Introduction

This briefing paper contains an introduction and overview of the capital aspects of local authority housing finance.

What is Capital Expenditure?

Accountants define capital expenditure as being on items that give a benefit and retain their value over several years. There is also an accountancy concept called ‘materiality’ that excludes items of small value from the definition. Capital expenditure in the private and public sectors is often financed by loan, firstly because resources are often not available ‘up front’ to finance it, and secondly to spread the cost of the capital expenditure across all the years during which the benefit is experienced.

However, in local government there is also a specific legal definition of capital. Capital expenditure is defined in section 16 of the Local Government Act 2003 and in Part 5 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (S.I. 2003/3146), as amended.
Housing Revenue Account Capital Programme – an Example

What follows is an example of a capital programme.

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>£m</th>
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</thead>
<tbody>
<tr>
<td>a) Modernisation Schemes</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>b) Decent Homes Programme</td>
<td>2.5</td>
<td></td>
</tr>
<tr>
<td>c) Environmental Improvements</td>
<td>0.5</td>
<td></td>
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<tr>
<td>d) Energy Saving</td>
<td>1.5</td>
<td></td>
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<tr>
<td>e) Improvements to Sheltered Accommodation</td>
<td>0.5</td>
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<tr>
<td>f) Adaptations for the Disabled</td>
<td>0.1</td>
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<td></td>
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<td>7.6</td>
</tr>
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a) Modernisation Schemes - Expenditure could include central heating, new windows, new bathrooms or kitchens, re-roofing or re-wiring. Most programmes include some expenditure under this heading.

b) Decent Homes Programme – This is work that is required so that the authority can achieve the government’s decent homes standard. Most authorities have already achieved the standard. This is discussed in more detail below.

c) Environmental Improvements – This is work that is not part of the fabric of a home. Provision for car parking and improvements to layout are included.

d) Energy Saving - Sometimes referred to as 'Affordable Warmth' the intention is to reduce the use of energy and running costs whilst ensuring that homes are kept warm. Expenditure may include new or replacement heating systems, cavity wall insulation or double-glazing.

e) Improvements to Sheltered Accommodation - Schemes that concentrated on bed-sit accommodation, making use of shared bathroom facilities, are now difficult to let. Expenditure includes updating accommodation and converting it to one or two-bedroom self-contained units of accommodation.

f) Adaptations for the Disabled - Expenditure includes minor items such as widening doorways to give access to wheelchairs, or major extensions of the home. The objective is the same in both cases and that is to enable the elderly or disabled tenant to remain in their home.

The 'Decent Homes' Standard

In 2000 the government set a target to deliver decent homes to all social sector tenants by 2010. The 2010 target was achieved in 90% of cases but there are still some authorities that have yet to achieve the standard. A decent home is one that meets the following criteria:

- Is above the current statutory minimum standard for housing.
- Is in a reasonable state of repair.
- Have reasonably modern facilities and services.
  - Kitchens less than twenty years’ old
  - Bathrooms less than thirty years’ old
- Provides a reasonable degree of thermal comfort.

The Decent Homes Standard was not seen as an ambitious target by most housing practitioners. It represented a lower standard of housing than is allowed for in most housing stock transfers, and many tenants and local authorities aspire to achieving a higher standard.

The Financing of Housing Capital Expenditure

There are five main sources of Capital Finance in the housing revenue account as follows:

- Major Repairs Reserve
• Borrowing
• Capital Receipts
• Revenue Contributions
• Grants

A local authority spent £46.8 million on its housing revenue account capital programme as follows:

£million

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Works to stock – decent homes</td>
<td>21.7</td>
</tr>
<tr>
<td>Works to stock – general</td>
<td>11.6</td>
</tr>
<tr>
<td>Leaseholder buy-backs</td>
<td>6.1</td>
</tr>
<tr>
<td>Grants to vacate</td>
<td>0.5</td>
</tr>
<tr>
<td>Community halls</td>
<td>0.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>46.8</strong></td>
</tr>
</tbody>
</table>

This expenditure was financed as follows:

£million

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Grants and Contributions</td>
<td>24.2</td>
</tr>
<tr>
<td>Major Repairs Reserve</td>
<td>13.5</td>
</tr>
<tr>
<td>Capital Receipts</td>
<td>6.6</td>
</tr>
<tr>
<td>Revenue Contributions</td>
<td>2.5</td>
</tr>
<tr>
<td>Prudential Borrowing</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>46.8</strong></td>
</tr>
</tbody>
</table>

Government has always provided support to local authority housing capital programmes. However, the way in which this support is provided has changed over the years. From 2000 to 2012, the focus was on investing to achieve the decent homes standard. From 2012 with self-financing the major repairs allowance has ceased to exist as has supported borrowing although councils continue to make provision for major repairs through a major repairs reserve. After 2012, government provided limited capital grants to support the decent homes programme, but these have now been discontinued.

