

# Local Government Association briefing

## Debate on the construction of council housing

### House of Commons

27 March 2018



#### Key messages

- The national housing shortage is one of the most pressing issues we face. The last time this country built more than 250,000 homes a year, councils built more than 40 per cent of them.<sup>i</sup> Only an increase in all types of housing will ensure we can deliver 300,000 homes a year. A genuine renaissance in council housebuilding should play a major role in this.
- According to the Government's latest statistics, new housing completions are increasing.<sup>ii</sup> This is positive. However, councils are responsible for a tiny proportion of the total completed. If we are to progress towards the national target, local authorities must be given the financial freedoms to build more council homes.
- The Housing Revenue Account (HRA) borrowing cap prevents councils from borrowing to invest in building new homes. The Government has taken a step forward by lifting the housing borrowing cap for some councils in 'areas of high affordability pressure', enabling them to bid for up to £1 billion in funding by 2021-22.<sup>iii</sup>
- The lifting of the housing borrowing cap for some councils in areas of the highest demand is a positive step, but it does not go far enough.<sup>iv</sup> We are calling on the Government to accept the call of councils and the Treasury Select Committee to lift the cap entirely for all areas. This will enable vital investment in new and existing homes.
- Councils should be allowed to use 100 per cent of receipts from Right to Buy sales to invest in new homes. Almost £3.5 billion in Right to Buy discounts has been handed out over the past six years, leading to a quadrupling in sales.<sup>v</sup> As councils are only permitted to retain a third of receipts, much-needed replacement homes for social rent have lagged far behind.
- A proactive, well-resourced planning system is vital to building the homes the country needs. Councils are working hard to deliver the right kind of homes, and are currently approving nine out of ten planning permissions. However, planning departments are severely under-resourced. Taxpayers are currently subsidising the costs of applications by around £200 million a year.<sup>vi</sup>

# Briefing

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## **Background information**

### ***The Housing Revenue Account***

According to the Government's latest statistics, new housing completions in 2017/18 reached 163,250, a 16 per cent increase from the previous year. Any increase in houses built is positive news.<sup>vii</sup> However, councils are responsible for a tiny proportion of the total completed. The figures show that whilst private developers built 134,110 and housing associations 27,410, only 1,730 houses were completed by local authorities.

The Housing Revenue Account (HRA) borrowing cap prevents councils from borrowing to invest in building new homes. The Autumn Budget 2017 has taken a step forward by lifting the housing borrowing cap for some councils in 'areas of high affordability pressure', enabling them to bid for up to £1 billion in funding by 2021-22.<sup>viii</sup>

This is an important recognition of the vital role that councils must play to provide desperately-needed homes, but does not go far enough. The HRA cap should be lifted for all councils and HRA borrowing removed entirely from contributing to the national public debt. Councils are best-placed to assess their local housing need and the level of investment in new housing required.

Our call has been backed by the cross-party House of Commons Treasury Committee, following its inquiry into the Autumn Budget 2017. The Committee's report states that 'raising the cap would have no material impact on the national debt, but could result in a substantial increase in the supply of housing.'<sup>ix</sup>

Rather than managing small levels of increased borrowing flexibilities from Whitehall, the Government should enable all councils to build genuinely affordable housing. Although the Government has announced £1 billion of additional headroom, Treasury policy costings show it is only planning to spend £880 million. Councils are concerned that the Government may make even this level of funding difficult to access by applying prohibitive conditions to the release of funds.

Housebuilding by councils at scale would boost local economies and productivity, reduce the Government's housing benefit bill, contribute to tackling homelessness, and create revenue-generating assets for communities. Local authorities with no HRA should be able to access borrowing to develop housing if that would help meet local housing need.

### ***Right to Buy***

It is essential that the Government enables councils to keep 100 per cent of receipts from Right to Buy sales to invest in new housing. Under current arrangements councils are only able to retain a third of receipts from the sale of homes. Local authorities have lost enough homes to house the population of Oxford in the last five years, and urgently need a model of Right to Buy that actually allows councils to replace homes sold.

