London Councils

The voice of London local government

Growth and Infrastructure Bill

House of Lords Report Stage - 12 March 2013

Overview

London councils believe the Growth and Infrastructure Bill presents an opportunity for the government to remove the artificial housing borrowing cap, this would help tackle London's Housing Crisis, release funding for several London councils who are currently unable to build new homes and create jobs benefiting the wider economy.

We urge you to support amendment 39 supported by Lord Shipley, Lord Tope, Lord Jenkin of Roding and Lord Best to remove the housing borrowing cap.

Removing the housing borrowing cap

We welcome steps the government has taken to promote local housing authority self-financing through the abolition of the housing revenue account subsidy system. We believe these reforms will ensure even stronger local asset management and generate significant efficiency savings.

The housing borrowing cap limits the level of local authority housing debt this reduces local financial innovation and flexibility. This cap is over and above the Treasury's normal 'prudetial borrowing' rules that apply to most local authority borrowing. This artificial cap effectively halves the potential cash available for councils in London to invest in new homes. Aligning the housing borrowing cap with 'prudential borrowing' rules could allow local authorities to build an additional 54,000 extra affordable homes for Londoners.

Councils inability to build new homes

Removing the housing borrowing cap will allow local housing authorities to take evidence-based decisions regarding the level of debt appropriate to their individual financial circumstances. We believe the strong track record of local authorities demonstrates they will do this sustainably. Currently, the Royal Borough of Kensington and Chelsea, a triple AAA financially rated borough, have just £11 million borrowing headroom. With the cost of building in the borough, they are unable to build new home and are instead investing mainly in decent homes.

Westminster, Kensington and Chelsea, and Hammersmith & Fulham councils have a housing port-folio worth £2.4 billion but are unable to use it to borrow as effectively as housing associations due to borrowing cap. They have drafted proposal for a pilot scheme in Westminster that would deliver 300 homes through an incremental investment of £53 million. The would deliver an annual surplus of £500,000 to the council's housing finances over 10 years, and an asset worth £64 million at the end of that period. The investment would engage 1,350 tenants and get 370 into work over five years, as well as creating 700 jobs in the construction industry. They are currently unable to carry out the pilot scheme due to the government's restrictions on housing borrowing.

Where they can London Boroughs are building homes for their communities. Camden and Southwark are aiming to build 2000 homes by 2020. The capital's councils are ready and willing to build more new homes.

London's Housing Crisis

People living in London are already struggling to find affordable home to rent or buy. London already has one of the lowest levels of owner-occupations in the country and this is set to reduce as more people struggle to raise the substantial deposit required. Almost one in four households in London live in private rented accommodation. Rents in the capital already average more than half of an average London renters' salary.

More than 360,000 London households are registered on London councils' housing waiting lists and more than 37,000 households in London are living in emergency temporary housing at a cost of £408 million a year. This problem is only set to get worse as the population grows at least 40,000 homes need to be built each year to keep up with demand. Yet in 2010/11 there were just 19,860 new homes built in the capital, in first half 2012/13 there were just 5,520 affordable homes built.

The housing supply deficit is an entrenched problem that will require substantial and sustained investment to address over the long term. Allowing councils the scope to borrow against their existing housing assets to build some of the homes London needs will be a vital part of the long term solution to fixing the capital's housing infrastructure.

Economic benefits

Removing the housing borrowing cap not only will this help tackle London's housing crisis, but would have benefits for the wider economy. Every £1 invested in housing infrastructure generates £2.60 in additional spending in the supply chain.

From London Councils analysis an additional £1.6 billion investment in housing infrastructure would create 19,200 jobs, many in the construction industry that has been hit hard by the recession. A report by three London Boroughs found that 'Incremental house building activity supports the economy, creating at least 2.3 new jobs for every additional home built, at a time when those jobs are most needed.'

Conclusion

There already exist sufficiently robust mechanisms for controlling local authority borrowing. To single out housing for this form of government control limits the ability of local authorities to respond to the needs of their communities, hampers badly needed investment in new housing and potentially undermines the spirit and operation of the Prudential Code. We urge you to support amendment 39 to remove the housing borrowing cap.

Contact

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London Councils represents all 32 London boroughs and the City of London. The Mayor's Office for Policing and Crime and the London Fire and Emergency Planning Authority are also in membership