The example illustrates how authorities can use a different mix of capital resources in different years.

**Major Repairs Reserve**

From 2001/2002 to 2011/12 all local authorities received a ‘Major Repairs Allowance’ that was paid as part of the Housing Subsidy. It was paid into the Major Repairs Reserve through the making of a depreciation charge. Funds that are in the Major Repairs Reserve were available for the authority to spend on Major Repairs. The Major Repairs Allowance has been abolished with self-financing although councils still make transfers to their major repairs reserve to meet the costs of major repairs based on depreciation.

**The 2003 Local Government Act and Prudential Borrowing**

Councils can borrow to fund capital investment in the housing revenue account subject to various conditions and limits.
The 2003 Local Government Act introduced ‘Prudential Borrowing’ and changed the way in which support was provided to local authorities’ capital programmes. From 2004 to 2012 and again since 2018 (see below), authorities are free to borrow as much as they wished if they could afford to meet the debt repayments. The rules that cover this are included in the 2003 Local Government Act and the prudential code of accounting.

The prudential borrowing system allows authorities to borrow freely for capital investment, subject to controls that ensure that borrowing is affordable and consistent with the Government’s fiscal rules. Councils have freedom to borrow against the revenues in the General Fund and Housing Revenue Account, subject to prudential limits and the new borrowing cap but excluding the Major Repairs Allowance. With self-financing the system of prudential borrowing continues but government no longer provides financial support for borrowing and has introduced the borrowing cap.

The Chartered Institute of Public Finance and Accountancy issued the prudential code that outlines the mechanisms through which prudential borrowing operates. It includes:

- Locally determined prudential indicators, including the prudential limit for external debt.
- The process, by which the prudential indicators will be set, revised and monitored.
- Matters to be considered when setting or revising the prudential indicators.
- Reference to a small core framework of capital legislation including the power to borrow, and to regulate borrowing and ‘extended credit’.
- A power to set statutory prudential indicators.
- Continuing reliance on the statutory ‘balanced budget’ requirement and other prudential legislation.

The Chartered Institute of Public Finance and Accountancy developed the prudential code as a professional code of practice to support the decision making of local authorities. They consider that while local authorities must determine their own programmes for capital investment in fixed assets to support public service delivery, their prudential code plays a key role in the capital finance of local authorities. Having regard to the code is made compulsory under the Local Government Act 2003.

The prudential code aims to ensure that the capital investment plans of local councils are affordable, prudent and sustainable; that Treasury Management decisions are in accordance with good professional practice; and that it supports local strategic planning, local asset management planning and proper option appraisal.

The code obliges councils to set prudential indicators but does not suggest the limits or ratios that should be achieved as this is considered a matter for the specific authority in the context of legislative requirements. The prudential indicators are designed to support and record local decision-making rather than to be comparative indicators.

The code sets out a governance procedure for setting and revising prudential indicators. This should usually be done by full council. The Chief Financial Officer is responsible for ensuring that all matters required to be considered are reported to council, and for establishing performance-monitoring procedures. Prudential indicators for previous years are taken from the published accounts.

In setting or revising prudential indicators, the local authority must have regard to the following:

- Affordability, for example implications for council tax and council housing rents
- Prudence and sustainability, for example implications for external borrowing
- Value for money, such as options appraisal
- Stewardship of assets such as asset management planning
- Service objectives such as strategic planning for the authority
• Practicality such as achievability of the forward plan.

Separate calculations are required for the General Fund and Housing Revenue Account. The prudential indicators in the code are the minimum required, and authorities should set additional local indicators.

