

**Director of Environment and
Housing**

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Your Ref:
Our reference:

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Secretary of State for Communities
and Local
2 Marsham Street,
London,
SW1P 4DF

Dear sir/madam,

Freedoms and Flexibilities to support the delivery of new homes

Leeds City Council has fully embraced the freedoms and flexibilities offered by the government's reform of the Housing Revenue Account (HRA). A £148m programme has been developed which will see 1,100 new homes built by 2018. However under the current borrowing rules it is likely that further programmes of this scale will not be able to be funded.

Despite an extensive period of growth there will still be insufficient new affordable homes to meet needs in Leeds. In order for the Council to develop and deliver new Council homes as part of its overall growth strategy, there are measures which Government could take which would further allow the Council to invest and support economic growth through direct investment in housing.

Significant changes to the funding framework are requested which can support this growth. These are twofold – removal of the restriction on borrowing through the HRA and relaxation of the restrictions on the use of Right to Buy receipts to make the replacement of homes sold easier, quicker and more cost effective to the Council to achieve.

These requests are in the context of the devolution discussions currently being held with the West Yorkshire Combined Authority/ Leeds City Region LEP, which propose a joint work programme with government to accelerate housing growth and the provision of affordable housing. This includes an approach to public sector land and assets, a joint asset management plan with the Homes and Communities Agency and the pooling of funding by partners to accelerate delivery and enable sites to be brought forward for development.

Removing the restrictions on borrowing

This Council believes that if the current restrictions on borrowing through the HRA were removed further new build programmes could be delivered. The government should allow Councils to borrow in line with their borrowing capacity. Any relaxation of the current borrowing should be on the basis of an agreed business case of which the main elements would be:

- the Council is able to demonstrate that: the cost of borrowing does not restrict the ability of the authority to maintain its existing stock;
- demand is demonstrated, supported by an endorsed Core Strategy, which the new build is designed to fulfil
- that that the borrowing, over the lifetime of a home, more than recovers the debt.

Where it is demonstrated that the borrowing meets these tests and can be serviced from rental income, it should be regarded as prudential and able to sit outside Public Sector Borrowing Requirement.

Replacement of homes through the use of Right to Buy Receipts

Government is requested to allow Councils to retain the receipt from sales through RTB in its entirety and without the need to return a proportion of the sales receipt to Government.

The Council is also concerned that the current RTB legislation, which allows tenants to buy new build properties at a discount after the 15 year cost floor ceiling ceases, not only acts as a disincentive for the Council to build new homes but it will also leave Council tenants having to pick up the outstanding debt associated with the properties that have been sold.

Whilst under the current RTB pooling arrangements a notional allowable debt figure can be deducted from the receipt and this can be used to reduce the level of debt attributable to the HRA, this notional debt figure does not equate to the amount of debt outstanding on a property that can be sold just 15 years after it was built.

The current legislation allows Local Authorities to apply to the Secretary of State for Communities and Local Government to exempt properties from pooling arrangements. However whilst this means that the Local Authority will retain a greater share of the RTB receipt realised, this will not address the issue of financing the outstanding build cost of the properties that have been sold through RTB.

The concern of Leeds City Council is that whilst significant resources are being used to support an increase in the housing stock, £148m, the RTB legislation could result in these properties being sold with other tenants' money having to finance the outstanding costs such as the residual/overhanging debt on a property.. Therefore in order to address the anomaly of RTB legislation upon both the Council's and Government's ambition to increase the number of homes available, Leeds City Council would like to see the RTB legislation changed so that there is a permanent floor below which the sales price cannot fall. This would not only replace the current legislation that allows for the notional allowable debt figure to be deducted from the RTB receipt but there would no longer be a requirement to have a cost floor ceiling of 15 years on property that has been financed through borrowing since the outstanding debt will be covered by the capital receipt.

This proposal in respect of offsetting actual debt against the RTB receipt would apply to new build properties only and it would recognise that this is clearly a different situation to a tenant buying a property that was built many decades ago where there are no overhanging borrowing costs.

The likelihood of overhanging borrowing costs arising from the current Right to Buy legislation may not be what the Government intended when the level of discount was extended.

The Council also requests the removal of restrictions on match funding the receipts with other investment streams, for example the HCA's Affordable Homes Programme, to enable the Council to mix and stretch resources. Given that the use RTB receipts are limited to 30% of scheme costs, this is a significant barrier to delivery and prevents the strategic use of investment resources to meet the need for the replacement of stock.

We believe that these actions would have the impact of incentivising Local Authorities to actively direct resources to increase the number of new homes and enable Leeds to continue to take a direct role in promoting housing growth in the city and support the growth objectives of the wider city region.

Yours sincerely

Cllr Andrew Carter
Leader of the Conservative Group
Leeds City Council

Cllr Stewart Golton
Leader of the Liberal
Democrat Group
Leeds City Council

Cllr Keith Wakefield
Leader of the Labour Group
Leeds City Council