Securing the Future of Council Housing

Five solutions from over 100 of England's council landlords

September 2024

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Acknowledgments

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Foreword

Council homes transform lives. They provide a foundation for a good life for millions of people who would otherwise be locked out of having a decent, affordable home. However today our national council housing finances stand on the brink.

This joint report from over a hundred council landlords - representing every corner of England - sets out our plan to put council housing back on firm foundations.

Earlier this year we raised the alarm about our country's broken council housing finances in our interim report, then from twenty of the largest council landlords. That report set out the scale of the challenge and outlined five solutions to turn it around. On the following pages we have gone further, laying out a full route map to deliver each of those five solutions, now backed by over a hundred councils. We have also highlighted some of the pioneering work councils across the country are already delivering.

The positive response we received to our interim report has been overwhelming. We purposefully published it in the first days of the new government, so we could share with them a practical, long-term plan to end this crisis and set out our commitment to work with them to deliver it. I am delighted to able to say the government has already started to implement some of our recommendations and I look forward to working with them to deliver the full plan laid out in this report.

There is still much more to do. Lifting the quality of our existing council homes up to modern, safe, healthy and green standards is a huge task. As is delivering the new council homes our communities urgently need. The perilous state of our national council housing finances must be addressed if we are to succeed.

Over the last decade previous governments repeatedly stepped in to both reduce council rents and set higher standards that council landlords must meet. These decisions were often made for good and vital reasons, but the combination has created a rapidly widening financial chasm – with councils' income to cover the cost of managing and maintaining their homes plummeting whilst their costs rocket. A succession of events impacting our economy, construction costs and interest rates have then turned this chasm into a crisis. Our five solutions provide a pragmatic long-term plan to turn this around.

There is no one silver bullet. Ending this crisis will take a decade of renewal. Starting with the kind of emergency action the government has already started to take this year, followed by sustained investment.

The prize is more than worth it. Council homes are so much more than bricks and mortar. They are a cornerstone of better health, education, economic growth and environment. By investing in them together, we can transform millions of lives for the better.

I want to thank everyone who has contributed towards this plan, from all of the councils involved and from all of our partner organisations. The strength of this report comes from the depth of engagement we have had. It has been inspiring to work with so many people so determined to deliver more and better homes for people across our country.

In the last century council housing transformed Britain for the better. Now is the time to rediscover that spirit. Our unprecedented coalition of councils stand ready to work with the government to deliver the plan laid out on these pages, so together we can deliver not just more and better homes but millions of improved lives for generations to come.

Cllr Kieron Williams,
Leader of Southwark Council

Executive summary

Everyone should have a home that they feel comfortable and safe in – it is a foundation for a good life. For over a century, council homes have been that foundation for millions of families.

Our communities across the country urgently need more truly affordable and secure homes. A record 109,000 households in England are living in temporary accommodation and a lack of council housing has created a huge drag on government finances, with private landlords set to receive £70bn of public money in housing benefits between 2021 and 2026.

In July, twenty of England's largest council landlords published an interim version of this report, summarising our recommendations to the new government. Since then, the new Deputy Prime Minister has promised a 'council housing revolution' and announced a number of welcome measures in line with our proposed solutions – including commitments to new investment in social housing, giving councils rent stability and to review Right to Buy policies this autumn. England's council landlords are determined to play our critical role in the new government's ambition.

However, our country's council housing financial model is broken and the systems future is in danger – with a £2.2bn black hole in councils' housing budgets expected by 2028. Our 2012 self-financing settlement with government was based on a ten-year deal that would ensure our rent incomes were predictable and increasing, and that our costs were foreseeable. But that deal was not honoured by the last government. Whilst we have been expected to deliver our side of the agreement, repeated policy changes from central government imposed new costs on councils while at the same time restricting our income.

The Housing Revenue Account system is now in a perilous state and even a new rent settlement alone cannot fix it. Unless something is done to stabilise its foundations soon, most council landlords will struggle to maintain their existing homes adequately or meet the huge new demands to improve them, let alone build new homes for social rent. Rather than increasing supply, the reality is that some councils will have no option but to sell more of their existing stock, on top of Right to Buy sales, to finance investment in an ever-shrinking portfolio of council homes.

This report details a bold but pragmatic plan for how England's council landlords can work together with government, over the next decade, to save the future of our council housing. We are asking government to take immediate steps to stabilise the system and provide confidence to invest. This includes early commitments that reaffirm the principles that underpin our self-financing, for example extending the New Burdens doctrine to HRAs and not re-imposing arbitrary borrowing caps.

In recognition of the severe impact the last decade of national policy choices have had on council housing budgets, **we call for an emergency capital funding injection of £644m, equal to the income lost from the 2023-25 rent cap.** This will stabilise our HRAs in the short-term and prevent further waste caused by delaying or cancelling investment plans.

Then, at the next Spending Review, we call on the government to:

1. **Establish a new fair and sustainable HRA model:** including a long-term and certain rent-settlement, an adjustment of HRA debts and more favourable conditions for council investment.
2. **Reform unsustainable Right to Buy policies:** by reducing discount levels and eligibility, as well as protecting newly built council homes from sale.
3. **Remove red tape on the Affordable Homes Programme and other funds:** including extending the strategic partnership model to councils. Funding should be streamlined, allocated simply, reflect recent cost inflation, and allowed to be used flexibly to meet local housing need.
4. **Announce a Green & Decent Homes Programme:** a long-term, capital funded programme to bring all council housing up to the new standard of safety, decency and energy efficiency by 2030 – and a road map for achieving net zero by 2050.
5. **Fund the completion of new council homes:** limit the short-term loss of housing supply and construction sector capacity caused by the unfolding market downturn, by funding councils to rescue and complete stalled development projects.

Our detailed and practical recommendations will get the system back on stable foundations, enable us to bring all homes up to the standards our residents deserve and unlock our potential to deliver the next generation of council homes. We look forward to working with the new government to secure the future of England's council housing.

The council housing system today

Between 1946 and 1980, England built 4.4 million new social homes, at an average rate of 126,000 a year – most of them delivered by England's councils.[1] But it has now been over thirty years since councils last built more than 10,000 homes a year,[2] while sales of council homes (primarily through the Right to Buy) have averaged 26,000 a year.[3]

England's councils house around 3.5m people in 1.6 m homes, including many vulnerable people who may have no other opportunity for a decent home. But after decades of under-resourcing and policy instability, compounded by economic volatility and new demands for investment in fire safety and decarbonisation, council housing is under pressure like never before. Today, council landlords across England face deficits of over £3bn on their Housing Revenue Accounts (HRAs) over the next ten years.[4]

The consequences of these economic pressures and political choices are stark:

- Councils in England are spending £1.7bn a year on temporary accommodation for homeless households, up 62% over the last five years.[5]
- A record 109,000 households in England are living in temporary accommodation, including 142,490 children.[6]
- Poor public transport connections between where people can afford to live and their workplaces are now a key driver of the UK's stagnant productivity compared to international peers.[7]
- Private landlords are set to receive £70bn of public money in housing benefits between 2021 and 2026, compared to a budget of £11.5bn for capital grant for delivering affordable homes across the same period.[8]

The case for council housing

Council housing provides decent, secure homes that are affordable to households on low to modest incomes. Council homes prevent and solve rough sleeping and homelessness. They enable workers to live close to jobs, family and care networks.[9] They improve families' health and wellbeing by freeing people from financial stress, bad housing and insecurity, and give children a place to study and the chance to stay at the same school.[10] Affordable rents and secure tenancies enable households to save and to build wealth and reduce the benefit cost of subsidising higher rents in the private rented sector.

Government analysis shows that social rented housing has an average benefit:cost ratio of 3.4.[11] Recent research suggests that funding the construction of 90,000 new social rent homes could add £51.2bn to the economy, create almost 140,000 jobs, and generate ongoing savings on housing benefits, reduced homelessness, increased employment, the NHS, police, education and other public services.[12] While many of these benefits are shared with social housing provided by housing associations, councils' statutory duties, democratic accountability and local knowledge give them unique incentives and capabilities to tackle homelessness, prevent high street decline, support disabled and older households, and improve neighbourhoods.

> The construction of 90,000 new social rent homes could add £51.2bn to the economy

The need for a new settlement for council housing

Stock-holding councils are required to keep housing income and expenditure in a ring-fenced Housing Revenue Account (HRA). Since the 1980s many councils have transferred all of their housing stock to housing associations, closing their HRAs in the process. Of 294 councils in England today, 136 do not have an HRA, and of the 164 that do, some only have very limited stockholdings. The financial settlement between these councils, the government, and tenants has undergone frequent changes: under the current 'self-financing' settlement introduced in 2012, all councils are required to fully cover their housing maintenance, management and debt servicing costs from their rent and service charge income. Very limited government funding comes through ring-fenced, specific grants – such as the funding available to cover some of the costs of decarbonisation or the building of new council homes.

The financial position of HRAs today

Unlike private sector and housing association debts, the sustainability of HRA debt is not directly connected to the value of the assets acquired or developed, or even the quantum of debt, but to the cost of servicing the debt and the amount of rental income available to cover these costs, after management and repairs have been accounted for. The informal 'golden rule' is that this 'interest cover' ratio should be at least 1.25, so that there is a cushion to ensure interest can be paid in the event of unexpected cost increases.

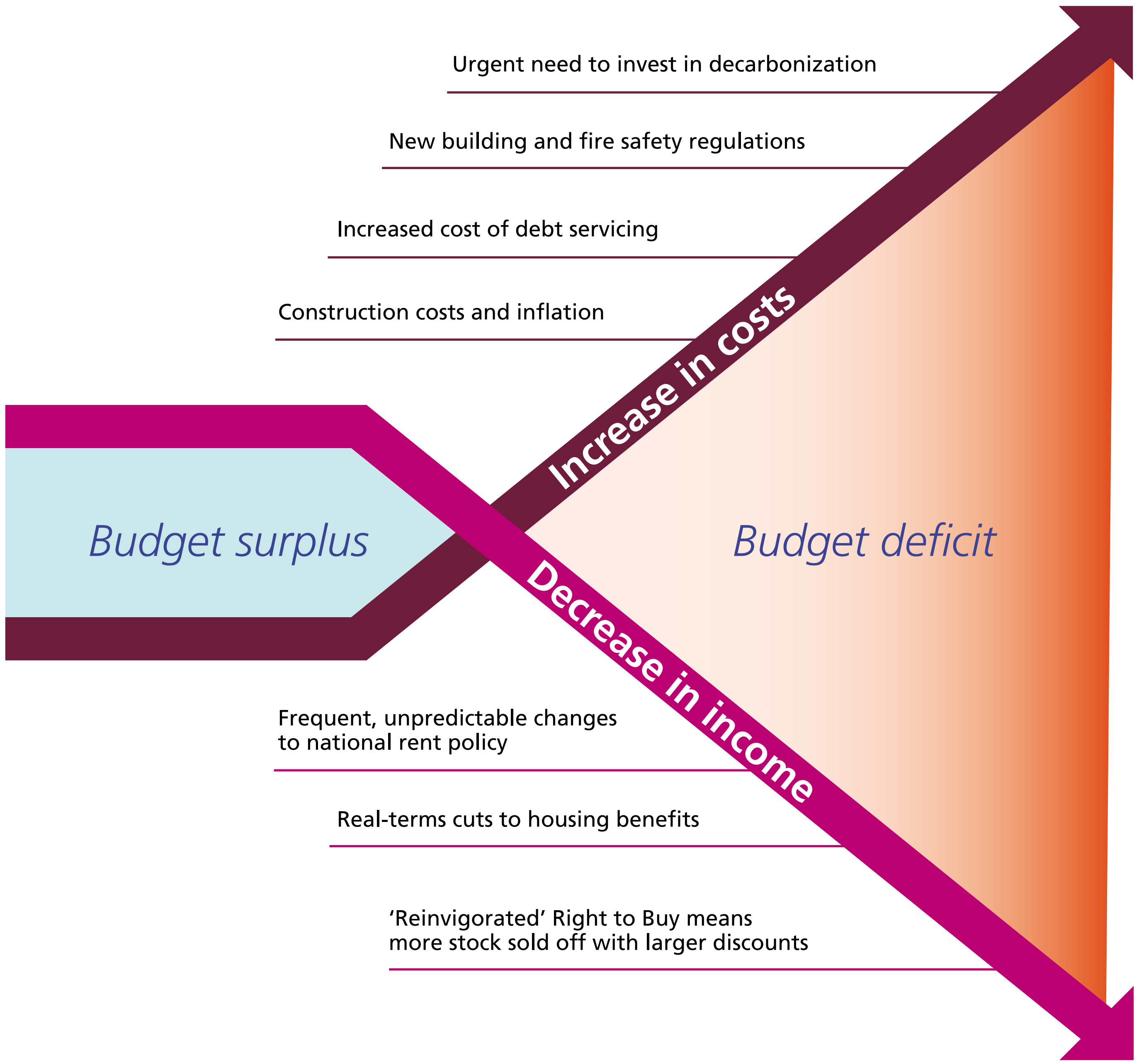
On this measure, many HRAs are now close to breaking point. Council landlords face deficits of over £3 bn on their HRAs over the next ten years, meaning that they will not be able to cover the costs of Decent Homes 2, decarbonisation, increased fire safety and other existing regulations – let alone finance new housing supply.[13] Faced with these impossible choices, some councils are starting to sell homes to fund investment elsewhere in their stock, further weakening their ability to meet housing need.

The rules for the HRA system also limit councils' ability to build new homes, as they severely restrict their borrowing capacity (whether from public or private sources). This is largely deliberate, as HRA debts are classified as part of the national debt for fiscal targeting purposes in the UK – even though most other countries and international financial markets do not. The result is an arbitrary but pervasive bias within the UK system against investment in house building via HRAs.

The 2012 settlement was based on a 10 year deal that would ensure councils' rent incomes were predictable and increasing, while housing maintenance costs were assumed to be predictable and affordable – neither of which have turned out to be correct. Instead, maintenance cost underestimates and major changes in government policy, compounded by economic shocks, have left councils facing a multi-billion-pound shortfall.

The 2012 settlement assumed that: rents would increase annually by RPI+0.5% + £2 per week; management and maintenance costs would rise in line with inflation; major repairs allowances would be based on the need to maintain stock at the Decent Homes Standard; and that Right to Buy sales and receipts would reflect levels from before 2012.

Housing Revenue Account budgets have become unsustainable



Instead of honouring the settlement, since 2012 government has: changed rents policy repeatedly, including four years of rent cuts; made additional cuts to housing benefit; increased discounts and loosened eligibility criteria prompting a rapid increase in Right to Buy sales; and repeatedly changed Public Work Loan Board (PWLB) interest rates and terms. These changes have had severe impacts on council housing finances: the 2016 to 2020 social rent cut alone reduced council landlords' rent revenue by £2.4bn over four years,[14] amounting to an estimated £40bn by 2042. A second, five year rent settlement from 2020 to 2021 was again cancelled by government after only one year when it capped rent increases, costing councils £300m in the first year of the cap alone.[15] A further rent cap from 2023 to 2024 cost councils another £644m, pushing many HRAs into unsustainable territory.

In addition to these financial changes, government has increased councils' costs by: setting new regulatory requirements in the wake of the Grenfell Fire in 2017 and the tragic death of Awaab Ishak in 2020; making the decarbonisation of the social housing stock a new priority; and changing policy to expect more new development from councils. At the same time, capital costs have experienced rapid inflation far beyond what was predicted, which has been further compounded in recent years by a series of economic shocks.

Whilst inflationary pressures may be beyond the government's control, and many of the policy changes may have been justifiable in and of themselves, the combined effect has been to create a perfect storm for council housing finances. Councils have not been compensated for lost income or increased costs imposed on them, while they have still been expected to deliver their side of the 2012 settlement. The result is that councils face a £2.2bn budget "black hole" by 2028, a hole that must be filled if councils are to meet their obligations – let alone contribute to new housing supply.

> 2016 to 2020 social rent cut alone reduced council landlords' rent revenue by £2.4bn over four years

The need for a new settlement

2012 HRA SETTLEMENT

2012 HRA SELF-FINANCING AGREEMENT ASSUMPTIONS	WHAT ACTUALLY HAPPENED
Rental income would increase with inflation. ✗	Rents policy repeatedly changed, including four years of rent cuts and a costly rent freeze.
Management and maintenance costs would rise with inflation. ✗	PWLB rates and repayment terms constantly changed.
Major repairs and investment expectations based on the Decent Homes Standard. ✗	New regulatory requirements that require significant investment.
No changes to rules around Right to Buy. ✗	Significant stock loss through the reinvigoration of the Right to Buy scheme and higher discounts.
	Cuts to housing benefits.

Our five solutions for a renewed council housing system

The Housing Revenue Account system of council housing finance is now in a parlous state.

Unless something is done soon, most council landlords will struggle to maintain their existing homes adequately or meet the huge new demands to improve them, let alone build new homes for social rent. Many councils will have no option but to increase stock disposals to finance investment in an ever-shrinking portfolio of council homes.

Council housing finances rely on a stable framework of reasonable rules, whereas frequent and unpredictable changes undermine its special ability to meet social needs efficiently and equitably. For example, councils must now price a possible overnight 1% rise in PWLB interest rates into their business plans, simply because government has arbitrarily imposed this on them before.

The new government has announced that it will set out plans at the next fiscal event to give 'the rent stability needed for councils and housing associations to borrow and invest in both new and existing homes'. We welcome this early commitment, but on its own a new rent settlement will not be enough to secure HRAs. We urgently need a new framework, rooted in clear principles, that can give councils, lenders and tenants alike confidence that the system is robust, fair and sustainable.

Establish a fair and sustainable financial model

Put the plug back in – reform Right to Buy

Remove red tape on existing funding

Ensure existing houses are green and decent

Deliver new and replacement council homes

1. Establish a fair and sustainable financial model

Principles for a new system: immediate actions

The first, most basic principle for a sustainable HRA system must be long term policy stability to give councils, their partners and investors the confidence to meet policy expectations for council housing. Government must also recognise the damage recent policy instability has done to HRA finances and take action to repair them. To be sustainable over the long term, a new settlement must start from a secure position, so government must commit to a one-off injection of capital to provide partial compensation to HRAs for the volatile policy changes since 2012.

Recommendation 1:

Government should provide a one-off capital injection of £644m, equal to the income lost due to the rent cap from 2023 to 2025, to stabilise HRAs and prevent further waste caused by pausing, delaying, or cancelling investment plans.

Secondly, a stable framework for council housing must clarify what its purposes are – and how each of these should be paid for. This is essential to put HRA finances on a sustainable footing, but also to give tenants (and taxpayers) clarity over what they are paying for. Rents policy should be clear, consistent and transparent, delivering fairness for tenants and predictable revenues for HRAs. A new settlement should reaffirm the principle that tenants' rents are meant, broadly, to cover the day-to-day cost of providing and maintaining their homes – and that therefore any additional financial demands placed on councils must be funded separately by government. This is the principle on which council housing was previously understood to work. It is also in line with the New Burdens doctrine established by government in 2010 and reaffirmed regularly since then – but which has never been extended to HRAs.

Recommendation 2:

Government should extend the New Burdens doctrine to the HRA and uphold this principle, ensuring that any new policies that affect council landlords are 'properly assessed and fully funded by the relevant department'.

Thirdly, government must ensure that council landlords have consistent, predictable access to affordable borrowing, as part of a new overall fiscal framework that recognises the vital importance of investment in social housing for the UK's economic growth.

Recommendation 3:

The government should commit itself to not reimposing borrowing caps, or any other system of arbitrary central restriction on HRA financial capacity, relying instead on the principles of the Prudential Code to ensure councils' borrowing remains prudent.

The government should act quickly to implement these first three recommendations, as a signal of its commitment to putting HRAs back on a sustainable footing. Building on these principles, the following content in this section sets out the details for further policy interventions at the next spending round to create a sustainable framework for a renewed HRA system.

Debt adjustment

As central government can finance debt more affordably than councils can, the simplest way to relieve HRAs of unsustainable debt would be to nationalise a share of HRA debts, allowing councils to raise fresh finance for new investment. This one-off rebasing of HRA debt would revisit the 2012 self-financing deal and carry out a new debt adjustment, based on actual outturns from the past 12 years and more realistic assumptions for the future. Recent research from the Chartered Institute for Housing (CIH) and Savills has shown that if the 2012 model was rerun today, taking account of the changes since then, the HRA debt settlement would be £11bn, down from £29bn.[16]

Recommendation 4:

The government should re-open the 2012 self-financing deal as a priority. It should agree a new self-financing settlement with councils, based on the actual inputs that have been imposed on HRAs since then and on realistic assumptions about future inputs, accepting that this will entail a one-off adjustment of HRA debts from councils to central government.

Rents policy in social and affordable housing

After a decade of unstable rent policy the last government's decision to cap social rent increases at 7.7% in 2024 to 2025 – well below core inflation and even further below inflation on the HRA cost base – has reduced council landlords' possible rent revenues by £644m over two years, which will be reflected in lower revenues for years to come. Councils have had no choice but to make real-terms cost savings, cancelling or delaying much-needed works to repair and maintain existing homes or to expand their stock. We look forward to seeing the government's plans to increase the stability of our rental income at the Budget and we ask them to ensure any future changes to settlements on rent caps are revenue neutral for HRAs.

Rents must also be affordable for residents and not put undue pressure on the housing benefit bill, while being sufficient to cover the basic costs of maintaining and managing homes. It is also important to address the growing discrepancies that have built up across social and affordable housing over time, both to improve fairness for tenants and to ensure social landlords are not put under undue financial pressure.

Recommendation 5:

The government should commit to long-term rent settlements that are more resilient to economic change. Above all, rent settlements must last for their intended period, so that a 10-year rent settlement lasts for 10 years. If straying from a long-term rent settlement in one year becomes truly unavoidable, any changes to that settlement should funded by central government such that they are revenue neutral for council landlords.

Recommendation 6:

The government should reintroduce rent convergence, allowing rents across social housing to be increased to reach formula rent levels, using a gradual approach to manage affordability impacts.

Public Works Loan Board finance

During the 2000s, the PWLB tended to offer interest rates only 0.15 to 0.20% above the government's borrowing costs, but recent changes to PWLB rates have increased these costs, undermining HRA business planning and reducing councils' headroom for investment.

Recommendation 7:

Government should reduce new PWLB borrowing costs for council housing to the previous rate of 0.15% above central government's borrowing costs and confirm a commitment to maintain rate stability for the long term.

Throughout the twentieth century, councils had an incentive to repay their debts to the PWLB early, but this was removed from 2007 and replaced by a system that has tended to penalise them for early repayment. Driven in part by these policy decisions, the proportion of annual local authority spending dedicated to servicing interest payments has grown, so that some councils are now spending more on servicing debt than on delivering local services.[17]

Recommendation 8:

Government should allow councils to pay down and refinance expensive older PWLB debt without incurring penalties.

Fiscal targeting: aligning the UK's debt measure with other countries

While fiscal rules usually include a long-term objective for the stock of debt, the EU, IMF and most OECD countries use the General Government Gross Debt (GGGD) measure of public debt to define national debt for the purposes of fiscal targets and international comparisons. This measure excludes 'public corporations' such as the HRA system, because as arms-length trading bodies these agencies service their own debts from their own revenues. The UK government's choice of debt measure includes the HRA, incentivising it to limit investment in council housing.

Recommendation 9:

Debt-targeting fiscal rules adopted by the UK government should use the accepted international GGGD measure as the definition of public debt, which excludes public corporations such as the HRA.

2. Put the plug back in – reform Right to Buy

Right to Buy

The principle of enabling council tenants to purchase their homes at a discount remains extremely popular in England, but it is clear that the policy framework over recent years has been unsustainable -not only for the HRA system, but also for central government's finances and for local housing markets. Of the almost two million social homes that have been sold through Right to Buy, Shelter estimates that only 4% have been replaced,[18] and an estimated 43% of households living in the private rented sector and receiving housing benefits are living in former social homes lost to the market via the Right to Buy.[19]

The challenge is to find ways to reform and update the policy framework governing the Right to Buy, and the use of the receipts it generates, to balance different policy aims for council housing and improve the predictability of HRA revenues, while taking account of different market conditions and policy needs in different places.