**Capital Receipts**

The amount of the Capital Receipts that can be used is limited to the following:

• 25% of the money received from the sale of council dwellings

• 50% of the money from the sale of housing land, and other housing assets

A local authority can use capital receipts in the housing revenue account or general fund regardless of where they arise – unless there are specific provisions that prevent them (see below). Councils commonly use housing revenue account capital receipts to fund the housing general fund programme.

From 2004/05 the government introduced ‘capital receipts pooling’ whereby local authorities paid capital receipts that they are not allowed to use into a national pool that the government then distributed to local authorities and housing associations. From 2011/12 these capital receipts have been retained by the Treasury.

Local authorities can retain general receipts that are exempt from capital receipts pooling if they are to be used for one of the following purposes:

• Affordable housing

• To meet the housing needs of people on low incomes in local authority’s area

• New or replacement social housing by authority or RSL

• Improvement of existing stock – decent homes

• Regeneration

• Preparing property for disposal

• Planning permission

• Restrictive covenants

• Preparing land for development

The former coalition government introduced measures for the reinvigoration of the right to buy programme and for the proceeds of this to be used to fund new build social housing. This is considered in more detail below.

**Revenue Contributions to Capital Outlay**

There are no limits on revenue contributions to capital outlay in this example. A council can finance as much Housing Revenue Account capital expenditure as it wants from tenants' rent money, and General Fund capital expenditure as it wants from Council Tax or other general fund resources.

**Government Grants**

Some capital expenditure that local authorities incur on housing is financed directly by the Government. This includes some expenditure on regeneration – in particular, estate renewal and investment programmes and new build. Government grants must be spent on the specific purposes for which they are given. As part of the self-financing settlement some local authorities were provided with capital grants to fund decent homes and backlog investment.
Self-Financing Settlement and Debt

Communities & Local Government published a paper: ‘Implementing Self-Financing for Council Housing’ on 1st February 2011. This paper contained the then coalition government’s detailed proposals for the introduction of self-financing to the Housing Revenue Account and was based on papers issued by the former Labour government.

The self-financing system was based on a redistribution of housing revenue account debt following which local authorities kept all their rental income and used it to meet the costs of management, maintenance and capital financing.

The wish to redistribute resources between local authorities was achieved, broadly speaking, by increasing the debt of those that were in negative subsidy and reducing the debt of those that were in positive subsidy. Authorities that complained about high levels of negative subsidy found that negative subsidy was replaced by increased capital financing costs even though these are usually lower than the level of negative subsidy.

The level of debt allocated to an authority was calculated by assessing the need to spend and likely revenue streams over a thirty-year period, using the data used to calculate housing subsidy and calculating the level of debt as the ‘balancing figure’ in the same way as ‘Tenanted Market Value’ is calculated in stock transfers.

The assumption on rents was that convergence would take place in 2015/16 and that this would require real annual increases in rents of 2.2% in 2011 and 2.1% in each of the following four years. Under self-financing, adherence to rent policy would be secured through regulation. New Council homes that had been built outside the housing revenue account were excluded from the self-financing valuation.

The assumptions that were made in the business plans were critical as the self-financing model can deliver only the level of expenditure included in the business plan if those assumptions prove to be correct. In practice, they have proved not to be.

The spending needs built into the valuation were based on independent research about actual unit costs commissioned by the previous Labour government that were higher than those under the previous subsidy system. The coalition government considered that this approach to costs would give all local authorities more money to spend on managing, maintaining and repairing their stock than under the previous system. The government calculated that in aggregate this worked out at an increase to £545million a year for thirty years or a national average Major Repairs Allowance of £956 per dwelling per year and average management and maintenance allowances of £2,061 per dwelling per year. On average management and maintenance allowances were increased above the levels assumed in the housing subsidy system by 5.7% and major repairs allowances by 28.9%.

The assumed rents and costs were used to produce a notional thirty-year business plan of income and expenditure for each local authority. This was converted into a stock valuation using discounted cash flow principles and a 6.5% discount rate.

To calculate the payment to or from Government, the valuation was compared with the notional amount of housing debt supported by Housing Revenue Account subsidy. If the valuation was higher than this assumed debt figure, the local authority was required to pay Government the difference. If the valuation was lower, the Government paid the difference to the local authority. Payments from central Government did not usually go to local authorities directly but were used to redeem debt held by the local authority.
Of the 171 local authorities with housing stock, 33 saw debt totalling £5.3billion written off while 136 saw their debt levels increased. However, the financial position in which authorities find themselves depends on the extent to which the interplay between the abolition of housing subsidy and the variation in capital financing costs results in a net saving to the housing revenue account and whether the Council has headroom between actual debt and the borrowing cap that enables it to borrow to fund either new build or improvements to existing stock.

