From: Mark Dance, Cabinet Member for Economic Development

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To: Growth, Economic Development and Communities Cabinet Committee – 10 January 2019

Subject: Removal of the Housing Revenue Account Debt Cap

Classification: Unrestricted

Summary

The Prime Minister announced at the October 2018 Conservative Party Conference that the Government would scrap the Housing Revenue Account borrowing cap on council housing investment. The Government's intention in providing extra borrowing headroom is to support local authorities build more houses, contributing to the 300,000 per annum target. This paper provides members with background on the Housing Revenue Account borrowing cap, views of the sector, and how in Kent local authorities are responding to this significant change.

Recommendation

The Growth, Economic Development and Communities Cabinet Committee is asked to note the advice on the Housing Revenue Account borrowing cap, and the work that is now being undertaken in response to the change.

1. Introduction – Housing Revenue Account and the borrowing cap

1.1 For those local authorities that have retained their council housing, housing finances are contained within the Housing Revenue Account (HRA) – a ringfenced budget which effectively operates as a business of its own separate to the councils' other operations. The HRA is a ringfenced budget within the council's General Fund. The ring-fence is there to stop Rent Payer and Rate Payer cross subsidies between the separate council activities. The HRA income comes from rents and service charges collected from tenants and is spent exclusively on building and maintaining council housing.

1.2 Councils can borrow money within their HRAs to build more or refurbish/regenerate existing homes. Each council has however, up to now, had a limit on how much they are allowed to borrow which has been far tighter than the value of its housing stock. This was a Treasury imposed limit to control public sector borrowing levels (which impact on the level of national government debt). This debt cap greatly restricted the ability of those authorities that had reached their cap to invest in building new homes.

1.3 HRA borrowing caps were first introduced for all 169 stock-retaining councils as part of local government self-financing reforms in April 2012.

These reforms permitted councils to keep the rents they collected locally for the first time. Each authority's debt level was based on a complex calculation based on the previous HRA subsidy system, with some councils receiving funding at the time of the buy-out.

2. Reforms to the Housing Revenue Account Borrowing Cap

2.1 In his Autumn Statement in December 2013, the then Chancellor of the Exchequer, George Osborne announced that he would provide councils with another £300m of HRA borrowing headroom to help Councils build 10,000 additional affordable homes. However, the bidding criteria for the £300m were complex – including new requirements to dispose of higher-value homes to help pay for development. This resulted in less than half the money being allocated, with provision made for 1,700 homes.

2.2 In spite of the increase in borrowing headroom, Councils continued to call for more borrowing flexibility. Only 3,000 homes are being built annually. Over recent years, further freedoms and flexibilities have been offered:

- March 2017: Three councils – Stoke, Sheffield and Newark and Sherwood met officials at the then DCLG. They had hoped to strike 'bespoke deals' with government on their HRA caps, to gain additional headroom in exchange for promises on housing delivery.

- May 2017: The then housing minister Gavin Barwell advised that "innovative" councils were being invited to come forward with bids to increase their HRA borrowing caps as part of an election pledge to deliver "a new generation of social housing".

- November 2017: In his Autumn Budget, Chancellor of the Exchequer, Philip Hammond announced that the government would provide £1bn of additional borrowing capacity for councils in "areas of high affordability pressure". It was reported in the trade press that at least eight other councils had approached government with requests for HRA deals by this time, and Savills research had said that lifting the cap could deliver an additional 15,000 homes.

- June 2018: The prospectus for the £1bn programme was published. The £1bn was limited to areas where average weekly private rents were at least £50 a week higher than social rents, with half the money reserved for London boroughs. However, there were fewer restrictions associated with the additional borrowing capacity and councils were advised that they could blend the money with grant or Right to Buy receipts.

2.3 Finally, at the 2018 Conservative Party conference, three days after the bidding for the £1bn programme closed, the Prime Minister announced the plan to scrap the HRA borrowing cap. This shift was part of Government plans to support local authorities alongside private developers and housing associations to boost house building volumes, contributing to the Government's 300,000 new homes (all types/ tenures by 2020). Savills estimated that removal of the cap could see 100,000 additional council homes delivered.