We welcome the new government's plans to bring forward legislation to change Right to Buy discounts; to, at least temporarily, increase the flexibilities on how councils can use Right to Buy receipts; and to review the eligibility critieria and protections for new homes – in which we hope our recommendations will be considered.

Recommendation 10:

The government should reduce discount levels for the Right to Buy in England from their current very high levels of £75,000 outside of London and £100,000 in London. New discount levels should be more sensitive to geographic differences and should ensure that capital receipts are sufficient for councils to replace homes sold through the Right to Buy with new homes which can meet local housing need.

Recommendation 11:

The government should permanently allow councils to keep 100% of Right to Buy receipts, provided these are reinvested in delivering new or replacement social rent homes within ten years – whether by building or acquiring homes.

Recommendation 12:

The government should maximise flexibility in how Right to Buy receipts can be used to reinvigorate the stock of council housing across England in every possible way, including making permanent the removal of the cap on the share of Right to Buy receipts which can be used to acquire existing homes and the ability for councils to combine receipts with section 106 contribution. However, they should go further bylengthening the time councils and housing associations have to spend Right to Buy receipts before they are sent to central government (or to Mayors) to ten years andallowing Right to Buy receipts to be mixed with all other sources of funding and finance for replacing council homes, including capital grant.

Recommendation 13:

In recognition of the problems of Right to Buy for overall council stock levels, the government should: lengthen the eligibility period for using the Right to Buy to ten years; and lengthen the period of time before homes purchased using the Right to Buy can be re-sold without repaying all of the discount to ten years. New financial health checks should ensure those exercising the Right to Buy can afford the ongoing costs of owning the home.

Recommendation 14:

To enable councils to play their full part in driving up England's housing supply, and in recognition of the emerging challenges presented by rising standards in new council homes compared to many market homes, the government should end the Right to Buy with respect to newly-built council homes, including both new and existing council tenancies.

3. Remove red tape on existing funding

Reforming central government grant

It is widely recognised that capital investment for social housing is spread too thinly, across too many different pots with overly short time scales, and that too much bureaucracy is required to bid for, access and spend what little grant is available. The result is that underspends on major programmes are common, despite the urgent need to invest in new and existing homes. The recent Public Bodies Review of Homes England found that the agency was responsible for 22 different 'main' funding programmes, spent only 77% of its budget in 2022 to 2023, and was 30% below target on planned housing starts.[20]

Recommendation 15:

The government should increase the flexibility of the Affordable Homes Programme, its successor and other Homes England funds, ensuring that capital grant can be spent on acquiring, retrofitting and refurbishing existing housing stock, or on replacing homes that have come to the end of their useful life, where this is the best way for councils to meet local need. Grant rates must reflect recent cost inflation.

Recommendation 16:

The government should move towards fewer, flexible funding allocations to councils that amalgamate the various funding sources for investment in housing into two pots, one for investment in existing homes and one for building new and replacement homes. The funding should be distributed through a simple, fixed and transparent formula. There is already a legal ringfence preventing council housing funding leaking into social care or other services.

Recommendation 17:

The Affordable Homes Programme strategic partnership model should be extended to councils so council landlords can take a single allocation of AHP grant and use it flexibly across their development programmes, as already happens for councils in London.

Measuring the benefits of council housing

The evidence on the economic and social benefits of council housing is compelling, but the appraisal frameworks currently used by government risk missing many important benefits of investing in existing and new council housing. Hundreds of social value measurement tools have been developed to address this failing. For example Hyde's Value Of a Social Tenancy open-source methodology estimates the direct value of a new social tenancy to the public purse at £11,175 per year, or £16,906 per year once economic benefits from construction and maintenance activity and increased employment are included.[21] Hyde has since combined the VOST model with environmental and governance metrics to produce a full ESG framework. [22] Meanwhile Homes England is publishing a series of high quality research papers into different aspects of measuring social value -– and its evidence on the impact of housing-led regeneration is already reflected in the Department for Levelling Up, Housing and Communities' (DLUHC's) recent Appraisal Guide. This could have far reaching and positive consequences for decisions on investment in council housing, as for the first time the wider social, environmental and economic benefits of public investment should be given due weight in decisions about where and how public money is spent.[23]

Recommendation 18:

Building on recent and ongoing Homes England research, the government should support and encourage the continued development of robust social value reporting frameworks to enable more rigorous monitoring and evaluation of spending and policy interventions in housing and placemaking, and ensure that these are properly incorporated into DLUHC and Treasury guidance and practice. This would allow the benefits of council housing to be better reflected in future investment and policy decisions.

4. Ensure existing council homes are green and decent

For many years council housing has been subject to multiple financial and policy pressures that have left much of the stock in need of significant capital investment just to bring it up to a safe and decent standard. In this sense the situation is similar to that in the late 1990s, when the backlog of repairs in local authority housing was estimated at £19bn.[24] The response from government then was a comprehensive programme of investment to bring homes up to a newly defined Decent Homes Standard, improve the quality of housing management and increase tenant involvement. The Decent Homes Programme aimed to bring all social homes up to the DHS in ten years, backed by an estimated £37bn of government funding.[25] This decade-long programme of investment and improvement reduced the number of non-decent social homes by 1.1m, so that by 2010 over 90% of the target had been met.[26]

Stock conditions and standards since the Decent Homes Programme

Budget cuts from 2010 onward limited progress towards the 100% target, while more homes slipped into non-decency as the stock has aged. In 2020, the Affordable Housing Commission[27] found that progress toward all homes being decent had stalled, and estimated that bringing all social housing up to the Decent Homes Standard would cost around £2.6bn.

These financial pressures mean that physical conditions have deteriorated in many homes and neighbourhoods, as highlighted by campaigners and[28] journalists,[29] so that more recently attention has quite rightly refocused on the need to reverse the decline and bring social housing up to new, higher standards of safety.

In response to the Grenfell Tower fire in 2017 and the death of Awaab Ishak due to mould in his family's home in 2020, the government has introduced a new consumer standard and inspection regime, new requirements to fix reported health and safety hazards within strict timeframes, and new professionalisation requirements for 25,000 housing employees. This welcome recognition of the importance of standards in social housing will inevitably increase the pressure on council landlords' revenue budgets, so it is crucial that central government works with social landlords to ensure these obligations can be met.

In January 2023 a Savills study for the Local Government Association (LGA), the Association of Retained Council Housing (ARCH) and the National Federation of ALMOs – the bodies representing stock-holding councils in England estimated the costs of fire safety remediation to meet the requirements of the Building Safety Act 2022 alone to be £7.7bn to 2030.[30] Major upgrades to council homes like this have always required additional funding, because they were not predicted and planned from the point the home is built. Councils can therefore pay for major, unforeseen upgrades only by increasing rents faster than construction costs are rising, or by receiving new capital investment. Government therefore faces the choice between increasing rents significantly, providing capital investment, or exposing tenants to intolerable safety and health risks.

Restoring the HRA system to health

Alternatively, if HRAs can be rapidly brought back to a sustainable financial footing, this would free up financial headroom to enable councils to ensure their homes are made safe and maintained the way the HRA model used to do. A one-off adjustment to the 2012 self-financing agreement – as we call for above in **Recommendation 4** - would be the most efficient way to leverage capital investment into the existing stock of council homes, by ensuring HRAs are financially sound and can function as they once did.

A further consequence of the pressure on HRA finances has been that maintenance programmes have had to be scaled back, with the result that repairs costs have gone up. If HRAs are restored to a reasonable position, there is much that councils can do to drive greater efficiencies from their capital works programmes and improve value for money for the public purse. Firstly, it will enable councils to scale up capital investment programmes and enter into longer term contracts with suppliers, both of which will help drive down costs. Secondly, it will enable more councils to carry out comprehensive stock condition surveys, as councils can deliver better value for money (VfM) if their investment is based on real information rather than the crude programme-level assumptions many have been forced to rely on.

Recommendation 19:

Councils should work to reduce the need for major upgrades and improve the value for money of works on council homes by investing in maintenance and minor repairs earlier.

Recommendation 20:

Councils should work together – with Housing Associations – to identify a consistent approach and standard for stock condition surveys, based on best practice and existing innovation within our sector.

A Green & Decent Homes Programme – a priority for the next spending review

Decarbonisation of all the UK's homes will be vital for 'net zero' transition, but doing so across an aging, dispersed and largely privately owned stock presents a huge delivery challenge. In this context the scale, capacity and consistency of ownership in the social housing sector represents the best opportunity to drive housing retrofit activity across all tenures, if it is effectively "pump primed" by government funding and policy support.[31]

The Decent Homes Programme's success in improving millions of homes, driving up efficiencies and stimulating the supply chain shows that this is a tried and tested approach. To meet the government's climate, housing and growth objectives a new 'Green and Decent' programme is now needed, on a similar scale to the original DHP, and should be a priority for the next Spending Review expected in 2025.

As the new Decent Homes Standard has not been published yet, or even named, the full cost of achieving it across the council housing stock cannot be accurately assessed. But Savills' study for the LGA, ARCH and NFALMOs recently estimated the capital cost of bringing all council homes in England to net zero by 2050 at £34.3bn.[32] Some of this work will happen as a part of council landlords' standard repairs and maintenance works, meaning £10.8bn of this investment is expected to come from HRAs – demonstrating once again the huge contribution council housing can make – but there would still be a requirement for £23bn of additional capital funding, which is not currently in council landlords' business plans. Savills also modelled the cost of bringing all social housing up to EPC level C, meeting the original Decent Homes Standard and addressing fire safety issues by 2030 at £34.6bn, over which £12bn would be for council stock.[33] At a minimum, a new Green and Decent Homes programme, linked to the new standard expected soon, should commit to providing this £12bn over the next five years – though in practice investment will need to be larger and longer term than that to achieve the net zero target and the new Decent Homes Standard.

Recommendation 21:

The next Spending Review should launch a large-scale, long term 'Green and Decent Homes' programme, with sufficient additional capital funding from government to bring all council housing up to the new standard of safety, decency and energy efficiency by 2030 – and setting a route map for achieving net zero by 2050. At a minimum, this should allocate £12bn to council landlords over the next five years, an average of at least £2.4bn per year.

5. Deliver new and replacement council homes

The last time England was building 300,000 homes a year, in the late 1960s, councils made up around half of the total supply. They have not provided more than 2% of new homes for over forty years. Repeated independent reviews into England's chronically low housing supply have unanimously recommended a greater diversity of providers of new homes as a critical part of solving this problem and highlighted the missing contribution from councils.[34] To deliver 1.5m new homes in the next five years, it is time to wake the sleeping giant of housebuilding and take councils off the bench.

Some councils have increased or restarted housing development since the abolition of the HRA borrowing cap in 2018 and the partial return of grant support for council housebuilding, and there is scope for councils to deliver many more homes in the years to come – with the right policy and funding support. But there is a long way to go from here: in 2023 to 2024 social rented housing supply across England continued to stagnate at 9,561 homes – well below the 11,303 homes sold under the Right to Buy in that same year, as it has been for every one of the last ten years.[35]

The systemic bias against council housebuilding is partly the result of the UK government's unusual choice of debt measure for the purposes of setting its own fiscal rules and other national financial and accounting practices that work against the proper funding of council housing, a problem we address above through **Recommendation 9**. But even the resources that are available for building and replacing council homes are subject to a complex web of restrictions on how different funding sources can be used and combined in the same development, such as the rule preventing grants and Right to Buy sales receipts being combined or preventing councils from acquiring homes from the market. However reasonable their original intent, in practice such inflexible funding rules have blocked allocated funding from being spent and failed to generate any additional business plan headroom for council landlords. **Recommendation 12** above calls for the government to maximise flexibilities in the use of Right to Buy receipts.

The government has said they want to correct the errors of the past and work with councils to deliver the biggest boost to social housing in a generation. However, as things stand, council housing supply is once again on the decline. The recent increase in costs is causing many developing councils to pause projects,[36] and some councils have decided to sell their consented schemes to housing associations rather than to develop in-house.[37] This represents a huge missed opportunity to use the capacity councils have to meet housing need – just as they have started rebuilding that capacity.

How council housing can once again underpin successful housebuilding

Market demand for housing has been weakening in face of rising build costs and higher interest rates, housing supply is set to slump even further as private developers mothball sites to avoid having to sell homes at lower prices. A recent report suggests housebuilding in England is set to fall to 120,000 a year – the lowest level since the Second World War. Declining rates of housebuilding are putting hundreds of thousands of jobs at risk, with major implications for the country's economic growth and the industry's capacity to expand production in future.[38]

Fortunately for the new government, there is a tried and tested method to maintain capacity at this perilous moment for future housing supply. During previous housing market downturns from 1992 and 2008, the government stepped in with funding to convert unsold market homes to other tenures (usually social rent) through the Kickstart Housing Delivery programme and other schemes. There are lessons to learn about how to design these schemes to maximise value for money and quality,[39] but given significant DLUHC underspends in 2022 to 2023, it is likely that further underspends from 2023 to 2024 could be used for this purpose.[40]

Counter-cyclical social and council housing is also a historically proven way of supporting innovation and efficiencies in procurement and in technology.[41] It is no coincidence that factory-based modular systems last made a major contribution to UK housing supply in the 1960s and 1970s, when councils were either building or commissioning large numbers of social rent homes. Conversely, 2022 and 2023 saw most of the UK's modular factories closing in response to the downturn in the housing market.

Recommendation 22:

Government must act urgently to prevent the short-term loss of much-needed housing supply and construction sector capacity by funding councils to complete their own sites, and to acquire and redesign stalled private developer sites to include more council homes that can be built out fast.

At current rates of demolition and replacement each new home built in England would have to last for just under 3,000 years.[42] Demolishing and replacing homes is inherently tougher than building new ones, but the last government's recent approach to funding for council housing has made it even harder. Until recently, government rules only allowed funding for "net additional homes" on regeneration projects, explicitly excluding works on existing homes – however old or unfit-for-purpose – which undermines the financial viability of regeneration projects, antagonises communities, and ultimately slows down much needed redevelopment. While this rule has now been somewhat relaxed, there are still restrictions that make good placemaking and regeneration harder than they need to be.

At current rates of demolition and replacement each new home built in England would have to last for just under 3,000 years.

Building efficiently at scale will also require collaborative working between councils, communities, and other types of housing provider. Councils must also take every opportunity to share knowledge, skills, staff and procurement contracts with each other and with partners, and to work with neighbouring councils to coordinate works across wider areas efficiently. The government should help to improve purchasing efficiencies by enabling combined authorities and other groupings of councils to bulk purchase materials.

Recommendation 23:

Councils should work collaboratively to identify and realise cost efficiencies and better outcomes in delivering new and replacement homes, including by sharing best practice, pooling resources and skills, purchasing materials in bulk using shared procurement, and scoping out opportunities to coordinate and phase works in cross-boundary programmes.

Introduction

Between 1946 and 1980, England built 4.4m new social homes, at an average rate of 126,000 a year – most of them delivered by England's councils.[43]

Council housebuilding was ramped up through the post-war reconstruction period, and high levels of delivery were sustained through three recessions, four changes of government and nine prime ministers. The homes that were built over this period still make up the considerable bulk of the UK's social rented stock today. But it has now been over thirty years since councils last built more than 10,000 homes a year,[44] while sales of council homes (primarily, but not only, through the Right to Buy) averaged 26,000 a year over the same period.[45] Managing an ageing, shrinking stock of homes and upgrading them to meet modern quality and energy efficiency standards is inherently challenging. But a series of short-term decisions from central government over the last twelve years have reduced the resources available to council landlords to do this work in stark and unpredictable ways. As a result, where council landlords were once a driving force of England's housing supply and a crucial part of the housing mix in every community, today they are financially stretched to breaking point. Research from Savills for this report forecasts that councils across England face a £2.2bn budget "black hole" by 2028, produced by rising costs on the one hand and restricted rent increases on the other.

Councils want to build more new homes for the communities they serve and to move faster to improve their existing stock – but this will require changes to policy and to the design, coherence, scale and processes for accessing government funding pots. Above all, the government will need to move swiftly to reform and renew the self-financing settlement for Housing Revenue Accounts (HRAs) agreed in 2012, which is no longer fit for purpose. Reforming the accounting system for council landlords may seem at first glance like a technical issue. In fact, it is essential to fixing the foundations of England's council housing. This report will explain how the HRA system came to be stretched to breaking point, how this has undermined councils' ability to maintain and improve existing council homes and to build new ones, and how the government can use a new policy and funding framework for council housing to once again set and achieve ambitious policy goals – including reducing the public money spent on poor-quality temporary accommodation and expensive private rented homes, and kickstarting the decarbonisation of homes across all tenures.

After decades of under-resourcing and policy instability, compounded by recent economic volatility and new demands for investment in fire safety and decarbonisation, council housing is under pressure like never before. England's councils house around 3.5m people in 1.6m homes. This includes many people who are vulnerable to financial stress, for example because of illness or disability, caring responsibilities or experience of homelessness.[46] As a nation we cannot afford to let council housing fail: many people and communities need and want council homes, and without those homes we cannot support the people who need us most.

Today, council landlords across England face deficits of over £3bn on their HRAs over the next ten years.[47] The self-financing regime introduced for stock-holding councils in 2012 is cracking under the combined pressures of cost inflation, higher interest rates, and repeated short-term policy changes for over a decade. Central government's inconsistent approach to rent policy; Public Works Loan Board interest rates and repayment terms; the systems for setting benefits and grant rates; the terms of the Right to Buy regime; the planning system; the social housing regulatory regime; and policy expectations on stock improvements have all undermined the principles of the self-financing model. This report sets out a series of recommendations to put the financial and funding framework for council landlords back on a sustainable footing after years of destructive policy decisions.

The consequences of this political choice have become stark, both financially and socially:

- Councils in England are spending £1.7bn a year on temporary accommodation for homeless households, up 62% over the last five years.[48]
- A record 109,000 households in England are living in temporary accommodation, including 142,490 children.[49]
- Poor public transport connections between where people can afford to live and their workplaces are now a key driver of the UK's stagnant productivity compared to international peers.[50]
- Private landlords are set to receive £70bn of public money in housing benefits between 2021 and 2026, compared to a budget of £11.5bn for capital grant for delivering affordable homes across the same period.[51]
- Yet there is no area in the country where housing benefits now cover the bottom third of the private rented sector,[52] leaving low-income renters increasingly dependent on social housing for an affordable place to live.

Council landlords across England face deficits of over £3bn on their HRAs over the next ten years.

As the largest stock-holding councils in England, the councils behind this report know how vital social housing is to the social, economic and environmental health of our country. We believe in its potential to transform people's lives and places for the better. But we are under no illusion that social housing today is living up to this potential. While housing associations are not immune to the problems of homes in need of repairs and upgrades, many of the most urgent quality improvements are needed in homes owned and managed by councils, because their stock is older and has for decades been starved of the investment needed for good maintenance and timely upgrades.

Too few people who need a decent, affordable, secure council home have access to one, and far too many of those who do live in council homes have been left fighting for the dignified living conditions they should be able to rely on. We are all determined to do better. But the truth is that while government policy and funding programmes remain short-term, uncertain and insufficient, we will be swimming against the tide.

Council housing can and must be revitalised. A sustainable stock of council homes must be developed and sustained across every Housing Revenue Account, and government must support councils to plan improvements and maintenance works over the long term, producing significant cost efficiencies and far better outcomes for residents of council housing and for communities as a whole. **We urge the government to work with us to fix the foundations of England's council housing and the system of Housing Revenue Accounts it relies on.** As our first chapter will explain, the benefits of government support for council housing – for residents, for their neighbours, for places, for the taxpayer and for the environment – are well worth it.

CHAPTER
1

The case for council housing

Benefits of council housing for people, communities and places

"Because we are part of the council, we have good links to other services within the council. We signpost residents to relevant services so people get the help they need."

Royal Borough of Greenwich

Council housing provides decent, secure homes which are affordable to households on low to modest incomes. Council homes are a crucial part of how our country functions. They prevent and solve rough sleeping and homelessness, directly by allocating homes to those in most need, and indirectly by ensuring affordable alternatives to the insecure and volatile private rented sector are available. They anchor local communities and labour markets, enabling workers on low wages to live close to the jobs that need their skills and to family and care networks.[53] They improve people's health, wellbeing and opportunities, giving people freedom from financial stress, bad housing and insecurity, and more choice over where to live and work.[54] They help young people stay and thrive; giving children a secure home where they can study and escape the constant moves from home to home and school to school that all too often come with modern private renting.[55]

Through affordable rents and secure tenancies, council homes also provide breathing room for households to save and opportunities to build wealth. While the Right to Buy in its current form is a serious problem for the sustainability of England's council housing (see Chapter 2 below), there is no doubt that in its early years the policy boosted homeownership rates, allowing households who would otherwise have struggled to buy a home to do so.[56] Though reforms are now needed to the Right to Buy to ensure new households will be able to access the benefits of council homes in the future, council housing is and should be an aspirational tenure by widening access to secure, affordable, quality homes for rent.

Council homes contribute to a wide range of policy aims in ways that will improve tax revenues and reduce future public expenditure by requiring lower ongoing revenue costs than the alternatives – such as the cost of subsidising higher rents in the private rented sector through the benefits system. While many of these benefits can also be found to some extent in social homes owned and managed by housing associations, council housing offers additional benefits for residents, communities and the taxpayer in a number of areas. These specific benefits of council housing flow from councils' statutory duties, their democratic accountability, and the relationships and knowledge they hold as place-based public bodies. As a result, councils have unique incentives and unique capabilities to address certain public policy issues, like tackling homelessness, preventing high street decline, providing support to disabled or older households, and addressing residents' priorities for improving neighbourhoods. See Box 1 and Box 2 below.

“On the hook” for homelessness

“A housing association can have flexibility in selecting their tenants, often stipulating employment as a requirement. They certainly help to alleviate the pressures on housing but will allocate in accordance with their own policies. As a council, we house the most vulnerable. Otherwise, where would they live?”

Carol Wordsworth, Housing Advice and Assessment Team at Rotherham Metropolitan Borough Council

Councils have a statutory duty to secure accommodation for homeless people who are considered to be “in priority need”, as well as other homelessness duties. The acute shortage of homes that these households can afford means that rising numbers are spending more time in temporary accommodation (TA). A record 109,000 households were living in TA in 2023, including 142,490 children.[57] If a council does not have sufficient stock of its own that it can use as TA, it must pay to use the private rented sector, hotels, B&Bs or shelters, at great expense for councils’ already strained general funds, and with poor outcomes for homeless households. This means council landlords have a clear financial incentive, as well as a moral and legal duty, to increase the supply of homes accessible to those on the lowest incomes. Many council landlords are increasing their direct provision of TA or are making more council homes available to homeless households via direct lets.

Addressing homelessness

While many housing associations (HAs) have been enthusiastic providers of social rent homes and temporary accommodation for homeless people over the years, only councils have a legal duty to do this, as Box 1 explains.

HAs have a legal duty to “co-operate” with councils in discharging statutory homelessness duties, but case law has established that HAs have broad discretion to determine what level of co-operation is “reasonable”.[58]

Research from Crisis reports that recent changes to HAs’ allocations policies and practice have made it harder to respond to homelessness.[59] Some HAs have withdrawn from TA provision entirely, and few are providing new TA or direct lets to homeless households. Recent years have also seen an increase in the use of affordability tests for HA tenancies (often for understandable reasons which will not be explored here), which exclude those with the lowest incomes if they cannot afford HA rents.[60] The 77,000 households currently subject to the benefit cap in England are likely to be excluded by these tests.[61] Some HAs now require rent to be paid up front, which is often impossible for households using Universal Credit due to the initial five week wait period for payments to start.[62] In all these cases, council housing is usually the only way a household can access a secure, decent, affordable home.

