

Housing Revenue Account Cap Removal

Survey Results

March 2019



Acknowledgements

The Local Government Association (LGA) Research and Information team would like to thank all the councils that took part in this survey.

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Introduction

The removal of the Housing Revenue Account (HRA) borrowing cap delivers a game changing opportunity for many councils to deliver much needed homes. The LGA believes it is well-placed to develop a sector-led offer that can help councils to deliver the new homes that their communities need. To better understand how the LGA can offer maximum added value, councils were invited to answer a short survey to inform the organisation's thinking for a future support offer to councils for 2019/20 and beyond. A total of 63 councils responded (38 per cent response rate).¹ The survey was administered by the LGA's Research and Information team.

Key messages

- Eight nine per cent of councils (56 out of 63) said they were 'now considering' increasing their level of house building following the removal of the Housing Revenue Account borrowing cap. A further five per cent (three councils) said they were 'likely to consider [building] over the five years'.
- 'Meeting overall strategic housing needs for different communities across the local area' was councils' greatest driver building more homes via the HRA – 66 per cent (39 councils) gave this response.
- Ninety two per cent of councils (54 out of 59) said this would be 'very likely' or 'fairly likely' that they would need external support to achieve their house building ambitions.
- In terms of accessing and/or developing skills, 'design and architecture' and 'identifying and building partnership/joint ventures' were most commonly reported by councils as support requirements (69 and 63 per cent of councils said this was 'very' or 'fairly' likely).
- In order to innovate to deliver homes, 'building quickly (such as using off-site manufacturing)' was most commonly reported by councils as a support requirement – 68 per cent of councils said this type of support was 'very' or 'fairly' likely.
- With regards to local and national support, 'local or regional collaboration in sharing and developing skills' and 'local or regional pooling of skills that you can draw down' were most commonly reported by councils as support requirements – 83 per cent and 81 per cent, respectively, said this type of support was 'very' or 'fairly' likely.

¹ Two councils submitted both an officer and a politician response, meaning the total number of completed surveys was 65, from 63 councils. Both responses have been considered, but only the officer response is shown in this report as this was the largest respondent group overall.

Methodology

An online survey was sent to all councils with Housing Revenue Accounts (165 local authorities in England). It was in the field between 3 December 2018 and 11 January 2019. A total of 63 councils responded (38 per cent response rate).² The survey focused on:

- Councils' appetite for house building in the next five years, following the removal of the HRA borrowing cap.
- The key drivers for councils in building more homes via the HRA.
- The likelihood of councils needing external support to support their ambitions to increase house building – and the type of support required.

The information collected has been aggregated, and no authorities are identified in this report. Due to the size of the response, the results should be taken as a snapshot of the views of all local authorities in England, rather than as representative picture overall.

Response rate

A breakdown on the responses received by authority type is presented in Table 1. It shows that between 26 and 43 per cent of authority types responded to the survey (London boroughs represented the lowest proportion and metropolitan districts highest).

	Number of responding councils	Total number of councils	Response rate %
District Councils	33	84	39
London Borough	7	27	26
Metropolitan Boroughs	9	21	43
Unitary Authorities	13	33	39
Anonymous	1	0	-
Total	63	165	38

A breakdown of responses by region is given in Table 2, showing response rates of between 26 per cent for Greater London and 62 per cent for the South West.

² Two councils submitted both an officer and a politician response, meaning the total number of completed surveys was 65, from 63 councils. Both responses have been considered, but only the officer response is shown in this report as this was the largest respondent group overall.

Table 2: Response rate by region

	Number of responding councils	Total number of councils	Response rate %
East Midlands	11	25	44
East of England	8	24	33
London	7	27	26
North East	3	8	38
North West	5	11	45
South East	11	31	35
South West	8	13	62
West Midlands	4	14	29
Yorkshire and Humber	5	12	42
Anonymous	1	0	-
Total	63	165	38

