

February 2024



## APPG for Council Housing Inquiry

Consultation response from The Housing Forum

### **Response submitted by:**

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### **About The Housing Forum**

The Housing Forum is the UK's cross-sector, industry-wide organisation that represents the entire housing supply chain. Our growing membership drawn from over 150 organisations across the public and private sectors and includes local authorities, housing associations, housebuilders, architects and manufacturers. All share our determination to drive quality in the design, construction and decarbonisation of UK homes. They have a commitment to partnership working and share in our vision of 'A Quality Home for All'.

In order to achieve this, we have advocate for policy change needed for everyone to live in a good quality, sustainable and affordable home. Our key [Housing Solutions](#) set out how we think this can be achieved.

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## Introduction

Local Councils represent just under half of the membership base of The Housing Forum and are constituted as the Councils Network within the forum. Our members are active in developing new council housing via a variety of development models including direct delivery and partnerships with private sector organisations. The Councils Network enhances the voice of our local authority members and raises awareness of issues they face.

The APPG for Council Housing's inquiry launched July 2023, due to a widespread sense of agreement of council housing's importance, but a perception of a lack of move to free up the necessary funding. The final report will come out Spring 2024 with launches in Parliament and around the country.

The APPG indicated that they were particularly interested to receive views on the following questions:

- How important is council housing, in addressing local/general housing need?
- Does your area still have directly-owned council housing? If not, do you think new/acquired council homes are needed? Please say why.
- If your area has council housing, what condition is it in, what investment is needed, and what is stopping that investment?
- What is your experience of stock transfer, PFI, ALMO, SPVs or other alternative mechanisms to build and manage council (or former council) housing?
- What do you think we need to do to secure a new generation of good-quality council homes?

The Housing Forum convened a meeting for local authority members to discuss these issues and invited written contributions from across our membership. The Councils Network Advisory Group also meets regularly to discuss the main issues facing local authorities and the issues raised at these meetings have also been reflected in this consultation response.

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## Response to questions

**How important is council housing, in addressing local/general housing need? Does your area still have directly-owned council housing? If not, do you think new/acquired council homes are needed? Please say why.**

*We have taken these first two questions together as they are closely related.*

The Housing Forum's local authority members comprise around 70 local authorities across England. Some have retained housing stock but others do not.

The Housing Forum's members across the entire sector recognise the urgent shortage of affordable housing – both council housing and housing association homes. This is particularly important at the current time with rising levels of homelessness.

In particular our local authority members identified several specific benefits of council housing specifically. **Council housing can be a particularly useful resource for local authorities in meeting their responsibilities to households in housing need or who are homeless.** It is directly controlled by the agency that has the statutory responsibilities to people who are homeless. In detail:

- **Council housing is useful** where Registered Providers (RPs) are not providing the housing needed to help the council fulfil its statutory duties, particularly around homelessness. Some areas reported that RPs could be reluctant to rehouse people who are perceived as “difficult”, but these individuals may be owed a homelessness duty making it hard for councils without retained stock to discharge those duties via an offer of a tenancy. This situation has been exacerbated in recent years by Local Housing Allowance falling below market rents, meaning that rehousing people into the private rented sector has become very hard.
- Councils without retained housing stock rely on nomination agreements to ensure that people on the waiting list and homeless people can access RP accommodation. However, some local authorities report that **nomination agreements can be weak legally** and hard to enforce. This has become a growing problem over time in some areas with stock transfers – the stock transfer RPs were initially closely aligned to the council in ethos (with the same staff, a common culture and joint sense of purpose) but over time they can develop their own agenda or may merge with other PRs and diverge from the councils in their priorities. Maintaining a close working relationship with RPs is the best way forward here, as well as legal clarity on nomination agreements, but having council-owned housing avoids these issues.
- **RPs may have a national strategy** and decide to sell stock in very high value areas to facilitate building a larger number of new homes in other areas. Alternatively, they may decide to sell poor quality stock that requires a lot of investment, again investing instead in other areas. Local authorities do not want to see housing lost in their area. Owning their own stock can help to ensure that receipts from any stock rationalisation can be spent locally.