In contrast to HAs, councils bear the costs of homelessness and temporary accommodation, and so are incentivised to house those with the lowest incomes. The system of Discretionary Housing Payments set up by central government to manage the impacts of cuts to housing support is also administered by councils, smoothing the process of accessing ‘top up’ financial support for residents of council housing. In addition, council landlords are well-positioned to provide wrap-around support and referrals to other services tailored to homeless people’s needs, because these services are either in-house or in close contact with councils as part of broader collaborative work. Council landlords have both the incentives and the capabilities to house people experiencing or at risk of homelessness, including those with complex needs. In this context, it is no surprise that successive waves of research from University College London’s (UCL’s) Bartlett School of Planning have found that councils’ primary motivations for proactively delivering new homes are to meet local housing requirements and to tackle homelessness.[63]

As councils have started to rebuild their capacity to build new homes after decades at the margins of housing supply, they are focusing their efforts on providing homes for those no one else will. In doing so, they are responding to clear financial incentives and legal duties – and to the demands of their local residents and voters, to whom councils are uniquely accountable.

The benefits of democratic accountability

The Royal Borough of Greenwich has worked closely across its teams and with residents to improve estate management in recent years, offering different ways for residents raise issues and concerns, and working with colleagues to find solutions and update on actions. As one member of staff commented, “This is of course more likely to happen in an impactful way for council housing, where elected members are directly responsible in a way that isn’t the case for other types of housing”.

This collaborative approach to planning estate management work engenders community pride and a sense of resolve to deal with problems, leading to a steep decline in antisocial behaviour (ASB) cases in targeted areas. Staff at Greenwich told us “sustained action from the community made people feel that they wouldn’t get away with ASB”.

Resident involvement has been the key to success, with the council’s community partners advising on the best way to run consultations and other engagement activities, and where to hold meetings to ensure a good attendance from a wide range of tenants and leaseholders.

Councils as first movers and placemakers

Chapter 3 – Solution 5, sets out the historic role of council housebuilding in supporting overall housing supply, including by maintaining and building construction sector capacity and supporting innovation – a role council housing can play again in the coming years, with the right funding and policy support.

But even within the confines of the limited new development that is possible for council landlords today, councils are using new development programmes to fill strategic gaps in local housing provision, and to encourage other local developers to build more and better homes. UCL's longitudinal research demonstrates that quality of design has become a much more important motivating factor for developing councils over time, while regeneration of places and particular estates is also driving increased council supply.[64]

The development of new council homes often underpins regeneration plans in places and at times where housing markets are weak, preventing further decline of town centres and neighbourhoods, and ultimately stimulating demand to create the conditions for private- and third-sector developers to bring forward schemes. With the housing market currently struggling and planning permissions drying up, despite historically high housing need, new council homes could now be the key to avoiding a permanent loss of England's construction sector capacity in many places where supply has been highest in recent years.[65] This would preserve the availability of the skills and products developers across the public, private and third sectors will need to fuel the country's return to economic growth. In line with their duties under the Public Service (Social Value) Act 2012, developing councils also often use their contracts with builders and suppliers to leverage in additional social value, for example through requirements to train and employ local people (see our case study on Southwark Council under Solution 5). This maximises the benefits of new development for local people and the local economy.

Council housing can play a 'first mover' role where market confidence is weak. Some councils (see our case study on Rotherham Metropolitan Borough Council below) are developing sites in ways that are creating the conditions for private developers and housing associations to bring forward schemes on adjacent sites, or building out contaminated brownfield sites which would otherwise create blight for the surrounding neighbourhood. This 'first mover' role is becoming more important as local housing markets slump and ailing high streets struggle to find a new purpose after years of decline. Again, the collaborative working embedded in councils can increase the efficacy of this role, with planning, housing, regeneration and other teams sharing a strategic vision for a place and working together to drive it forward. UCL's research cites recent examples "where councils have repurposed or redeveloped court buildings, police and fire headquarters, department stores, shopping centres, schools, car parks, depots, training centres and post offices", suggesting this role for council housing is now gaining ground.[66] The ability of council landlords to access funding to deliver social value and placemaking benefits is more critical than ever for improving health and wellbeing and providing opportunities for local people and businesses. It is also pivotal to forging strong and trusting relationships with residents and buy-in in instances where a ballot is required for investment in council homes. The earlier social value is delivered in council invested projects, the better.

CASE STUDY Rotherham Metropolitan Borough Council

As a council with significant existing stock and a pipeline of new development, Rotherham leverages its existing assets and ability to create new ones to solve problems and make the most of opportunities in the local area. Key to enabling this is its close working relationships across its different services, and between the council and other public, third sector and private organisations in the borough and the wider region. These give Rotherham access to information across a wide range of policy priorities, allowing it to pinpoint where its interventions can make the most impact and avoid duplicating what other local actors are already doing.

Using council homes to support care leavers

One example is the well-established collaboration between Rotherham's Children and Young Person's, Leaving Care and Housing Services. The council makes ten carefully selected homes available each year to support young people leaving care in their first year of independent living. Different services across the council work together to identify the right homes to allow young people to live affordably, to progress their plans for training, education and employment, to access their support networks, and to keep a safe distance from people and places that could disrupt their progress. At the end of their first year of independent living, young people have the option to stay in these homes or to move on.

Staff at Rotherham Council emphasise the huge benefits of this approach for care leavers compared to living in the private rented sector, where rents are often unaffordable, the choice of where to live would be more limited and tenancies are insecure – particularly as there is a growing trend of private landlords in the borough switching their properties from long-term lets to short-term lets. Different teams across the council combine a significant stock of housing with detailed knowledge of individuals, their needs and aspirations to provide a better outcome for care leavers than any other local actor realistically could.

> "People with difficult and traumatic childhoods need stability. Council housing provides that."
>
> **Paul Walsh, Head of Housing and Estate Management**

Developing a better approach to supporting homeless people

Rotherham Council has seen demand for temporary accommodation grow rapidly in recent years. Initially, this led the council to rely more on hotels and B&Bs. This is an expensive option that produces poor outcomes for homeless households – and especially for families with children – as they are confined to one room and left without cooking or laundry facilities for extended periods.

The council responded by using its stock to increase the numbers of council temporary accommodation, from 64 units two years ago to 115 units today. This has reduced the need to use hotels. Rotherham has also utilised its Housing Allocation Policy to offer direct lets for homeless households, improving living conditions and reducing affordability pressures for households, while also reducing financial pressure on the council and the taxpayer. It intends to extend this approach in the coming years, in part through its new development programme.

CASE STUDY Continued

Building homes to meet strategic needs

> "With us all being under the same roof in the council, we're able to join the dots more quickly."
>
> **Michael Hellewell, Head of Strategic Housing and Development**

Rotherham Council continuously identifies underutilised sites, or assets coming to the end of their useful life, and finds ways to repurpose these to address local people's priorities. This includes developing sites that no other sector would be able to use, for example because they are contaminated or are situated on a steep slope. If it makes long-term, strategic sense to get such a site into use, Rotherham can crowd in resources and expertise to get the job done. Again, collaboration across different services in the council is crucial. Rotherham's development team funds staff time in the planning team to support the council and its partners in the housing association and private sectors with scoping out options for developing sites.

In another recent example, Rotherham Council tried to find a private developer or a housing association to build out a centrally located site it had acquired some years ago under the Housing Market Renewal programme. When a lack of interest from alternative developers made this impossible, the council put forward its own plan to use the site for a mix of council housing and a new day centre for adult social care users, replacing a decommissioned day centre with a much more accessible alternative in the centre of Rotherham. This scheme has now gained planning permission and is due to complete around the end of 2025, spurring interest from other developers in promoting schemes on adjoining and nearby sites.

Lessons to learn

Rotherham Council's approach demonstrates the multi-faceted value of council housing – for meeting local housing needs that would otherwise be neglected, for tackling derelict sites that risk causing blight for the surrounding community and increasing demands on police time, for creating the right conditions for other developers to advance their own plans, and for taking a long-term view on how to manage assets for the benefit of the wider community. The council has plans to keep improving how it manages and develops homes, but – like all councils – it needs the right funding and policy support to do this.

The economic benefits of council housing

Recent research on the economic benefits of council housing has focused on the benefits of building new homes, in line with the dominance of new supply in public, political and media narratives about housing policy.

Most of this evidence analyses the benefits of social rent homes – whether provided by councils, housing associations or others – rather than council homes specifically. Nonetheless, the evidence makes a compelling case for investment in England's council homes. Even the fairly narrow cost benefit analysis of the Affordable Homes Programme carried out by DLUHC in 2021 shows a benefit-cost ratio for social rented housing of 3.4 averaged across the country, and although this varies from 5.0 in London to 1.5 in the North East, it is positive in every region.[67]

Recent research from Shelter and the National Housing Federation, carried out by CEBR, suggests that the government could add £51.2bn to the economy by funding the construction of 90,000 new social rent homes. A programme on this scale would directly create almost 140,000 jobs, pump priming the construction industry, and generate recurring annual benefits from savings on housing benefits, reduced homelessness, increased employment, and savings for the NHS, police, education and other public services. These recurring benefits mean such a programme is projected to break even in the third year post construction.[68]

These findings are echoed by a 2023 report from academics at University College London, which analysed the impact of increasing capital grant by £4bn a year for a council-led building programme of 72,000 extra homes a year. They concluded this would deliver a net saving to the exchequer of at least £1.5bn a year due to reduced expenditure on the benefits, homelessness and healthcare systems alone.[69] This is likely to be an underestimate, as the analysis did not include the impacts on economic growth and productivity, for example those generated by reducing commuting times.

Many select committee reports, think tanks, charities, journalists and other commentators have argued that expanding the stock of social housing makes obvious financial sense for central government given high and rising housing benefit expenditure, driven by the growing numbers of households claiming benefits to help cover the costs of private rents.[70] If these claimants were able to access a significantly expanded stock of social rented housing, where rents are lower, this would lead to immediate and permanent savings to the housing benefit bill.

Economic modelling from the Department for Levelling Up, Housing and Communities (DLUHC) in 2021 showed that delivering new homes for social rent in London leads to significant savings in future housing benefits expenditure, exceeding the grant needed to deliver a new homes over a 60-year period.[71] More modest savings are shown for the South East, the East of England and the South West. However, the modelling is sceptical about savings to the benefits bill from creating new social tenancies in other regions of England, on the basis that at least some new social homes would be allocated to households who are currently overcrowding – for example because they are sofa surfing in friends' or relatives' homes. This shift would create additional households, and therefore some additional households entitled to help with housing costs, potentially adding to the benefits bill. However, it is important to note that CEBR's analysis for Shelter and the National Housing Federation finds that a programme of 90,000 new social homes would reduce welfare spending not only because of the lower rents in social housing, but also because of the 140,000 jobs it would create in its first year alone, allowing some households to stop claiming Universal Credit as their earnings increased.[72]

Beyond this, improving access to decent, secure homes which are affordable to households on low to modest incomes would undoubtedly bring further benefits to the economy by alleviating England's tight labour mobility – a major drag on productivity.[73] More than three quarters of social renters in England say that without their social home they would not be able to afford to live in their local area.[74] By contrast, the few privately-rented homes that are currently affordable and available to households on low incomes are often in a state of disrepair and or in places lacking jobs or public transport.[75] The lack of social housing hinders people's ability to move for employment, or keeps them trapped in low paid work, which may increase Universal Credit claims.

Taking all of these direct and indirect benefits into account, the government must consider council housing as a vital part of its strategy for improving growth, prosperity, health and wellbeing.

CHAPTER

2

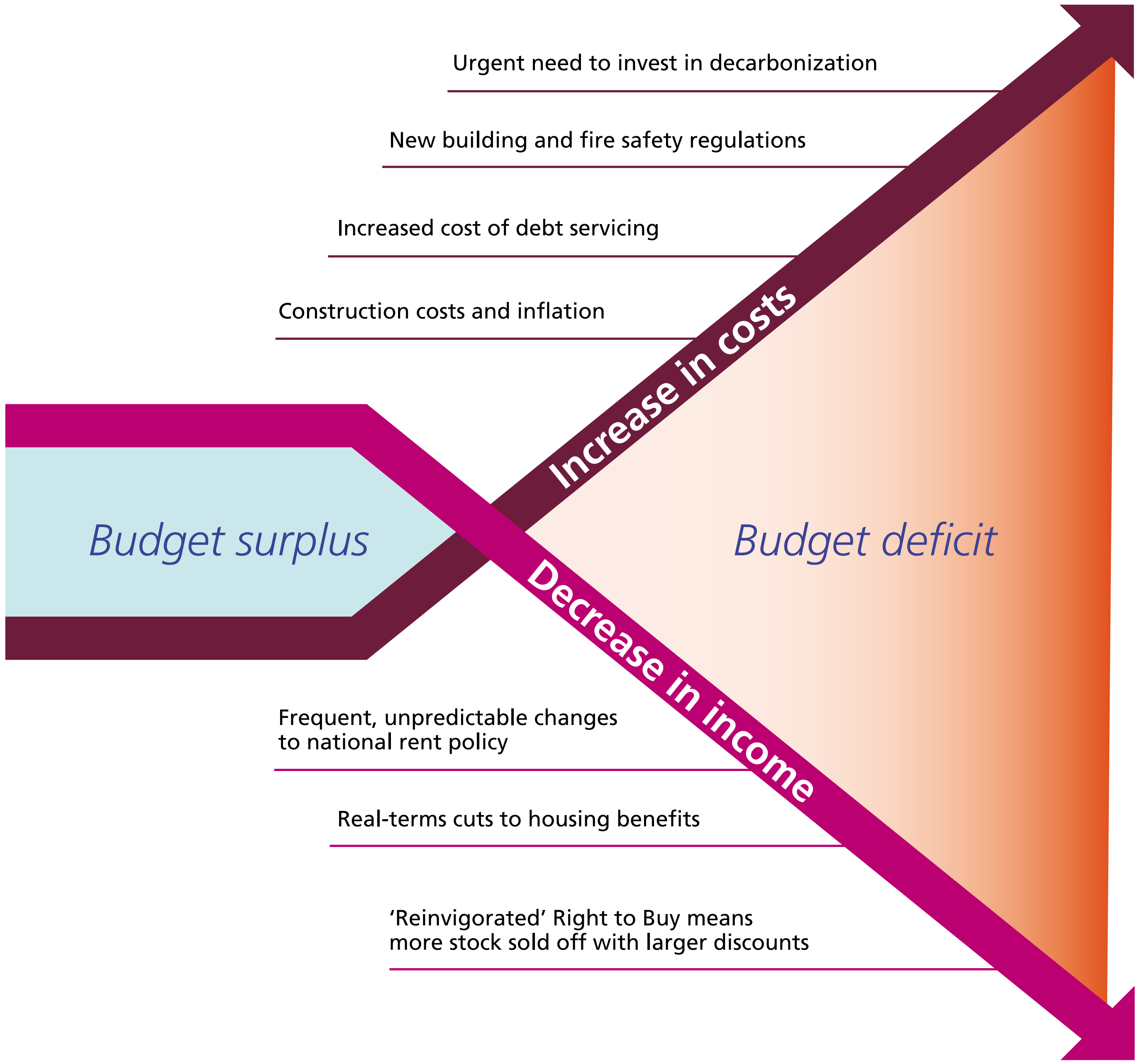
The need for a new settlement for council housing

The council housing financial settlement between government, councils and tenants has undergone frequent changes over the years. This chapter outlines how the system works, how it has evolved, and how in recent years it has been critically undermined. The following chapter will outline solutions to the problems we set out here – but first it is important to understand why a new settlement for council housing is now badly needed.

The current funding settlement for council homes was introduced in 2012, founded on the principle that council housing could be 'self-financing'. Under these rules, all councils are required to fully cover their council housing maintenance, management and debt servicing costs from a ring-fenced Housing Revenue Account (HRA) that is almost entirely funded from council housing rent and service charge income. Very limited government funding comes through ring-fenced, specific grants - currently including pots for the part funding of decarbonisation of existing homes and the building of new council homes.

This settlement was predicated on councils having both predictable and increasing rent incomes, and predictable and affordable housing maintenance cost. However, neither of these assumptions have turned out to be correct. Instead, a combination of underestimates of maintenance costs in 2012, followed by subsequent changes in government policy have left councils facing a multi-billion-pound shortfall. A gap that has been further widened by an unprecedented series of economic shocks due to pandemic, war in Ukraine and cost of living crisis, that have pushed councils' cost up even higher.

Whilst some of the government policy changes have been important for tenants – directing higher safety standards post Grenfell and protecting people on low incomes form high inflation – councils have not been compensated for the lower income or increased costs that government have set. As a result, many councils have been left with insufficient income to cover their council housing cost.



Understanding the Housing Revenue Account system

Council housing is treated differently from all other council-owned assets in accounting terms.

Stock-holding councils are required to keep the rental income from and expenditure on their housing assets in a Housing Revenue Account (HRA) that is ring-fenced within the General Fund, through which all other council cash flows are managed. Following government policy and incentives, since the 1980s many councils have transferred all of their housing stock to housing associations, closing their HRAs in the process. Of 294 unitary or lower-tier councils in England today, 136 do not have an HRA, and of the 164 that do, some only have very limited stockholdings in PFI schemes.

Funding Maintenance and Management

Councils are required to fund all of their council housing maintenance, management and debt servicing costs from the income they receive from their council housing and a very limited number of additional sources. On the cost side that includes everything from repairs and cyclical works, to estate cleaning and grounds maintenance, to lettings and tenants services. The revenue councils have to fund this work is restricted to:

- **Tenant rents:** These average c£91 per week for a council home.[76] Rents are set by councils but with new rents and rent rises both capped by the government through the national policy statement on rents for social housing and the Rent Standard.
- **Tenant service charges:** Recharges for services beyond general maintenance & management, usually for services that only some homes receive, such as district heating. These charges cover actual costs incurred so do not generate a surplus.
- **Non-domestic rents:** From commercial and other properties owned within the HRA, such as shop units under flats and garages. For most councils this income is very modest.

In addition, councils can fund investment using limited sources of capital:

- **Sales of assets held with the HRA:** for example, selling homes that have become uneconomical to repair so the income can be reinvested in improving the quality of existing council homes or building new homes.
- **Government grant:** There are a small number of government-funded grants that councils can access to fund specific work to their existing homes. This is currently largely limited to the Social Housing Decarbonisation Fund.

Funding New Council Homes

Councils also have a limited number of sources to fund new homes. These are primarily HRA borrowing, sales of assets held with the HRA, a share of receipts from Right to Buy sales and government grant through the Affordable Homes Programme. Additionally councils can use funding secured through the planning system, from developer contributions to offset developments that are not delivering sufficient on site affordable housing.

By far the largest single source of borrowing for local authority housing and infrastructure projects is from the Public Works Loan Board (PWLB) at low rates linked to central government's borrowing costs. While PWLB rate reductions since 2020 have made marginal improvements to the affordability of new HRA borrowing, this model of funding local authority housebuilding is still more costly and far less effective than it used to be during the post-war period of mass council house building, in part because a series of complex, centrally imposed systems have sought to tightly control local authority borrowing from the centre. This has made servicing existing debt and new borrowing unnecessarily costly for council landlords, reducing their ability to invest in new and existing homes. See Box 3 below.

The political impulse to supress HRA borrowing from the centre has been driven partly by the desire to limit borrowing that will count towards the national debt – even at the cost of missing out on investment which would have supported higher rates of economic growth and lower public spending over the long-term. This is a not a necessary financial reality, but is instead a product of choices about how to classify debts in the national accounts system and which debt measure to use for the UK's fiscal rules and targets. The result is a pervasive bias against investment in council housing via HRAs.

Classification of HRAs in the national accounts

In the national accounts, all HRAs are consolidated and treated as a single 'non-financial public corporation', which places their debts outside the General Government definition of national debt used for international comparisons, but inside the UK government's preferred Public Sector Net Debt (PSND) metric used for fiscal targeting purposes.

This has created strong and persistent incentives for the Treasury to restrict local authority borrowing to build housing using a raft of complex, opaque and constantly shifting control mechanisms, introducing unnecessarily cost and uncertainty into council landlords' business models.

Since housing associations are classified as private bodies, their debts do not count towards public debt for the purposes of the UK's fiscal rules, encouraging the Treasury to channel affordable housing investment through housing associations instead of councils. This was part of the rationale for policies to encourage stock transfer from councils to HAs from the 1980s, leading to the disappearance of council housing in almost half of England. In recent years, the strategic partnership model developed by Homes England has had the effect of increasing HAs' access to AHP funding relative to councils', as councils are generally judged to be too small to be Strategic Partners. The Greater London Authority's own strategic partnership model has distributed funding more evenly between councils and HAs.

Changing systems for controlling HRA borrowing

The Rent Rebates and HRA system

Until April 2004, councils whose HRAs were projected to be in surplus (i.e. their rental income exceeded their costs in a given year) had their rental income from Housing Benefit reduced by the government. This meant that tenants not on Housing Benefit would in effect be paying the rent for tenants on Housing Benefit, a 'tenants' tax'[77] that was highly controversial and was duly scrapped in 2003.

Councils were also required to set aside 75% of Right to Buy receipts to pay down their HRA debt, reducing Public Sector Net Debt figures at the expense of investment in council housing.

The HRA Subsidy System to 2012

The HRA Subsidy System that replaced it was equally complex and unpopular: this took Housing Benefit out of the calculations, but still redistributed funds between councils via a complicated formula administered by Whitehall, based on 'notional' costs and revenues of their HRAs. Few understood the system, dubbed the 'Schleswig-Holstein question of housing',[78] and its annual calculations often produced surprising results, making financial planning difficult. A core complaint was that it penalised councils that sought to build new social housing within their HRAs.

From 2004 to 2012, councils were required to set aside 75% of Right to Buy receipts, which the Treasury then pooled and redistributed back to councils to meet their capital expenditure requirements – whether for housing or something else.

The self-financing settlement of 2012

The HRA Subsidy System was duly scrapped by a process begun under the last Labour government and completed under the Coalition in 2012, when stock-holding councils became self-financing and responsible for servicing the debt held in their HRA. As part of the move to self-financing, £18.5bn of debt moved between

Changing systems for controlling HRA borrowing
Continued

councils and central government on a single day. The result was that 136 authorities took on new debt, 34 saw their debt reduced, and the Treasury took a net receipt of over £8bn, increasing the total amount of debt HRAs had to service.[79]

The allocation of this debt was not based on councils' track records or choices but on how much debt their HRAs were deemed to be capable of servicing. The total debt settlement in 2012 was £29.188bn.[80] This was the total amount of debt England's stock of council housing was deemed to be capable of servicing through rental incomes, after allowing for the costs of managing the stock and keeping it in a good state of repair over that period. The calculations took some account of the different dwelling types and ages of homes in different places in estimating these costs, but they were not based on assessments of the actual condition of the stock, which in practice varied widely among different councils. Where the Decent Homes Standard (DHS) had not yet been met in full, adjustments were made for amounts arising from ongoing (at that time) programmes. Adjustments were also made based on the predicted number of Right to Buy sales over the 30 years (each home sold is rent income lost to HRAs).

The settlement also gave the Treasury 75% of all future Right to Buy receipts.

The HRA debt cap to 2018

Many councils objected to taking on debt as part of the settlement,[81] but others accepted it as a 'price worth paying' for freedom from the HRA Subsidy System. However, before the supposedly one-off reallocation of debt had even occurred, the Treasury announced that it would intervene to prevent councils borrowing more than it had anticipated[82] – suggesting that the 'freedom' promised was strictly limited. The cap was set at £29.8bn, leaving headroom for new borrowing severely limited from the outset.

This latest incarnation of central government manipulation of the HRA system continued to generate additional complexity, uncertainty and repeated calls for reform. As interest rates and other indicators moved over time, the national cap on HRA borrowing, and the individual limits on HRA borrowing in each council, became ever lower than the limit the Prudential Code would have implied. This Code already requires all council borrowing to be linked to the council's ability to service the debt from its revenue streams, as authorities are prevented by law from using their property as collateral. It works by applying standard principles and processes to councils' financial activities, and is the primary mechanism for ensuring that councils do not borrow irresponsibly. Under Section 151 of the Local Government Act 1972, all councils are required to appoint a suitably qualified officer responsible for administering their affairs in compliance with the Code. The arbitrary numbers set by HRA borrowing cap were an additional, tighter level of control on top of the Code.

