



Funding Social Housing

LHG Briefing Paper for Angela Rayner's Team

1. Introduction

This paper addresses two aspects of the housing emergency: the chronic underfunding of existing council housing and the desperate need to increase the supply of social rent homes. In Broken Britain, the housing emergency competes for attention with other emergencies, such as climate, productivity, cost of living, health service and social care. The housing emergency also interacts with these other emergencies.

A key to solving both problems is to apply a more comprehensive social value assessment to spending decisions associated with social housing, an assessment that recognises the full value by including employment, health and education.

Whilst the quickest and most effective way to improve the situation is to invest billions of pounds, LHG understands that this cannot happen in advance of economic growth and that short term change will be driven by bending existing funding streams, releasing underspends and changing the rules. Whilst the situation is critical, there is a cause for optimism. For the past 14 years there has not been a clear focus for policy and funding. We now have a government that recognises that there is a housing emergency and is seeking to mobilise the private, public and independent sectors. Our new government recognises the need for competency and certainty.

2. Urgent action to make existing council housing safe and liveable.

The management and maintenance of council and housing association homes is funded differently. This first section focuses on the funding for existing council homes, for which the crisis is more acute. This paper draws on report commissioned by stock owning councils, entitled the *Future of Council Housing*, authored by Rose Grayston and Toby Lloyd.

Council housing is chronically and systematically underfunded. This affects 3.5m people living in 1.6m¹ council homes. 158 English councils have a Housing Revenue Account (HRA)².

¹ Lloyd and Grayston- Draft Future of Council Housing report

² Lloyd and Grayston ibid

The Labour Party's National Policy Forum document recognises that social housing needs to be funded at an adequate level to ensure that homes are safe and liveable. The document emphasises that action is required to ensure that an event like the Grenfell fire tragedy does not happen again.

Stock built before the second world war is prone to damp. Tower blocks and other blocks built with non-traditional materials in the 1960s/70s may pose building safety risks. Everyone hopes that the Grenfell fire tragedy was the consequence of a unique set of circumstances, most notably the addition of combustible cladding. However, given that the management and maintenance of council housing is chronically underfunded, no-one can be sure that there may not be another tragedy in future. Social housing providers have a responsibility to self-refer to the Regulator of Social Housing (RSH) any safety breaches. There is a real question about whether some councils should self-refer themselves because they do not have the finance to ensure that their residents' homes become safe and damp-free within a reasonable time period.

Cllr Ross Houston, Deputy Leader of Barnet Council, predicts that every London council's HRA will go into deficit during the next government³. Lloyd and Grayston reference research by Savills which estimates a budget black hole of £2.2bn by 2028⁴. The only way that many councils will be able to keep their HRA solvent is to delay the essential major works needed to make their homes safe, damp-free and liveable, or alternatively to dispose of buildings that they cannot afford to maintain. The incoming Labour Government will want to increase the amount of council housing. The initial challenge, however, will be to turn around the net loss of council housing.

The self-financing of councils' HRAs was devised by John Healey, Labour's then Housing Minister. The plan was to put council housing on a firm financial footing. Councils would be able to predict their income because rents would be set over a ten-year period. Councils were required to quantify the investment needs for their homes. Anticipated income and planned expenditure were to be used to produce a 30-year asset management strategy and business plan. Council housing had benefited from £38bn Decent Homes programme investment by the Labour Government over the previous ten years. The vision was that council homes could be self-financing and well-maintained, without the need for government subsidy. The assumption was that central government would devolve the power and responsibility to councils and no longer interfere in the running of council housing. It was recognised that a change in national policy might materially affect the financing of council housing, in which case the settlement would be reviewed.

