# Briefing Paper

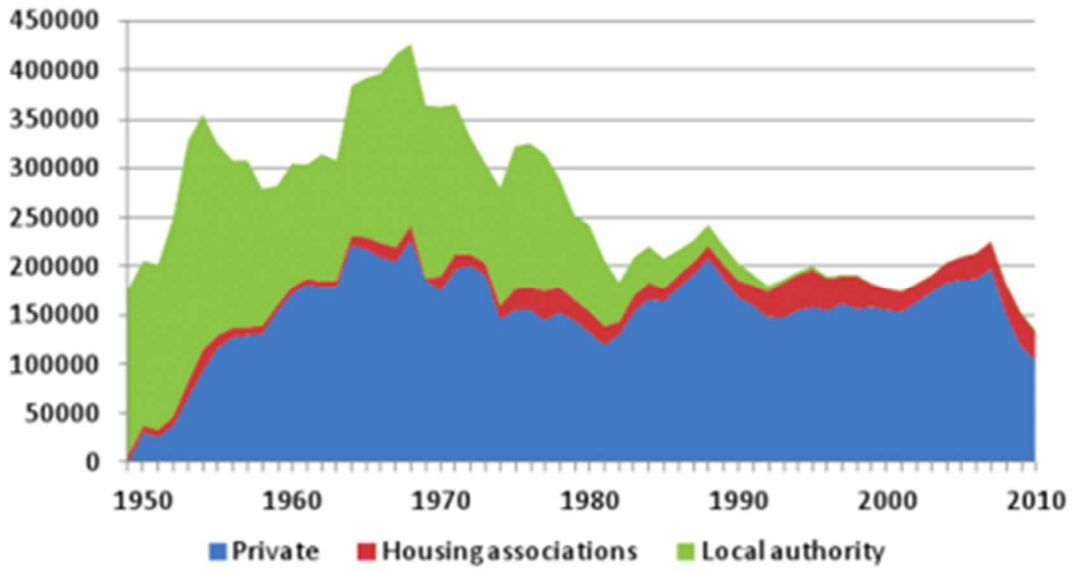
# Local Authorities, Development and the Borrowing Cap

# June 2014

## Introduction

The purpose of this briefing paper is to provide an update on local authorities, development and the borrowing cap.

The following graph shows total house building in England. It will be seen that since local authorities stopped building new council housing in the 1980s the level of construction has fallen with housing associations and the private sector failing to 'fill the gap' left by the reduction in building by councils.




Many people in local authorities argue that the solution to the current housing crisis would be for local authorities to re-start their development programmes. This is occurring but contemporary development programmes by local authorities are very small in relation to those that were seen in the 1960s at their peak.

## Let's Get Building

English councils collectively built between 200 and 300 homes annually from 1997 until 2010. In 1990 alone, 14,000 local authority homes were completed. English councils will build up to 25,000 new homes in the next five years as a result of the freedoms that came with the self-financing revolution. The end of the housing revenue account subsidy system has sparked the first major wave of council building programmes for a generation.



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In November 2012 the National Federation of Arms-Length Management Organisations, Association for Retained Council Housing, Chartered Institute of Housing and Local Government Association published 'Let's Get Building' in which they made the case for local authority investment in rented homes for economic growth based on prudential borrowing rather than the 'artificial' debt cap.

*'Let's get building'* says a more liberal borrowing regime would give councils access to an additional £7billion – about a third of their full borrowing capacity. This would allow 60,000 new homes to be built over the next five years, creating jobs and generating extra revenue for the Exchequer. The report notes that 92p out of every £1 spent on building in the United Kingdom stays in the country, while 56p of that is returned to the government in tax meaning that this would result in an increase in economic growth of 0.6%.

Research carried out last year by a group of housing organisations, including the Local Government Association, said that under current rules councils will borrow £2.8billion and build 15,000 homes over five years, but without the cap they would borrow £7billion and build 60,000 homes.