By 2013, the Association of Retained Council Housing estimated that lifting the borrowing cap could enable £7bn of additional investment over five years, providing 60,000 homes.[83] UCL research in 2017 found that the borrowing cap was the single biggest barrier to developing councils increasing their housing output.[84] The caps were eventually lifted by Prime Minister Theresa May, in the face of strong internal opposition from Chancellor Philip Hammond and the Treasury, to send a political signal that austerity was coming to an end and encourage the supply of social and affordable housing.

The financial position of HRAs today

Unlike private sector and housing association debts, the sustainability of HRA debt is not directly connected to the value of the assets acquired or developed, or even really to the quantum of debt. Instead, the sustainability of HRA debt is determined by the cost of servicing the debt and the amount of rental income available to cover these costs, after management and repairs have been accounted for – the 'interest cover' ratio. The informal 'golden rule' for HRA debt is that interest cover should be at least 1.25 – that is, that the amount of revenue left over after management, repairs and other costs have been allowed for should always be 25% more than the interest payable on the HRA debts.

On this measure, London HRAs now record the lowest interest cover of all regions – well below the 'golden rule' of 1.25.[85] Many HRAs are recording rising deficits and are close to breaking point. Today, council landlords across England face deficits of over £3bn on their HRAs over the next ten years.[86] Research for the London Housing Directors' Group from Savills recently forecast that councils in London will need to make further savings to their HRA budgets for the next 20 years to cover a £700m budget "black hole", produced by rising costs on the one hand and restricted rent increases on the other.[87] Estimates from Savills for this report put the budget "black hole" for councils across England at £2.2bn by 2028. Elsewhere, some HRAs are recording surpluses - but this is often a falsely positive impression, with surpluses resulting from councils delaying urgently needed repairs and maintenance works to avoid going into deficit. This will ultimately increase the costs of ensuring council homes are safe, decent and fit for the future. Some council landlords are choosing to sell some council homes to fund investment elsewhere in their stock, although this will have long-term consequences for their ability to meet housing need.

Councils are in no position to cover the costs of Decent Homes 2, decarbonisation, increased fire safety costs and other existing regulations – let alone to finance new housing supply on the scale needed to meet local needs and the government's housebuilding ambitions. They are increasingly struggling to maintain their existing homes adequately, storing up problems for the future. If we want council homes to be available to future generations it is clear that action must be taken. The rest of this chapter will outline how the HRA has been undermined by a series of short-term policy decisions.

How the 2012 settlement has been stretched to breaking point

The original 2012 HRA debt settlement was meant to put all HRAs on a sound footing from which to proceed, giving council landlords the freedom to manage their own finances from that moment onward. However, as noted above, the government promptly limited that freedom by imposing the HRA borrowing cap. What's more, the fundamental assumptions on which the settlement was agreed soon proved to be flawed. Repeated government policy decisions meant that the income HRAs received did not match those assumptions, and unexpected market movements meant HRA outgoings deviated from the assumptions made in 2012. If both these effects had moved in the same direction the situation might have been manageable, but unfortunately while costs moved sharply upwards, HRA incomes were held back.

Councils in London will need to make further savings to their HRA budgets for the next 20 years to cover a £700m budget "black hole"

2012 HRA SETTLEMENT

2012 HRA SELF-FINANCING AGREEMENT ASSUMPTIONS	WHAT ACTUALLY HAPPENED
	Rents policy repeatedly changed, including four years of rent cuts and a costly rent freeze.
Rental income would increase with inflation.	PWLB rates and repayment terms constantly changed.
Management and maintenance costs would rise with inflation.	New regulatory requirements that require significant investment.
Major repairs and investment expectations based on the Decent Homes Standard.	Significant stock loss through the reinvigoration of the Right to Buy scheme and higher discounts.
No changes to rules around Right to Buy.	Cuts to housing benefits.

What was assumed

The 2012 settlement was based on the following assumptions about specific financial inputs:

- Rents would increase annually by RPI+0.5% + £2 per week until target rents were reached, and by RPI+0.5% thereafter.
- Management and maintenance costs would generally rise in line with CPI inflation.
- Major repairs /depreciation allowances were based on the need to maintain stock at the Decent Home s Standard. No allowance was made for changed or new standards.
- There were no further allowances for stock improvements.
- Property losses from the Right to Buy were assumed to reflect sales rates and receipts levels from before 2012.

More general assumptions also underpinned the settlement:

- New housebuilding by councils would be limited, as they had averaged only 236 new completions per year over the 2000s,[88] and government policy was not to expect councils to make a significant contribution to housing supply.
- Council landlords would be required to work to 30-year financial business plans, implying that key financial parameters would remain broadly stable over that period.
- Interest rates would stay relatively low and stable, meaning rental incomes would be predictable and steadily increasing, while maintenance costs would be both predictable and affordable.

What actually happened

Since the time of the settlement, the following significant changes have wreaked havoc on councils' business plans:

- Rents policy changed repeatedly from year to year, including four years of rent cuts.
- Additional cuts to housing benefits reduced council rental incomes further.
- The Right to Buy was 'reinvigorated' from 2012, with much larger discounts and looser eligibility criteria prompting a rapid increase in sales.
- PWLB rates and repayment terms have been changed repeatedly.
- New regulatory requirements have been introduced in the wake of the Grenfell Fire in 2017 and the tragic death of Awaab Ishak in 2020:
- Decarbonisation of the social housing stock has emerged as a new priority for upgrading homes.
- With the removal of the HRA borrowing cap in 2018, government policy changed to expect more new development from councils.
- Capital cost pressures grew much faster than expected, particularly in relation to fire and building safety and energy efficiency works, for which cost inflation has significantly exceeded CPI.
- Cost pressures were compounded by the unprecedented series of economic shocks from the pandemic, the war in Ukraine and the Liz Truss mini budget, which have pushed costs – including borrowing costs - up even higher.

Impact of rent and benefits policy since 2012

For many council landlords, changes to government policy for setting rents in social and affordable housing have been the key factor which has undermined the 2012 self-financing settlement. During the 2013 Spending Round, the Treasury announced a new 10-year rent settlement for social housing; from 2015-16, all social landlords would be able to raise social rents annually by the Consumer Price Index plus 1% for 10 years. This was quickly followed by the announcement of the end of rent convergence from the then Department for Communities and Local Government, one year earlier than planned. While the end of rent convergence concerned some social landlords, overall the sector welcomed the certainty promised by the 10-year settlement.[89]

In the event, the 10-year rent settlement lasted just one year. In the 2015 Summer Budget, the Chancellor announced that social rents would be reduced by 1% a year for four years, starting in April 2016, resulting in a 12% reduction in average rents by 2020-21 compared to what had been projected under the previous rent setting formula.[90] Savills estimate that this reduced council landlords' rent revenue by £2.4bn across 2016-17 to 2019-20. The measure was forecast to save the Treasury £1.4bn by 2020-21, primarily in reduced Housing Benefit expenditure.[91] The Office for Budget Responsibility (OBR) predicted an overall reduction in housing investment as a direct result of the policy.[92] This knee-jerk change to rents policy will of course have a permanent impact on council landlords' rent revenues. Even if the previous rent formula of CPI+1% were to be reinstated with a firm commitment from government to stick to it, rents would still increase from a lower starting point because of the 4-year cut. Savills estimate the total cost of these rent cuts by 2042 will be around £40bn.

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Government has a chequered history of sticking to rent settlements once they are agreed. This means social landlords have to be extremely cautious about forward planning, which in turn limits ambition. Despite rent settlements generally aiming to allow rents to be increased by CPI+1%, in practice many councils assume rent increases will be limited to CPI only for business planning purposes, due to the high risk that CPI+1% will not be honoured. This is a clear example of how the financial resources which have been available to councils to invest in new and existing homes – limited as they have been – have amounted to less than the sum of their parts. This is obviously inefficient.

Rents policy represents one side of the coin for determining rent revenues in social housing; the other side is changes to benefits entitlements for households living in social housing. Housing benefit has at points been considered a quasi-government income stream, one which was secure and which ensured that rent levels in social housing would be affordable for tenants and that rents could therefore be collected in full. Yet in recent years both the perceived and real security of social housing rent revenues have been undermined by a raft of central government initiatives to reduce or remove support to meet housing costs through the benefits system, and uncertainty over whether and how benefits payments will be uprated in relation to inflation each year.

From 2012, the government: replaced six benefits (including Housing Benefit) with Universal Credit, whose design delayed, reduced and increased the administrative complexity of rent payments in a number of ways; introduced the household Benefit Cap; introduced the Removal of the Spare Room Subsidy (commonly known as 'the Bedroom Tax'); and made various other changes to the benefits system as part of austerity. The impacts of these changes on social tenants and social landlords have been severe. A 2020 Smith Institute research report commissioned by Southwark Council found that tenants in London build up an average of £240 of rent arrears after they make a Universal Credit claim, significantly undermining the predictability of rent revenues and causing stress and hardship for households who get into rent debt.[93]

Uncertainty over whether benefits will be available to meet social tenants' housing costs is ongoing, particularly as inflation has accelerated since 2022. Research from the Joseph Rowntree Foundation demonstrates the long-term failure of benefits uprating to match real levels of inflation in the economy, and the impact this has had on the value of benefits payments over the decades.[94] In a period of higher inflation rates, it is crucial that the government gives more certainty to both households and social landlords about how support with housing costs through the benefits system will change with the rising costs of living.

Local Authority Housing Statistics (LAHS) collect data on the total amount of arrears across local authorities. The LAHS show that the total arrears of current local authority tenants (tenants of properties owned through a Housing Revenue Account only) increased substantially, from £206m in 2016-17 to £335m in 2021-22.[95] While the number of households in arrears has been stable, the amount of arrears is growing, suggesting some council tenants are under increasing financial pressure.

Impact of the 2023 to 2024 rent cap

In 2017, the government announced a new rent settlement: from 2020-21, social landlords would once again be permitted to increase rents annually by the Consumer Price Index plus 1%, this time for five years. Yet, once again, a rent settlement which promised to improve the predictability of social landlords' operating conditions proved to be short lived. In response to rising inflation and an emerging cost of living crisis - to which many social tenants were vulnerable because of lower-than-average household incomes in the sector - the Autumn Statement 2022 announced that rent increases would be capped at 7% in 2023-24, instead of the maximum increase of 11.1% which the CPI+1% formula would have been delivered. In December 2022, Savills projected a net loss of resources for local authorities of £300m for the first year of the cap alone.[96] UCL's research from January 2024 found that two fifths of councils expected the rent cap to impact their housing delivery ambitions.[97]

For Southwark Council, changes to rent policy have led to a reduction in rent income of over £1bn over the 30 years that HRAs are planned on. Whilst these national changes to rents have helped tenants during hard times, and have reduced the government's housing benefit bill, they have fundamentally undermined the ability of councils to plan and deliver investment in their homes, leaving councils with no reasonable certainty about their future income.

For Southwark Council, changes to rent policy have led to a reduction in rent income of over £1bn over the 30 years that HRAs are planned on.

Impact of Right to Buy changes

Right to Buy has clearly been a major factor in the long-term decline in social housing in general, and council housing in particular. Therefore the new government's commitments in July 2024 that it will review the policy and make a number of changes this autumn are very welcome. Not only does the policy deplete the stock (by around 14,000 social homes a year at present, 11,000 of them council homes),[98] it also introduces another element of uncertainty into council landlords' business plans. This uncertainty has ramped up since the introduction of HRA self-financing in 2012, deepening the problems caused by the Right to Buy for the sustainability of the HRA system.

Successive policy changes between 2012 and 2015 sought to "reinvigorate" the Right to Buy. Maximum discounts were raised from £16,000 to £75,000 for most of the country, and from £38,000 to £100,000 in London, while the qualifying period for tenants to use the Right to Buy was reduced to three years. These changes saw Right to Buy sales in England increase from 2,638 in 2011-12 to their recent high point of 18,100 in 2016-17, before gradually declining again in the following years.[99]

Work from the Local Government Association emphasises the extent to which the government's 2012 commitment to replace sold homes on a one-to-one basis has not been honoured, with 110,000 homes sold and only 44,000 replaced since 2012. The LGA expects that a further 100,000 homes will be sold up to 2030, with only 43,000 replaced.[100] Since the distribution of sales is weighted towards the North and Midlands - driven by lower prices in these regions making the Right to Buy more accessible compared to London and the South and East of England – maintaining the current framework for the Right to Buy would see the stock of council housing in some places rapidly erode.

The share of capital receipts automatically taken by the Treasury was recently reduced from 75% to 0% for two years, from 2022 to 2024. While stock-holding councils warmly welcomed this change, they also emphasise that this two-year reprieve from the full effects of Right to Buy did little for their ability to address the large backlog of housing need in England that has built up over many years, particularly given the short-term nature of the change.[101] Previous rules on returning capital receipts to the Treasury came back into force in April 2024.

In July 2024 the government announced that they will – at least temporarily - remove some of the restrictions on how and when councils must reinvest their share of Right to Buy receipts, which have been causing serious problems for plans to replace homes sold through the Right to Buy. In the Autumn, the new government have committed to removing the rule which requires councils to fund no more than 50% of the costs of a new home through Right to Buy receipts - a requirement that is easier to meet where councils have good access to capital grant and cross-subsidy from building market housing, which is not the case for all councils at all times.

They are also removing the 30% cap on the share of Right to Buy receipts councils can use to acquire homes from the market, introduced from 2021 – again, a requirement that is easier to meet for some councils than for others, given differences between housing markets, access to capital grant and cross subsidy. These restrictions on the use of Right to Buy receipts have had the greatest effect on councils' ability to replace homes where house prices are lower – precisely the places where the numbers of Right to Buy sales are highest.

These welcome increased flexibilities will be in place for an initial 24 months and will be subject to review. However, the new government should note that uncertainty about the rules and restrictions on how councils can spend capital receipts has been a key driver of the government's broken promise to replace council homes sold through the Right to Buy in recent years. If councils fail to spend Right to Buy receipts in the ways and within the timeframes central government has determined, the receipts revert to central government - except in London, where unspent receipts are pooled and held by the Mayor of London until councils are able to spend them, again with time limits and costs for councils. Constantly shifting rules ensure at least some councils outside of London continue to send unspent receipts to the Treasury, in amounts that they cannot reliably predict, with damaging impacts for business planning.[102] In 2021, the Chartered Institute for Housing estimated that over 40 years the Treasury had received £47bn from Right to Buy receipts.[103]

The overall toll of Right to Buy on the supply of council homes is widely recognised, but the impact on maintenance and management has also been profound. Because of the design of Right to Buy, council landlords now have:

- **A higher proportion of high needs homes:** for understandable reasons tenants have tended to purchase the best condition council homes, leaving councils with a higher proportion of high investment need homes within their stock. Some councils involved in this report are building homes to high environmental standards and / or on difficult sites that would never be considered viable for a private developer, only to see them removed from the stock soon after occupants become eligible to use the Right to Buy.

> The LGA expects that a further 100,000 homes will be sold up to 2030, with only 43,000 replaced.

- **A worsening rent to maintenance cost ratio:** The loss of better condition homes is undermining a basic principle of council housing, that a share of the rents from homes in good condition can be used to help fund the work need to improve ageing and higher needs homes. Note that this is key to the benefits of council housing flagged above.
- **Less balanced, riskier portfolios:** With regard to preventing and addressing homelessness, which brings huge financial and social benefits, the HRA model has been an unsung hero of the austerity era, quietly managing the increased pressures on households, social landlords, the taxpayer and society at large produced by aggressive cuts to social security payments and stagnant growth. Yet it is important to recognise that councils' ability to play this vital role relies on them owning and managing a sufficient portfolio of stock, including some council homes on which all construction debt has been repaid providing a surplus for their HRAs.
- **A de facto requirement to subside leaseholders (4 in 10 of whom are private landlords):**[104] strict rules mean councils are not always able to charge leaseholders for all the work that needs to be undertaken to their building/ estate, meaning councils often have to subsidise private homeowners and landlords, many of whom will then receive further public subsidies from housing benefit.

Impact of PWLB changes

A further problem for the sustainability of HRAs is constantly shifting and punitive rules around the terms on which council landlords can take out, service and pay down borrowing from the Public Works Loan Board. Since 2018, councils have essentially escaped a blunt political cap on how much they could borrow under their HRAs, only to find their borrowing remains effectively capped by expensive historic PWLB debt and a series of politically-driven decisions that undermine certainty and good financial planning. The combined effect of these decisions has been to limit the scope to invest in existing and new homes.

During the 2000s, the PWLB tended to offer interest rates only 0.15-0.20% above the government's borrowing costs, but in October 2010 this differential was raised to 1%.[105] From 2012, Treasury went on to introduce various conditional discounted PWLB rates for specific types of local authority projects, including lowering the rate for HRA borrowing to 0.8% over central government's borrowing costs. This eased the financial constraints imposed by the 2010 rate increase, but also introduced more complexity and uncertainty into the PWLB system.

In October 2019, the Treasury increased interest rates on new PWLB loans by one percentage point overnight.[106] This unexpected and immediate increase in finance costs caused some councils to scale back or delay housing and infrastructure projects,[107] despite the urgent need for these projects, while others saw their finances worsen as they absorbed the cost of the unexpected rate rise. While the rate for councils taking out new PWLB loans under their HRAs was brought back down in November 2020, the 2019 overnight rate rise has left a legacy of poorer local authority finances and decreased risk appetite. Most LAs now stress test their investments to ensure they are resilient to a sudden 1% change either way in the PWLB rate, so the 2019 higher rate is now effectively baked into councils' investment decisions, if not their actual interest payments. While the Spring Budget 2023 decision to cut the rate of borrowing through the PWLB for Housing Revenue Accounts was welcome, the overall effect of these repeated changes has been to undermine the certainty around future PWLB rates, with inevitable consequences for the investment environment for social and affordable housing. This is yet another example of how uncertainty over the funding and policy inputs for council housing means that the whole is less than the sum of its parts.

Impact of new regulation

The Grenfell Fire in 2017 and the tragic death of Awaab Ishak in 2020 have revealed urgent priorities for investing in council homes to ensure they are safe. It is clearly essential that these works are completed as quickly as possible, and it is welcome that the government has introduced new regulation to support this. Yet new regulation has not come with the funding needed to enable council landlords to implement it and to act on the investment needs arising from it, putting further strain on HRAs. See Chapter 3 - Solution 4.

A new Decent Homes Standard is also long overdue. As decarbonisation of the social housing stock has emerged as a new priority for upgrading homes in recent years, the new standard may include requirements to insulate homes and install renewal energy systems. Again, there is no sign of new burdens funding to enable council landlords to meet policy expectations. New regulation and clarity on how social landlords should act to improve their stock and services are needed and welcome. Yet, just as with the rules applying to PWLB loans and HRAs, uncertainty about future policy change adds to the strain HRAs are under. As part of increased regulation, councils are making new payments to the Housing Ombudsman Service and the Regulator of Social Housing. In some cases, councils are now selling some council homes to fund investment elsewhere in their stock, although this will add to stock depletion and will have long-term consequences for their ability to meet housing need.

The New Burdens doctrine established by government in 2010 states that when central government departments implement new policies that affect local councils, the financial consequences 'must be properly assessed and fully funded by the relevant department.'[108] The bitter irony is that the New Burdens doctrine does not apply to the HRA, allowing Whitehall to make increasing demands on councils' housing departments without providing the means to pay for them. In the case of new regulations on safety, decency, consumer standards and decarbonisation, there is a risk that it will be simply impossible to achieve policy priorities in the absence of new burdens funding.

The high cost of high rise regulation for Southwark Council

"There is nothing more important to us than ensuring the safety of our residents. We are working hard to assess our stock, but the impact of new requirements on our budget is profound, given the sheer number of homes we look after. We welcome the new regulations, but their implementation should not come at the expense of building the new homes our residents need."

Hakeem Osinaike, Strategic Housing Director, Southwark Council

The largest council landlord in London, Southwark Council, maintains 38,000 council tenanted homes, and 55,000 homes in total, much of which is aging and already costly to maintain. However, these costs are substantially magnified by their stock including 187 high-rise blocks which fall under the Building Safety Act 2022 regulations. Before works can even begin, Southwark Council is facing huge costs just to register these buildings with the regulator – around £100,000 for registration and the Building Assessment Certificates and estimates put the assessment of the Building Safety Case Report by the regulator at up to £1.6m.

However, this is dwarfed by the costs expected for crucial works to ensure residents in these buildings are safe – including installing second staircases and fire doors. The very nature of high rise buildings make these works expensive and more complicated. For example, the costs to scaffold a high-rise building may easily be quadruple that of a low rise block for the same size roof replacement. With piecemeal and insufficient funding to support these eye-watering costs, Southwark Council is now having to delay new-build and wider regeneration works in order to focus resource on keeping their residents safe.

Impact of inflation

After a long period of relatively low and stable cost increases, inflation has returned with vengeance in recent years – and cost inflation is even higher for the HRA than for the economy as a whole. Estimates provided by Savills for this report suggest that council landlords' repairs and maintenance budgets are on track to increase by 12-13% per year in 2023-24 and 2024-25. In addition to inflation, these rising costs are driven by increased demand for repairs in council housing, itself driven partly by new regulation. As a result, Savills estimates significant increases in repairs costs across the 30-year life cycle of a social home, as high as £50,000 per property, rising to £65,000 per property for some high-rise homes in cities. In the context of the multiple pressures on HRA income detailed above, council landlords cannot absorb these rising costs. Many are delaying or cancelling planned investment in existing and new homes as a result, which will ultimately make problems harder and more expensive to fix.

The Covid pandemic, the invasion of Ukraine and the subsequent energy crisis pushed general pricing up rapidly from 2021, with CPI peaking at 11.1% in October 2022. Construction costs rose even more sharply: many construction products saw annual cost inflation of 25% in 2022, and some particular products like insulation rising by 50%.[109] This inevitably impacted on housebuilding, including by councils. A quarter of councils responding to an LGC survey in 2023 that they had cancelled housing projects and 44% that projects had been scaled back. Only 9% of respondents indicated that their capital projects had been unaffected by inflation.[110]

Inflation on social housing maintenance and repairs also ran well above the CPI inflation rate, hitting 16.8% in April 2022 according to a CEBR for the NHF.[111] In March 2023, Savills estimated consolidated inflation for repairs budgets at 9.2% for 2023 to 2024 and 6.4% for 2024 to 2025, with consolidated inflation for housing management budgets running at 16.5% and 9.4% for the same years.[112]

The timing of the inflation surge made this even worse for social landlords: rent increases for the first year of the new CPI+1% settlement in April 2022, as cost inflation was soaring, were pegged to the much lower CPI rate from September 2021 (so rents only rose by 4.1%).[113] The following year, when the formula should have delivered rent rises of 11.1%, government capped the increase at 7%. So even in the two years when rents rose relatively fast by recent historical standards, cost inflation still far exceeded permitted rent increases.[114]

Cost inflation is even higher for the HRA than for the economy as a whole.

Result: a perfect storm for council housing finances

Whilst most of the inflationary pressures were driven by external events beyond the government's control, and many of the policy changes affecting HRAs may well have been justifiable in and of themselves, the combined effect has been to put HRA finances under severe strain. Whatever the reasons behind each factor, the critical point is that councils have not been compensated for lost income or increased costs, while they have still been expected to deliver on their side of the 2012 settlement – and far beyond this, given increasing regulation and new priorities like decarbonisation. Research from Savills for this report forecasts that councils across England face a £2.2bn budget "black hole" by 2028, produced by rising costs on the one hand and restricted rent increases on the other.

On top of this, the last few years have also seen an unprecedented wave of councils having to serve section 114 notices – the equivalent of declaring bankruptcy – as a result of soaring pressures on their General Funds. In theory, this should not affect the position of HRAs or their ability to support borrowing. In practice, however, many councils are understandably wary of taking on more debt in these conditions. If a section 114 notice is served the practical effect is that the council can issue no new contracts, at least temporarily. In addition, councils which have issued a section 114 notice typically sell land and assets owned through the General Fund to reduce their deficits, removing the options to use these to deliver new HRA homes. So despite the ring fence between General Funds and HRAs, the dire state of main council finances inevitably impacts on their ability to deliver improvements to their housing stock or build new homes too.