The 136 Councils with increased debt paid the government £13.4billion and funded most of this by borrowing £12.9billion from the Public Works Loans Board. Councils were able to take advantage of low rates of interest ranging from 0.7% for five-year debt to 3.3% for thirty-year debt. These were lower rates of interest than had been expected by many Councils.

**Borrowing and Self-Financing**

In ‘Implementing Self Financing for Council Housing’ the former coalition government confirmed that it would place a borrowing limit on the Housing Revenue Account after self-financing was introduced. This was done through:

- The ‘Council Housing Borrowing Requirement’ that measures the actual amount of borrowing a local authority uses to finance its council housing and is like the previous ‘Housing Revenue Account Capital Financing Requirement’.
- The ‘Council Housing Borrowing Limit’ that is the limit on borrowing for each authority. The limit is usually set at the level of the self-financing valuation meaning that authorities are only able to borrow the equivalent of the difference between their Housing Revenue Account Capital Financing Requirement and their ‘Subsidy Capital Financing Requirement’ – the amount of debt that the government assumes they have for subsidy purposes.

If the Housing Revenue Account Capital Financing Requirement was above the Subsidy Capital Financing Requirement the limit was set at the level of the Housing Revenue Account Capital Financing Requirement, that is, the actual level of debt at the point of self-financing. However, prudential borrowing that was carried out in 2011/12 was discounted unless approved by Communities & Local Government.

If a Council had borrowed money to finance new build as part of the National Affordable Housing Programme the government took account of this in calculating the borrowing limit. The limit was the higher of the self-financing valuation plus the prudential borrowing for those schemes or the Housing Revenue Account Capital Financing Requirement plus the prudential borrowing for those schemes.

The policy document stated that the maximum amount of housing debt that each local authority can hold under self-financing would be the higher of:

- The self-financing valuation for the local authority plus any capital financing provided by the local authority before 1st April 2012 to support a new build scheme under a contract with the Homes and Communities Agency.
- Where the local authority is making a self-financing settlement payment to the Secretary of State, the end-year Housing Capital Financing Requirement for 2011/12 plus the value of the payment
- Where the local authority is receiving a settlement payment from the Secretary of State, the end-year Housing Capital Financing Requirement for 2011/12 less the value of the payment.

A local authority is in breach of the limit if its housing debt exceeds its debt limit on the final day of any financial year. It will not be in breach where housing debt exceeds the limit at any other time during the year.
The Numbers

Unfortunately, many councils found themselves with additional resources in the housing revenue account that could be used in theory to fund prudential borrowing, but they were unable to do this because of the borrowing cap; or they had headroom between actual borrowing and the borrowing cap but were unable to use it because they lack sufficient resources in the housing revenue account.

Councils had differing levels of ‘headroom’ between opening debt and the borrowing cap. Those with the largest headroom in April 2012 when self-financing was introduced are listed below:

<table>
<thead>
<tr>
<th>Council</th>
<th>Borrowing Cap</th>
<th>Headroom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lambeth Borough Council</td>
<td>408.1</td>
<td>147.9</td>
</tr>
<tr>
<td>Southwark Borough Council</td>
<td>576.9</td>
<td>125.9</td>
</tr>
<tr>
<td>Tower Hamlets Borough Council</td>
<td>184.4</td>
<td>114.7</td>
</tr>
<tr>
<td>Hackney Borough Council</td>
<td>168.6</td>
<td>101.4</td>
</tr>
<tr>
<td>Camden Borough Council</td>
<td>525.0</td>
<td>86.7</td>
</tr>
<tr>
<td>Newham Borough Council</td>
<td>247.6</td>
<td>81.9</td>
</tr>
<tr>
<td>Wandsworth Borough Council</td>
<td>543.1</td>
<td>70.4</td>
</tr>
<tr>
<td>Islington Borough Council</td>
<td>499.4</td>
<td>67.3</td>
</tr>
<tr>
<td>Manchester City Council</td>
<td>169.4</td>
<td>60.1</td>
</tr>
<tr>
<td>Brent Borough Council</td>
<td>199.3</td>
<td>58.9</td>
</tr>
</tbody>
</table>