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- The current financial situation of many RPs is very difficult, and the costs of construction have risen, meaning that some have been pulling away from S106 agreements due to a lack of finance. **Councils sometimes step in to ensure the new social housing goes ahead** when it otherwise might not.
- Having retained council stock is not essential in order to develop new homes, as there are other routes to funding, but the Housing Revenue Account is often considered the easiest route for councils that do have retained stock. It can therefore be **easier for councils with retained stock to develop new council housing** as they can draw on the rental income from the Housing Revenue Account to deliver new homes.
- Some authorities reported that having housing stock can make it **easier for councils to fulfil their other obligations**, such as in adult social care. It can be easier to integrate service delivery, working with other departments to address any issues in council estates, for instance anti-social behaviour and domestic abuse complaints can be easier to handle because of close working with other statutory agencies such as the police.
- Councils are **committed to** the long-term social and economic investment of **their local area**. Local authorities also have a distinctly local presence which means homes can better meet community needs and respond to local dynamics. This benefit is particularly apparent in the context of estate regeneration schemes, where a long-term approach to engagement is necessary to building trust of residents. The [latest report by UCL academics on council-led delivery](#) highlights that over time, quality of design has increasingly motivated councils to engage in direct delivery.
- In areas with a high proportion of council-owned housing there is an element of **political accountability** as the ultimate landlord of those homes is democratically elected. In theory, residents can vote out their landlord.

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## What condition is council housing in? What investment is needed? And what is stopping that investment?

Councils report that there were big improvements in stock condition in the early 2000s as the Decent Homes Standard came in, accompanied by the Decent Homes Grant, which provided capital funding to improve social homes. However, the requirements of net zero had not really been fully recognised at this time, meaning that there is now a need for substantial investment in order to improve energy efficiency and – ultimately – move to renewable heating sources, such as heat pumps instead of gas boilers. The funding allocations imagined in 2012 was envisaging the needs of the Decent Homes Standard and are simply not enough to meet the need of 2024.

New regulations around building safety have also come into effect more recently and are putting additional, if necessary, pressures on local authority budgets. Most importantly, the Social Housing Regulation Act will introduce new, raised Consumer Standards from 1 April 2024 which councils must meet. Without grant to meet the new standards introduced by the Social Housing Regulation Act, councils will have to divert resources away from building much-needed new council housing and towards improving the condition of existing stock.

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Investment is difficult because council budgets have been cut by central government meaning there is very little capacity to invest in stock improvements. . Meanwhile, rent increases were capped below inflation for 2022/23, following a four-year period of rent reductions from 2016 which significantly affected the housing sector's financial capacity. This means that RPs are particularly constrained at the same time as being asked to deliver new homes and ensuring compliance with the new Standards. This poses challenges for financial planning. The government has recognised the problems with housing quality and is tightening regulation in response. However, this fails to address the fundamental cause of the problems, which is a long-term underinvestment in maintaining and upgrading housing stock. There is an urgent need for more funding into local authority budgets so that they have the capacity to invest in stock improvements.

The situation is compounded by difficulties that councils have in obtaining funding by any other means – the cost of borrowing is currently high and the terms are difficult, as local authorities have less leeway than RPs to borrow.

Grant funding (for instance for the Social Housing Decarbonisation Fund) is also difficult to access, with short timelines to apply and poor administration. This prevents councils from obtaining best value from the funding.

Regeneration is also a key issue where councils need to take the lead, working in partnership with the private sector and/or RPs and voluntary sector groups to deliver their vision for an area. Some councils reported that more thought needs to be given to stock management, particularly end-of-life stock and that a failure to do this well results in poor spending decisions.

Improving the condition of all housing, including council housing, would produce many positive externalities that, when factored in, make a strong case for the government to invest in the condition of stock. In 2021, the BRE estimated that the full societal cost of people living in homes with the category 1 HHSRS hazards was £18.5bn per year. It would take around £10bn to remediate all hazards in England's housing stock, meaning that the investment's benefits would surpass the value of the investment in just half a year.

### **What is your experience of stock transfer, PFI, ALMO, SPVs or other alternative mechanisms to build and manage council (or former council) housing?**

Councils within The Housing Forum have a variety of experiences of stock transfers.

Many Arms Length Management Organisations (ALMOs) were set up reluctantly by councils to access Decent Homes funding and devised to reintegrate after a few years (hence Rotherham's "Rotherham 2010" ALMO). We understand that most of these have now been brought back in house.

Stock transfers were undertaken in many areas and our local authority members identified both advantages and disadvantages to stock transfer.

Downsides and risks included:

- Loss of data and stock knowledge at the point of transfer as uncodified knowledge fails to transfer with stock.