CHAPTER
3
Our five solutions to secure council housing

To deliver their ambition of 1.5m homes over the next five years, the government have committed to 'fix the foundations' of our country's housing and 'correct the errors of the past'.

Here we set out a plan for them to get our country's council housing system back on stable footing, enable councils to bring all homes up to the standards our residents deserve and unlock our potential to deliver the next generation of council homes.

Solutions 1, 2 and 3 below detail the building blocks of policy and funding support the government should use to fix the foundations of England's council housing. With the 2012 self-financing settlement having been critically undermined, it will be vital to take both urgent and longer-term action to make the HRA sustainable. Solutions 4 and 5 put the principles for a renewed framework for council housing into practice. They set out how these reforms will enable councils to work together, and with their residents and communities, to improve and grow the council housing stock, allowing the benefits outlined in Chapter 1 to be fully realised.

Establish a fair and sustainable financial model

Put the plug back in – reform Right to Buy

Remove red tape on existing funding

Ensure existing houses are green and decent

Deliver new and replacement council homes

Solution 1

Establish a new fair and sustainable HRA model

The Housing Revenue Account system for financing council housing is now in a parlous state.

Unless something is done soon, most council landlords will struggle to maintain their existing homes adequately – and very few will be able to meet the huge new demands to improve them, let alone build many new homes for social rent. Indeed, many councils will have no option but to increase stock disposals to finance investment in an ever-shrinking portfolio of council homes. The announcement in July 2024 that the government will announce measures to stabilise council's rental income is welcome, but this will not be enough on its own.

As described above, the HRA system created in 2012 was undermined almost immediately, but this was just the latest in a long series of reforms that have failed to get the HRA financing system into a sustainable position. Council housing works financially only if it is allowed to operate in a stable and reasonable framework. In fact it works precisely because it can manage large stocks of homes and the money flows needed to build, let, maintain and repair them over long periods. Subjecting HRA finances to frequent, erratic shocks fatally undermines this special ability of council housing to meet social needs efficiently and equitably. For example: councils must now price a future 1% rise in PWLB interest rates into their business plans, simply because government has done this arbitrarily before. The failure to provide stability or predictability has lasting consequences.

We urgently need a new framework, rooted in clear principles, that can give councils, lenders and tenants alike confidence that they system is robust and sustainable.

Principles for a new system: immediate actions

The first, most basic principle for a sustainable HRA system must therefore be long term policy stability to give councils, their partners and investors the confidence to meet policy expectations for council housing. Government must publicly commit to a new settlement for council housing finance, based on clear principles, and provide an iron-clad commitment to maintain that framework over the long term.

Government must also recognise the damage recent policy instability has done to HRA finances and take action to repair them. **To be sustainable over the long term, a new settlement must start from a secure position, so government must commit to a one-off injection of capital to compensate HRAs for the volatile policy changes since 2012.** This will not only prevent the further deterioration of HRAs, it will give them the secure financial basis from which to finance repairs, improvements and new development in future.

A one-off, "shot in the arm" investment by government as soon as possible will therefore ensure councils can leverage further investment to play their full part in increasing housing supply, improving conditions and meeting net zero targets in the years to come. It will reduce the waste of a huge number of projects being paused, delayed and cancelled due to the current financial challenges councils face, and help protect construction industry capacity from the impact of the downturn. Above all, it will prevent further deterioration in the sustainability of HRAs' financial position while more fundamental policy change is developed and implemented. Given the significant impact of the rent cap between 2023 and 2025, coming on the back of years of uncertain rent policy and in the context of extreme inflationary pressures, we recommend central government compensates council landlords for this lost income across these two financial years at the earliest available opportunity. This will provide urgent funding

to stabilise HRAs and will support confidence from council landlords and their partners that government will honour future long-term rent settlements.

Recommendation 1:

Government should provide a one-off capital injection of £644m, equal to the income lost due to the rent cap from 2023 to 2025, at the earliest opportunity, to stabilise HRAs and prevent further waste caused by pausing, delaying, or cancelling investment plans.

Secondly, a new, stable framework for council housing must clarify what its purposes are – and how each of these should be paid for. This is essential not only to put HRA finances onto a sustainable footing, but also to give tenants (and taxpayers) clarity over what they are paying for and what level of service they can expect. A lack of clarity about the purpose and priorities of council housing has allowed successive governments to repeatedly move the goalposts of the entire financial framework to suit their changing policy priorities. For example, demands for investment in the existing stock and the desire to build new homes are now frequently in competition for financial resources, particularly as new policy priorities like decarbonising existing council homes have emerged,[115] and both are in tension with aims to keep rents affordable and the welfare benefit bill down. The rents paid by tenants, and councils' ability to borrow on the back of them, can be directed towards different combinations of these priorities. **While it is inevitable, and understandable, that different governments will make different choices about the relative priority of each of these policy goals, by changing the rules of the council housing finance system to pursue changing priorities, recent governments have undermined its ability to meet any of them.**

A new settlement should reaffirm the principle that tenants' rents are meant, broadly, to cover the day-to-day cost of providing and maintaining their homes – and that therefore any additional financial demands placed on councils must be funded separately by government. This is the principle on which council housing was previously understood to work.

This principle is also in line with the New Burdens doctrine established by government in 2010 and reaffirmed regularly since then. Now that government is imposing additional requirements on council housing – to meet new regulatory safety and consumer standards and decarbonisation to meet climate change commitments – at a time when councils' HRAs and General Funds are both under extreme pressure, the New Burdens principle must be extended to the HRA and upheld. The need for certainty on standards in council housing and how meeting them should be financed is essential to shore up the HRA system.

Recommendation 2:

Government should extend the New Burdens doctrine established in 2010 to the HRA and uphold this, ensuring that any new policies that affect council landlords are 'properly assessed and fully funded by the relevant department'.

Thirdly, government must ensure that council landlords have consistent, predictable access to affordable borrowing via the Public Works Loan Board, as part of a new overall fiscal framework that recognises the vital importance of investment in social housing for the UK's economic growth. Government should commit to relying on the (already robust) principles of the Prudential Code to ensure councils' borrowing remains prudent. Without this, council landlords will not be able to make full use of the resources they do have, compromising their ability to meet decency standards in council homes and putting residents' wellbeing at intolerable risk.

Recommendation 3:

The government should commit itself to not reimposing borrowing caps, or any other system of arbitrary central restriction on HRA financial capacity, relying instead on the principles of the Prudential Code to ensure councils' borrowing remains prudent.

The government should act quickly to implement these first three recommendations, as a signal of its commitment to putting HRAs back on a sustainable footing. Building on these principles, the rest of this section sets out the details for further policy interventions at the next spending round to create a sustainable framework for a renewed HRA system.

Debt adjustment

Current HRA headroom is estimated at between £10bn and £15bn, but this investment capacity is distributed unevenly between councils compared to the stock they own and manage.[116] Given central government can finance debt more affordably than councils can, the simplest way to relieve HRAs of unsustainable debt would be for central government to nationalise a share of HRA debts in line with a revised and updated HRA settlement, allowing councils to raise fresh finance for new investment. This one-off rebasing of HRA debt would revisit the 2012 self-financing deal and carry out a new debt adjustment, based on actual outturns from the past 12 years and more realistic assumptions for the future.

This one-off, extraordinary event is necessary only because of the failure of central government to uphold its side of the 2012 settlement, and should never need to be repeated again. Revisiting and updating the 2012 settlement would ensure that all council landlords have the headroom needed to make their HRAs sustainable while meeting policy priorities for existing and new council homes – without shrinking their stock unnecessarily through stock disposals. Debt adjustment should be combined with this report's recommendations on Public Works Loan Board borrowing rates and repayment terms to ensure council landlords can leverage their headroom to deliver on policy priorities and standards – which should themselves be clearer and more certain.

Effectively, this would rerun the adjustment carried out in 2012 as part of the move to self-financing: as discussed above, councils entered into this deal in good faith, based on the understanding that central government would maintain key parts of the funding framework (rents, interest rates, borrowing rules and capital investment requirements). This agreement was not honoured, so it is entirely reasonable to revisit the debt realignment part of the deal, as well as the key policy and funding inputs for council housing under central government control.

A recent report from the Chartered Institute of Housing (CIH) and Savills looks at multiple options to address the financial challenges caused by the undermined 2012 agreement.[117] They conclude that a revision of the original debt settlement is best course of action, and would revitalise council delivery and capacity. Their analysis revised the parameters set in 2012, which led to the £29bn rent settlement, to reflect the significant policy changes and events that have undermined these previous assumptions. Their calculations indicate that a sustainable level of debt for local authorities with HRAs, allowing them to deliver current and likely future quality and regulatory standards, is in fact around £11bn. In other words, in 2012 council landlords accepted a level of debt (based on assumptions and promises that have not survived the turmoil of the last 12 years) well over twice as high as it should have been (taking into account subsequent policy changes).

Transferring that estimated £17bn of unsustainable debt to central government would give HRAs the opportunity to become sustainable for the long-term, and immediately create significant headroom for councils to fund urgently needed fire and safety measures, repairs and maintenance works, and potentially new development too.

As the Treasury can refinance historic debt more easily than councils, and at lower interest rates, this adjustment would reduce the overall national cost of servicing debt.

Reopening the self-financing deal would also involve a long-term settlement on rents, to ensure the sustainability of the deal and of individual HRA business plans. CIH and Savills' estimates for the debt adjustment are based on an assumption of rents increasing at CPI+1%. If government were to insist on a lower rate for rents, the debt readjustment would be correspondingly higher.

Recommendation 4:

The government should re-open the 2012 self-financing deal as a priority. It should agree a new self-financing settlement with councils, based on the actual inputs that have been imposed on HRAs since then and on realistic assumptions about future inputs, accepting that this will entail a one-off adjustment of HRA debts from councils to central government.

Rents policy in social and affordable housing

Over the last decade, social landlords have repeatedly appealed to government for greater certainty and stability in the policy framework governing social housing. But – as the previous chapter describes - the recent history of rent policy in particular illustrates just how remote the goal of a stable and certain operating environment for social landlords of all types has been. Making the HRA system sustainable over the long term clearly requires greater certainty and predictability around how rents are set and changed.

In July 2024 the government have promised to set out plans at the next fiscal event to give councils and housing associations 'the rent stability they need to be able to borrow and invest in both new and existing homes'. **They must ensure that rents policy is clear, consistent and transparent, delivering fairness for tenants and predictable HRA revenues over time in relation to the cost base.**

There are three distinct problems with recent rent policy for social and affordable housing:

1. Government has repeatedly committed to long-term rent settlements only to cancel them in response to political and economic shocks. This has damaged social landlords' and third party investors' confidence that future rent settlements will hold, and therefore their ability to plan investment in existing and new homes.

2. Policy has not allowed rents to increase in line with increases in social landlords' cost base. This problem has become more acute as inflation started to rise rapidly from 2021, with repairs and maintenance in particular seeing continued cost inflation, and with the introduction of new regulation and responsibilities for social landlords.

3. There are growing discrepancies between the rents charged for similar properties within a locality, which have been aggravated by the end of rent convergence in 2015 and the introduction of the Affordable Rent and London Affordable Rent tenures to affordable housing in 2011 and 2016. This is producing unfairness and affordability problems for some residents.

Coming on the back of a decade of unstable rent policy, the government's decision to cap social rent increases at 7.7% in 2024 to 2025 – well below core inflation and even further below inflation across the HRA cost base – has been truly devastating for many HRAs. The cap reduced council landlords' possible rent revenues by £321m in 2023-24 and by £389m in 2024-25 – a cumulative loss of £644m that will be reflected in lower ongoing rent revenues for years to come. Councils with low reserves have had no choice but to make real-terms cost savings, cancelling or delaying much-needed works to repair and maintain existing homes and to expand their stock. These decisions were unavoidable because of short-term decision-making from central government, but they will have long-term consequences for council residents and communities. Some problems will now get worse before councils are able to tackle them, which in many cases will mean problems are tougher and more expensive to resolve.

To avoid a reoccurrence of this problem and ensure that HRAs can meet central government's policy expectations, future changes to settlements on rent caps should be revenue neutral for HRAs, i.e. central government should provide grants to fund any different between expected rent revenue and real rent revenue arising from short-term caps. In practice, such grants should not be necessary as policy should aim to uphold long-term rent settlements in all but the most extreme circumstances.

Rents must be affordable for residents and not put undue pressure on the housing benefit bill, ensuring council housing continues to pay for the public purse. Rents must also be sufficient to cover the basic costs of maintaining and managing homes to acceptable standards over their lifetime. Any additional requirements on council housing, for example to meet new regulatory safety and consumer standards and decarbonisation to meet climate change commitments, must be assessed and fully funded by the relevant government department, in line with the New Burdens doctrine.

It is also important to address the growing discrepancies in the rents charged for similar properties which have built up across social and affordable housing over time, both to improve fairness for tenants and to ensure social landlords are not put under undue financial pressure by virtue of their stock being concentrated in places where discrepancies are most acute – an issue which is particularly pressing for council landlords as inherently place-based organisations. All social landlords must have the ability to meet central government's policy expectations to improve and expand their stock.

Recommendation 5:

The government should commit to long-term rent settlements that are more resilient to economic change. Above all, **rent settlements must last for their intended period, i.e. a 10-year rent settlement should last for 10 years.** If straying from a long-term rent settlement in one year becomes truly unavoidable, any changes to that settlement should funded by central government such that they are revenue neutral for council landlords.

Recommendation 6:

The government should reintroduce rent convergence, allowing rents across social housing to be increased to reach formula rent levels, using a gradual approach to manage affordability impacts.

Public Works Loan Board finance

Chapter 2 set out how recent changes to Public Works Loan Board rates have undermined HRA business planning since the 2012 self-financing settlement. Longer-term features of the policy framework governing PWLB finance are preventing councils from paying off or refinancing outstanding expensive loans. This reduces headroom for investing in existing and new council homes and is producing mounting problems for local authority finances, with ramifications far beyond housing.

During the 2000s, the PWLB tended to offer interest rates only 0.15-0.20% above the government's borrowing costs. As described above, from October 2010 onwards central government has continually changed PWLB rates and rules, introducing unnecessary complexity and uncertainty into councils' business plans. There is no good reason why the previous policy of offering PWLB loans at rates only slightly above base rates should not be restored and maintained over the long term.

Recommendation 7:

Government should reduce new PWLB borrowing costs for HRA council housing to the previous rate of 0.15% above central government's borrowing costs, and confirm a commitment to maintain rate stability for the long term.

Throughout the twentieth century, councils had an incentive to repay their debts to the PWLB early, but this was removed from 2007 and replaced by a system that has tended to penalise them for early repayment. The effects of this worsened as interest rates settled at historic lows following the Great Financial Crisis, increasing the difference between interest rates on historic and new debt and thus also repayment penalties. Predictably, early repayment of PWLB debt fell from an annual average of £3.4bn in the three years to 2010-11, to £186m in the three years to 2015-16.[118] Crucially, many outstanding PWLB loans are historic, with far higher interest rates that do not reflect the current costs of government borrowing - even as rates have increased again since 2022.

Driven in part by these policy decisions, the proportion of annual local authority spending dedicated to servicing interest payments has grown almost everywhere. One council involved in this report takes in less than £100m income per year through its HRA, but will pay £12m out in debt servicing this year. In some cases councils are now spending more on servicing existing debt than they are on delivering local services.[119]

In changing the early repayment terms of PWLB debt, Treasury aimed to ensure that councils would 'compensate' the PWLB where current interest rates are lower than rates were at the time the government issued the loan, avoiding any risk of the National Loans Fund running at a loss.[120] In other words, the Treasury has insisted on maintaining fixed margins on PWLB loans made decades ago, imposing higher than necessary debt servicing costs on councils. Of course, the government as a whole is committed to paying historic debts at the rates agreed when bonds are sold, but HMT itself regularly refinances debt when it makes sense to do so.[121] From the perspective of the national economy, it makes no sense to insist on councils paying higher debt servicing costs than is necessary.

Instead, government should allow councils to affordably and easily pay down and refinance existing debt, reducing their ongoing interest costs. This would unlock more use of prudential

borrowing, which would in turn allow councils' surpluses and government grant to go a lot further, enabling councils to more consistently use borrowing to leverage subsidy in the same way that housing associations can.

Recommendation 8:

Government should allow councils to pay down and refinance expensive older PWLB debt without incurring penalties.

Fiscal targeting: aligning the UK's debt measure with other countries

A new settlement between government and councils needs to be reflected in a new overall fiscal framework, which is currently prejudiced against capital investment in general, and against council housing investment in particular. One of the main reasons that successive governments have chosen to arbitrarily change the HRA framework so often has been their desire to meet short term fiscal targets by curtailing public investment. These fiscal targets, and the national accounting definitions in which they are expressed, are themselves subject to frequent change, but rarely to sufficient scrutiny and public debate. As currently constructed, they incentivise Westminster to maintain tight central control over councils and bake in an anti-investment bias to national policy. **In launching a new framework for council housing, government should reassert the vital importance of investment in social housing for the UK's economic growth and ensure that national fiscal rules do not arbitrarily discriminate against councils' prudential use of borrowing to support that investment.**

As the UK's growth has remained persistently low for fifteen years, there is a strong case for believing that increasing public investment must be a major part of the answer to the UK's 'productivity puzzle'. Within this, investment in council housing has particular merits. Borrowing to build council homes is not the same as government borrowing to fund wages, benefits or tax cuts, or even other types of public investment. Investment in new council housing generates immediate jobs and growth, and it provides a secure, long-term income stream, along with ownership of a capital asset that may well grow in value over time. No other public asset class has quite this profile: some others can generate income streams (such as toll-charging roads, tunnels and bridges), but these also depreciate over time. Housing investment is therefore uniquely able to cover its own financing costs – which after all is why Housing Revenue Accounts[122] and New Town Development Corporations[123] have both delivered profits to central government.

The UK is unusual in including a very wide range of bodies within the definition of the 'public sector' used to measure public debt for the purposes of setting fiscal rules. All the fiscal rules set by UK governments in recent decades have included a debt rule using a version of the Public Sector Net Debt (PSND) definition of national debt. Not only is borrowing by central and local government included, but so too are the debts of what are termed 'public corporations' in the National Accounts. The public corporation category covers trading bodies like the BBC and the Driver and Vehicle Standards Agency – but it also includes the entire Housing Revenue Accounts of stockholding councils, which are counted as a single public corporation for the purposes of the National Accounts. This means that these debts are treated as part of the overall debt figure targeted by the fiscal rules regime.

While fiscal rules usually include a long-term objective for the stock of debt, it is by no means inevitable for council housing to be included in the definition of public debt used to set and measure success against fiscal rules. The EU, IMF and most OECD countries use the General Government Gross Debt measure of public debt to define national debt for the purposes of fiscal targets and international comparisons. This includes both central and local government, but excludes 'public corporations', because as arms-length trading bodies these agencies are generally responsible for servicing their own debts from their own revenues – as is clearly the case for Housing Revenue Accounts.

The UK government's choice to include public corporations in the debt measure used for fiscal targeting is therefore an unnecessary distortion that prejudices political decision making against borrowing for investment in council housing.

Recommendation 9:

Debt-targeting fiscal rules adopted by the UK government should use the accepted international GGGD measure as the definition of public debt, which excludes public corporations such as the HRA.

Solution 2

Put the plug back in – reform Right to Buy

As described in Chapter 2, the Right to Buy has clearly had – and continues to have – a devastating impact on the sustainability of HRAs in England, depleting the stock of council housing in unpredictable ways which have reduced the revenue available to councils to manage, maintain and improve stock while increasing the costs and complexity of doing so.

Of the almost two million social homes which have been sold through Right to Buy, Shelter estimates that only 4% have been replaced.[124] The current system risks rapidly running down England's stock of council housing to the point where it will no longer support future generations to escape poverty and poor housing conditions, let alone build wealth and access homeownership.

The principle of enabling council tenants to purchase their homes at a discount remains extremely popular in England. Research conducted in 2018 for the Affordable Housing Commission, chaired by Lord Best, found hostility to ending the Right to Buy amongst lower-income private renters, as this would deny a right to a family living in council housing who had 'done all the right things'.[125] Evidence from the British Social Attitudes Survey suggests the public sees the option to exercise the Right to Buy as the main advantage to living in council housing.[126]

Nonetheless, it is clear that the recent policy framework for the Right to Buy has been unsustainable, not only for the HRA system, but also for central government's finances and for local housing markets. As the share of former Right to Buy homes let out privately has grown (to above 40%, according to an Inside Housing investigation in 2017),[127] so has anger about the levels of rent tenants pay to live in these former social homes, and the amount of public money used to subsidise these now private rents through housing benefits. An estimated 43% of households living in the private rented sector and receiving housing benefits are living in former social homes converted to market homes via Right to Buy.[128] Some people who have exercised the Right to Buy have later struggled to afford the ongoing costs of ownership and have had to sell, contributing the flow of homes into private rented sector,[129] suggesting financial health checks could improve outcomes for buyers.

The new government's announcements are very welcome, including their plans to: bring forward legislation to change Right to Buy discounts; at least temporarily increase the flexibilities on how councils can use Right to Buy receipts; and to review the eligibility critieria and protections for new homes – in which we hope our below recommendations will be considered.

The challenge will be to find ways to reform and update the policy framework governing the Right to Buy, and the use of the receipts it generates, to balance different policy aims for council housing and improve the predictability of HRA revenues, taking account of different market conditions and policy needs in different places.

43% of households living in the private rented sector and receiving housing benefits are living in former social homes converted to market homes via Right to Buy.

Recommendation 10:

The government should reduce discount levels for the Right to Buy in England, from their current very high levels of £75,000 outside of London and £100,000 in London. New discount levels should be more sensitive to geographic differences, and should ensure that capital receipts are sufficient for councils to replace homes sold through the Right to Buy with new homes which can meet local housing need.

Recommendation 11:

The government should permanently allow councils to keep 100% of Right to Buy receipts, provided these are reinvested in delivering new or replacement social rent homes within ten years – whether by building or acquiring homes.

Recommendation 12:

The government should maximise flexibility in how Right to Buy receipts can be used to reinvigorate the stock of council housing across England in every possible way. This should include making permanent their recent removal of the cap on the share of Right to Buy receipts which can be used to acquire existing homes and councils ability to combine receipts with section 106 contributions. However they should also go further by lengthening the time councils and housing associations have to spend Right to Buy receipts before they are sent to central government (or to Mayors) to ten years and allowing Right to Buy receipts to be mixed with all other sources of funding and finance for replacing council homes, including capital grant.

Recommendation 13:

In recognition of the problems of Right to Buy for overall council stock levels, the government should: lengthen the eligibility period for using the Right to Buy to ten years; and lengthen the period of time before homes purchased using the Right to Buy can be re-sold without repaying all of the discount to ten years. New financial health checks should ensure those exercising the Right to Buy can afford the ongoing costs of owning the home.

Recommendation 14:

To enable councils to play their full part in driving up England's housing supply, and in recognition of the emerging challenges presented by rising standards in new council homes compared to many market homes, the government should end the Right to Buy with respect to newly-built council homes, including both new and existing council tenancies.

Solution 3

Remove red tape on existing funding

Reforming central government grant

The new government have committed to bring forward details of their future investment in social and affordable housing at the Spending Review in the autumn. We welcome their commitment to work with local government to consider how funding can be best used to meet local need and learn from mistakes of the past.

In recent years, where central government has made funding available to councils to address policy priorities for council housing, this funding has often been insufficient to deliver on policy objectives. Funding pots are too small, too short-term and too discretionary to allow councils to rebuild capacity after a decade in which public services and community infrastructure have been pared back by austerity. The result is a profusion of funding streams, each with different criteria and timescales: the recent Public Body Review of Homes England lists 22 'main' funding programmes that the agency is responsible for – and this excludes others like the Social Housing Decarbonisation Fund, which is run by a different department entirely (DEZNZ).[130] Capital grants for are made available on a scheme-by-scheme basis, with funders paying little interest in a council's overall business plan.