However the aspiration that councils could deliver a long-term plan to maintain and improve their stock was undermined by the incoming Coalition Government and their austerity agenda. When the Localism Act was introduced in 2012 many councils were saddled with significant debts, with a total debt of £28bn⁵. The assumption was that rents would increase with inflation, but for five of the subsequent twelve years Coalition/Conservative governments imposed below inflation rent increases. The effect of a below-inflationary rent increase multiplies over the years. The CIH is working with Savills to quantify the lost income. An initial estimate by Savills is that English councils lost £2.4bn

³ London Labour Housing Group Conference 12.12.23

⁴ Lloyd and Grayston ibid

⁵ Lloyd and Grayston ibid

in revenue between April 2016 and March 2020⁶. They quantify the total level of the reduced income to be £40bn by 2042⁷

The circumstances that have changed since the introduction of the Localism Act are:

- Building Safety Act 2022, which the Local Government Association estimate will cost councils £7.7bn up to 2030⁸. The Leader of Southwark Council estimates that it has cost £1m just to register its high-rise blocks, with the full cost of the works still to be quantified. The previous Conservative Government introduced a building safety cost remediation scheme, to protect homeowners and leaseholders (but not rent payers) from the costs. The previous government has not funded councils and housing associations to undertake urgent building safety works.
- A growing understanding of the climate emergency, and the need for the country to become net zero by 2050. With a dramatic increase in fuel costs the need to make council homes more energy efficient and reduce the fuel poverty of council tenants has shot up the agenda.
- Councils will be given a legal responsibility to eradicate damp in residents' homes. With councils still undertaking investigations, we await a reasonable estimate of the number of council homes affected by damp and the cost of remediation.
- The introduction of Universal Credit, the restriction of social security entitlement, Covid and the cost-of-living crisis have negatively impacted on the ability of council tenants to pay their rent. The County Courts are overwhelmed, making enforcement action more difficult. Local Authority Statistics report that the total arrears of English council tenants rose from £206m in 2016/17 to £335m in 2021/22⁹.
- The RTB discount has been increased. It is the HRA and council tenants that bear the cost of properties being sold at below their market value. The UK Housing Review (UKHR) 2024 reported that over forty years, sales have produced over £51bn of receipts¹⁰. For a brief period, councils were allowed to reinvest 100% of capital receipts. This policy has ended. It has tended to be the best homes that have been bought, leaving councils with poorer quality stock to maintain. In 2019 Shelter reported that 2m social homes had been sold, with only 4% replaced¹¹. The acceleration of RTB means that councils have been left with a reduced stock to pay off their debt.
- As a consequence of long-term under-investment and emerging building safety costs, the major works recharges faced by leaseholders in council blocks can be very significant. The previous Government moved to protect leaseholders from the full consequences; again this cost has fallen on council tenants.
- The response of the previous Government to the systematic under-investment in council housing was to strengthen individual tenants' customer rights and standards. The business model of no-win-no-fee solicitors is to recognise the

⁶ Grayston and Lloyd *ibid*

⁷ Grayson and Lloyd *ibid*

⁸ John Perry CIH Email 14.5.24

⁹ Grayston and Lloyd *ibid*

¹⁰ UK Housing Review 2024 table 61

¹¹ Shelter A vision For Social Housing 2019 page 185

market created by this contradiction and to transfer their attention from PPI to council housing disrepair. Consequently, more money leaks out of the system to no-win-no-fee solicitors exacerbating the problem.

- Post 2022, building cost inflation has been higher than general inflation and rent increases, during 2022 it was 16.8%¹².

The previous Conservative Government consulted about a New Decent Homes Standard but did not move to implement it because the civil servants knew that councils cannot fund the work.

The Chartered Institute of Housing (CIH) estimate that if the 2012 self-financing debt model were re-run today the debt settlement would be £11bn, rather than £28bn¹³. Councils are struggling to pay off a debt that £17bn higher than is sustainable. Twelve years after the introduction of self-financing, collectively councils have made no in-roads in the debt, which remains at £28bn.

It can be argued that sometimes reduced income can produce efficiency savings, as landlords seek to maintain the same level of service with less money. However, the underfunding of council housing is so extreme that there are perverse outcomes, as councils cannot afford to:

- Bring some higher cost empty properties back into use, even though temporary accommodation costs are rising exponentially.
- Undertake vital major works, resulting in more responsive repair costs and legal disrepair payments.
- Plan and supervise major works and responsive repairs as intensively as they wish, which sometimes results in higher cost and inferior quality work.
- Attract sufficient workers to deal with persistent workforce shortages.