The report recognises that council borrowing counts as part of government debt, but says that the urgent needs both to stimulate the economy and provide more affordable rented homes mean that extra borrowing is now justified. Changing the way government debt is measured to exclude borrowing in the housing revenue account from the public sector borrowing calculation would ensure that council borrowing did not increase government-borrowing levels. This would also bring the United Kingdom more into line with international regulations already used by the market and bodies such as the International Monetary Fund to assess debt.

The main objections to extra borrowing are that it would breach fiscal rules and provoke an adverse reaction from the markets. As part of the study, Capital Economics were asked to test the market response to councils borrowing an extra £7billion over five years. The responses suggest that this sum would be too small to worry the markets.

Capital Economics also tested reaction to the case for bringing fiscal rules into line with those used elsewhere in Europe. Markets were cautious on rule changes, but accepted they could be made over time provided it was done transparently and weren't a cover for extra borrowing.

The report argues that, if the government meant what it said when it cut council housing free of subsidy and made it self-financing, the logical next step would be for councils to manage their own borrowing on market terms, just as housing associations do. They could then continue to build new homes year-on-year, financed from rents. The report concludes that:

*"The level of borrowing would be well within the levels sustainable from projected rental income and well below total local authority financial capacity, estimated at between £20billion and £27billion… Local authorities have a long track record of borrowing prudently and sustainably.*

*"There is consensus among politicians and business that we need more house building, so why can't we get building? The stumbling block… is the centrally imposed debt ceiling on councils which prevents them from maximising the value tied up in their housing stock".*



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In June 2013, Alison Scott, Assistant Policy & Technical Director at the Chartered Institute of Public Finance & Accountancy wrote in 'Public Finance' that:

*"Given the work involved, it is not surprising that… housing and finance colleagues have taken some breathing space to allow the new system to bed in. Feedback suggests that few councils are currently intending to borrow more to spend on housing at this stage. This is partly to do with the debt profile, which peaks after the first few years of the transfer. But it is also because of the housing borrowing caps set by the government, particularly as there is uncertainty over changes to welfare payments and the ability to use receipts from tenants' right to buy.*

*"The Chartered Institute of Public Finance & Accountancy argued throughout the lead-up to self-financing that the debt cap was unnecessary, and behaviour during this initial year supports that view. Removal of the cap would allow housing authorities to choose the most cost-effective capital / revenue expenditure splits as their business and capital plans improve along with their understanding and experience of self-financing."*

**Autumn Statement 2013 and Development**

The 2013 autumn statement included an announcement that the borrowing cap would be lifted by £150million in 2015/16 and a further £150million on 2016/17 with the allocation to be distributed through Local Enterprise Partnerships. All stock owning authorities will be eligible to apply for additional borrowing capacity through a competitive process in partnership with Local Enterprise Partnerships and through local growth deals. George Osborne said the £300million increase would build 10,000 new affordable homes across England. However, councils had argued that the cap should be raised by £7billion or even repealed altogether, so the announcement provided only 4% of what councils had asked for and slightly less than £1million a year for each stock owning local authority. In this context the heading in 'Inside Housing on 6th December 2013 that 'Osborne frees councils to build' appears to be rather an exaggeration of a comparatively modest move.

Sir Merrick Cockell (Conservative) then Chair of the Local Government Association said:

*"The easing of restrictions on housing investment announced today does not go as far as we would like, but it does show that our call for more local flexibility to drive economic growth has been recognised".*

Chartered Institute of Public Finance & Accountancy Chief Executive Rob Whiteman said the limited increase in the borrowing cap was 'massively disappointing' and added:

*"CIPFA have long campaigned for the HRA borrowing cap to be lifted to allow local authorities to build the homes their communities need. It's therefore massively disappointing to see it increased by only £150m next year, but also that this money comes with a host of strings attached with the government creating a complex competition before authorities can hope to see the benefits.*

*"If we are to tackle the housing challenge that our country faces we need to see the HRA borrowing cap lifted and new thinking from the government on house building."*

**Repurchasing**

Councils are using new financial freedoms to buy back homes sold under the right to buy scheme.