Most funding pots are run centrally from Whitehall and can only be accessed via competitive bidding. In theory, this supports better value for money from public spending by ensuring only the worthiest proposals receive public investment. In practice, it ensures that funding continues to flow disproportionately to those councils with the resources to prepare multiple proposals to the standard required to win competitions and, in turn, consistently disadvantages councils with more constrained resources. Even where councils are successful in winning funding, the process of access it is costly, time-consuming and arduous, consuming precious resources which could be better spent. The system is also unpredictable, adding to the weight of uncertainty bearing down on HRA business plans.

A particular challenge facing councils are the requirements that funding streams cannot be combined in the same development, such as the rule preventing Affordable Housing Programme grant and Right to Buy sales receipts being combined. This is ostensibly to ensure each subsidy pot generates additional homes that can be scored against their respective government programmes. Yet, in practice, inflexible funding rules have prevented funding intended to ease the housing crisis from being spent, contributing to growing Homes England underspends, and failing to generate any additional business plan headroom for council landlords.

The result is that underspends on major programmes are a common occurrence, often resulting in the Treasury clawing back funds. In September 2022, the Telegraph reported that DLUHC was developing emergency plans to spend a £1.5bn projected departmental underspend,[131] but was struggling to find projects which would pass Treasury's appraisal methods (discussed below) on which to spend the money, in order to avoid having to return unspent budget to Treasury. In March 2024, the Public Bodies Review of Homes England found that Homes England spent only 77% of its budget in 2022 to 2023 and was 30% below target on planned housing starts.

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This review shares the conclusion of many recent reports in recommending fewer, bigger capital grant funds with more flexibility and longer availability periods.[132] It also recommends a 5-year rolling funding commitment for the AHP to reduce uncertainty and provide a basis for better procurement.

It is hard to avoid the conclusion that underspends suit both the Treasury, as they reduce outlay and retain its overall fiscal flexibility, and politicians at the centre of government, who can re-announce the allocation of the same funds with a slightly different focus and message to suit the current political context. Growing underspends in government housing programmes and the trend of social landlords having to return grant that cannot be spent according to inflexible criteria, demonstrates the need to combine existing allocations into fewer, larger funds, allocated over longer periods and with far fewer restrictions on how they are spent. If this funding was allocated directly to councils via a transparent formula, it would score as 'spent' in government accounting terms from the moment it was handed over, even if it took councils a year or two to actually spend the money. Lessons should be learnt from the Local Authority Housing Fund in 2022. By targeting overall outcomes across development programmes, rather than obsessing over outputs on individual schemes, future grant programmes would give social landlords the freedom and flexibility to work with communities to find the best ways of meeting those outcomes across individual schemes.

Recommendation 15:

The government should increase the flexibility of the Affordable Homes Programme, its successor and other Homes England funds, ensuring that capital grant can be spent on acquiring, retrofitting and refurbishing existing housing stock, or on replacing homes which have come to the end of their useful life, where this is the best way for councils to meet local need. Grant rates must reflect recent cost inflation.

Recommendation 16:

The government should move towards fewer, flexible funding allocations to councils that amalgamate the various funding sources for investment in housing into two pots, one for investment in existing homes and one for building new and replacement homes. The funding should be distributed through a simple, fixed and transparent formula. There is already a legal ringfence preventing council housing funding leaking into social care or other services.

Recommendation 17:

The Affordable Homes Programme strategic partnership model should be extended to councils so council landlords can take a single allocation of AHP grant and use it flexibly across their development programmes, as already happens for councils in London.

Measuring the benefits of council housing

The evidence on the economic and social benefits of council housing is compelling, as outlined in Chapter 1 of this report. Nonetheless, with multiple policy areas competing for limited public resources, it is important that policymakers in the government have the right tools to fully assess the case for council housing when making investment decisions. Unfortunately, the appraisal frameworks currently used by the Treasury and individual departments risk missing out many important benefits of investing in existing and new council housing. It is crucial that these benefits are understood and incorporated into spending appraisals.

DLUHC's Affordable Homes Programme 2021 to 2026 (AHP) allocates grant to councils and housing associations in England to subsidise the cost of building social housing alongside other affordable tenures. Bids for grant are assessed using a Benefit Cost Ratio calculation, weighing potential economic gains against the cost of providing homes. DLUHC's ex-ante cost benefit analysis for the current AHP expected a net benefit of £15.4bn, including benefits from increased housing supply, the distributional benefit of wealth transfer to lower-income households, and health benefits from a reduction of homelessness.[133] Economic

DLUHC calculates an expected return of £2.70 of benefits from each £1 spent on affordable housing.

modelling conducted by DLUHC calculates an expected return of £2.70 of benefits from each £1 spent on affordable housing, with 89% of this coming from the increase in land values produced by development.[134] Leaving aside the limitations of these 'land value uplift' calculations because of data availability and quality issues, this method for assessing the value of public investment in new social homes is clearly insufficient, as it fails to fully capture the many other social, wellbeing and economic benefits outlined above – and in many cases does not even consider them.

Hundreds of social value measurement tools have been developed, including the Value Of a Social Tenancy open-source methodology developed in 2020 for Hyde Housing by Bates Wells (now Sonnet). This estimates the value of a social tenancy by comparing life and wellbeing outcomes for people who get a new social tenancy with those of similar people waiting for one in temporary accommodation or the private rented sector. This compares people's likelihood of finding and sustaining a job, their use of healthcare and criminal justice services, and the amount of welfare benefits they receive. The results put the direct value of a new social tenancy to the public purse at £11,175 per year, or £16,906 per year once economic benefits from construction and maintenance activity and increased employment are included.[135] Hyde have since combined the VOST model with environmental and governance metrics to produce a full ESG framework.[136]

Treasury's 'Wellbeing Guidance for Appraisal' from 2021 and the 2020 Green Book Review attempted to enhance consideration of these types of benefits in Benefit Cost Ratio calculations to improve central government's decision-making about public investment.[137] However, the evidence base which could support a robust assessment of social value has often not met the stringent bar set by the Treasury, and there is still no industry-wide accepted method for measuring social value.[138] In comparison, there is a standard model for assessing the economic benefits for transport appraisals. Since these transport models are accepted by Treasury, they can strongly influence government transport spending decisions, often in ways that are harmful to placemaking and wellbeing. See Box 5 below.

What gets counted counts

David Milner's research for Create Streets shows how the priority given to the narrowly-defined economic benefits of marginally faster road journeys consistently override wider economic, social or environmental priorities in public investment appraisals, simply because the metrics underpinning them are deemed to be more measurable in numerical terms. The perverse result is that the Department for Transport's cost benefit analysis toolkit, the 'Transport Analysis Guidance', values the harm caused by congestion delaying drivers at 20 times the harm caused by excess noise, air pollution and greenhouse gases combined.[139] This obscure technical detail has real-world consequences, as it means road building gets huge public subsidies and other more socially beneficial projects do not, which in turn determine the development patterns, quality of places, economic geographies and lifestyles of generations to come.

Fortunately Homes England have invested significant time and effort into addressing this problem over the last two years and are publishing a series of high quality research papers into different aspects of measuring social value.[140] New research on the impact of housing-led regeneration is already reflected in DLUHC's new Appraisal Guide, which feeds into the Green Book process – and is explicitly comparable to the DfT's 'Transport Analysis Guidance.' Further papers on the financial and fiscal benefits of social housing, and the value of environmental benefits of housing and regeneration projects, are due to be published over the next year. Taken together, this research should finally enable appraisals to live up to the 2020 revised Green Book's stated intention of 'considering all objectives and impacts (including non-monetised impacts) and making fuller use of place based analysis in VfM assessments' and its 2021 guidance on measuring wellbeing. This could have far reaching and positive consequences for decisions on investment in council housing, as for the first time the wider social, environmental and economic benefits of public investment should be given due weight in decisions about where and how public money is spent.[141]

Recommendation 18:

Building on recent and ongoing Homes England research, the government should support and encourage the continued development of robust social value reporting frameworks to enable more rigorous monitoring and evaluation of spending and policy interventions in housing and placemaking, and ensure that these are properly incorporated into DLUHC and Treasury guidance and practice. This would allow the benefits of council housing to be better reflected in future investment and policy decisions.

Solution 4

Ensuring existing council homes are good quality

For many years council housing has been subject to multiple financial and policy pressures that have left much of the stock in need of significant capital investment just to bring it up to a safe and decent standard. In this sense the situation is similar to that in the late 1990s, when the backlog of repairs in local authority housing was estimated at £19bn.[142]

The response from government then was a comprehensive programme of investment to bring homes up to standard, improve the quality of housing management and increase tenant involvement: the Decent Homes Programme (see box 6).

The Decent Homes Programme

In 2000 the Labour government launched an ambitious programme to address decades of decline in the quality of social housing. 1.6m social homes were then estimated to be 'non-decent' – that is, not meeting a newly defined Decent Homes Standard (DHS) that required all homes to be free of hazards, achieve a reasonable level of thermal comfort, and have up to date kitchen and bathroom facilities. The Decent Homes Programme aimed to bring all social homes up to the DHS by 2010 and set out a series of routes to achieving this target, backed by significant amounts of additional capital funding from government. All councils were given a Major Repairs Allowance, and the ability to apply for further funding if they chose to divest themselves of the ownership and/or management of their stock via one of three routes:

- Creating an Arms Length Management Organisation (ALMO) – a company set up by the council to take responsibility for day-to-day stock management. 66 ALMOs were created, but in later years most were reabsorbed by their councils, leaving 19 today.
- Signing up for the Private Finance Initiative (PFI), in which the council would enter into a long-term contractual arrangement with private sector companies to finance, improve and operate the stock. Only 14 councils had taken this option by 2008.
- Transferring stock to a Registered Social Landlord following a tenant ballot – not-for-profit organisations that include Housing Associations, trusts and cooperatives. This was the most common option, continuing the trend of stock transfer that started in the 1980s.

Exactly how much government spent on the DHP is unclear, as it was wrapped up with other housing and neighbourhood improvement programmes, but government estimated that the total bill would be around £37bn by 2011.[143] This decade-long programme of investment and improvement reduced the number of non-decent social homes by 1.1m – which meant that by 2010 over 90% of the target had been met.[144]

In general, most councils, housing sector organisations and experts have praised the DHP for its ambition, good management, efficiency and outcomes. The Communities and Local Government committee of the House of Commons summarised this position in 2010:

The decent homes programme has had a dramatic, positive effect on the living conditions of almost all social housing tenants by putting very significant resources into tangible improvements to social housing. We applaud the Government, local authorities and their partner organisations for the tenacity with which they have pursued the ten year goal and the results they have achieved.[145]

The main strengths of the DHP were that it set clear objectives with an ambitious but achievable timetable for meeting them; provided mechanisms for funding the works needed, including multiyear commitments of government grant funding; and took a holistic approach to decency, which - combined with long-term funding - helped scale up the supply chain and industry by providing a steady source of demand for the skills and materials needed. [146]

Despite this generally positive evaluation, some criticism has been levelled at the quality of departmental oversight of the spending and its impacts, and how the assessment of the DHS was carried out by landlords.[147] There have also been questions raised about the Decent Homes Standard itself, which some have felt to be a rather low[148] and in parts rather arbitrary[149] standard, which could result in waste when translated into large-scale improvement programmes, as these did not always take sufficient account of the condition of individual properties. Following the death of two-year-old Awaab Ishak because of damp and mould in his home in Rochdale in 2020, questions have increasingly been raised about the lack of explicit requirements on damp and mould in the Decent Homes Standard.[150]

Stock conditions and standards since the Decent Homes Programme

Although some Decent Homes funding continued to be allocated after 2010, and social landlords have continued to deliver improvements at their own expense too, budget cuts from 2010 onward limited progress towards the 100% target, while more homes slipped into non-decency as the stock has aged. In 2020, the Affordable Housing Commission[151] found that progress toward all homes being decent had stalled, and estimated that bringing all social housing up to the Decent Homes Standard would cost around £2.6bn.

At the same time, the policy landscape has evolved significantly, largely in response to crises, imposing new demands on the council housing stock. Since the Grenfell Tower fire in 2017, government has introduced new legislation and some new funding to assess and address fire safety risks in social housing – but, as with other policy priorities for social housing, this funding has been fragmented, inflexible and ultimately insufficient to achieve the new policy aims. Sadly, further evidence of serious quality problems in social housing has continued to emerge. In 2020, the tragic death of two-year-old Awaab Ishak due to mould in his family's home led to the introduction of Awaab's Law through the Social Housing (Regulation) Act 2023. Social landlords will be now required to fix reported health and safety hazards within strict timeframes. This will of course increase the pressure on council landlords' responsive revenue budgets, as some hazards will need to be addressed within seven days. One council landlord has already run the damp and mould element of Awaab's Law for six months, and has found an increase in repairs and maintenance costs of 10% over this period. It is crucial that central government works with social landlords to ensure these and other new obligations can be met.

The Social Housing (Regulation) Act 2023 also paves the way for a stronger, more proactive role for the Regulator of Social Housing, including a new inspection regime, new Tenant Satisfaction Measures, and a new set of consumer standards against which the Regulator will check performance. The 2023 Act's new professionalisation requirements will mean 25,000 housing employees need to take up further training or new qualifications - without any new burdens funding. While implementing new regulation is clearly going to be a challenge, for the Royal Borough of Greenwich the new proactive regulatory regime also presents opportunities, providing a framework to get the right evidence in place to capture the value of engagement with residents. This will help the council to improve the quality of its housing service, and to capture and celebrate successes.

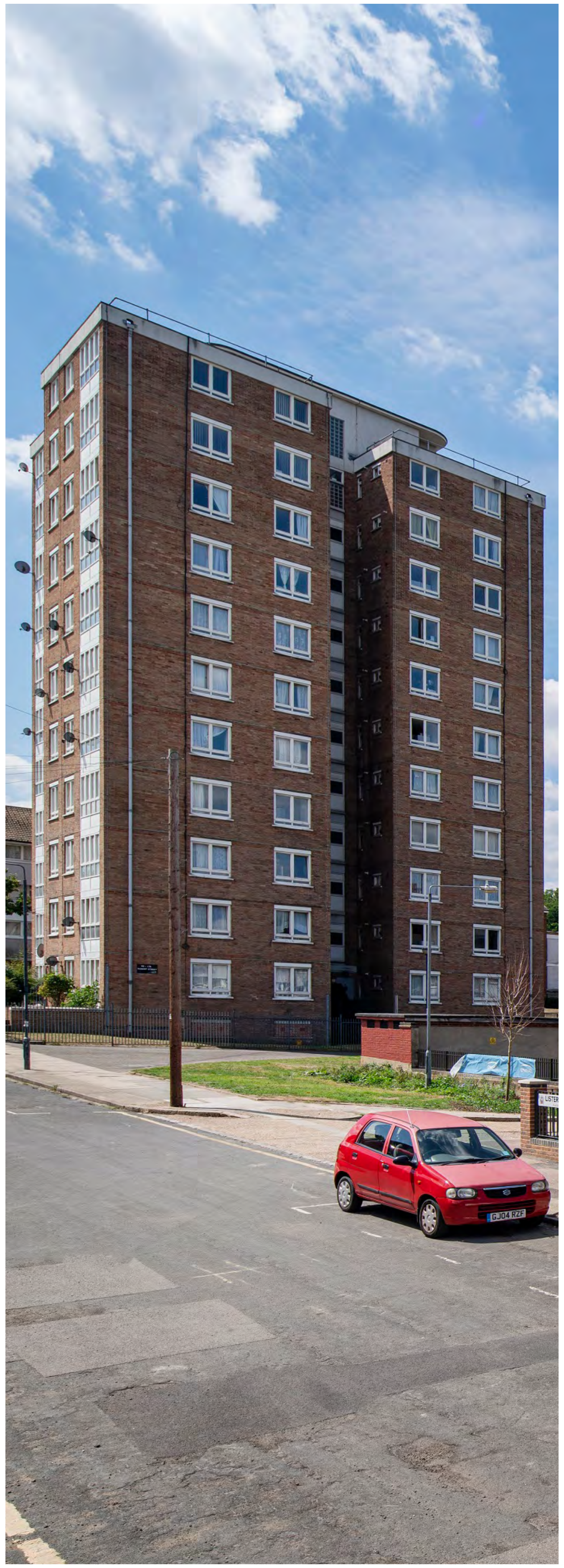
> "We see our residents as major stakeholders who vote for their ward councillors, who then make up the full council and provide strategic leadership. This helps us to work together with residents in a more effective, respectful and mutually empowering way."
>
> **Royal Borough of Greenwich**

In addition, a new Decent Homes Standard - to update the 2006 definition of a "decent home" to incorporate new policy priorities - is long overdue, though progress on this appears to have stalled. This is likely to include explicit requirements on damp and mould for the first time. In recent years there has also been a growing emphasis on improving the energy efficiency of housing stock to reduce carbon emissions and tackle fuel poverty. The policy context for safety in council housing is therefore complicated, fragmented and constantly shifting.

Given the unsafe or indecent living conditions in some social homes highlighted by recent campaigns and terrible events like the Grenfell Tower disaster, councils and housing associations must get our house in order. Spending on fire safety, damp and mould and other works on existing stock will inevitably continue to have knock-on effects for social landlords' development programmes. Decarbonisation works have also come to the fore in recent years as part of the UK's 'net zero' transition. These are crucial both for tackling the cost of living crisis and the climate crisis - but they produce no new revenue and savings accrue principally to residents rather than to social landlords, adding to the financial challenge.

Yet there is a significant opportunity to use the scale, capacity and consistency of ownership in the social housing sector to drive housing retrofit activity across all tenures, particularly in the crucial early stages of a national effort to decarbonise the housing stock at pace. The House of Commons Environmental Audit Committee[152] and the Confederation of British Industry[153] have pointed to the potential of social housing to build retrofitting skills, capacity and supply chains, delivering significant time and cost savings to central government in meeting its commitment to reach 'net zero' by 2050 as part of the Climate Change Act. But to do this, decarbonisation in social housing will need to be effectively "pump primed" by government funding and policy support. We set out how this can be done below.

On the one hand, the social rented sector overall performs better on the Decent Homes Standard than either the private rented or owner-occupied sectors.[154] In some areas of housing conditions – like energy efficiency – the social sector truly excels. On the other hand, within this council homes are on average significantly older, more likely to be high-rise and more likely to have backlogs of repairs and improvements compared to housing association homes.[155] In part, this is a function of "residualisation": higher quality council homes are far more likely to have been sold through Right to Buy or included in earlier phases of stock transfer to housing associations.[156] It is also a consequence of the limited options councils have had to pay for stock improvements, for many of the same reasons most councils have been unable to contribute effectively to new housing supply since the 1980s.



The position today: ensuring council homes are well maintained and lifted up to modern safety and decency standards

Years of budget cuts, changes to the financing regime and mounting cost inflation have compelled councils to cut back on maintenance and improvements to their housing stock. Inevitably, physical conditions have deteriorated in many homes and neighbourhoods, as campaigner Kwajo Tweneboa,[157] ITV journalist Daniel Hewitt[158] and others have highlighted. The resulting decline in the quality and reputation of social housing has been most brutally symbolised by the tragedies of the Grenfell Tower disaster in Kensington and Chelsea in 2017 and the death of two-year-old Awaab Ishak in Rochdale in 2020. In response, attention has quite rightly refocused on the need not only to reverse the decline, but to bring social housing up to new, higher standards of safety.

In January 2023 a Savills study for the LGA, ARCH and NFALMOs (the bodies representing stock-holding councils in England) analysed the costs of fire safety remediation to meet the requirements of the Building Safety Act 2022 for the two categories of building: high rise blocks over 18m tall, and those housing vulnerable people (supported and sheltered housing). These works were estimated to require £7.7bn of investment to 2030.[159] While some works will have been carried out since then, lowering the total requirement, costs have also inflated rapidly in the intervening 18 months, so this remains a realistic estimate of the total needed.

As the new Decent Homes Standard has not been published yet, or even named, the full cost of achieving it across the council housing stock cannot be accurately assessed – but it is likely to include explicit requirements on damp and mould. Drawing on responses from councils, Savills estimated that damp, mould and condensation might be a problem in 5-10% of the council stock. However, they also pointed out that the costs of works to address these problems are 'not generally felt to be significant, and focus more on administration, complaints handling and revenue expenditure' – suggesting that these issues could in many instances be dealt with in the normal way by HRAs, provided the government takes action to put them on a sustainable footing.[160] For some homes in some places, problems of damp, mould and condensation will require more significant action – and new funding – to resolve. See the solution below on a Green & Decent Homes Programme for our recommended approach to meeting these and other requirements.

Place-specific challenges

London councils face particular challenges in tackling problems of fire safety, damp and mould, due to a combination of factors including older and less well insulated housing stock and higher-density development, which complicates maintenance and increases the cost of works. London council housing also experiences higher levels of overcrowding, due to the impacts of welfare cuts, which worsens both the risks of fire and the consequences of damp and mould.

A 2021 Housing Ombudsman report found that 57% of damp and mould maladministration cases against social housing providers in 2019/20 were in London (including both councils and Private Registered Providers), while homes in London make up 19% of the national social housing stock. Tenant satisfaction is 19 percentage points lower than the national social housing sector average.

Yet other parts of the country are not immune to these same problems. Around 10% of the housing stock in Wolverhampton is high-rise, with a further 18% being of non-traditional construction. These properties have inherent cold-bridging issues and inadequate ventilation, which create the ideal circumstances for problems with damp and mould growth to occur. Remedying these problems requires significant investment in retrofitting, but this was not built into the 2012 HRA debt settlement, so any retrofit delivery must currently come at the cost of other vital investment.

Restoring the HRA system to health

The costs of meeting these new standards are considerable – but they are exactly the sort of investments that the HRA system is well placed to manage efficiently. Under normal conditions HRAs should be able to self-finance maintenance and repairs works for existing homes, by utilising surpluses from rental income once construction debt on existing homes has been paid off to fund the lumpy costs of improvements. Holding a large stock of homes of different ages with varying needs enables councils to manage repairs and maintenance expenditure within the borrowing envelope that their rental income can service. However, major upgrades to council homes have always required additional funding, because they were not predicted and planned from the point the home is built. Councils can therefore pay for major, unforeseen upgrades only by increasing rents faster than construction costs are rising, or by receiving new capital investment.

Of course, these are not normal times, and council housing finances are facing the 'perfect storm' described in Chapter 2 – including rent cuts imposed by government at the same time as new safety standards have been introduced. Government therefore faces the invidious choice between increasing rents significantly, exposing tenants and the benefit bill to intolerable affordability pressures, or abandoning its new safety requirements, exposing tenants to intolerable safety and health risks.

Fortunately an alternative solution is available. If HRAs can be rapidly brought back to a sustainable financial footing, this would free up financial headroom to enable councils to ensure their homes are made safe and maintained the way the HRA model used to do. As discussed under Solution 1, the parlous state of HRA finances is the result of market forces and government policy decisions outside of councils' control, so the obligation to make the HRA system sustainable again rests squarely with national government. The first step is to revisit the 2012 self-financing deal and carry out a new debt adjustment, based on actual outturns from the past 12 years and more realistic assumptions for the future. A one-off adjustment to the self-financing agreement made in 2012 – which government has since broken repeatedly – would be the most efficient way to leverage capital investment into the existing stock of council homes, by ensuring HRAs are financially sound and can function as they once did.

Improving value for money in the way councils manage their homes

A further consequence of the pressure on HRA finances has been that maintenance programmes have had to be scaled back, with the result that repairs costs have gone up. This demonstrates how being forced to take short term cost cutting decisions has undermined efficiency and ultimately increased the overall costs of keeping council housing up to standard. But it also indicates how investing relatively small amounts in good time can extend the lifetime of homes and reduce costs over the long term. Once HRAs are restored to a reasonable position there is much that councils can and will do to drive greater efficiencies from their capital works programmes and improve value for money for the public purse.

Firstly, councils have been working hard for many years to get better at defining costs at the procurement stage, in order to commission quality works that will last, at the right price. Restoring HRAs to health will enable councils to scale up capital investment programmes, and enter into longer term contracts with suppliers, both of which will help drive down costs further.