However, having debt written off and headroom between actual debt and the borrowing cap was not necessarily good news. Southwark Borough Council has had £200million of debt written off and has headroom of £126million between its actual debt and borrowing cap but finds itself worse off. This was because actual rents were significantly below the levels that were assumed in the self-financing settlement while the cost of existing loans is relatively high. Consequently, there is no capacity in the revenue account to take advantage of the theoretical opportunity to borrow. The Council was not able to borrow anything for at least five years. This was especially frustrating as the Council had not achieved the decent homes standard by 2012 and had received insufficient capital funding from the Homes & Communities Agency.

The reductions in rents that are taking place between 2016 and 2019 also reduced the capacity of local authorities to invest in new housing.

Self-Financing and Investment

In the 2010 Comprehensive Spending Review the level of resources allocated to the decent homes’ standard was far lower than had been anticipated in the documents issued by the former government. The self-financing settlement payments did not take account of decent homes funding in the interests of simplicity and transparency. In the event, the funding available for decent homes at £1.6billion was significantly less than the £8.9billion that was identified as required in the July 2009 consultation paper.

The fact that total funding was reduced as part of the 2010 Comprehensive Spending Review inevitably meant that local authorities received insufficient funding for their decent homes’ programmes. However, all authorities with a significant decent homes backlog received some funding whereas previously funding had been confined to authorities with arms’ length management organisations. Authorities that had yet to complete their arm’s length management organisation decent homes programmes therefore saw their funding cut.
However, for those authorities that had a significant requirement for decent homes work and that were not on the arm’s length management programme, these allocations were good news. Even a small contribution towards achieving decent homes was better than nothing!

Right to Buy

Under the Right to buy legislation, council tenants have the right to buy their home at a discount. Since its introduction in 1980, almost two million households have exercised this right. However, the policy also depleted the housing stock so under the previous Labour Government discounts were reduced and the take-up of right to buy fell.

To qualify for Right to buy or Preserved Right to Buy, tenants must have spent five years as public-sector tenants. Once eligible, discount rates are:

- For houses: 35% of the property’s value plus 1% for each year beyond the qualifying period up to a maximum of 70%
- For flats: 50% plus 2% for each year beyond the qualifying period up to a maximum of 70%

‘Right to buy’ has benefited local authorities financially in that they have generated capital receipts and have avoided the need to spend money on the modernisation and improvement of dwellings that have been sold. However, 75% of capital receipts have been ‘set aside’ and housing subsidy was reduced to reflect reduced levels of council housing stock and levels of capital receipts that have been ‘set aside’ so most of the financial advantage can be considered to have accrued to the government.

In 2012, the coalition Government increased Right to buy discounts to make them more attractive to tenants across England. It stated that it was committed to replacing every additional home sold under the Right to buy with a new home for affordable rent.

Local authorities can retain the receipts for replacement housing – provided they sign up to an agreement with Government that they will limit the use of the net Right to Buy receipts to 30% of the cost of the replacement homes. This means that Councils must be able to fund the remaining 70% of the cost of new homes from loans supported by rents or from their own resources. This is because most of the funding for new affordable rented homes comes from borrowing by the provider against the future rental income stream; and, in many cases, cross subsidy from the landlord’s own resources, including land.

Councils keep the proportion of the receipt needed to cover the housing debt associated with additional Right to buy sales. This ensures that the Right to buy reforms do not have an impact on the viability of self-financed local authorities.

The key points are:

- The government increased the discount cap to £100,000 in London and £75,000 in the rest of England and index-linked those figures (based on increases in the consumer prices index from January 2014).
- The government stated that, for the first time, every additional home sold under Right to buy will be replaced by a new home for affordable rent, with receipts from sales recycled towards the cost of replacement.
- Local authorities can retain the receipts for replacement housing – provided they can sign up to an agreement with Government that they will limit the use of the net Right to Buy receipts to 30% of the cost of the replacement homes.
- Councils can deduct the necessary amount to cover the debt from the receipt but are not required to use this part of the receipt to repay loans.
For the first time, councils can deduct a certain amount from the receipt for the cost of withdrawn applications. The government has increased that amount to 50%. Authorities can retain £2,850 in London and £1,300 in the rest of England to cover the costs of administration.

