

Legal Alert

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Housebuilding borrowing cap to be scrapped

There was some big news for the development sector in Theresa May's closing speech at the Conservative Party Conference. In amongst her optimistic pledges that austerity is now at an end and that Britain will be better off after Brexit, the Prime Minister announced that the borrowing cap applied to local authority housebuilding is to be lifted. Whilst much of May's speech will have been met with healthy scepticism from those of other political persuasions, here was a policy that stood out in that it was universally popular and had achieved cross party support.

The Government has long acknowledged the need to tackle the decline in home ownership, and in her speech the Prime Minister reiterated that the housing crisis is "the biggest domestic policy challenge of our generation". Progress has been made to try and reverse this decline, with the Prime Minister pointing to the scrapping of stamp duty for most first-time buyers and that half a million people have now benefitted from the Help to Buy scheme. However these policies equate to treating the symptoms of the housing crisis, rather than the cause. As yet there are still more questions than answers as to how the Government intends to meet its target of building 300,000 houses a year in England. The latest move, however, was heralded by the Financial Times as "one of the Conservative Party's most radical moves to tackle the decline in home ownership", so why is it such a big deal?

Local authority housing has long been financed by the Housing Revenue Account (or 'HRA'). The HRA is a budget that is funded by a local authority's income from rents and service charges, and is spent exclusively on building and maintaining their housing stock. Local authorities can borrow money in their HRAs, however this is limited far more tightly than the value of their housing assets. Despite local authorities owning an estimated £230bn of homes, they only borrowed £26bn in 2016-17. Clearly there is greater potential for local authorities to borrow more money against their assets in order to build, and in turn grow their assets, as they did in the 1970s when local authorities built 40% of new housing stock. Currently, those local authorities that want to provide more housing themselves, far from being encouraged, are having to enter joint ventures with commercial house builders.

Details were initially scarce following the announcement, with the Ministry of Housing, Communities and Local Government unable to confirm whether borrowing will be available for renovation as well as new build, the types of tenure of homes that can be built, or when the cap will be lifted.

However Inside Housing understand that Communities secretary James Brokenshire has written to local authorities presenting a draft plan for consultation. This period will run for just six days, with the intention of removing the cap on 30 October, the day after the Autumn Budget. They also report that the Government has already been oversubscribed with bids from local authorities for additional borrowing.

It is also worth noting that the Government has also announced plans to charge "a higher rate of stamp duty on those buying homes who do not live and pay taxes in the UK, to help level the playing field for British buyers" with the proceeds used to reduce rough-sleeping. This will again no doubt go down well with voters of all persuasions, if not those in the development sector dealing with foreign investment.