Secondly, a real understanding of the condition and needs of stock can help to inform smarter asset management programmes. Councils can deliver better VfM if their investment is based on real information on stock conditions rather than crude programme-level assumptions. For example, they can achieve better results at lower costs if, instead of simply replacing all elements such as doors every 20 years, replacement can be targeted at those homes that actually need it, when they need it (see our case study from Dudley Council below).

Greater savings from early investments

When Dudley Council's 100% stock conditions survey revealed some of its homes had fallen below SAP C, it was able to access grant funding to improve them. While any funding is of course welcome, the logic of waiting for homes to fail energy efficiency standards before supporting councils to upgrade them is questionable. Using the results of its survey, Dudley is undertaking comprehensive improvements to its stock, taking a neighbourhood by neighbourhood approach wherever possible to improve value for money and minimise disruption for tenants. This is clearly not possible where central government funding is restricted to the worst performing properties, necessitating a "pepper potted" approach to stock improvement that will inevitably cost more over the long run. If the government intends to meet energy efficiency targets across England's council homes, funding and policy support must enable upgrades across England's council homes.

Recommendation 19:

Councils should work to reduce the need for major upgrades and improve the value for money of works on council homes by investing in maintenance and minor repairs earlier.

Recommendation 20:

Councils should work together – with Housing Associations – to identify a consistent approach and standard for stock condition surveys, based on best practice and existing innovation within our sector.

CASE STUDY Dudley Council

> "We want to invest in the places and the people we've already got. It's not all about new development."
>
> **Kathryn Jones,**
> **Director for Housing & Communities**

Understanding investment needs

Like many councils, Dudley has developed a strong focus on improving its existing homes in recent years. Dudley initially planned to spend 2-3 years carrying out a full survey of conditions in its 21,123 council homes – but when an internal review identified problems with the accuracy and quality of its existing data, Dudley made the decision to speed up the survey to take place over just one year, and to broaden its scope to cover a whole range of issues, including compliance checks on gas and electric systems, new energy performance certificates, smoke and carbon monoxide detectors and asbestos reports, as well as compliance with the Decent Homes Standard and fire safety standards.

Starting in spring 2023, surveyors have covered the whole borough, neighbourhood by neighbourhood, completing surveys for around 20,000 homes so far. Where residents haven't responded to communication about the survey, surveyors have moved on to the next property, maintaining the momentum of the programme. Dudley's housing officers have then followed up so that any homes missed first time can be included in the final "mop up" stage – taking place at the time of writing.

Using good information to improve conditions and build trust

With a complete, robust and up-to-date view of conditions across its varied housing stock, Dudley is rewriting its investment and disposal strategies to better target its resources. This means the council can take action to improve the quality of homes while minimising disruption for residents – for example by avoiding multiple visits to the same home – and optimising value for money. This in turn allows solution to keep up the pace of further improvements. It also means that when the Decent Homes Standard is renewed, Dudley should already have the information it needs to plan further investment to meet new regulatory standards.

Whereas the standard approach to asset management usually replaces all kitchens and bathrooms on 10-20 year cycles, Dudley is now completing works sooner or later than this, depending on the real needs of the properties and the people who live in them. This is enabling more robust financial planning and improvements to the efficiency and fairness of investment plans. For example, most problems with damp in Dudley's stock are moderate in nature. If these problems hadn't been picked up by the survey, some would have become severe – and hence more damaging for residents' wellbeing, and tougher and more expensive to resolve. Some residents are also less likely to report problems with their homes than others. Good data removes the need for residents to fight for the investment in their homes they need and deserve. The council can just get on with it.

Having good information is also helping Dudley to have better and more honest conversations with residents and with councillors about what investment is needed and how to pay for it. The council has taken the difficult decision to apply the maximum rent increase allowed in 2024-25, of 7.7%, because this will enable work to maintain and upgrade homes in the ways residents and members want to see. Since the council is now able to be clearer about what it will do and when, it is building trust that this rent increase will be worthwhile.

Lessons to learn

While Dudley is confident its approach to assessing conditions, occupancy, and usage across 100% of council homes over just one year has been worthwhile, this has of course come with a cost: £3.25m. The council's revised asset management strategy alone will likely realise savings in excess of this up-front cost over 3 years, so for Dudley the process has worked. Yet there would be challenges in rolling out this approach across the country, as there are only a few trusted industry bodies for stock condition surveys, and demand for their services has rapidly increased in a short period of time. The government should carefully consider how to support councils – and indeed all social landlords - to plan, sequence and manage both information gathering and subsequent investment programmes.

For example, there could be opportunities for neighbouring local authorities to coordinate and phase works to prevent competition for limited skills, particularly where combined authorities exist. Neighbourhoods with the highest concentrations of properties suspected to be in poor condition could be front-loaded, with programmes completing stock condition surveys for all homes over time. Scaling programmes in this way would require robust contract management, which should be easier to achieve where councils share skills and resources.

Another option is for the public sector to recruit more surveyors, and / or to train in-house staff. This approach is currently constrained by limits to the salaries councils can offer, both for regulatory reasons and because of broader budget pressures. Neither of these barriers is insurmountable with the right approach from the government. Again, there could be opportunities to generate efficiencies by sharing staff and training programmes between different councils.

A Green & Decent Homes Programme – a priority for the next spending review

On top of the additional demands placed on council housing to address fire safety, damp and mould, and the ongoing need to maintain, repair and ultimately replace aging stock, in recent years there has been a growing emphasis on improving the energy efficiency of all homes to reduce carbon emissions and tackle fuel poverty. This includes initiatives such as the short-lived Green Deal's support for homeowners improving their homes, and the Energy Company Obligation, which funds energy-saving measures via a levy on energy companies. Recent years have also seen a proliferation of small, inflexible funding pots for councils to bid for covering specific policy agendas and problems: from funds attached to "levelling up" to the Social Sector ACM Cladding Remediation Fund, the Building Safety Fund and the Medium-Rise Scheme. But none of these initiatives have achieved the scale or the longevity of the Decent Homes Programme described above – and they have inevitably had far less impact on the condition of the council housing stock.

The Climate Change Act, as amended in 2019, commits the UK to 'net zero' carbon emissions by 2050. To help meet this target the government launched the Social Housing Decarbonisation Fund in 2022 with an initial allocation of £3.8bn, to be distributed over ten years by the Department for Business, Energy and Industrial Strategy (replaced by the Department for Energy Security and Net Zero in February 2023) with the aim of upgrading around one million social homes by 2030 by installing energy-efficient heating systems, improving insulation, and other measures to reduce energy consumption and carbon emissions. To date this has distributed nearly £1bn to social landlords in two waves to support interventions to 26,000 homes.[161] The SHDF has been criticised for being bureaucratic, slow to respond to economic pressures and unrealistic in its expectations of match funding, to the extent that some social landlords have been unable to spend the money awarded to them within the parameters set by government and have had to return the funds.[162]

The piecemeal nature of recent funding programmes has also meant that they have not achieved the same level of other benefits that the NAO attributed to the DHP, including 'better management of housing services, better asset management processes and the creation of jobs. Many social landlords also improved their purchasing efficiency and economies by using procurement consortia, saving an estimated £160m, with potential savings of up to £590m.'[163] The government should design future funding programmes for investing in existing, new and replacement homes to achieve similar benefits. See Solution 5.

The Social Housing White Paper of 2020[164] committed the government to reviewing the Decent Homes Standard – and the Levelling Up White Paper 2022 set a target for the number of non-decent rented homes to have fallen by 50%, and proposed a legally binding Decent Homes Standard for the PRS. But the biggest driver behind the review remains the net zero target: although government has not formally connected the two, the new Decent Homes Standard is widely expected to set out a pathway to getting the entire housing stock to zero carbon by 2050.[165]

The scale of this ambition is huge, and makes it abundantly clear that meeting the new standard will undoubtedly require a major capital investment programme for improving the existing stock of council housing. Councils' rental incomes, reserves and HRA borrowing capacity are insufficient to cover the combined investment demands of residual Decent Homes requirements, the growing backlog of repairs and now the huge demands of decarbonisation of the existing stock – let alone support new development and regeneration at the same time. In line with the New Burdens principle discussed in Solution 1, the government has to accept that public investment will be needed to bring the existing stock up to the new and demanding standards required to reach net zero.

In fact, the government has implicitly recognised this obligation already, as repeated announcements of new funding pots demonstrate. But none of these are of sufficient scale or longevity for the task – and the sheer profusion of different funding streams, each with different objectives, bidding requirements and timescales is generating unnecessary bureaucracy and missing the opportunity to integrate decency, safety and decarbonisation works efficiently. Even the SHDF - which on the face of it is a long term, large scale funding programme - can only address energy efficiency and emissions reductions, as it is run from a different department and has proved largely impossible to integrate with funding programmes to address other aspects of stock conditions. This lack of integration can mean multiple rounds of works by different departments in the same home, causing huge waste and unnecessary disruption to residents.

Growing underspends in government housing programmes, especially the SHDF, and the trend of social landlords having to return grant that cannot be spent according to inflexible criteria, demonstrates the need to combine existing allocations into fewer, larger funds, allocated over longer periods. Underspends in existing budgets also reduce the fiscal implications of this ask, as part of the funding can come from reallocation. The Decent Homes Programme's success in improving millions of homes, driving up efficiencies and stimulating the supply chain shows that this is a tried and tested approach. A new Green and Decent Homes programme is now needed, on a similar scale to the original DHP, and should be a priority for the next Spending Review expected in 2025. This should replace endless and wasteful rounds of competitive bidding with block grants based on needs, and should give recipients far more flexibility as to exactly how funding is spent.

As the new Decent Homes Standard has not been published yet, or even named, the full cost of achieving it across the council housing stock cannot be accurately assessed. But Savills' study for the LGA, ARCH and NFALMOs recently estimated the capital cost of bringing all council homes in England to net zero by 2050 at £34.3bn.[166] Some of this work will happen as a part of council landlords' standard repairs and maintenance works, meaning £10.8bn of this investment is expected to come from HRAs – demonstrating once again the huge contribution council housing can make – but there would still be a requirement for £23bn of additional capital funding, which is not currently in council landlords' business plans. Savills also modelled the cost of bringing all social housing up to EPC level C, meeting the original Decent Homes Standard and addressing fire safety issues by 2030 at £34.6bn, over which £12bn would be for council stock.[167] At a minimum, a new 'Green and Decent Homes' programme, linked to the new standard expected soon, should commit to providing this £12bn over the next five years – though in practice investment will need to be larger and longer term than that to achieve the net zero target and the new Decent Homes Standard.

Recommendation 21:

The next Spending Review should launch a large-scale, long term 'Green and Decent Homes' programme, with sufficient additional capital funding from government to bring all council housing up to the new standard of safety, decency and energy efficiency by 2030 – and setting a route map for achieving net zero by 2050. At a minimum, this should allocate £12bn to council landlords over the next five years, an average of at least £2.4bn per year.

Solution 5

Delivering new and replacement council homes

The government has committed to delivering 1.5m new homes in the next five years, but the last time England was building 300,000 homes a year was in the late 1960s, when social housing - almost entirely built by councils – made up around half of the total supply.

Today, housing associations and councils deliver only around a quarter of the much lower total net housing additions between them – and although the number of homes build by councils has recently recovered from the near-zero levels of the 2000s, councils have not provided more than 2% of new development for over forty years. It is impossible to avoid the conclusion that the massive reduction in council housebuilding since its post-war heyday has been a central driver of the overall pattern of undersupply. Repeated independent reviews into England's chronically low housing supply have unanimously recommended a greater diversity of providers of new homes as a critical part of solving this problem, and highlighted the missing contribution from councils.[168]

Low levels of council housing supply since 1980 also mean that the stock of council housing that remains is ageing, with the majority built over 60 years ago.[169] As Solution 4 explains, social homes benefited from a major programme of investment from 2000. As a result, many can be upgraded to meet new standards of energy efficiency and decency at a relatively low cost compared to other tenures[170] - but there is no escaping the need to replace some homes which cannot feasibly or economically be refurbished to meet modern standards. But if policy and funding support for delivering new council homes is lacking, the mechanisms for replacing council homes are even weaker. A study for Homes for the North in 2022 calculated that, at the current rates of demolition and replacement, each home in England would have to last for just under 3,000 years.[171]

Just under half of English councils today do not have a Housing Revenue Account. And as described in Chapter 2, the remaining HRAs are now under severe financial pressure, making it impossible for councils to build new or replace existing homes on the scale needed. The fact that remaining HRAs are concentrated in the country's major cities, where housing need is particularly acute, emphasises just what a missed opportunity this is. As a country, we have been fighting the battle against the housing shortage with one hand tied behind our back. It is time to wake the sleeping giant of housebuilding and take councils off the bench.

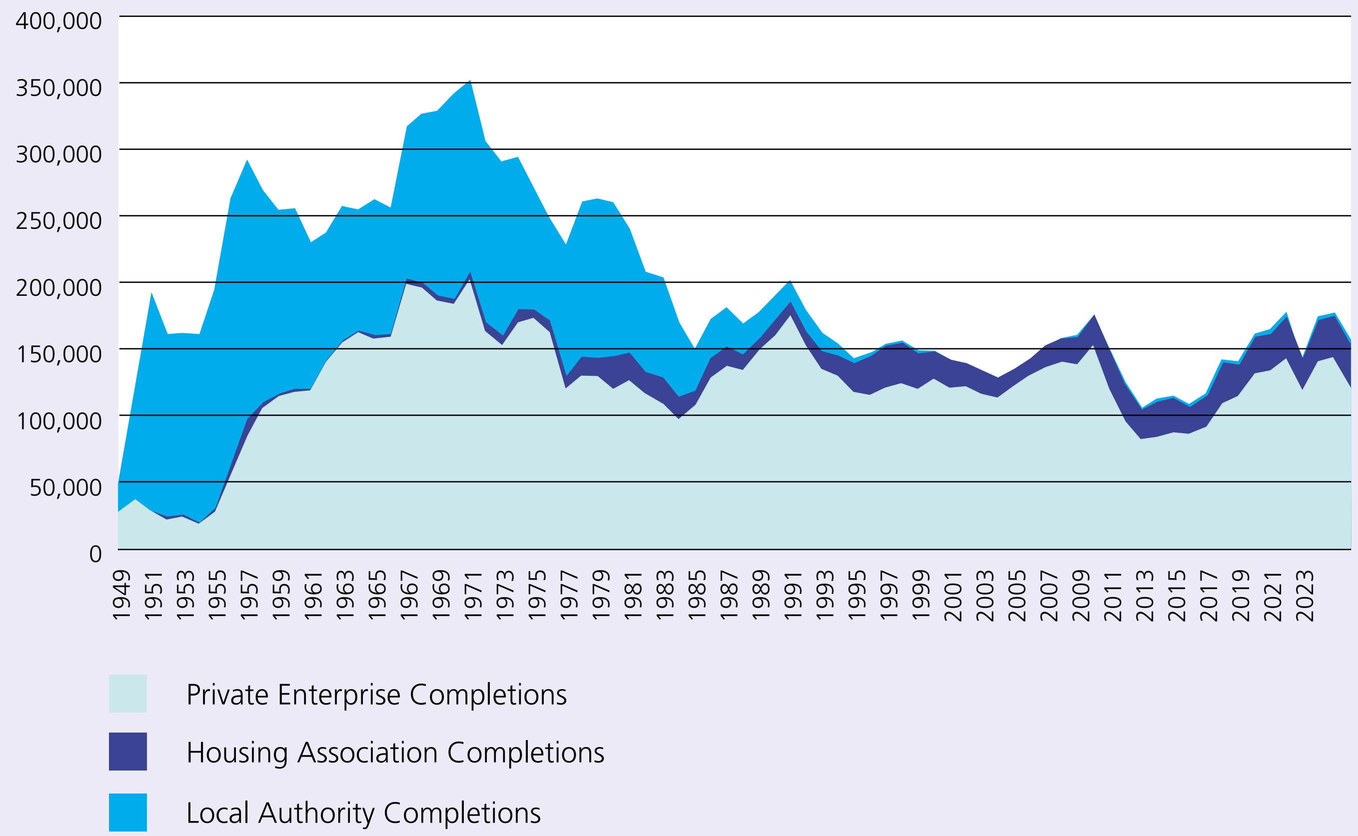
Four lost decades and the loss of council homes

Between 1946 and 1980 England built 4.4m new social homes, at an average rate of 126,000 a year – most of them delivered by England's councils.[172] Council housebuilding was ramped up through the post-war reconstruction period, and high levels of delivery were sustained through three recessions, four changes of government and nine prime ministers.

The homes that were built over this period still make up the considerable bulk of the UK's social rented stock today. Furthermore, they were built to meet the needs of a wide range of households in terms of size, occupation and income level, and were intended to be long-term homes. They were built to provide the foundations of strong, mixed communities, raising housing standards for everyone. This vision was set out powerfully by Minister of Health Aneurin Bevan in 1949: "if we are to enable citizens to lead a full life, if they are each to be aware of the problems of their neighbours, then they should be all drawn from the different sections of the community and we should try to introduce in our modern villages what was always the lovely feature of English and Welsh villages, where the doctor, the grocer, the butcher and farm labourer all lived in the same street."

The post-war period saw a cross-party consensus on the necessity of building council housing at scale, as market housing alone was simply not capable of meeting most people's needs for decent, healthy homes at prices that were affordable for both individuals and the state. While Clement Atlee's Labour governments scaled up policy and funding support for building new council homes, it was a Conservative government that oversaw England's highest ever annual social housing delivery numbers.[173] Driven by Harold Macmillan as Minister of Housing & Local Government, 1954 saw 207,730 social homes completed in England, the overwhelming majority delivered by councils.[174]

Housing completions in England



Source: DLUHC Live Table 244

These ambitious council housing programmes provided low rent homes with secure tenancies to millions of ordinary people, acting as a genuine alternative to both inaccessible homeownership and poor quality private rented homes. By the late 1970s, England benefited from a large stock of social housing, supplemented by around new 100,000 homes a year.[175] As a result, far more households were generally able to access homes of the right size and in the right locations to meet their needs. During this period private housebuilding also reached its highest level since the war, demonstrating that, far from crowding out market activity, public investment in council housing complements market supply.

This pattern of council housebuilding supporting high levels of overall supply came to end in the late 1970s with the withdrawal of government funding. Since then, council housebuilding has remained minimal, and neither Housing Association nor private developer supply has replaced it. Instead, a boom-bust housing market has taken hold, in which house prices regularly soar only to crash again. 1990 saw the introduction of Section 106 planning obligations, allowing councils to require some social and affordable homes to be provided as part of private housing schemes – but while this has become a vital way of shoring up supply, it has also made affordable housing pro-cyclical, as Section 106 supply is reliant on buoyant private supply. Without the counter-cycle demand provided by grant-funded council housing, each market crash causes total housebuilding to fall rapidly as private developers rein in their capacity and as workers leave the sector, and it only slowly recovers afterwards.[176]

As the chart above shows, the post-council housebuilding era has been one in which the total number of homes built has remained both volatile and stubbornly low. Worse, the reliance on private housebuilding to cross-subsidise affordable supply - which makes good economic sense in boom periods - means that when private housebuilding stalls so too does non-market supply. The combined effect is to make construction a highly cyclical business in which it is extremely hard to build and maintain capacity.

New council housing supply today

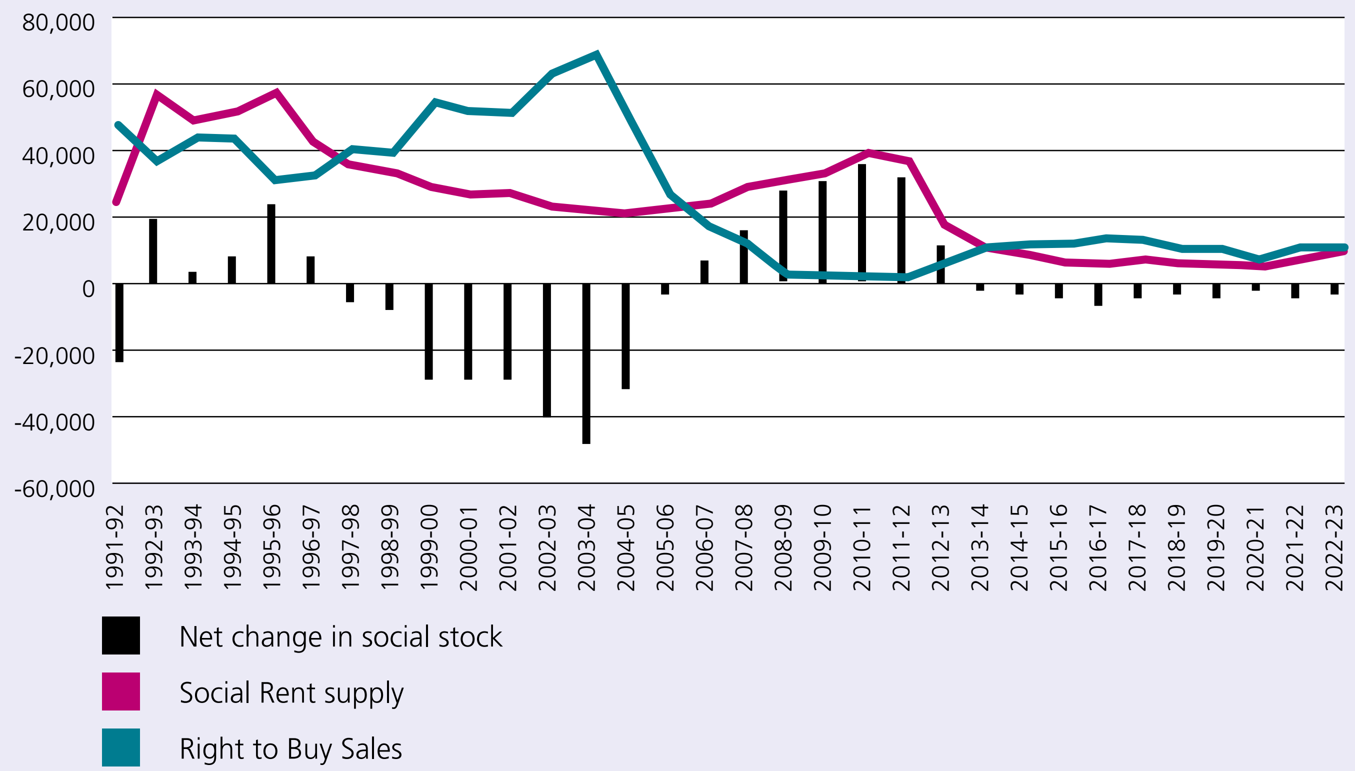
Some councils have increased or restarted housing development since the abolition of the HRA borrowing cap in 2018 and the partial return of grant support for council housebuilding, and there is scope for councils to deliver many more homes in the years to come – with the right policy and funding support. But there is a long way to go from here.

In 2023-24 (the last year figures are available for) social rented housing supply across England continued to stagnate at 9,561 homes – barely more than were supplied in Scotland the same year for a population less than a tenth the size of England's – including a total of 2,261 social homes provided by councils.[177] Critically this level of new social housing supply was below the 11,303 homes sold under the Right to Buy in that same year, as it has been for every one of the last ten years.[178]

We are steadily reducing the size of the social housing stock, just when it is most in demand.