The majority of councils that have retained their housing stock are Labour controlled. Councillors stand in significant legal jeopardy as they are having to take responsibility for a chronically underfunded service. There is a political cost: residents whose homes are not being adequately maintained blame the organisation that they have direct contact with - their local council.

3. Proposals to fund essential repairs.

Grayston and Lloyd estimate that £12bn is required in the next 5 years¹⁴ to make council homes safe, liveable and energy efficient. This number is very daunting. However, the last Labour Government funded a £37bn¹⁵ Decent Homes programme over a decade, which reduced the number of non-decent council homes by 1.1m.

The first question is what extra income councils can raise for themselves, from their tenants and leaseholders. There is limited scope to increase rent levels without a meaningful change to the benefit system and an increase in the minimum wage.

¹² Lloyd and Grayston *ibid*

¹³ CIH Briefing on HRA Settlement 57.24

¹⁴ Grayston and Lloyd *ibid*

¹⁵ Grayston and Lloyd *ibid*

There is a high concentration of the working poor in council housing. The restoration of the direct payment of the rent covered by housing benefit to councils, rather than the individual making the claim, would help councils to manage their arrears.

Council leaseholders contribute to major works costs. However the consequence of years of under-investment is that when works can be done the costs are beyond the capacity to pay for many residential leaseholders.

Within the next five years the government will need to intervene to save council housing. The question is how it will be done.

The short-term options available are:

- **Crisis Funding:** There are many calls on the current £2.4bn 2023/4 housing programme underspend¹⁶. Grayston and Lloyd argue for the immediate injection of £644m¹⁷ equal to the income lost due to the rent cap from 2023/24.
- **Suspension of debt repayments:** As an emergency measure, debt repayments need to be paused, without any increase in interest, to ensure that debt burdened councils can get through the next five years.
- **Early repayment of higher interest debts:** The suspension of repayments can only be an emergency short term measure. As part of the financial stabilisation, councils should be able to pay off higher interest debts earlier, without financial penalties.
- **Certainty about borrowing costs:** With limited financial resilience, councils need certainty about borrowing costs and favourable terms, such as 0.15% above government borrowing costs, with a 60-year repayment period.
- **Rent certainty:** Councils need to know that rents will rise by inflation plus 1% for at least the next ten years, under a new rent settlement. The exception could be an emergency situation, in which case councils should be compensated for the loss of their projected income.
- **RTB:** LHG is pleased that the Labour Party will restrict the effect of RTB on the number of council homes being lost, by reducing the discount, extending the residence criteria and placing restrictions on the purchase of new social homes. Another option could be to give the power to regional mayors or local councils to suspend the RTB in areas of high housing stress. Councils should retain all receipts and be allowed to decide whether it is better to spend existing receipts on maintaining existing homes in a liveable condition or building new homes. The 'use it or lose it' rule should be ended, to allow councils to be able to plan their investment strategy.

The medium-term options are:

¹⁶ Grayston and Lloyd Ibid

¹⁷ Grayston and Lloyd ibid

- **New Decent Homes Programme:** Over time, as the economy stabilises, the incoming Labour Government could plan a New Decent Homes Programme as ambitious as that of the last three-term Labour Government.
- **Fund new requirements:** HRAs are at breaking point, and there is not the capacity to fund significant new requirements, even if circumstances demand this. Grayston and Lloyd argue that the New Burdens doctrine established in 2010 should be applied to HRAs, in that new requirements should be ‘properly assessed and fully funded.’ The Building Safety Act and the anticipated Awaab’s Law to require damp eradication require extra funding. A New Decent Homes programme will address this issue.
- **Re-assessment of HRA debt repayments:** The national HRA debt is £26bn¹⁸. It is generally considered that this debt is too high to be written off. However, as noted above it is estimated that the Treasury has received £47bn from RTB receipts. This debt is unevenly distributed between councils. At the time few people understood the logic of the distribution. In the context of events described above any logic that existed in 2012 has completely disappeared. The unsustainable level of debt faced by some councils needs to be addressed. The Localism Act allows for this reconsideration if there is a material change in circumstances.
- **Direct Warm Homes funding to damp eradication:** Damp occurs when there is a confluence of factors: including a building that is energy inefficient and a family who cannot afford to heat and ventilate their home, with overcrowding as another risk factor. The cause of dampness has wrongly been attributed to the ‘lifestyle’ of family living in the property. It is not the lifestyle choice of any family to be too poorly paid to be able to heat their home or to be overcrowded. The same family can live in a modern, well-insulated, house without damp being an issue. Councils need Warm Homes funding to undertake energy efficiency and ventilation works. In addition, low-income tenants living in leaky homes need a hard-to-heat payment to help them to be able to afford to heat their home adequately. This is a long-term project. Savills estimate the cost of bringing all council homes in England up to net zero by 2050 to be £34.3bn¹⁹.
- **Trust councils:** Councils are best able to assess and quantify housing need. This includes deciding whether money can best be spent preventing existing homes from becoming unliveable or building new homes. Councils should play an active role in influencing the Affordable Homes Programme and other Homes England funding streams.
- **End the conditionality of funding:** As a generalisation, only big housing associations with large reserves have been able to meet the match-funding requirements of the Social Housing Decarbonisation Fund; with cash strapped councils having to let this opportunity to access an initial allocation of £3.8bn pass them by. This clearly makes no sense, with so many council tenants living in homes prone to dampness. This was partly recognised by the out-going Conservative Government, with a change of criteria announced in April 2024. LHG is pleased that

¹⁸ Grayston and Lloyd Ibid

¹⁹ Grayston and Lloyd ibid

the Labour Party is committed to bringing to an end the 'Hunger Games' competition between cash-strapped councils for funding.

- **New borrowing:** A request for extra freedom to borrow, increased headroom, and a change in the rules as to what counts as public debt has historically been at the top of the wish-list for supporters of council housing. However, most councils' HRAs are in a too perilous condition for extra borrowing to be contemplated. The self-financing assumption was that the £28bn HRA debt would reduce over time. However, the total debt is unchanged, because councils are struggling to pay down their debts and are having to borrow more to respond to the housing crisis. LHG Executive Member Jack Shaw has already shared unpublished researched that finds that councils are spending 12-15% of their core spending servicing debts across all services²⁰. However, if the measures argued for above are implemented, borrowing will become a possibility to undertake essential major works. LHG were specifically asked by Angela Rayner's team to advise on whether changing the rules on borrowing for housing investment would be helpful. This complex issue is considered in more detail in appendix 1.

Gordon Brown introduced the Golden Rule to demonstrate prudential borrowing. This remains a critical consideration. However, there is a debate about whether capital investment should be excluded from fiscal targets, to address the UK's chronic productivity problem. For instance, the installation of a new pitched roof on a block will present employment opportunities and will be fully funded by rental income during its 60-year life. Grayston and Lloyd argue that the current rules have a 'pervasive bias against investment in council housing'²¹. The value of the housing stock rises over time, unlike other forms of investment that depreciates. The fact that council housing is treated in the national accounts as provided by public corporations (not directly by government), offers the opportunity to treat their borrowing separately from general government borrowing, as happens in other countries. This would be advantageous if councils were able in future to borrow at competitive rates from private sources, not the PwLB.

- **Tenants' Voice:** How has the chronic underfunding of council housing been allowed to happen? Injustice happens when a section of society does not have a Voice. This is true of council tenants. In 2010 the Coalition Government overturned Labour's plan to create a National Tenants' Voice, which was planned to represent the views of council tenants to policy makers. The Labour Government could restore the Tenant Empowerment Grant²² to allow tenants to have a say at a national and regional level. The grant also used to pay for tenants to collectively take control of their homes, through the Right to Manage, if they are dissatisfied with the level of service that they receive from their landlord. An alternative proposal from TPAS²³ is a levy on the rent of all social housing tenants to pay for a National Tenants Voice, fund tenants collectively to obtain independent advice and to pay for capacity building at a local level.
- **Value for money:** If a combination of the proposals suggested above is adopted, national government and council tenants will have the right to demand value for money and accountability. When council housing is on a surer financial footing,

²¹ Grayston and Lloyd *ibid*

²¹ Grayston and Lloyd *ibid*

²² In 2010 the cost of the Tenant Empowerment Grant was £1m per year

²³ TPAS Election Manifesto 2024

inadequate services will be the result of specific failings within councils, rather than systematic underfunding. The consumerist approach taken by the Conservative Government, supported by enhanced legal aid becomes a relevant remedy to inadequate housing standards experienced by individual council tenants.