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Research by 'Inside Housing' into English stock-holding authorities' use of housing revenue accounts to finance new homes reveals that councils are buying former council homes, sold at a discount, as part of wider plans to boost supply.

Matthew Warburton, Policy Advisor for the Association of Retained Council Housing, said the practice had happened on a 'fairly low level' for years but reforms to council housing finance, introduced in April 2012, allowed local authorities the flexibility to do more. Buying back homes on existing estates can be cost-effective as maintenance and management arrangements are already in place. He told 'Inside Housing' that:

*"In the bigger picture, it's a completely insane use of public money to spend it undoing the consequences of a policy that should have never been allowed to happen in the first place."*

Welwyn-Hatfield District Council repurchased seven of its former homes in 2013/14 and had offers accepted on a further eight. It is targeting former council-owned stock because it 'fits into [its] existing management and maintenance programmes'.

Arun District Council bought seven ex-council homes in the past year and one private property. Brian Pople, Head of Housing at the Council, said it was a 'quick way of acquiring properties'. The average cost was £124,000 per unit, compared with between £130,000 and £140,000 for new build.

Lancaster City Council could purchase former council homes as part of a £2million scheme to build around twenty homes a year over three years. Fareham Borough Council will use right to buy receipts to purchase up to eight right to buy properties. Redditch Borough Council, that is not using its housing revenue account to finance new homes, has committed £75,000 in right to buy receipts since April 2012 towards buying properties sold under right to buy. Councillor Peter Gruen, Deputy Leader of Leeds City Council, said the local authority was 'dipping [its] toe in the water' and would buy back former council homes where it is 'financially prudent' to do so as part of its empty homes strategy.

**Arms' Length Management Organisations**

In December 2013 it was announced that more than 80% of arm's-length management organisations in England plan to undertake a house building push in 2014. A survey of 47 arms' length management organisations, conducted by the National Federation of Arms' Length Management Organisations showed that 39 plan to develop homes in the 2014 calendar year - up from eleven in 2013 - many of which are registering with the Homes and Communities Agency to access funding. They are doing this to diversify to meet the needs of their communities and to generate additional income.

Sixteen arms' length management organisations (34%) are managing homes on behalf of other social housing landlords. Nearly half of all arms' length management organisations are delivering services to the private rented sector and a further twelve arms' length management organisations (26%), are considering work in this sector next year.

The number of arm's length management organisations that have registered with the Homes & Communities Agency to receive social housing grant for development has nearly tripled from 'half a dozen' to seventeen.

Homes owned by arm's length management organisations are exempt from right to buy entitlements, which means they cannot be sold to social tenants at a discount.



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Eamon McGoldrick, Managing Director of the National Federation of Arms' length Management Organisations said:

*"This survey came about as an attempt to understand more about our members and to give an accurate snapshot of the arms' length management organisation sector in 2013. We knew arms' length management organisations were moving into the private rented sector, building new homes and providing non-housing functions such care and support services; however we were surprised at the breadth of activities that arms' length management organisations are involved with.*

*"This demonstrates the continuing good health and flexibility of arms' length management organisations, not just as a vehicle for housing management but for wider community regeneration. When considered alongside the large number of long-term management agreements being agreed with Local Authorities, it is clear that arms' length management organisations have a bright future."*

**Council Subsidiaries**

In September 2012 Barnet Borough Council decided to set up a development company that will use institutional investment to fund the building of new homes. The institutional investors that have been approached include large pension funds and insurance companies. The Council has £40million of borrowing headroom following self-financing and intends to use this to support new build.

A number of different financial models are under consideration. One option is for an institutional investor to build or buy housing stock. A company set up by the Council would pay a yield of 4% to 5% over forty to fifty years after which the company would receive the homes for a nominal sum. The homes would be let either at market or affordable (intermediate) rents thus enabling the yield to be paid. Another option is for a joint venture development company with the council putting in land in return for an equity stake and the developer meeting construction costs.