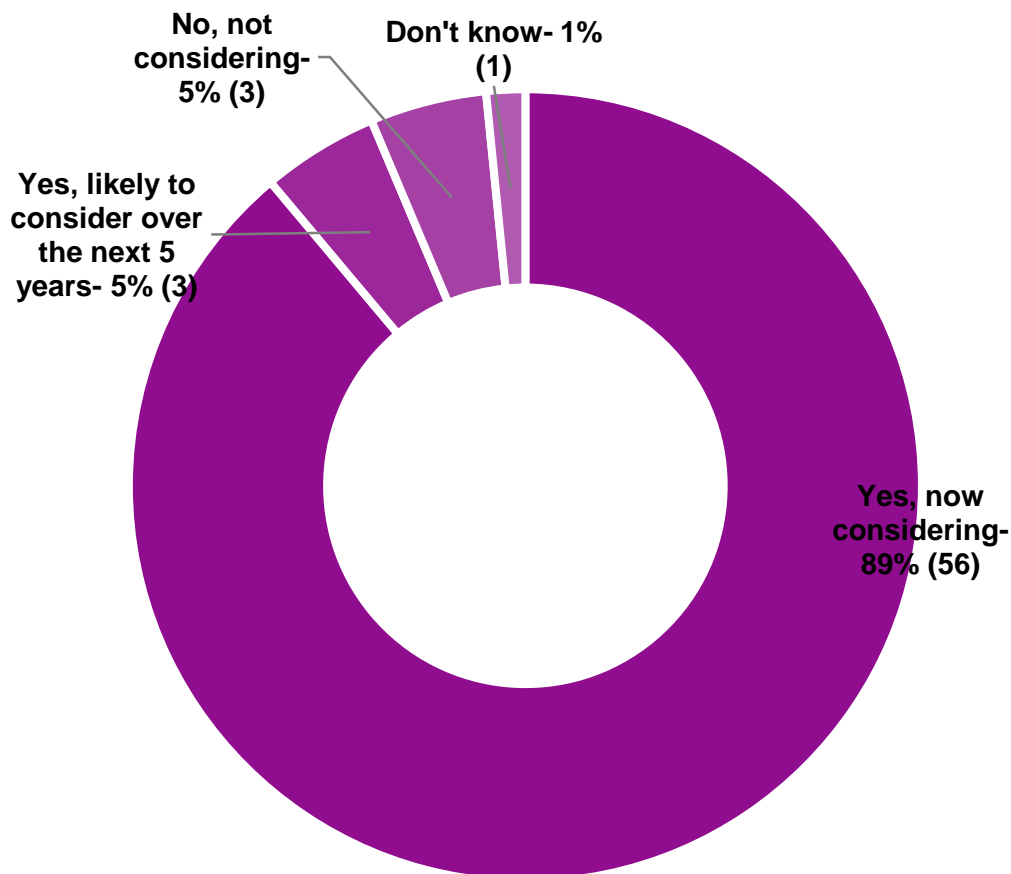
Housing Revenue Account Cap Removal

This section provides full results for each survey question.

Appetite for house building

All councils were asked if they were now considering, or likely to consider over the next five years, increasing their level of house building, following the removal of the Housing Revenue Account borrowing cap. Eight nine per cent of councils (56 in total) said they were 'now considering' increasing their level of house building. A further five per cent (three in total) said they were 'likely to consider [building] over the five years' (see Figure 1).

Figure 1: Appetite for house building among councils following the removal of the HRA borrowing cap



Base (all councils) 63

Of the seven London boroughs and nine metropolitan districts that responded to the survey, all were now considering increasing their level of house building, following the removal of the HRA borrowing cap. Eighty five per cent (28 in total) of the district councils that responded were considering an increase, a further nine per cent (three in total) were considering doing this over the next five years and six per cent (two in

total) were not considering an increase. All except one of the 13 responding unitary authorities were considering increasing their level of house building (see Table 3).

Table 3: Following the removal of the Housing Revenue Account borrowing cap, is your council now considering, or likely to consider over the next 5 years, increasing its level of house building?

	Yes, now considering		Yes, likely to consider over the next 5 years		No, not considering		Don't Know	
	N	%	N	%	N	%	N	%
Total	56	89	3	5	3	5	1	2
District Councils	28	85	3	9	2	6	0	0
London Boroughs	7	100	0	0	0	0	0	0
Metropolitan Boroughs	9	100	0	0	0	0	0	0
Unitary Authorities	12	92	0	0	1	8	0	0
Anonymous	0	0	0	0	0	0	1	100


Base (all councils) 63

Councils considering building

Key drivers for house building

The 59 councils that were considering, or likely to consider over the next 5 years, increasing their level of house building were asked to list their key drivers for building more homes. The main drivers were are shown in Figure 2.