4. Urgent actions to produce more homes for social rent.

There is consensus within the Labour Party that the supply of new social rent homes (council and housing association) must increase dramatically. Between 1946 and 1980 England built an average of 126,000 social rent homes a year. In 2022/3 only 9561 social homes were completed. In the past 13 years more social homes have been demolished or sold than have been built.

Three quarters of social renters say that they would not be able to live in their local area if they did not have a social housing tenancy²⁴.

The debate is about how the Labour Party achieves this, in the context of a collapsed economy. This section draws heavily on the ideas of Steve Hilditch, who was an adviser to the last Labour Government.

Glen Bramley²⁵ argues in the 2024 UK Housing Review that building 60,000 new social homes per year, rising to 90,000 by 2030, is achievable, if there are fundamental changes to planning requirements and if social housing is prioritised within the existing £8bn per year current budget to support the building of new homes.

To put this £8bn budget to support new housing into context, without a change of course, over the next five years, £70bn will be paid to private landlords via housing benefit and £10bn will be spent on emergency accommodation²⁶. In a broken housing market a high level of government spending is needed to stop families becoming destitute. However, over time Labour will be able to re-direct this budget from benefits to building new homes.

Many of Labour's housing policy proposals will take some years to produce additional output of either market or affordable homes. Big changes to planning may take several years to produce results on the ground and policies like more New Towns will take a decade.

Chris Worrall²⁷, LHG Exec member, highlights that the country is currently experiencing the largest drop in planning consents on record. Tom Archer²⁸ argues that private house building is starting to stall and that for the incoming Labour Government the primary lever it will have to pull is the delivery of affordable homes, over which it can exercise the most influence. Large housing associations such as Peabody and Notting Hill are reporting that they will be slowing down their new build programme to focus expenditure on their existing stock. Some of the challenges described above for councils, such as below anticipated rental income and building safety costs, are reproduced for housing associations.

²⁴ Grayston and Lloyd *ibid*

²⁵ Glen Bramley 2024 UK Housing Review

²⁶ Grayson and Lloyd *ibid*

²⁷ Chris Worrall email 19.5.25

²⁸ Tom Archer- LHG In-conversation 15.4.24

The starting point is not good: all social landlords have become severely constrained in their capital programmes because of a) interest costs; b) rising construction costs; c) realisation that years of underinvestment in the existing stock had created a crisis of poor conditions; and d) a lack of capacity to make and execute development plans.

To meet the housing emergency, the aim should be to pull every lever to maximise the supply of social rented homes as quickly as possible, using Registered Providers (RPs) and councils to their maximum potential.

So what could be done by the incoming Labour Government to get more social rented homes from the system to tackle the housing emergency?

- **Maximise funds into the Affordable Housing Programme (AHP):** This does not necessarily mean additional funds from Treasury. The AHP is only part of the Ministry of Housing, Communities and Local Government (MHCLG) capital investment programme. If related subsidies such as ISA payments to first-time buyers are included, figures in the UK Housing Review 2024 (agreed with the previous government) show that only half of investment goes towards affordable housing. Money from programmes to stimulate the private market (which did not exist when Labour was last in power) could be repurposed to fund affordable housing. The policy of allowing councils to keep 100% of RTB receipts should be reinstated and Treasury should be pressed to return some RTB receipts already taken (as above).
- **Prioritise social rent:** Within the existing AHP most funds are already committed. What remains should be rigorously reviewed to release funds for social rent. Homes England (HE) and London Mayor should be instructed to review existing schemes, including those on site, to shift as much production into social rent as possible.
- **Stalled schemes:** Finance should also be prioritised to bring forward stalled schemes, of which there are many.
- **Planning and certainty:** The current AHP ends in 2026 and a new AHP must be announced for 2026 onwards. If not, there will be almost no budget for new affordable homes after 2026. Even now this is impacting on the planning of many councils, which will mean lower volumes of starts the longer there is uncertainty about the AHP funding. This new programme should be heavily prioritised for social rented homes. MHCLG/HE/Mayor should issue a prospectus for the new programme well in advance and initiate the planning process as early as possible by giving social landlords a clear indication of the level of funds they should expect. The mandate should be to maximise the total amount of grant available for social rent and the amount per unit to make schemes more viable.
- **Coordination:** There must be closer liaison between MHCLG, DWP and HMT on the use of all public funds used to advance housing objectives. Short-term increases to Local Housing Allowance and changes to the total benefit cap are essential to meet housing objectives. CIH have called for a longer-term uprating of the LHA and for it not to be frozen again²⁹.