Cllr. Tom Davey, Conservative Leader of the Council was quoted in 'Inside Housing' as saying:

*"Forming a development company would enable us to have more control over development… There are questions about the value of housing associations (developing). Future land value is going up so it does not make sense for us to simply give the land to someone else to develop."*

In May 2013 it was announced that Thurrock Council would set up a wholly-owned subsidiary to develop homes. The Council will be the sole shareholder in the company that will use the Council's borrowing capacity in the general fund to build homes on council-owned land. These would then be available for affordable rent, low cost home ownership and market sale. They would be built outside the housing revenue account to avoid the government's borrowing caps and would be in addition to development within the housing revenue account.

The objective is not just to build homes, but to stimulate the depressed housing market locally. The objective is to build 1,000 homes by 2018 and then wind up the company and sell the homes to private landlords when the market recovers. However, advice from a private accountancy firm is that even if the market does not recover the Council would still recover its costs if it was forced to buy the homes from the subsidiary itself.



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The Council has recently been unable to sell potential housing land to developers because they have been unable to provide a viable business model. However, the Council considers that as it already owns the land and does not aim to make a profit it will be able to develop a viable business case. A report to the Council's cabinet stated that:

*"By developing housing on land that it owns the Council will provide an alternative route to private sector led regeneration which has been heavily constrained."*

It is thought the company, as a subsidiary of Thurrock Council, could borrow up to £160million and act as an "investment company", building houses that, in the future, would be sold to individuals, property companies or even the council's own housing revenue account. The aim is to kick-start house building and tackle demand. In May 2013, Val Morris-Cook, Thurrock councillor responsible for housing said in 'Housing News' that:

*"This is just a first step; a way to get agreement to look carefully at all the possible pros and cons and to pin down with more conviction and detail the risks the council might face, assuring us they are small enough to accept and that the potential up-side is as good as we believe it is. Basically, the scheme would be to create a company with a single shareholder – making it a subsidiary of Thurrock Council – that would lead on building the 1,000 new homes we have promised. This is an innovative way of overcoming the difficulties of a struggling economy, a lethargic house-building programme and an ever-increasing housing list."*

In November 2013 Thurrock Borough Council officially approved the establishment of the stand-alone firm 'Gloriana Thurrock' that will be funded by prudential borrowing. The company will 'enable the council to intervene as required and desirable to ensure that new housing development, particularly in the current economic environment and in the face of a weak development market, can contribute fully to strategic priorities', the authority's papers stated. The intention is that 'Gloriana Thurrock' will start the development of 18,500 properties by 2021. The vast majority of homes developed by the company will be let at 80% of market rates. The rest are likely to be sold on the open market or on a 'shared equity' basis. Under this latter scheme, buyers are able to buy a proportion of a property's equity, making it more affordable. The company will be expected to support the delivery of 1,000 new affordable homes over the next five years.

Val Morris-Cook, executive member for housing at Thurrock, told 'Housing News' that the company would intervene in the event of market failure and added:

*"Building council houses - and we are doing as much of that as anyone can - and a comprehensive refurbishment programme is both important but they are not going to solve the housing crisis and regenerate areas on their own."*

The company's name refers to Thurrock's historic ties with Queen Elizabeth I, who was cheered by troops in Tilbury docks before they set off to face the Spanish Armada.

Basildon Borough Council has announced it is to set up a housing development operation to bring hundreds of new homes to the area. The authority is proposing to set up its own development company to build on derelict land in the district to provide much-needed homes and create local employment as quickly. Instead of simply selling off hard to shift patches of land to a housing developer, it will develop areas itself, with homes a mixture of private council housing.



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The Conservative administration's deputy leader, Councillor Phil Turner, has proposed the idea and will take £80,000 out of the council's reserves to start up the company. This will then start developing ideas for the first phases of development. He told 'Housing News' that:

*"I want to create a company that thinks about the council as a housing developer. We need to raise our sights a bit higher. We will be using our own land to bring forward schemes to maximise the benefit and value from the land because the council will own both the land and homes. We don't need to make a big profit. We just need to get the best value for our residents. Residents should see a sharper shift to getting homes built and this is my way of giving back to Basildon."*

**Joint Ventures**

There is increasing interest by local authorities in joining with housing associations and developers in joint ventures to develop new private rental sector housing as well as social housing throughout a geographic area of influence. Since changes were made in the Localism Act 2011 it is now easier for local authorities to invest in joint ventures with housing associations, developers, house builders and even private investors.