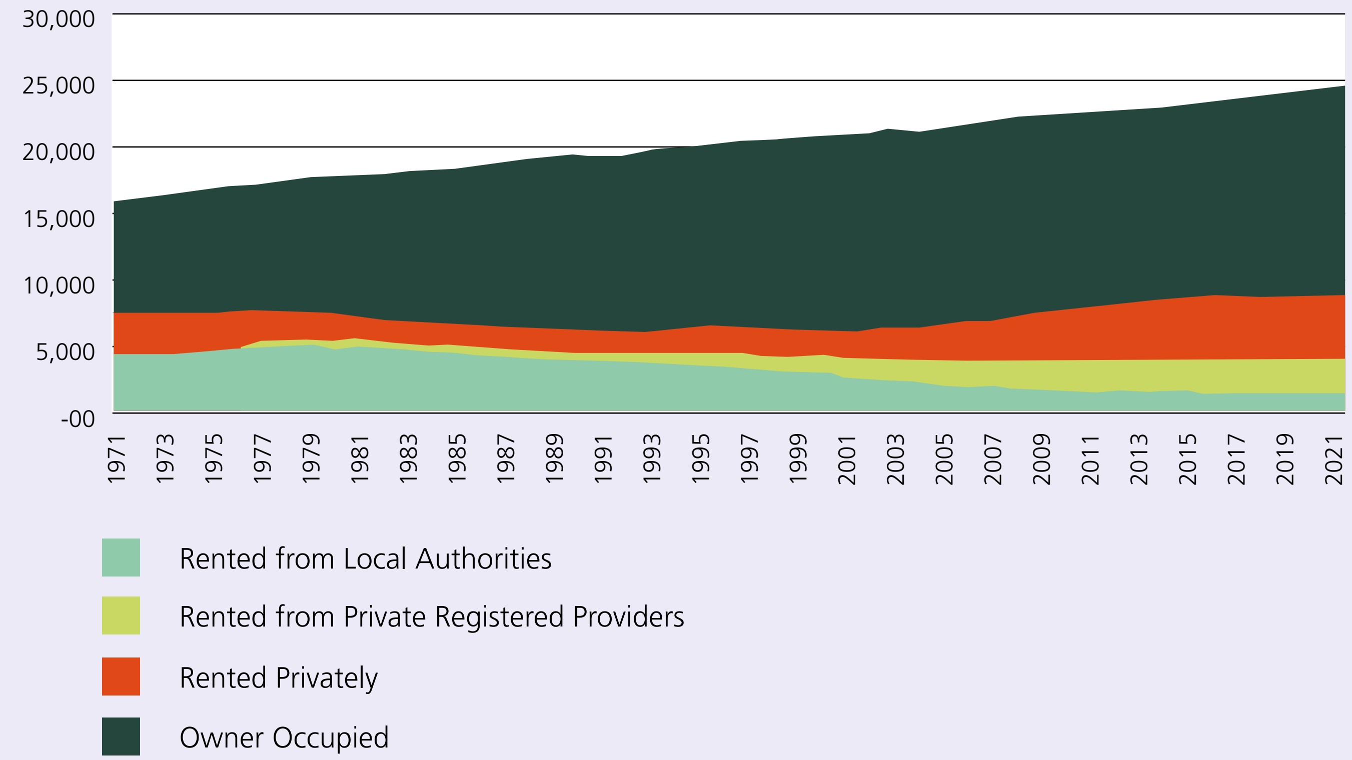
And as most of those sold were from councils, while most of those built were by Housing Associations, the reduction in the total stock of council housing has been even more pronounced: down from 5.187m units in 1979 to 1.576m in 2002.[179] As a result, many communities in England are missing out on the crucial benefits of council housing outlined in Chapter 1 of this report.

Right to Buy sales and Social Rent supply



Source: DLUHC Live Tables 1000 and 691b

England's housing stock by tenure



Source: DLUHC Live Table 104

As discussed in Solution 1, the systemic neglect of council housing as a source of new supply is partly the result of the UK government's unusual choice of debt measure for the purposes of setting its own fiscal rules. The inclusion of 'public corporations' (which includes all HRAs) in the PSND measure of national debt strongly incentives the Treasury to curtail HRA borrowing: changing the preferred measure to the international standard of General Government Gross Debt (which is almost the same but excludes public corporations) would remove this incentive. Of course, removing the bias against HRA borrowing in the fiscal rules will not, on its own, ensure councils get the financial capacity the need to contribute to supply once again.

We have also set out how numerous other national financial and accounting practices work against the proper funding of council housing. The critical failure of Green Book appraisal methodologies to adequately account for the wide social benefits that investment in council housing generates create a bias against providing adequate funding. Beyond this, what resources are available for building and replacing council homes are subject to a complex web of restrictions on how different funding sources can be used and combined in the same development, such as the rule preventing Affordable Housing Programme grant and Right to Buy sales receipts being combined. This is ostensibly to ensure each subsidy pot generates additional homes that can be scored against their respective government programmes. Yet, in practice, inflexible funding rules have prevented funding intended to ease the housing crisis from being spent, contributing to growing Homes England underspends, and failing to generate any additional business plan headroom for council landlords.

These problems are exacerbated by further restrictions on using limited funding to deliver council homes by acquiring homes for the market, an important tool for councils which cannot easily build new homes. Councils in places where housing demand is weaker are often particularly reliant on acquisitions to stem the loss of council homes from Right to Buy sales, because they do not have access to sufficient funding from grant, Right to Buy receipts or cross-subsidy to be able to build homes at the scale needed to make housebuilding viable. Dudley Council and other councils involved in this report emphasised the difference that a more pragmatic approach to the use of Right to Buy receipts would make for their ability to meet housing need, while a range of recent reports from the Joseph Rowntree Foundation,[180] Shelter,[181] the New Economics Foundation[182] and others have recognised the important role market acquisitions could play in reducing the costs of temporary accommodation on the one hand and tackling poor conditions in market housing on the other.

As things stand, council housing supply is once again on the decline. The recent increase in costs is causing many developing councils to pause projects,[183] and some councils have decided to sell their consented schemes to housing associations rather than to develop in-house.[184] This represents a huge missed opportunity to use the capacity councils have to meet housing need – just as they have starting rebuilding that capacity.

CASE STUDY Southwark Council

"Having a home is not an optional extra in life, it's an essential. That's why we've made building genuinely affordable homes our first priority in Southwark."

Cllr Kieron Williams, the Leader of Southwark Council

Prioritising council homes

Southwark Council is the largest local authority landlord in London and has the largest council house building programme in the country. Of 2,234 council homes started nationally in 2021/22, 726 were in Southwark. Since 2020, residents have moved into 1,486 completed homes. The council has planning permission for 216 homes across a range of sites in the borough, and another 700+ homes in its longer-term pipeline.

However, like many local authorities, it is now being forced to slow down, re-profile or pause promising new build projects. The challenging economic context means the costs - when combined with severe strains on their HRA and lack government funding - are simply no longer viable.

Mobilising resources to build good quality homes at scale

Southwark Council has a political target to build 11,000 council homes by 2043. To achieve its ambitious goals, Southwark Construction was launched in April 2022 – a new council department of 47 staff entirely dedicated to building new homes. They appointed an external consultant to undertake comprehensive site identification, set out a five-year action plan and used frameworks to procure contractors and professional services at pace, overcoming skills gaps which could have threatened progress.

The council's development programme is financed through a range of funding sources. High property prices in Southwark mean the council can use cross-subsidy to build council homes through Section 106, Right to Buy receipts and building some market homes on its schemes. However, those high prices also make building itself more expensive due to high land costs and the high cost of building in London, and the council still needs grant to make schemes viable. The remaining costs are funded by borrowing, with the cost of that borrowing met from the council's Housing Revenue Account (HRA).

Southwark Construction has brought together teams across the council into a centralised hub. This streamlines processes for greater efficiency, enables the council to ensure new homes are of a consistently high standard and to build in line with Southwark Council's wider ambitions – for example enhancing the character of areas in development, prioritising low carbon technology and promoting biodiversity.

There is a focus on growing and retaining in-house talent and improving learning and development. In-house design expertise enabled the launch of a new set of bespoke design standards, ensures new homes built by the council are tenure blind and of the highest quality.

Building contractors on Southwark's new homes developments provide a range of employment and training opportunities for local residents. Southwark's Fairer Futures Procurement Framework requires all contracts to achieve maximum benefit to the local area, economy and local residents. Contracts over £100,000 in value are required to consider social value in the evaluation methodology for tender awards. For contracts over £1m in value, Southwark mandates contractors to provide at least one apprenticeship per £1m of contract value.

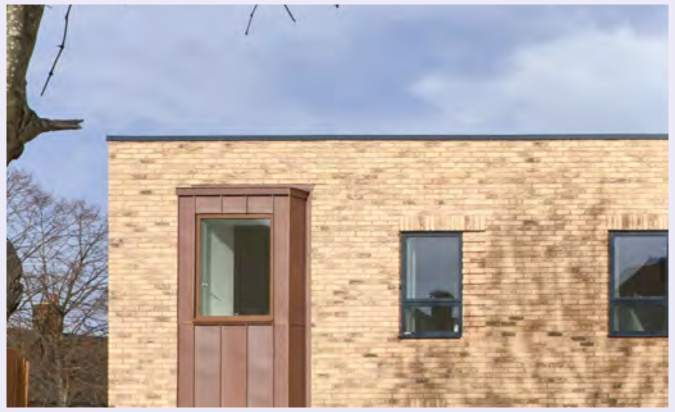
Homes and neighbourhoods designed by residents

"We were invited to comment on the choice of the architects, we have been invited and had regular meetings every month to comment on quite small design details like windows, letterboxes and flooring".

Patrick, Resident Project Group member at Ledbury Estate, Southwark

The council has established Resident Project Groups to represent the views of local residents on every new homes site and, over many years, has fostered positive working relationships with its Tenants and Residents Associations across the borough. A 'Charter of Principles' sets out the council's approach to resident consultation, ensuring that every development is inclusive and resident led.

On the Ledbury Estate redevelopment, an extensive community consultation aimed to involve as many residents as possible in the design and decision-making, to build support and design new homes that reflect the community's needs. This concluded in a resident ballot in 2021, where 86% of the estate community voted in favour of a full estate redevelopment and the project gained unanimous approval at planning committee. The first phase of building works to redevelop the former Bromyard House site are now underway at Ledbury.



Lessons to learn

"What we need now is a government that shares our ambition. There are over a million people and rising on waiting lists for a council home across our country. We will not solve the housing crisis until we start building council homes at scale again across the country."

Cllr Helen Dennis, Southwark Council Cabinet Member for New Homes and Sustainable Development

Insufficient, inflexible and uncertain government funding, combined with a broken HRA model and a tough economic climate means that Southwark's homebuilding ambitions are now under threat.

Rent caps and reductions will have cost Southwark Council over £1bn over the 30-year HRA business plan, and meeting the many new government requirements on the council's 36,000 existing homes is a huge burden. With eye-watering increases in the costs of construction, they are refocusing available resources on keeping their existing residents safe.

However, with a fair, sustainable HRA settlement, and long-term government funding for new build, Southwark Council would be able to use its pipeline and the internal infrastructure it has developed to quickly unlock the delivery of many more desperately-needed new homes.

How council housing can once again underpin successful housebuilding

As the sections above outline, counter-cyclical social and council housing is a historically proven way of maintaining capacity while demand is weak and encouraging innovation while demand is strong, benefitting housebuilders in every sector and of every type. This makes sense. It is much easier to build up and maintain a good supply of labour and skills when the construction sector can rely on steady demand from public housing alongside private supply, which is inherently volatile because it is tied to market cycles. Likewise, counter-cyclical demand for social housing supports innovation and efficiencies in procurement and in how homes are built, as the Farmer Review of the UK's construction labour model found in 2016.[185] Investors generally do not want to commit to modern methods of construction (MMC) factories which will be moth-balled at the first signs of the next housing market slowdown. It is no coincidence that MMC factories last made a major contribution to UK housing supply in the 1960s and 1970s, when councils were either building large numbers of social rent homes or commissioning them from private developers alongside market housing supply. Conversely, 2022 and 2023 saw the UK's fledgling MMC sector decline, with Swan housing association, Countryside and Legal & General all closing modular factories in response to the downturn in the housing market.

The government will need to act quickly to build up and modernise the construction sector in order to meet housing supply targets, underpinned by a new framework for council housing which puts the HRA back on a sustainable footing, and by a new approach to the design and distribution of capital grant, as set out in Solution 3 above. A significant, long-term programme of counter-cyclical housing supply is the key to overcoming severe, ongoing shortages of the skills, labour and materials needed to increase supply across sectors.[186] But more urgent action is also needed to prevent the avoidable loss of yet more construction sector capacity in the short term.

Market demand for housing has been weakening in face of rising build costs and higher interest rates, supply is set to slump even further as private developers mothball sites to avoid having to sell homes at new, lower prices. At the same time, many councils and Housing Associations are delaying or cancelling their own schemes due to rising costs and broader financial challenges, at just the time when the country could benefit most from this counter-cyclical supply. A recent report from the Home Builders Federation, Planning for Economic Failure, suggests **housebuilding in England is set to fall to 120,000 a year – the lowest level since the Second World War.** Declining rates of housebuilding are putting hundreds of thousands of jobs at risk, with major implications for the country's economic growth and the industry's capacity to expand production in future.[187]

Fortunately, there is a tried and tested method to maintain capacity at this perilous moment for future housing supply. During previous housing market downturns from 1992 and 2008, the government stepped in with funding to convert unsold market homes to other tenures (usually social rent) through the Kickstart Housing Delivery programme and other schemes. There are lessons to learn about how to design these schemes to maximise value for money and quality,[188] but the core idea is now an essential tool for policymakers. Given significant DLUHC underspends in 2022-23, it is likely that further underspends from 2023-24 could be used for this purpose.[189] There is no shortage of schemes to un-stall, so the limiting factors are only the availability of underspends and other funding, and government's willingness to act to save England's housebuilding industry from further decline.

Recommendation 22:

Government must act urgently to prevent the short-term loss of much-needed housing supply and construction sector capacity by funding councils to complete their own sites, and to acquire and redesign stalled private developer sites to include more council homes that can be built out fast.

Beyond this, reform is also needed to legislation and guidance governing sales of public land, the use of cross-subsidy from private development to deliver social housing via Section 106, and the role of councils and the public sector more broadly in assembling land and promoting strategic development. These issues have been covered extensively elsewhere by others,[190] and are beyond the scope of this report and its focus on the financial and funding framework for council landlords – but we recognise their importance and suggest that these too should be an early priority for the new government in promoting council housing supply.

The challenges of replacing council homes

Where delivering new homes has been extremely difficult in recent years, replacing council homes coming to the end of their useful life has been almost impossible for many council landlords, even where this is the best way of meeting need. A study for Homes for the North in 2022 calculated that, at the current rates of demolition and replacement, each home in England would have to last for just under 3,000 years.[191] Demolishing and replacing homes is in many ways inherently tougher than building new ones. It often involves: careful planning to minimise disruption to residents and maintain essential services; relocating existing tenants, who may have lived in their homes for many years; careful engagement with leaseholders, whose interests are different from those of tenants; and practical concerns like safely dealing with hazardous or environmentally damaging materials, such as asbestos. Yet there is no doubt that the government's recent approach to funding for council housing has aggravated the tricky but necessary business of demolishing and replacement homes even further.

Above all, the initial design of the Affordable Homes Programme 2021- 2026 (AHP), worth £11.5bn, explicitly excluded works on existing homes – however old or unfit-for-purpose. Funding was available only for "net additional homes" on regeneration projects, beyond the original numbers of homes on an estate – even where ageing stock had come to the end of its useful life and could not safely be relet. While the AHP is the most significant source of capital grant for development, the "net additionality" rule applied to many other sources of funding for development.

This produced tensions between social landlords, residents and communities more broadly, as inflexible funding rules often meant estates could only be upgraded by densifying them and by replacing some social rent homes with less affordable tenures, including market sale – approaches which are not always appropriate or acceptable to local people. This has sometimes slowed down or even stopped urgently needed regeneration projects, leaving council residents living in homes everyone knows are not good enough. In many cases, councils and communities have found ways to navigate these complex restrictions and have co-designed regeneration schemes which meet residents' priorities against the odds (see the Southwark Council case study above). Yet it is clear that excessive bureaucracy and control from the centre over funding for new and – especially – replacement social homes have made it unnecessarily difficult for councils to manage their stock effectively and in the ways residents rightly expect. Future capital grant programmes must learn from these mistakes.

In 2023, faced with mounting underspends, Homes England finally agreed that AHP grant could be used to replace homes as part of estate regeneration, provided schemes as a whole provide additional new affordable homes. While some flexibility is welcome, this means schemes still need to "densify" to access grant, which presents challenges for getting community buy-in and for good placemaking. As argued in Solution 3, future grant programmes should be bigger, broader and should target overall outcomes across development programmes, giving social landlords the freedom and flexibility to work with communities to find the best ways of meeting those outcomes across individual schemes – including by replacing homes. Similarly, a reformed Right to Buy scheme should allow council landlords to use receipts to replace homes – as well as to deliver new ones – where this is the best way of meeting local housing need.

Encouraging collaboration to deliver and replace homes

This report is clear about the challenge ahead to rebuild England's capacity to invest in existing, new and replacement homes of all types on the scale needed – especially council homes. But as the benefits outlined in Chapter 1 make clear, taking on the challenge is worth it. And we can reduce the scale of the challenge by promoting collaborative working between different council landlords, between councils and communities, and between councils and other types of housing provider. Government can support this collaborative working first by getting the HRA back onto a sustainable footing, and then by keeping it there through policy and funding settlements designed for the long-term, providing confidence and stability for all actors in the construction process.

The government should also seek to replicate the kinds of purchasing efficiencies which previous large-scale investment programmes have seen, for example by enabling combined authorities and other groupings of councils to bulk purchase materials which we know will be needed in the coming years, perhaps backed by government guarantees to bring down prices. These materials include: bricks, roof tiles, roof felt and insulation, windows, fire doors, internal doors, kitchen units, sanitary ware, smoke alarms and heat alarms.

Councils must also play their part, taking every opportunity to share knowledge, skills, staff and procurement contracts with each other and with partners – and by recognising where others are best placed to act. There are many examples of this already, such as the London Housing Directors Group in the capital, and collaborative working on stock condition surveys from the Association for Retained Council Housing, the National Federation of ALMOs, the Local Government Association, the National Housing Federation and the Royal Institute of Chartered Surveyors. There is the potential to do much more. For example, Rotherham Metropolitan Borough Council has expanded its planning team to support both its own housing development team and partner organisations in the third and private sectors to scope out options for developing sites (see our case study in Chapter 1). There are further opportunities for councils to work together to manage the risks of inefficiencies from many organisations scaling up works over a short period of time, such as by working with neighbouring councils to coordinate and phase works in cross-boundary programmes (see our case study from Dudley Council under Solution 4).

Sheffield Council Case Study

Housing growth through partnership working

Sheffield is the fourth largest city in England. It is a growing city with plans to build 36,000 new homes over the next 15 years. The city has a mixed economy, and housing growth and delivery is seen as a key component of the city's economic ambitions. Against this context, the city's partners have developed a long term place based partnership that aims to turbo charge the delivery of new homes under the banner of "Sheffield Together".

The Sheffield Together Partnership comprises Sheffield City Council, Homes England, The South Yorkshire Mayoral Combined Authority, the Sheffield Property Association and major housing associations. It has agreed a mission to build the right type and quality of new homes in the city building on strengthening relationships between landowners, private sector partners and the public sector which will see action taken where appropriate to un-lock the delivery of new homes.

Chaired by the Council Chief Executive - Kate Josephs, Sheffield Housing Growth Board, brings together these partners to oversee effective delivery – working collaboratively on formulating a housing pipeline, preparing a 5 year rolling integrated affordable housing programme, reviewing partners' existing land ownership, securing access to public and private sector finance, co-developing business cases, as well as using partners' unique tools and skills to proactively unlock land.

A range of approaches to meet local requirements

Now in its second year, the objectives of the partnership are being realised through the delivery of a number of key workstreams which focus on key strategic regeneration sites and neighbourhoods. The approach will see up to 20,000 of the 36,000 homes needed being built in the city centre, creating five new residential neighbourhoods – Furnace Hill, Neepsend, Moorfoot, Wicker Riverside and Castlegate, as well as the regeneration of the Sheffield Station campus (a mixed used redevelopment with the capacity of approximately 1,000 new homes and key gateway into the city). The first (Furnace Hill) of these has already received £67m of government funding to support land assembly and unlock delivery.

Outside the city centre will see the development of Attercliffe – an important local centre with a past industrial heritage and a key gateway to Sheffield from the M1 motorway. These ambitious plans for housing growth are underpinned by a rolling plan of affordable housing, which seeks to meet the range of identified housing need, across multiple tenure types, in the city's new 10 year housing strategy.

The Sheffield Together Partnership will expand and accelerate the plan through adopting different approaches to affordable housing growth. This includes identifying a deliverable programme of social housing stock increases through the Council's HRA, as well as a clear pipeline of council owned land for promotion to housing associations for new affordable homes.

The approach will also include developing shared ownership homes and working with partners to identify ways to bring long-term empty properties in the city back into use. This will create additional supply of affordable homes as well as addressing housing pressures for looked after children and specialist adult accommodation. A key component of this is having good quality up to date housing needs data to inform the development and delivery of homes that meet local requirements.

Lessons to learn

This is a long term strategic approach in the city, working in partnership with investors, local and national partners, government and our community with the sole aim of increasing much needed housing in the city across all tenures to help sustain and further our growth ambitions. It has been led from the outset by Sheffield City Council leadership at the most senior level, determined to

Continued

reset relationships – including with key national partners like Homes England - and recognising that the scale of ambition on housing growth cannot be delivered by the Council alone.

The partnership has been characterised by a commitment from all to openness, willingness to challenge, data-led decision making and every partner committing time and energy to the team. The Mayoral Combined Authority have been able to learn from this approach, pioneered by the core city, and have recently signed a strategic partnership with Homes England to enable similar work to take place across the wider region.

Sheffield's approach has demonstrated the crucial leadership role councils can play to accelerate the delivery of new housing and convene partners to deliver a shared vision for a place.

Recommendation 23:

Councils should work collaboratively to identify and realise cost efficiencies and better outcomes in delivering new and replacement homes, including by sharing best practice, pooling resources and skills, purchasing materials in bulk using shared procurement, and scoping out opportunities to coordinate and phase works in cross-boundary programmes.

Councils should also scope out opportunities to work with housing associations and private developers through joint ventures, where this will enable them to scale up their ambitions faster. After many years in which councils have had a limited role on housing supply, Housing Associations and private developers generally benefit from greater expertise and experience in recent housing delivery. HAs also benefit from access to capital markets and sometimes from greater balance sheet capacity. In many cases, councils can combine local knowledge, land, planning expertise and access to public funding streams with external partners' financial and construction capacity and market knowledge to unlock schemes that would simply not come forward in the absence of such collaboration.

Designed carefully, with clear outcomes frameworks and robust contract management from councils, joint ventures could allow different construction actors to pool their resources, share risk and combine public and private funding streams to achieve greater scale and impact. By involving residents and the wider community in the planning and decision-making process, councils using joint ventures can ensure housing developments reflect the needs and priorities of the communities they serve, while speeding up progress beyond what councils could achieve on their own. In using social housing supply to boost overall housing supply, it is crucial to avoid a situation in which different social landlords push up labour and materials costs by competing against each other.

Conclusion

We are at a fork in the road for council housing in England

The case for maintaining and growing our stock of council homes is clear: to solve social problems, improve people's health and wellbeing, regenerate town centres, boost housing supply, drive economic growth, and underpin decarbonisation of the nation's housing across all tenures. However, years of budget cuts, policy uncertainty, poorly designed funding programmes and cost inflation have pushed the HRA financing system for council housing to breaking point.

This not only makes it impossible for council landlords to invest in existing and new homes in the ways people and communities need – it is also increasing the pressure on councils to sell even more homes, above and beyond Right to Buy sales, to fund improvements in an ever-dwindling stock of council homes.

The 2012 self-financing system for council housing was designed for a different world.

It is now time for the government and councils to work together to establish a new fair and sustainable HRA model, updated to reflect today's policy priorities and economic conditions.

This report has set out a policy prescription to secure the future of England's council housing and ensure council landlords can play their full part in achieving the new government's objectives. Immediate action to stabilise the HRA will stem the decline in conditions, stock levels and skills and capacity. Next, long-term settlements on rents, borrowing, grant and the other crucial policy levers for council housing will restore confidence in the government's intention to maintain and grow the country's stock of council homes.

Together, these interventions will set the stage for councils and their partners to invest in existing and new homes using better designed, more flexible funding packages. For our part, councils must continuously improve collaboration, working together and with partners from every sector to share learning, realise efficiencies and learn from the mistakes and the successes of the past.

There is still time to secure the future of council housing in England for current and future generations – but the time to act is now. To delay would be to tolerate further decline in the quality and quantity of council homes which the country can ill afford.

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