2.4 Since the announcement, removal of the HRA cap has been widely welcomed by the local government sector. Appendix A sets out reactions from parts of the local government and housing sector. Appendix B is a statement on the Housing Revenue Account Borrowing Cap from the Chairman of Kent Housing Group.

Case Study: *The headlines from the* ***Ashford*** *Borough Council's bid for an increase in debt cap were that they submitted 25 sites, to provide 334 new homes for affordable rent (including houses, bungalows and flats) with funding drawn down by March 2022. The council effectively applied for £61m of headroom in order to put these plans into practice. To put this ambitious bid into context, the council has built 280 new homes since 2011 – still a major achievement compared with figures across the southeast.*

Since the announcement that the cap has been removed, the Council has gained approval from members to put these plans into action and increase 50% of borrowing linked to Housing. Whilst work commences on the delivery of these schemes a review of the governance arrangements for approving programs and land acquisitions needs to be undertaken as well as work with Members to establish an appetite for investment in Affordable Housing.

3. Recommendation

3.1 The Growth, Environment, and Communities Cabinet is asked to note the advice on the Housing Revenue Account borrowing cap, and the work that is now being undertaken in response to the change.

4. Report Authors

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Appendix A – Housing Sector Reaction as reported in Inside Housing October 2018:

Gavin Smart, deputy chief executive at the Chartered Institute of Housing, said the announcement was “excellent news”.

“We have been calling on the government to lift the local authority borrowing cap to help councils build more genuinely affordable homes, so it’s great to see the prime minister listening to the voice of housing professionals,” he said.

He added that councils still needed to be building “the right homes, in the right places, at the right prices”.

Lord Gary Porter, chair of the Local Government Association, said: “It is fantastic that the government has accepted our long-standing call to scrap the housing borrowing cap. We look forward to working with councils and the government to build those good quality, affordable new homes and infrastructure that everyone in our communities need.”

He pointed to the 1970s when councils built more than 40% of homes. “Councils were trusted to get on and build homes that their communities needed, and they delivered, and it is great that they are being given the chance to do so again,” he said.

Ruth Davison, executive director of public impact at the National Housing Federation, said: “For years, everyone who builds affordable homes – both councils and housing associations – have argued this cap on council borrowing puts the brakes on building more homes.

“Housing associations are already working hard to build the homes that people need – this announcement will allow them to work more effectively in partnership with councils, pooling their resources and maximising their impact.”

Appendix B – Kent Housing Group

1. The Kent Housing Group (KHG) has advocated strongly for the removal of the HRA debt cap, featuring in recommendations of previous iterations of the Kent and Medway Housing Strategy.

2. Of the 13 local housing and planning authorities in Kent and Medway, 8 have retained all or part of their council housing, potentially standing to gain from the removal of the HRA debt cap. They are: Dartford, Gravesham, Medway, Dover, Folkestone and Hythe, Ashford, Canterbury and Thanet.

3. KHG do not currently have local data on the potential impact for Kent and Medway. Further work will need to be done with authorities to understand the potential appetite to employ the additional borrowing capacity to build new council housing.

4. Local Authorities will however face similar challenges to house builders and Housing Associations in gearing up for large scale housing delivery. They will require skills and competencies not widely left in local authorities. It has been over four decades since councils were building in excess of 100,000 homes a year, with fewer than 3,000 homes delivered in most recent years. Council housing departments with an appetite to build will need to identify sites, get planning and negotiate the complex regulatory framework to get new homes built.

5. Kent Housing Group (KHG) [1] is working with local authorities to share best practice and explore ways to maximise the opportunity provided by the removal of the cap.

Brian Horton – Chairman, Kent Housing Group

[1] KHG is a forum for social housing organisations in Kent. KHG has representation from all twelve Kent District and Boroughs, Medway Council, fifteen housing associations and Kent County Council. KHG also has affiliated representation from Homes England, Kent Developers Group (KDG), Kent Planning Officers Group (KPOG), South East Local Enterprise Partnership (SELEP), National Housing Federation (NHF) and the National Landlords Association (NLA).