Figure 2: Councils' key drivers for building more homes via the HRA

	<ol style="list-style-type: none"> 1) Meeting overall strategic housing needs for different communities across the local area (98 per cent, 58 councils) 2) Reducing homelessness and need for temporary accommodation (81 per cent, 48 councils) 3) Supporting regeneration and economic growth (76 per cent, 45 councils) 4) Enabling good design and quality, lifting standards in wider markets (75 per cent, 44 councils) 5) Supporting positive ageing and independent living (69 per cent, 41 councils) 6) Supporting local SME builders, and linking job creation to local training programmes (61 per cent, 36 councils) 7) Increasing supply quickly, for instance through off-site manufacturing (54 per cent, 32 councils) 8) Enabling home ownership (31 per cent, 18 councils) 9) Other (15 per cent, 9 councils)
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Base (all councils considering or likely to consider increasing their level of house building) 59. Councils could select more than one option.

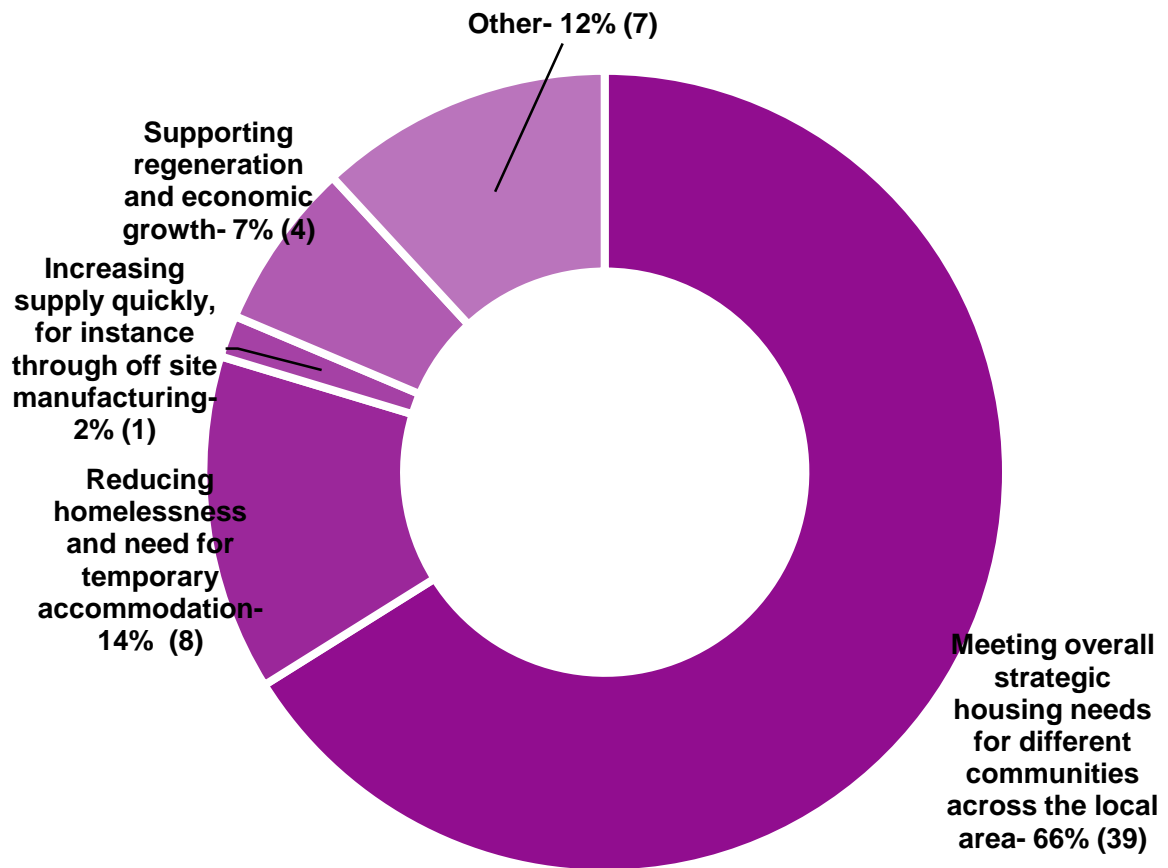
The nine councils that provided other responses when asked about their key drivers for building more homes gave the following replies:

- “Take control over quality and pace of delivery.” – District council
- “We are not particularly looking to the HRA. We have some headroom but are currently building circa 200 units p.a. through the ALMO through prudential borrowing. The ALMO is set up as a developing RP in its own right, and holds the stock developed. All of the above apply, but through the prudential borrowing route.” – Metropolitan district
- “Improving the volume of affordable housing compliant schemes.” – District council
- “Sustainability in the HRA and future capital programme.” – Unitary authority
- “New borrowing will not solely be in respect of new build. Our existing stock has considerable investment backlogs as we were previously at our borrowing cap and so new borrowings will be used on a blend of new build and existing stock and area based regeneration programmes.” – Metropolitan district
- “Improving the viability of the HRA.” – District council
- “Housing that is ‘affordable’ to live in.” – District council
- “Creating added synergistic value between HRA and GF [General Fund] assets through combined development to generate better viability and outputs.” – District council
- “The priority is delivering new council homes at council rents.” – London borough

Greatest driver for house building

The 59 councils that said they were considering, or likely to consider over the next 5 years, increasing their level of house building were asked to list their council’s greatest driver for building more homes. Overall, ‘meeting overall strategic housing needs for different communities across the local area’ was councils’ greatest driver – with 66 per cent (39 councils) selecting this option (see Figure 3).

Figure 3: Councils' greatest driver for building more homes via the HRA



Base (all councils considering or likely to consider increasing their level of house building) 59

Support for councils considering building

The 59 councils that said they were considering, or likely to consider over the next 5 years, increasing their level of house building were asked about the likelihood of needing external support to achieve their ambitions – 92 per cent said this would be ‘very likely’ or ‘fairly likely’ (see Table 4).

Table 4: Thinking about your council’s ambitions to increase its level of house building, how likely is it that external support will be needed in order to achieve this?

	Number	Per cent
Very likely	34	58
Fairly likely	20	34
Not very likely	4	7
Not at all likely	1	2
Don’t know	0	0

Base (all councils considering or likely to consider increasing their level of house building) 59

The 59 councils that said they were considering, or likely to consider over the next 5 years, increasing their level of house building were asked about the likelihood of needing support in accessing and/or developing skills across a range of areas. ‘Design and architecture’ and ‘identifying and building partnership/joint ventures’ were most commonly reported by councils as support requirements – 69 per cent and 63 per cent, respectively, said this type of support was ‘very’ or ‘fairly’ likely (see Table 5).

Table 5: How likely, if at all, will your council need support in accessing and/or developing skills across the following areas?

	Very likely		Fairly likely		Not very likely		Not at all likely		Don't know	
	N	%	N	%	N	%	N	%	N	%
Design and architecture	18	31	23	39	10	17	8	14	0	0
Identifying and building partnership/joint ventures (private, RSLs, other LAs)	18	31	19	32	16	27	5	8	1	2
Development management	16	27	18	31	18	31	7	12	0	0
Land identification, acquisition and assembly	15	25	18	31	20	34	6	10	0	0
Development finance and viability	14	24	20	34	17	29	8	14	0	0
Strategy and masterplanning	13	22	21	36	21	36	4	7	0	0
Governance and delivery capability	10	17	19	32	22	37	8	14	0	0
Understanding your council's development potential	9	15	17	29	22	37	11	19	0	0
Identifying the market	8	14	13	22	27	46	10	17	1	2
Marketing and community engagement (residents, services)	8	14	17	29	21	36	13	22	0	0
Legal	7	12	22	37	24	41	6	10	0	0
Procurement	4	7	16	27	23	39	15	25	1	2

Base (all councils considering or likely to consider increasing their level of house building) 59

The 59 councils that said they were considering, or likely to consider over the next 5 years, increasing their level of house building were asked about the likelihood of needing support to innovate in the delivery of homes to achieve wider public sector good across a range of areas. 'Building quickly (such as using off-site manufacturing)' was most commonly reported by councils as a support requirement – 68 per cent said this type of support was 'very' or 'fairly' likely (see Table 6).

Table 6: How likely, if at all, will your council need support to innovate in the delivery of homes to achieve wider public sector good across the following areas?