Receipts from Right to buy sales are applied as follows:

- The council may deduct certain costs, namely: an amount to cover the housing debt supportable from the income on the additional Right to Buy sales; transaction and administration costs; and an amount that reflects the income the council might reasonably have expected from Right to Buy sales prior to the new scheme;
- The council must also pay the Government an amount that reflects the income that the Treasury expected from Right to Buy sales prior to the new scheme;
- Once these costs are deducted, the remaining receipts (the ‘net receipts’) are available to fund (and must be applied to) replacement affordable rented homes.

The government said that revenue from additional sales will be ploughed back into delivering new affordable homes for rent but not social housing. Drawing on evidence from the 2011-2015 Affordable Homes Programme the government calculated that it should be possible to fund new homes let at Affordable Rent levels, with no more than 30% of the cost of the new homes needing to come from the Right to Buy receipt. They also calculated that, as it were to retain the net receipts from Right to buy sales, it would be able to provide – at a national level - one-for-one replacement affordable rented homes, while restricting the contribution made from the net Right to buy receipts to 30% of the cost of the replacement homes.

Where authorities do not wish to enter such an Agreement, the remaining receipt is returned to the Department for Communities and Local Government and re-distributed for new affordable rented housing by Homes England (or, in London, the Greater London Authority).

However, in practice very few of the council houses sold under the reinvigorated right to buy have been replaced with new affordable housing.

A substantial proportion of homes that are sold under the ‘right to buy’ do not remain in owner-occupation. For example, research by the General, Municipal & Boilermakers’ Union into the effects of right to buy in Wandsworth found that of the 15,875 homes sold under ‘right to buy’, 6,180 were owned by private landlords and that 977 landlords owned more than one property (with one owning 93). Other surveys have found that across London 36% of ex-council homes are now in the private rented sector.

Development

The graph at the head of this paper shows trends in house building in England from 1945 to 2015. It is calculated that there is a need to build at least 300,000 new homes a year, but this has not been achieved since the 1970s. It will also be seen that the reason for this is that private house building has never exceeded 200,000 homes a year, council house building effectively came to an end in the 1980s and while development by housing associations has increased it has never reached the levels formerly achieved by the local authorities. The failure to build 300,000 new homes a year has led to a shortage of housing and an increase in property values. The reason why local authority development effectively came to an end in the 1980s was because of changes in government policy and funding arrangements.
However, local authorities have recently started to develop new homes, assisted by a changed political climate, the flexibilities provided by self-financing and the availability of limited amounts of housing grant. However, constraints remain as levels of housing grant have been reduced and confined to supporting affordable rather than social housing, and until 2018 the ‘borrowing cap’ limited local authority investment. Several local authorities are using innovative delivery vehicles such as subsidiary companies and joint ventures to deliver new homes.

The former coalition government made a significant reduction in the budget for Social Housing Grant and the Conservative government made further reductions; Local authorities are not able to access much capital funding. They also face constraints on borrowing and must pay most of their capital receipts to the Treasury. However, despite this some local authorities are pressing ahead with new build programmes.

**Capital Financing Costs**

Capital financing costs are significant especially following the increase in debt in 2012 at the time of the self-financing settlement. Currently, interest rates are very low with the Bank of England’s base rate being set at 0.75%.

It can be expected that in the long-run interest rates will return to a rate somewhat above the inflation rate. However, most economists do not expect this to happen for some time with typical forecasts suggesting periodic increases of 0.25% with interest rates reaching 1.25% in 2022.

Local authorities can, and do, protect themselves from the possibility of increases in interest rates by borrowing long-term at fixed rates of interest. This means that even a large and sudden increase in interest rates would have a relatively gradual effect on capital financing costs in housing revenue accounts.

Different authorities have different attitudes towards debt with some wishing to maximise debt so that they can maximise capital expenditure while others wish to repay debt so that they can reduce revenue expenditure. Treasury Management strategy is therefore an important part of business planning and changes in interest rates are certainly a variable against which sensitivity analysis is required.

**Affordable Housing Programme 2016 to 2021**

Local authorities, housing associations and private providers can all access grants under the government’s affordable housing programme that contribute towards the cost of new development. This programme is administered by the Greater London Authority in London and by the Homes & Communities Agency in other parts of England.

