Securing the Future of Council Housing

Five solutions from
20 of England's largest
council landlords

An interim report - July 2024

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Foreword

Council housing in England stands at a cross roads. Carry on down the path we are on and an ever dwindling number of people will benefit from the transformative impact of a good quality council home. However, that tragedy is not inevitable. There is a much better path we can and must choose.

The route we travel will depend on the choices made during this parliament. Without urgent action councils will be tipped over the edge, as the costs they need to meet to maintain their council homes outstrip the income they have to pay those costs.

Here we set out the route out of this crisis. A ten year plan to secure England's council homes for generations to come.

This plan has been developed by Twenty of the largest council landlords in England, and I want to thank all of the councils who have helped to shape it. We have developed this plan together because we see every day how council homes transform lives for the better. For families across our country their council home is a foundation - giving them the security needed to put down roots, flourish in childhood, get on at work, stay healthy and age well.

Yet all of this is at risk. With our national council housing finances now on the brink. Over the last decade government has repeatedly stepped in to both reduce council rents and set higher standards that council landlords must meet. These decisions have been made for good and often 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. Global events impacting our economy, construction costs and interest rates have then turned this chasm into a crisis.

Our five solutions offer the new government an opportunity to turn this around - lifting the council homes we have up to modern, safe, healthy and green standards, and delivering the thousands more council homes that our country urgently needs. They draw on the work councils are already doing to deliver more and better homes for our communities.

Later this year we will publish our full report – a more detailed account of the problem, innovative ideas from across the country and the practicalities of our recommendations. However, we want to share our plan with the new government from the outset, so we can work together to secure the future of England's council homes.

There is no one silver bullet. Ending this crisis will take a decade of renewal. Starting with emergency action 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 lives for the better for generations to come.

Cllr Kieron Williams,
Leader of Southwark Council

Introduction

Everyone should have a home which 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, including over 142,000 children. A lack of council housing has also created a huge drag on government finances, with private landlords set to receive £70bn of public money in housing benefits between 2021 and 2026 – more than six times the amount allotted by central government for affordable home building over the same time period. As 20 of the largest council landlords in England we are determined to play our part in addressing our national housing crisis.

Despite our ambitions, England's council housing system is broken and its future is in danger. An unsustainable financial model has left a £2.2 billion black hole in councils' housing budgets by 2028.

Because it is managed prudently over the long term, council housing finances rely on a stable framework of reasonable rules, whereas frequent, erratic shocks undermine its special ability to meet social needs efficiently and equitably. Our 2012 self-financing settlement with government was based on a 10-year deal that would ensure our rent incomes were predictable and increasing, and that our costs were foreseeable.

But that deal has not been honoured by government. Whilst we have been expected to deliver our side of the agreement, repeated policy changes from central government have imposed new costs on councils while at the same time restricting our income. The Housing Revenue Account system is now in a perilous 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. 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.

Ahead of publishing a full report later this year, this document is a summary of the solutions twenty of the largest council landlords in England agree are needed to solve this crisis. It outlines a bold but pragmatic plan for how we can work together with government, over the next decade, to save the future of England's council housing.

Our recommendations to council landlords acknowledge the crucial role of local authorities in ensuring new building, upgrades and maintenance works offer excellent value for money. But the national financing and policy environment must change to enable us to operate efficiently and effectively.

In recognition of the severe impact national policy choices have had on council housing budgets, **we are asking government for immediate commitments to restore confidence after years of uncertainty, and an emergency capital funding injection.** 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, the government should:

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 for achieving these five solutions 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.

Part One: 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 3.5 million people in 1.6 million 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 £3 billion 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 which 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.

The government's own analysis is 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 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 158 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 billion 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 costs 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.

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 PWLB interest rates and terms.

These changes have had severe impacts on council housing finances: the 2016-20 social rent cut alone reduced council landlords' rent revenue by £2.4 billion over four years,[14] amounting to an estimated £40 billion by 2042. A second, five year rent settlement from 2020-21 was again cancelled by government after only one year when it capped rent increases, costing councils £300 million in the first year of the cap alone.[15] A further rent cap from 2023 to 2024 cost councils another £644 million, 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 maybe 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 £2.2 billion 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.

Part two: Five solutions for a renewed council housing system

The Housing Revenue Account system 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.

Because it is managed prudently over the long term, council housing finances rely on a stable framework of reasonable rules, whereas frequent, erratic shocks 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. 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.

1. Establish a new fair and sustainable HRA 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 £644 million, 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 rest of this chapter 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. Savills research has shown that if the 2012 model was rerun today, taking account of the changes since then, the settlement should be 57% lower, down from £7.66 billion to £3.31 billion for HRAs in London.[16] The same methodology should be applied to the full £29.188 billion settlement from 2012 for all HRAs in England.

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 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 £644 million 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. Government should 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 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.

Recommendation 5:

The government should commit to longer-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 0.15-0.20% 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 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. Reform unsustainable Right to Buy policies

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 current policy framework is 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 which 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.

Recommendation 10:

The government should review discount levels for the Right to Buy in England, reducing these 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: removing the cap on the share of Right to Buy receipts which can be used to acquire existing homes; 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; 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.

3. Remove red tape on the Affordable Homes Programme and other funds

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 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, 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 have since combined the VOST model with environmental and governance metrics to produce a full ESG framework.[22] Meanwhile Homes England are publishing a series of high quality research papers into different aspects of measuring social value -– and their evidence on the impact of housing-led regeneration is already reflected in DLUHC's new 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. Announce a Green & Decent Homes Programme

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 £19 billion.[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 £37 billion 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 £2.6 billion.

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 LGA, ARCH and NFALMOs (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 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 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.

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 £34.3 billion.[32] Some of this work will happen as a part of council landlords' standard repairs and maintenance works, meaning £10.8 billion 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 £23 billion 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 £34.6 billion, over which £12 billion 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 £12 billion 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 £12 billion to council landlords over the next five years, an average of at least £2.4bn per year.

5. Fund the completion of new 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] 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 2023-24 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 far greater flexibilities in the use of Right to Buy receipts.

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 starting rebuilding that capacity.

How council housing can once again underpin successful housebuilding

With market demand for housing now 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, 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 2022-23, it is likely that further underspends from 2023-24 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 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 it needs to be.

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.

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