	Very likely		Fairly likely		Not very likely		Not at all likely		Don't know	
	N	%	N	%	N	%	N	%	N	%
Building quickly (such as using off-site manufacturing)	16	27	24	41	12	20	5	8	2	3
Building new tenure models (such as co-housing, intermediate rent, rent to buy etc.)	10	17	27	46	17	29	5	8	0	0
Building new design	9	15	28	47	19	32	3	5	0	0
Investments supporting local businesses, jobs, and training	9	15	24	41	25	42	1	2	0	0
Healthy homes supporting positive ageing	7	12	32	54	16	27	4	7	0	0

Base (all councils considering or likely to consider increasing their level of house building) 59

The 59 councils that said they were considering, or likely to consider over the next 5 years, increasing their level of house building were asked about the extent to which various types of local, regional and national support would be helpful in supporting their authority's council house building ambitions. 'Local or regional collaboration in sharing and developing skills' and 'local or regional pooling of skills that you can draw down' were most commonly reported by councils as support requirements – 83 per cent and 81 per cent, respectively, said this type of support was 'very' or 'fairly' likely (see Table 9).

Table 7: Thinking about your authority’s council house building ambitions, to what extent would the following types of support be helpful?

	To a great extent		To a moderate extent		To a small extent		Not at all		Don't know	
	N	%	N	%	N	%	N	%	N	%
Local or regional pooling of skills that you can draw down	28	47	20	34	8	14	3	5	0	0
Local or regional collaboration in sharing and developing skills	25	42	24	41	7	12	3	5	0	0
Local or regional partnerships in the delivery process	21	36	21	36	11	19	6	10	0	0
National advice and guidance	18	31	28	47	11	19	1	2	1	2
National sharing of good practice at events	13	22	29	49	14	24	2	3	1	2
National pooling of skills that you can draw down	10	17	17	29	22	37	9	15	1	2
National collaboration in sharing and developing skills	9	15	24	41	19	32	6	10	1	2
National partnerships in the delivery process	5	8	20	34	22	37	11	19	1	2
Other	6	86	0	0	0	0	0	0	1	14

Base (all councils considering or likely to consider increasing their level of house building) 59

The councils that provided other responses when asked about local and national support gave the following replies:

- “There are a number of models being used - all should be considered with pros/cons.” – Metropolitan district
- “Helping SME contractors to skill up and be able to tender for work.” – London borough
- “Sharing of good practice for similar rural authorities.” – District council
- “Sharing with similar rural authorities.” – District council
- “Using existing partnerships.” – District council

Further comments

The 59 councils that said they were considering, or likely to consider over the next 5 years, increasing their level of house building were invited to submit any additional comments that they felt would help inform the LGA’s discussions with the Government on establishing a sector-led support offer for council housing building that adds value to the respondent or their council.

Table 8: Please tell us anything further that you feel would help inform our discussions with the Government on establishing a sector-led support offer for council housing building that adds value to you and your council.

Theme	Authority Type	Comment
Right to Buy	District council	“More clarity on funding/grant and Right to Buy sales in the future (in terms of receipt retention and lifespan of the scheme).”
	District council	“The removal of the cap in itself made no difference as the barrier to building is a mix of borrowing cost, Right to Buy liability and the rent that can be recovered in the context of a 30 year maintenance programme. Put simply, the rent recovered from a unit generally does not cover the through life cost of the unit notwithstanding the Right to Buy risk.”
	Metropolitan district	<p>“The discussion should consider all house building options so LAs can make informed decisions on which way to go. We have considered increasing the HRA debt cap, and do deliver some through the HRA, but for us the preferred route remains prudential borrowing for three principle reasons:</p> <ul style="list-style-type: none"> • Right to Buy – stock is held by the ALMO so is not subject to any current or proposed RTB provisions • Flexibility to act and move quickly – we have a loan facility in place with delegation to the s151 officer re: individual scheme loans. This is also enabling us to develop mixed tenure, including market, as appropriate, to support regeneration • There is a mark-up on the interest charged so the council has a revenue stream from the loans.”
	Metropolitan district	“Allowing Right to Buy receipts to be retained by councils but ring-fenced (a) solely to the HRA and (b) further ring-fenced within the HRA specifically for Right to Buy replacement. Reduction in Right to Buy discount...bring it into line with help to buy discounts (e.g. 20 per cent off open market value as a maximum). Government should recognise that existing stock is 60 to 80 years old and has a substantial backlog so a blend of new build and renovation is required – not just solely new build – to ensure long term sustainable and viable council housing, and this must recognise that in the short-term this may see a reduction in council stock as non-viable stock is demolished or sold and replacements provided.”
	Metropolitan district	“Longer-term rent certainty and Right to Buy reform are two important issues to take forward with central government.”
Skills and capacity	District council	“Dedicated website/e-forum that all house building councils can access sharing information, exemplars, problem solving. Could even include a recruitment page. Very development orientated. We are already building – and have been for the last 2/3 years but we could benefit by learning from others and sharing experiences.”