²⁹ <https://www.cih.org/blogs/after-lha-uprating-what-nexteur>

- **Release underspends:** Labour should re-release the unspent funds returned to the Treasury this year under the previous government back into the housing pot.
- **Plans:** Early steps should be taken to encourage social landlords to make detailed plans for their capital investment. Confidence is vital so a new long-term rent policy and affordable housing grant is essential. Treasury assistance should be sought to replace income lost due to below-inflation rent increases.
- **Social rents:** One reason for the decline in the number of social rent properties, is that some housing associations have changed the rent to the higher 'affordable' rent levels. Hilditch argues that a cost-effective way to increase the number of social rent homes is reverse this policy and to bring 'affordable rent' properties back in line with social rents over time, which will mean restraining some rent increases in a new 'rent convergence' strategy similar to 1999. Worrall³⁰, Smart and Perry³¹ all express concern that this proposal may be counter-productive, as it further weakens the business plan of the social housing organisation that have increased rents to 'affordable' levels.
- **Capacity:** MHCLG should commission an immediate study of the constraints on council house building. There is the issue of whether the industry has the capacity to increase the supply of new social homes, whilst providing value for money, due to the skills shortage and high material costs. Also, after 40 years of underfunding and uncertainty, many councils and housing associations will also lack the capacity to accelerate, whilst providing the quality and cost-control required. There is the same issue for social housing in confronting years of under-investment in the existing stock. The formation of a body of procurement experts at a national and regional level will help to ensure value for money and quality control.
- **New council housing:** All councils should be required to have a plan to build new council housing; councils with no HRA should be incentivised to re-open one. Councils have shown they are quick to respond to changes in national policy (e.g. lifting the HRA borrowing cap resulted in an increase in new starts).
- **Do not fund the building of new homes by starving existing homes of investment:** The capital needs of the existing HA and HRA stock must be carefully considered and must not be artificially constrained to release funds for the provision of additional homes, one of the gravest errors of recent policy. MHCLG and the RSH should define the parameters within which landlords should operate and work should start to define a new Decent Homes standard.
- **Acquisitions:** Currently the most effective way to get additional homes quickly is through acquisitions. Councils and HAs should be given maximum freedom to purchase in their local market. Councils should be encouraged to use both HRA capital (for permanent council homes) and General Fund capital (for homes to be used as temporary accommodation).
- **Temporary accommodation:** Acquisition for temporary accommodation will save on General Fund revenue costs for cash-strapped councils. All additional supply as

³⁰ Chris Worrall ibid

³¹ Smart and Perry ibid

social rent will save on housing benefit costs as people move from expensive to cheaper accommodation.