The challenge is to develop a tax efficient model which does not rely on a Real Estate Investment Trust structure to deliver new housing in a limited liability, off-balance sheet structure while maintaining the tax exempt status of housing associations and local authorities for each development scheme.

Unfortunately the Localism Act 2011 section 4(2) provides that if a local authority undertakes a commercial activity in exercise of its general power it must only do so through a limited company. This requirement can restrict the types of vehicles that other tax exempt organisations (such as housing associations or foreign investors) may wish to utilise when structuring housing development joint ventures. This means that local authorities are unable to invest directly in a tax transparent arrangement. Any economic interest of a local authority would need to be held through a company, incurring corporation tax on any profit that may be made by the relevant scheme.

Whether this is an oversight in the Localism Act itself or is deliberate policy is unclear but it does put a local authority in an unequal position relative to other tax exempt organisations that are likely to participate in housing joint ventures. Whether a local authority association (such as an association of more than one local authority or between a county and a district local authority) is able to invest on a tax transparent basis remains to be seen.

The other significant structuring challenge for housing associations and local authorities is to ensure that any joint venture and development schemes remain off-balance sheet for the purpose of housing associations / developers / builders. Also where a local authority is involved the relevant joint venture / scheme should not be classified as a local authority controlled or influenced organisation.

Structures can be devised to address these control and influence issues but it does then raise whether the structure is subject to regulation pursuant to the Financial Services & Markets Act 2000. Ideally the economic participants in such a structure may be exempt from this regulation or can otherwise rely upon another exemption but in circumstances where no exemption is available the structure would need to be established and managed by an authorised operator under the Financial Services & Markets Act.

A number of companies have been recently authorised under the Financial Services & Markets Act to undertake this role considering the increasing interest in private rented sector joint ventures between housing associations, local authorities and passive institutional investment.



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Therefore, a housing joint venture structure between local authorities and housing associations needs to:

- Be scalable relative to the size of the individual scheme
- Allow investors to ring-fence liability from one scheme to another
- Remain 'off-balance sheet'
- Aggregate schemes to be managed by a single entity to achieve economies of scale
- Be tax transparent
- Be exempt from regulation

**Recent Developments**

In January 2014, the Homes & Communities Agency proposed that housing associations and local authorities should sell their highest value stock. On the face of it, this appears like a sensible move. Sell a house in a high value area and generate a capital receipt that will pay for two in a low value area. However, as Ken Lee (Director of Resources at Wigan & Leigh Housing, Chair of the CIPFA Housing Panel and contributor to AWICS newsletters) pointed out in 'Inside Housing', this move would make it more difficult for councils to manage their debt. He said that local authorities that took on debt in 2012 as part of self-financing agreements had calculated repayments based on projected rental income; and that only a limited amount of capital generated from capital receipts can go towards repaying the debt under the deals.

In February 2014 the Guardian reported that local authorities are increasingly looking to their own resources rather than to housing associations to build the lower-rent accommodation they feel their areas need.

Wokingham Borough Council is an example of this. When Councillor David Lee, now Council leader, was elected to the council more than a decade ago, he was baffled by what the authority was doing with the new housing it had helped to secure. He told the 'Guardian' that:

*"I couldn't understand why we always gave it away to registered social providers… Our own housing stock is getting older and when our houses need a repair it's a new roof or a new kitchen. But the homes that the social landlords were getting were all new, generating a good income and, over the next few years, if they needed repairs it would only be a new door handle. I thought it was madness."*

The Council is now building its own new homes after setting up a local housing company allowing it to channel the surpluses it makes into other spending areas. Over the next five years, the Council is planning to develop 180 homes, some of them for shared ownership or sub-market rent – but many of them at low social rents, a priority in an area where private rents on a two-bedroom flat are about £1,000 a month. It's an example of how councils are increasingly becoming the lead – and in many places the only – providers of low-rent social housing as opposed to the 'affordable housing' that housing associations are providing with financial support from the Homes & Communities Agency and Greater London Authority at higher rents.