	District council	“Help in identifying appropriate skill requirements for different delivery methods.”
	District council	“Pooling of specialist skills could be useful. Real issues aren’t with delivery or non-financial support, but with land acquisition, land values and as a consequence viability and provision of infrastructure.”
	District council	“We have limited capacity and skills in design, planning applications, site supervision etc. and have used external commissioned services where we have developed recently.”
	District council	“Many areas such as ours have not built council housing for many years, and indeed investment in the current stock has not kept up with need. So whilst there is a need to build more homes, neighbourhood renewal is perhaps more of a critical need, and other factors such as CPO [Compulsory Purchase Orders] may be necessary and building skills and knowledge in such area could be useful.”
	Unitary authority	“We have an established HRA programme to build 170 homes by March 2022. This is being supplemented by a further 152 units by 2023 following the lifting of the caps. However, there is an expectation that our business plan should be able to support 300 units a year to be developed in the HRA, within 5 years, so we will be expanding our development programme very rapidly over the next few months. LGA Support would be invaluable for this.”
	London borough	“Sharing of knowledge and skills and enabling local authorities to reskill employees being made redundant from other areas and grow our own through apprenticeships etc.”
	London borough	“It needs to focus not just on the obvious development capacity, but the wider wraparound support for development the council lacks i.e. finance, legal, procurement etc.”
Grant support	Metropolitan district	“To provide grant support for sites that are simply uneconomical to deliver. This is normally due to a combination of low values, contamination issues and high infrastructure costs.”
	Unitary authority	“Additional grant to achieve truly affordable homes and national guidance on new housing products, for example, rent-to-buy.”
	Unitary authority	“Enabling of land for public or private development is a revenue cost to councils and thus hard to justify in these austere times, more emphasis in terms of government support and funding for initiatives like OPE [One Public Estate] would help. The current disparate funding approach doesn’t realise the fundamental links between infrastructure and housing. Successful regeneration starts with infrastructure and too often the funding sources are not linked.”

Joint working	District council	“We are in the process of working with neighbouring authorities to establish a collaborative development company to enable development. We have identified council owned sites and are commissioning market demand analysis as well as development appraisals. We need support in form of revenue funding to take the work done so far to the next stage in identifying the delivery mechanism and implementing on site.”
	Metropolitan district	“How to establish links with health departments to unlock funding, in order to have housing and health joint investment programmes.”
Site specific	Unitary authority	“The greatest challenge is in using new build housing to regenerate town centres.”
	District council	“We currently build homes in the HRA but wish to build many more at pace. The issue for us is lack of land and the cost of land in our area. Most of the developable land is covered by options and any on the market is very expensive. Government need to reform the CPO process so LA can obtain land at current use value. Our need is not for the technical skills around development, we are builders we can do that part, we need skills around land buying and understanding development finance and development risk on mixed tenure site so our members can make informed decisions.”
Policy and legislation	District council	“Trust as the planning authority and housing authority to do what we are good at. Encourage government to talk to us about how we can help them deliver on their priorities. We positively support the government’s ambitions to make better use of local authority led public sector support and have been actively engaged in this sharing of best practice and innovation...”
	District council	“The degree to which Local Authorities can be more specific about the requirement to deliver both social and affordable rent within section 106 agreements.”

Councils not planning to build

The three councils that said they were not planning to increase their level of house building following the lifting of the Housing Revenue Account borrowing cap were asked to provide further details about why this was the case. Responses are shown in Table 9.

Table 9: Please tell us why your council is not planning to increase its level of house building following the lifting of the Housing Revenue Account borrowing cap:

	N
Due to other restrictions on the HRA (such as on rents, and Right to Buy rules)	2
Housing need is being met by other providers	1
The council is delivering sufficient new homes through other vehicles, such as companies or joint ventures	1
Perceived lack of necessary expertise and capacity within the council	1
Other: <ul style="list-style-type: none">• “We are building our own without the need for additional borrowing.”• “Need to maintain prudent levels of debt in the face of the risk of negative RSG.”• “Limited availability of land sites/opportunity.”	3

Base (all councils not consider increasing their level of house building) 3. Councils could give more than one answer.

Council unsure about building

One council said it was unsure about its plans to increase its level of house building following the lifting of the HRA borrowing cap. The reason given for this was: “Waiting for more detail and advice.”



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