The affordable housing programme for 2016 to 2021 was announced in January 2017. Most of the resources in the programme were for low-cost home-ownership and there were some resources for affordable rent although there were none for social housing.

The Homes & Communities Agency announced its initial allocations in January 2017. The largest allocations to local authorities were as follows:

- Newcastle-on-Tyne City Council - £11.8million
- Stoke-on-Trent City Council - £7.2million
- Rotherham Borough Council - £6.8million
- Central Bedfordshire Council - £5.6million
- Lincoln City Council - £4.2million
Further funds have been allocated by the Homes & Communities Agency through a process of continuous market engagement.

**Homes for Londoners**

London Mayor Sadiq Khan (Labour) has secured £3.15billion in government funds to help start building at least 90,000 affordable homes by 2021. This is intended to help Londoners who would otherwise struggle to rent or buy. It’s part of ‘Homes for Londoners’, the Mayor’s work to tackle London’s housing crisis. The Mayor and Government have agreed at least 58,500 of this will be a combination of London Living Rent and shared ownership.

Homes funded in this programme are expected to be primarily composed of three affordable products. The types of affordable homes the Mayor is funding include:

- London Affordable Rent - for people on low incomes
- London Living Rent - helping Londoners on average incomes save for a deposit to buy their first home
- London Shared Ownership - for people who want to buy but can’t afford the open market

Other products may be funded under the Mayor’s programme where they are genuinely affordable to Londoners. They may also be funded by providers’ own resources or secured through the planning system. Existing pipeline schemes may have affordable housing tenures fixed already, in which case there will be some flexibility during the transitional period.

The Greater London Authority will fund affordable housing through three different routes:

- The Approved Provider route, with a single set grant rate for London Affordable Rent at or below the benchmarks, and a different set grant rate for both London Living Rent and London Shared Ownership;
- The Developer-led route, with a single set grant rate to increase the level of affordable homes provided on section 106 sites;
- Negotiated grant rates mainly for supported and specialised housing, and for London Affordable Rent at levels above the benchmarks.

The allocation to London represents 67% of the allocation for England as a whole, compared with the 40% that was allocated to London during the previous round. Of the £3.15billion that has been allocated; £2.171billion is available for the Mayor’s Homes for Londoners 2016-21 programme; £579million is required for affordable allocations that had already been made; and £400million has been allocated to the Housing Zones Programme.

**Additional Affordable Housing and Housing White Paper 2017**

In October 2017, Theresa May, then Prime Minister, announced an additional £2billion for the affordable housing programme and the government issued a press release that confirmed plans for a new generation of council and housing association homes, saying that funding for affordable homes will be increased by a further £2billion to £9.1billion.

The Housing White Paper of 2017 set out the government’s plans to ‘fix’ the broken housing market and deliver the homes that are needed. They set a goal to deliver 300,000 homes a year by the mid-2020s. The last time that homes were built at this sort of scale in England, social housing made up almost half of the total. Social housing remained central to the government’s supply ambitions. They considered that social housing could be built out more quickly because it did not rely on the mortgage market, could provide up-front funding to unlock sites, and could ensure new homes are acceptable to local people.
Social Housing Green Paper 2018

The government published a green paper on social housing in August 2018. The government recognised that there remained a long-term need for social housing. However, they acknowledged that there were housing pressures in other places too, including rural areas. The Green Paper pointed out that, while social housing supports some of the most vulnerable in our society, 58% of working age social tenants are in work. For many such working tenants, particularly those living in areas of acute affordability pressures, the reality of housing costs will make renting in the private sector or saving for a deposit more difficult.

To deliver the required social housing government thought that central and local government, housing associations, private developers and others must pull together and radically increase the number of homes built every year. The green paper set out the government’s vision to help local authorities build by allowing them to borrow, exploring new flexibilities over how they spend Right to Buy receipts, and not requiring them to make a payment in respect of their vacant higher value council homes.

While local authorities have built more council homes since 2010 than during the previous thirteen years, building remains at a low level when compared to the peak of council house building between 1951 and 1979 when local authorities delivered nearly half of new homes.