Recent LGA analysis reveals almost £3.5 billion in Right to Buy discounts have been handed out to council tenants over the past six years, at an average of £60,000 in 2016/17.<sup>x</sup> This has led to a quadrupling in the number of RTB sales, which councils have been unable to keep up with and replace. This loss of social rented housing risks pushing more families into the private rented sector, driving up housing benefit spending, and exacerbating our homelessness crisis.<sup>xi</sup>

It is positive to see Government investment in building new homes announced in the 2017 Autumn Budget. The doubling of the Housing Infrastructure Fund is particularly welcome, as is investment in the Affordable Homes Programme. All councils must have a leading role in shaping this investment to ensure that new housing and infrastructure meets the needs of their local communities.

### ***The planning system***

A proactive, well-resourced planning system could do far more to deliver the additional homes the country desperately needs. It could also help to deliver them in ways that meet wider national objectives on infrastructure, public health and the environment. Given the Government's recognition that changes to the planning system are vital to increasing housing supply, it is more crucial than ever that measures to fund local planning authorities sustainably are put in place.

In the last year, councils and their communities granted nearly twice as many planning permissions as the number of new homes that were completed. Councils approved more than 321,000 new homes in 2016/17, while there were around 183,000 new homes added in the same year. More than 423,000 homes with planning permission are still waiting to be built. Councils are currently approving nine in 10 planning applications, which shows that the planning system is working well and is not a barrier to building.

The LGA analysis in 2017 showed that taxpayers are subsidising the cost of processing planning applications at a rate of around £200 million a year, which will reach £1 billion by 2022. Councils face an overall funding gap of £5.8 billion by 2020.<sup>xii</sup>

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<sup>i</sup> LGA Media release, March 2018 (<https://www.local.gov.uk/about/news/lga-responds-latest-government-house-building-figures>)

<sup>ii</sup> MHCLG, House building; new build dwellings, England: December Quarter 2017 ([https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/692680/House\\_Building\\_Release\\_Dec\\_Qtr\\_2017.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/692680/House_Building_Release_Dec_Qtr_2017.pdf))

<sup>iii</sup> HM Treasury, Autumn Budget 2017 (<https://www.gov.uk/government/topical-events/autumn-budget-2017>)

<sup>iv</sup> HM Treasury, Autumn Budget 2017 (<https://www.gov.uk/government/topical-events/autumn-budget-2017>)

<sup>v</sup> MHCLG, Right to Buy statistics by local authority area ([https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/661604/LT\\_685.xlsx](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661604/LT_685.xlsx))

<sup>vi</sup> LGA media release, December 2017 (<https://www.local.gov.uk/about/news/development-deadlock-council-planing-departments-hampered-missing-out-ps70-million-lga>)

<sup>vii</sup> MHCLG, House building; new build dwellings, England: December Quarter 2017 ([https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/692680/House\\_Building\\_Release\\_Dec\\_Qtr\\_2017.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/692680/House_Building_Release_Dec_Qtr_2017.pdf))

<sup>viii</sup> HM Treasury, Autumn Budget 2017 (<https://www.gov.uk/government/topical-events/autumn-budget-2017>)

<sup>ix</sup> House of Commons Treasury Committee, Autumn Budget 2017, January 2018 (<https://publications.parliament.uk/pa/cm201719/cmselect/cmtreasy/600/600.pdf>)

<sup>x</sup> MHCLG, Right to Buy statistics by local authority area ([https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/661604/LT\\_685.xlsx](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/661604/LT_685.xlsx))

<sup>xii</sup> LGA media release, August 2017 (<https://www.local.gov.uk/about/news/taxpayers-subsidise-planning-application-costs-ps1bn-over-next-five-years>)