Councillor David Lee said:

*"There is a profit element, we are clear about that… Building the homes and keeping them ourselves gives us a dividend to fund other elements of the council's work."*



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Figures from the Homes and Communities Agency show that, with housing associations asked over the last few years to develop homes at 'affordable' rents, just 8% of the new affordable homes started in the six months to September 2013 were for lower, social rent. The Homes & Communities Agency has warned that, under its next funding round, socially rented homes will only be funded in exceptional circumstances. That means councils are increasingly forced to look to their own resources, including prudential borrowing to build the lower-rent homes they feel their areas need. Matthew Warburton, Policy Adviser at the Association of Retained Council Housing, said:

*"It will be up to councils to meet the demand for housing at social rents which are affordable by those on the lowest incomes, particularly in areas where the gap between market and social rents is wide."*

South Holland District Council has set up a housing company and is developing homes at affordable rents, because of the comparatively low market rents in the area, as well as managing affordable homes built by private developers as part of their planning obligations. Councillor Gary Porter, Leader of South Holland District Council and former Local Government Association Vice-Chairman, said:

*"We get more bricks for £1 than registered social landlords and all of the profit is completely redistributed back into the community where it is generated from… There's no national [housing association] group shifting money around or lots of people taking out quite excessive salaries. And we do make better landlords because of the other things we do. We have a greater connection with the community.*

*"Where housing sits in the Conservative party there have been two schools of thought – putting subsidy into bricks and mortar or into tenants through housing benefit… We changed to tenants, which I personally think was a mistake. I think the money is better put into bricks and mortar… I wouldn't want people borrowing lots of money they can't service, but if it stacks up then let them borrow".*

In May 2014 Communities & Local Government announced that English councils had built more than 1,000 new homes between January and March, increasing their output fivefold on the previous quarter. The quarter marks a massive leap in council house building, compared with an average of 450 homes per quarter since 2011/12, with some dropping as low as 150. The figure of 1,090 is the first time councils have built more than 1,000 homes since they were allowed to keep rent receipts for development in April 2012.

It was also reported that Councils have drawn up plans to build more than 15,000 homes since the housing subsidy system was scrapped in 2012. 92 of the 106 stock-holding local authorities in England that responded to an 'Inside Housing' survey, are using the flexibility granted under housing revenue account reforms to finance new homes. The councils were asked if they had drawn up any plans to use their new spending power, and if so, how many homes they would build over what period.

Of the 92 councils that said they were using the self-financing powers, 78 plan to build a total of 15,630 new homes through their housing revenue accounts, over timescales ranging from 2014/15 to within the next thirty years. Four local authorities are using their housing revenue accounts to purchase a total of 458 homes.

The fourteen stock-holding authorities not using the flexibility to finance new homes gave a number of reasons for not doing so - the most common being that they do not have sufficient borrowing headroom.



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Housing Minister Kris Hopkins told 'Inside Housing' that:

*"Councils have now built more homes since 2010 than in the previous 15 years combined".*

And Tony Ball, the District Council Network's Lead for Housing, said the new homes would bring 'local jobs and a boost to the local economy'.

Melanie Rees, policy service manager at the Chartered Institute of Housing, told 'Inside Housing' that:

*"Some will have needed to replace the skills they lost since they were last building homes in the 1980s. A lot of those skills disappeared off to the housing association sector. Some would have been chomping at the bit to build new homes, but for others it would take a while to make the business case and get the land and so on. It will be interesting to see whether it is the same in the next quarter."*

The statistics showed that in total 36,450 homes were built in the last quarter of 2013/14 – an increase of 11% on the corresponding period last year.

**Autumn Statement 2013 and the Borrowing Cap**

The relaxation of the local authority housing borrowing cap has been campaigned for by local authorities and housing organisations ever since it was first imposed by the government as part of the self-financing settlement.