Local authorities have identified the following barriers that prevent them from building new homes:

- Restrictions imposed by the Government on their ability to borrow money to fund house building;
- Uncertainty about the level of rent that they can charge residents from 2020/21;
- Limitations on how they can use their receipts from homes sold under the ‘Right to Buy’.

Lifting the Borrowing Cap

In June 2018 the government announced a limited scheme under which local authorities could bid for increases in their borrowing caps if they were in areas of high housing pressure. However, in the autumn of 2018, Theresa May MP, the Prime Minister announced that the cap on borrowing by local authorities in the housing revenue account was to be abolished on 30th October 2018. The Local Government Association calculated that this could generate £320 billion of economic growth over fifty years.

Following the budget of October 2018, HM Treasury announced on their website that:

“From today in England the government is lifting the cap on the amount of money local authorities are able to borrow to build housing. Local authorities fund housing through a separate Housing Revenue Account (HRA). The Welsh Government is also taking immediate steps to lift the cap in Wales.”

According to the Office for Budgetary Responsibility’s estimates, councils will build 20,000 extra homes between 2018/19 and 2023/24 because of the abolition of the cap. This is a lower estimate than those that have been published by the Local Government Association and by consultants. The Office for Budgetary Responsibility also calculates that this increase will be partly offset by a decrease in housebuilding by private housebuilders and housing associations, leading to a net increase of just 9,000 homes over the next five years. According to government estimates in the Budget, abolishing the cap will cost £4.7 billion over five years, starting at £95 million and rising to £1.2 billion by 2023/24.

Adrian Waite - April 2020
About ‘AWICS’

‘AWICS’ is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

Our mission statement is ‘Independence, Integrity, Value’. We therefore provide support to clients from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

For more information about our services and us please visit our website at www.awics.co.uk or contact Adrian Waite at Adrian.waite@awics.co.uk. Services that we offer include:

- Management Consultancy – http://www.awics.co.uk/ManagementConsultancy.asp
- Interim Management – http://www.awics.co.uk/interimmanagement.asp
- Regional Seminars - https://awics.co.uk/seminars-2019
- In-House Training - http://www.awics.co.uk/inHouseCourses.asp
- Webinars - http://www.awics.co.uk/webinars.asp
- Independent Residents’ Advice – http://www.awics.co.uk/IndependentTenantAdvice.asp
- Information Service - http://www.awics.co.uk/aboutUs.asp

Introduction to Local Authority Housing Finance in England – Webinars

We are holding webinars entitled 'Introduction to Local Authority Housing Finance in England' between April and May 2020. These webinars give an introduction and overview of this important subject and are fully up to date with all developments.

There are three webinars:

- Introduction to Local Authority Housing Finance in England (revenue) - 29th April 2020 at 2pm
- Introduction to Local Authority Housing Finance in England (capital) - 30th April 2020 at 2pm
- Introduction to Local Authority Housing Finance in England (technical issues) - 4th May 2020 at 2pm

Each webinar will last about an hour and costs £30 plus value added tax (a total of £36).

These webinars are comprehensive and are designed for people who are not experts in housing finance, but who need to understand the basics and achieve an overview of what is going on. They are suitable for councillors, housing managers, tenant representatives, finance staff who have limited experience of local authority housing finance and others who realise that an understanding of housing finance can place them at an advantage!
Introduction to Local Authority Housing Finance in England (revenue) refers to the Housing Revenue Account, Rents, Service Charges, Management and Maintenance, Self-Financing, Housing Benefit and Welfare Reform.

Introduction to Local Authority Housing Finance in England (capital) refers to Capital Programmes, Right to Buy, Development, the Affordable Housing Programme, Prudential Borrowing and Local Housing Companies.


All the webinars are fully up to date and refer to the recent social housing green paper; the lifting of the ‘borrowing cap’; policy on ‘right to buy’ receipts; and setting of rents based on the consumer prices index plus 1% a year. They also address the policies of the government that was elected in December 2019.

The presenter will be Adrian Waite, who is well known for his ability to explain complex financial matters clearly.

It is possible to ask questions during and after the webinar. Each webinar is also accompanied by a very useful briefing paper that will be emailed to participants after it has finished alongside a copy of the presentation used. A recording of the webinar is also available after it is completed.

For further information or to make a booking, please click here: https://awics.co.uk/introduction-to-local-authority-housing-finance-in-england