Buy, as well as the control of receipts from the programme, is a key issue that limits councils' freedom and flexibility to use their assets creatively. One interviewee said ***"It's a huge concern, particularly with the HRA"***. Meanwhile, the affordability of schemes in the current market is sometimes seen as making future revenue more precarious and councils are in a weaker position in competition with the private sector.

Cost and availability of land was raised as a key issue, particularly for an interviewee in Wealden, who said private developers have the advantage of experience, while the council is "new to this game." The council is strategic in terms of the local plan and the ambitions it contains, but in reality, they have to build where and when they can get access to the land. Councils need public agencies to be as supportive as possible to open up opportunities for building. In the course of this research we came across one example in the south east of a development that had been delayed by three years due to these bodies impeding the council's access to the site. Joined up working is imperative to ensure that development isn't halted unnecessarily and districts look forward to working with organisations, such as Homes England and the Environment Agency, to deliver the government's housing ambition.

A further issue is the impact of long term and ongoing funding pressures. Local government has borne the brunt of severe financial cuts over the last decade, and housing and planning departments have been at the forefront. This is coupled with uncertainty as to what funding model will be in place after next year, hampering the ability of councils to plan effectively. Moreover, the depletion of skills and experience places even ambitious, active councils at a further disadvantage, as one interviewee from Wealden District Council said: ***"Councils haven't built for so long, people need to have skills and experience."*** An officer from a non-stockholding district in the North West, said ***"our issue is capacity to do research and gain market knowledge."***

Potential policy solutions

Survey responses and interviews highlighted a number of potential policy changes that would strengthen the position of districts in order to increase housing development. As highlighted above, district councils are building and want to build more. Lifting the cap on borrowing has enabled them to increase their building rates, but it is not the only element of a successful housing strategy. Different issues play out in different ways around the country, and so greater local control over finance, planning and access to land or infrastructure are all important.

Potential policy modifications that emerged from the research include:

Long-term certainty over future funding programmes and levels of grant. Local government is under enormous financial pressure, with no certainty over how it will be funded beyond 2020. This hampers councils' ability to plan effectively and to meet the challenges that local communities face. To make best use of their increased freedom to borrow, councils also need to have a clear idea of how their finances will stack up in the medium and long-term.

Strengthening and growing the capacity within local authorities. Years of reduced funding have hit housing and planning teams particularly hard. Competition with the private sector for recruitment is a key challenge. Access to skill sets that have been lost to local authorities would bolster their capacity to grasp the opportunity that financial flexibility offers them. Councils particularly need greater capacity and support around land identification and acquisition, procurement, viability modelling and management of affordable housing development programmes.

Further co-ordination and support from government agencies, such as Homes England and the Environment Agency would help significantly to facilitate and speed up development. Respondents from our survey highlighted instances where development has stalled due to opposing views of public offices. To deliver the level of housing needed it's important that all government bodies are pulling in the same direction as local authorities, so having earlier conversations and agreeing strategies at the outset, would help reduce these delays.

Devolution of powers to set discount levels for right to buy sales, and the time limit within which the receipts can be used. Elements of Right to Buy was highlighted as a source of uncertainty and a drain on future revenues that holds some councils back from pursuing more ambitious goals. Having local control over the discount levels and the time period for retention of receipts would enable local leaders to adapt the policy so that it fits local market conditions.

Allow councils to retain all HRA capital receipts with no restrictions on use. This would allow ambitious, active councils further freedom to use their assets and finances productively.

This report shows that district councils are stepping up and tackling the housing challenge. They are using the extra flexibility that they have gained by scrapping the HRA borrowing cap. The measures above would allow them to go even further and to pursue even bolder ambitions.

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DCN

The District Councils' Network (DCN) is a cross-party member led network of 191 district councils. We are a Special Interest Group of the Local Government Association (LGA), and provide a single voice for district councils within the Local Government Association.

District councils in England deliver 86 out of 137 essential local government services to over 22 million people - 40% of the population - and cover 68% of the country by area. District councils have a proven track record of building better lives and stronger economies in the areas that they serve. Districts protect and enhance quality of life by safeguarding our environment, promoting public health and leisure, whilst creating attractive places to live, raise families and build a stronger economy. As the housing authorities, districts are integral to the UK's future prosperity, growing the national economy one economy at a time.

LGiU

LGiU is a local authority membership organisation. Our mission is to strengthen local democracy to put citizens in control of their own lives, communities and local services. We work with local councils and other public services providers, along with a wider network of public, private and third sector organisations.

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