The autumn statement included an announcement that the borrowing cap would be lifted by £150million in 2015/16 and a further £150million on 2016/17 with the allocation to be distributed through local enterprise partnerships. All stock owning authorities will be eligible to apply for additional borrowing capacity through a competitive process in partnership with Local Enterprise Partnerships and through local growth deals. George Osborne said the £300million increase would build 10,000 new affordable homes across England. However, councils had argued that the cap should be raised by £7billion or even repealed altogether, so the announcement provided only 4% of what councils had asked for and slightly less than £1million a year for each stock owning local authority.

This allocation will form part of the competitive bidding process the government will run to split the £2billion 'single pot' of government funding to England's 39 Local Enterprise Partnerships. Under the plan, councils will make proposals to build new homes using the borrowing facility as part of their Local Enterprise Partnership when bidding to agree a Local Growth Deal with the Treasury. Ministers will then allocate the funding based on a value-for-money assessment. It is understood there will be flexibility to increase borrowing headroom in areas of particularly acute housing need.

London Councils' Executive member for housing, Mayor Sir Steve Bullock**,** said:

*"By 2021, over 800,000 new homes will need to be built in London, but the government's latest attempt to address this crisis through increasing council borrowing capacity does not go far enough and has too many strings attached.*

*"In order to qualify for extra borrowing capacity, councils will have to sell off high value vacant housing stock. This unfairly prejudices London, which has both the most acute housing need and the highest value stock in the country.*

*"London Councils will continue to call for the complete removal of the artificial housing borrowing cap, among a raft of other measures, so that boroughs can properly address London's housing crisis."*



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**Increased Borrowing Potential**

In April 2014, the government opened the bidding process to allocate an extra £300million of housing revenue account borrowing to local authorities, intended to fund the construction of 10,000 affordable homes. This is a national scheme that covers London as well as other parts of England. Setting out the requirements for the funding, Communities & Local Government Secretary Eric Pickles and Chief Secretary to the Treasury Danny Alexander said councils would need to have the bids approved by their Local Enterprise Partnership to be successful. The ministers also announced authorities would need to include their own land or capital receipts in projects bidding for funds, to demonstrate best value for money.

The additional borrowing headroom will be split into £150million in both 2015/16 and 2016/17, and allocated as part of local growth deals.

The rules governing council land sales will change to free more redundant land and property to build homes. Local authorities will be able to sell land at below market value to developers who will build affordable housing. Councils applying for extra borrowing powers will need to demonstrate maximum value for money, by including funds from disposal of surplus assets, particularly high-value vacant stock, and by bringing forward their own land for new affordable housing.

Eric Pickles said that:

*"(These changes have) untied the hands of councils so they can take more responsibility for housing in their area… Councils have built more homes in the last three years than under the whole of the last government – 170,000 affordable homes have been delivered since 2010, and house building is now at its highest level since 2007… But there is still more to do. Today we are offering extra borrowing powers so councils can build more homes. We are also making it easier for councils to sell surplus and redundant property for new affordable housing, and they should consider what land they can release for the benefit of their local community."*

Bids from councils, that must be agreed with Local Enterprise Partnerships, are to be submitted to the Department for Communities and Local Government by 16th June 2014.

The government considers that the extra funding and flexibilities will enable councils to complement government's affordable housing programme, which is on track to deliver 170,000 homes by 2015, and a further 165,000 between 2015 and 2018.

Danny Alexander said more should be done to empower local communities to deliver more good quality housing now and that the extra borrowing capacity would compliment the government's review of social housing supply announced in January 2014 and said:

*"This additional borrowing flexibility, together with funding from the sales of high value social homes and other forms of local investment will deliver 10,000 new affordable housing over the next few years – supporting the construction sector and providing new homes."*

The review is investigating whether councils are using their current powers and flexibilities to deliver new housing, and how they could work with housing associations, house builders, residents and businesses to do more.