- **Opportunities for bulk purchase at discount from private developers:** Due to a decline in profitability, private development is stalling. As happened after the crash of 2009/2010, this may provide the opportunity for councils/ HAs to get good value from land and property acquisitions. Chris Worrall³² draws attention to the possibility of acquiring land and homes at 'market clearing prices,' without public money being used to socialise private sector losses.
- **Buying section 106 properties:** This will be done mainly by HAs but can be councils, this will offer good value per unit procured, although there are quality issues. Normally this is done without grant but if it can be shown that using grant significantly increases the share of homes coming into social rent, then councils and HAs should have flexibility to use AHP or other available funds.
- **Planning policy:** This should change to require bigger contributions from developers, noting that the pipeline is poor with planning permissions at a low level. This is a focus of existing policy, but major changes are needed to prevent 'viability assessments' acting as an escape clause. The way planning works needs to be turned upside down: the number of social rent homes in a scheme should be the driving factor in its design not the remainder figure that is 'affordable' at the end of a process that prioritises everything else. S106 rules should be strengthened and the proposals for the infrastructure levy cancelled.
- **Coordination by councils:** Councils should undertake a housing needs assessment. This will put them in a position to coordinate their activity with the multiple HAs that may operate in their area. Councils can coordinate the allocation of sites and influence the grant funding and disposal policy of HAs operating in their area.
- **Losses of existing housing stock:** This must be stemmed. Immediate RTB changes are essential: to substantially reduce discounts, to prolong qualification periods, to end the sale of newly constructed homes, and to prohibit the future private letting, especially for Airbnb lets of RTB properties. The London Mayor's rules on regeneration of existing estates should be strengthened and adopted nationally so that ballots are required and so that the number of social rented homes increases significantly during the development. The cost of decanting estates (which currently impacts heavily on the availability of lettings to homeless households) should also be a key factor in assessing the cost: benefit analysis of estate redevelopment.
- **Development Sector:** Plans should be put in place to change the business model of the development sector, including encouragement of SME builders and using land purchase to ensure the leadership of councils and HAs in more large developments, and to revise grants urgently to reflect increases in construction costs.
- **Land sale priority for social rent housing:** Public sector agencies must immediately prioritise sale of land to social developers for social rent homes.

³² Chris Worrall email ibid

Council owned land that might be available must be assessed first for social rent housebuilding. Rules concerning councils achieving the best consideration for land should be relaxed to discourage the silo approach and to enable viable council housebuilding.

5. Housing emergency

This Labour Government recognises that there is a housing emergency of that the resources of private, public and independent sectors and citizens themselves must all be brought to bear.

- **Low Income Housing Tax Credits:** Chris Worrall³³ argues that Tax Credits are another mechanism for getting designated sites developed for housing for people earning below average income. Tax credits could lever in investment by the private sector, particularly pension funds. The gap funding reduces the borrowing requirement, which pension funds then lend against, leveraging the amount that the government have subsidised. Tax credits sit outside government spending rules. Worrall argues that the carrot will be more effective than the stick, especially as we are entering a period of declining profitability for housebuilders. As noted above the the application of the Section 106 requirement for new affordable homes is a currently a contested process between councils and developers, with developers seeking to minimise the number of social rent homes. Worrall argues that tax credits are a way to get developers on side. Williamson, CIH, cautions that this change may be contested due to the reduction in tax income and take time to implement³⁴.
- **Innovative non-government funding models:** LHG Exec member, Adam Allnutt argues that the Government should explore working with social enterprises (including co-ops and Community Land Trusts) and SMEs committed to tackling these market failures and delivering affordable housing at scale and below the Local Housing Allowance (LHA) levels³⁵. There are organisations that partner with local authorities and trusted financial institutions to unlock patient capital at the scale needed to provide meaningful supply. This model can directly address the temporary accommodation crisis, saving councils millions while providing dignity to families affected by the cost-of-living crisis. Crucially, these approaches that co-create require minimal public investment, remove the need for Right to Buy without regulatory reform, and could include street acquisitions programmes as well as delivering newbuilds. Support from Homes England/GLA through direct guarantees or guarantees on bonds would further enhance the feasibility and speed of delivering new homes this way in a co-creation model that does not add to the national debt. Achieving a significant increase in supply though engagement with patient/ ethical investors has proved to be frustrating over many years. It hoped that Labour can create a facilitate a sense of shared mission to tackle the housing crisis.
- **Collective ownership:** The final resource for tackling the housing crisis is citizen activism. Community Land Trusts (CLTs) are having some success in acquiring land for housing people on a medium income. The use of compulsory purchase orders to acquire land for CLTs needing local needs will be the most popular use of this power. Coops have a history of being an effective means to renovate run-down street properties. An option to be explored is community-owned organisations to

³³ Worrall -ibid

³⁴ Rachael Williamson email 5.7.24

³⁵ Adam Allnutt email 5.7.24.

build or acquire homes to be let at market rent, but offering the advantages of cooperative management, a decent homes safety standard, rent stabilisation and security of tenure. For community ownership to be scaled up funding needs to be more certain and less complex³⁶.