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**Trading Borrowing Capacity**

If the government is not prepared to abolish or raise the borrowing caps significantly, then some authorities hope that it would be prepared to allow authorities to 'trade' in borrowing caps allowing authorities that did not want to use their headroom to sell it to authorities that wanted to borrow but were caught by the cap. In May 2013, Jonathan Glanz, Cabinet Member for Housing at Westminster City Council argued in 'inside Housing' that:

*"Westminster Council… has also offered a solution that could help allay Treasury concerns about increasing public sector borrowing. A system through which councils could trade borrowing capacity or 'headroom' would maximise the number of new homes built within existing constraints.*

*"Of course, lifting or abolishing the caps could help to build many more homes – but the Chancellor's concerns about overall public debt are understandable. That is why allowing councils to trade their headroom would be a sensible way forward in the short term to build homes the country so desperately needs. The way caps have been applied has meant that some councils have more borrowing capacity than they need and others, like Westminster, would seriously consider higher levels of investment should we be allowed to. Trading headroom would help to better align investment need with capacity, maximise the number of new homes that can be built and benefit those areas even where additional borrowing is not required. A council could receive a fee for agreeing to reassign its headroom, gain nomination rights in new housing developments or share future rental income from new properties.*

*"This system could be trialled within London, where the need for homes is especially acute.*

In September 2013, London Councils and the Liberal Democrats called for local authorities to be allowed to pool borrowing to build new homes. The idea is that councils to be allowed to pool their borrowing limits, so councils already close to their government-imposed borrowing caps can continue to borrow to invest in new homes. London Councils also called for an examination of whether the definition of public sector debt could be brought into line with that of other European Union countries so that council liabilities would be off-balance sheet.

Ruth Dombey, vice chair of London Councils told 'Housing News' that:

*"We would prefer to see the artificial cap on council borrowing lifted entirely. However, London Councils welcomes Vince Cable's announcement that he firmly supports enabling councils with a sustainable business model to borrow to invest in building more homes for rent. Mr Cable supports a view held across the housing sector and local government, that sensible borrowing by local authorities to fund house building is part of the solution to the housing crisis."*

Claims have been made that pooling the borrowing potential of different councils could produce an extra 25,000 homes per year. However, any pooling would have to be on a voluntary basis, and it's unlikely that councils would actually give up their borrowing potential to a neighbouring authority unless they got something in return, such as nomination rights to a proportion of the houses built. Consequently, pooling borrowing potential may not prove to be an effective option in practice.

**Adrian Waite**
**June 2014**



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# Developments in Local Authority Housing Finance in England 2014

**July 2014**

We are holding a seminar and workshop on 'Developments in Local Authority Housing Finance in England' in London on 8th July 2014. This seminar is designed to look in depth at current developments in local authority housing finance in England – especially the implications of the recession, austerity, self-financing and the welfare reforms.

If you want to be up to date with the world of local authority housing finance, this is the seminar and workshop for you!

## The seminar and workshop will address the following questions:

- What is the Political, Economic, Social and Technical Context of Local Authority Housing?
- How can we develop effective self-financed business plans in the light of government reforms to rents, right to buy and welfare; and changing approaches to the ring-fence?
- How can we invest in existing and new housing in the light of the 'borrowing cap' and the conditions for social housing grant?
- What can the Strategic housing services achieve?
- How can we get 'value for money' and excellent customer service?

The day also includes a Participatory Case Study – Budgeting and Business Planning for a Local Authority Housing Revenue Account.

We believe in quality rather than quantity and so numbers at each session are limited to twenty people to permit the maximum possible interaction and participation.

## Who should attend?

All those with an interest in developments in local authority housing finance in England, including Senior Management and Housing Managers in Local Authorities and Arm's Length Management Organisations, Elected Members, ALMO Board Members, Housing Accountants, Civil Servants, Tenant Representatives and College Lecturers. The course will assume a basic knowledge of local authority housing finance but will not assume that delegates are experts.

The course is accompanied by a very useful book entitled: **"Developments in Local Authority Housing Finance in England 2014"**

## Venue and Date:

**London:** Novotel Hotel, Waterloo – Tuesday 8th July 2014



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# 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 us and our services 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 - http://www.awics.co.uk/regionalSeminars.asp
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