6. Summary

Safe, secure and affordable housing is foundational to families being able to flourish. This briefing paper highlights that social housing, and council housing in particular, is broken as are other vital services. The reason is systematic underfunding; and a lack of focus and a coherent policy by the out-going Government. The incoming Labour Government cannot release billions of pounds of new money in the short term. However, it will bring a new sense of purpose and policy coherence. It will release underspends and re-direct existing funding streams. This paper argues for emergency measures to stabilise the finances of council housing to buy time for this new sense of purpose to take effect. The paper also highlights both no cost and low-cost/high-impact policy changes available to this incoming Labour Government.

Acknowledgements:

LHG is grateful to the following for their contributions:

- LHG Exec members
- Steve Hilditch
- CIH: Gavin Smart, John Perry, Rachael Williamson and Megan Hinch
- Kieron Williams, Leader of Southwark Council and Joseph Brown, Political Advisor
- Rose Grayston and Toby Lloyd, for an early draft of their report, "The Future of Council Housing"

Appendix one; Borrowing rules.

³⁶ Lev Kerimol- Community Led Housing London. E-mail 8.7.24.

When LHG Exec members met with Angela Rayner's team, we were specifically asked if a change in the public sector borrowing rules would be helpful to councils. In particular how our rules compare to our European neighbours. As noted in the party, the predominate view is that the finances of many councils HRAs are too precarious for extra borrowing to be useful. However, hopefully this situation will change.

This is a complex area of policy. Grayson and Lloyd address this issue in their report, *The Future of Council Housing*. We asked John Perry, Policy Advisor to CIH, for an explanation, as below:

1. The key measures now are PSND (Public Sector Net Debt) and GGFD (General Government Financial Deficit).
2. The original CIH-led campaign before the 1997 Labour Government was to get HRAs classified as 'public corporations' and for their spending/borrowing to be outside the GGFD. At some time in the 2000s the ONS accepted the first point and quietly reclassified council housing (HRAs) as public corporations, as they are self-financing from rents. However, HMT would never accept that their borrowing could be excluded from PSND on the grounds that, in default, they are backed by government.
3. We argued back that while this is the case, there are plentiful other examples of bodies regarded as private sector that are, in effect, backed by government in last resort, e.g. water companies and (in the global financial crisis) the banks. And of course, in practice, HAs would be bailed out by government if (say) one of the biggest was in default and couldn't be rescued via a merger.
4. HRA debt being counted in PSND was one reason for creating the HRA borrowing caps when refinancing of HRAs took place in 2012 – but of course these were lifted in 2018, and when this happened the OBR did an estimate of the likely increase in PSND, for its annual forecast.
5. No doubt HMT would reinstitute caps if they thought borrowing was becoming excessive (although of course borrowing is also limited by prudential rules).
6. The international argument is this:
International accounting rules followed by the UK allow public corporations' debt to be counted outside the PSND (or its equivalent) and as far as we know this is what happens across OECD countries.
7. In practice, there are few housing examples of this since most social housing (e.g. in the EU) is provided by non-profits of some kind. However, municipal housing bodies in Sweden created local housing companies to own/manage/develop their housing stock, initially wholly owned by the LA, and these were treated as public corporations and their borrowing as outside Sweden's public debt measure. We used these an example in our old reports. Some of the French HLMs are similar.
8. There are plentiful non-housing examples. For example, much of the UK transport system (Arriva buses, etc, etc.) is run by state-owned public corporations from France, the Netherlands, etc whose borrowing does not count against their respective PSND measures.
9. Removing the HRA borrowing caps took the steam out of this issue, at the time. It becomes an issue again, of course, if Labour wants councils to borrow more to build more.
However, two possible reforms are now slightly in conflict with each other – this idea (HRA debt gets excluded from PSND) and the idea of rebalancing HRA debt. The latter would mean some of the debt being taken on by HMT, which definitely would then be public sector debt as its costs would be met from taxes, not rents. So I think any paper advising shadow ministers needs to be clear on this.
10. Also it must be borne in mind that PWLB debt remains on the public sector balance

sheet, so to take advantage of a rules change, councils would have to shift to private debt - this may be more expensive.