- Duplication of administrative costs.
- RPs prioritising newbuild and rental income over service provision or rationalising stock resulting in a net loss of social housing within the council area (discussed above).
- Management being moved out of borough, particularly after mergers with larger RPs, meaning the landlords can become distant and unaware of local communities, needs or the physical condition of the homes.

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Benefits included:

- More access to government funding.
- Greater ability to borrow on commercial markets, and hence to build new housing.
- A variety of service provision including specialist housing and accommodating groups not always well serviced by local authorities, such as under-18s and care leavers.
- Reduced loss of stock via the Right to Buy because homes built by RPs are not eligible for the Right to Buy so remain as social housing.

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## What do you think we need to do to secure a new generation of good-quality council homes?

The Housing Forum's members have many strong ideas for how to build a new generation of good-quality homes of all tenures, including council homes. These are set out in our [Manifesto for Housing 2024](#).

Most crucially, for council housing specifically, more money is needed. However, by building more council housing other costs would fall in the longer term, in particular the very high bill for temporary accommodation.

Building new council housing should be part of the wider housing delivery needed to support economic growth across all areas. Putting councils in the driving seat for delivering new housing helps build communities and ensure that the economic benefits of new housing flow back into local economies.

Many councils have built very little housing in recent years, but are now trying to scale up their activities in order to do so. In order to secure a new generation of council homes. Often the best route to deliver new housing is via partnerships, and our members work in a variety of models with housebuilders, contractors, RPs and other agencies to deliver new housing.

### Government should:

- **End the Right to Buy.** This leads to a loss of existing council homes, and is also a strong barrier to building new ones. Councils feel there is little reason to fund and build new council homes if they can be sold off at big discounts after just a few years. This is particularly big issue in weaker housing markets where discounts on flats can be up to 70% of the market value meaning they can be sold to tenants for around £45,000, an amount that is quite obtainable for many tenants via mortgages, or family support. If the

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Government is unwilling to end the Right to Buy, then ways to **reduce its impact** include:

- Greatly reducing the discounts.
  - Removing it from newbuild properties.
  - Increasing the cost floor ceiling to prevent councils having to sell newly built homes at a loss.
- **Provide longer term rent settlements.** Longer term commitment from Government over rent settlements (eg to CPI + 1%) is needed, to ensure that councils have certainty over their business plans.
  - **Revisit the housing debt position.** The £21bn historic national housing debt was transferred to councils in 2012 as part of a new Housing Revenue Account (HRA) self-financing settlement. Every year, a significant proportion of every council's housing income goes towards servicing that debt. For instance, one council reported that they take in less than £100m income per year, but pay £12m in debt servicing. This high debt burden makes councils extremely cautious about taking on more borrowing to fund housing. Addressing this could unlock more use of prudential borrowing which allow surpluses and Government grant to go a lot further.
  - **Increase investment in council housing.** The Government should provide a larger capital funding allocation for the Affordable Homes Programme. The landmark Building Council Homes for Londoners, part of the AHP 2016-23, enabled the capital to deliver higher council housebuilding than at any time since the 1970s. By providing capital funding sufficient to meet the needs in London, government could build on this success and for council-led delivery to remain a priority throughout the country.
  - **Develop a more strategic approach to funding streams.** Government housing subsidies (such as from Homes England) are discretionary and made on a scheme-by-scheme basis, with funders paying little interest in a council's overall business plan or level of ambition. The system is unpredictable and results in cautious assumptions and wasted effort spent applying for funding. Funders are preoccupied with whether their investment will aid scheme level viability and support additionality, not with how all the funding streams available can support more ambition at landlord business plan level. Alternatives to this scheme-by-scheme approach include:
    - Homes England's AHP strategic partnership model for housing associations could be rolled out to councils so they are able to take a single allocation of AHP grant and be flexible on which schemes they are applied to. The GLA's approach in London is way ahead of the rest of the country on this.
    - Higher grant rates for councils should come as standard in recognition of their debt position (see above) and is necessary to create development capacity and could be withdrawn when councils have reached scale. London did this to get its own council housing programme started.

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- Moving towards a single, flexible funding allocation to councils to spend on housing would be a longer-term strategy that amalgamates the various funding sources (AHP, BHF, BLRF, ideally SHDF). The funding could be distributed through a simple formula – an annual, un-ringfenced capital allocation into the Housing Revenue Account made on a formula basis (in relation to stock size), based on a similar model to the Local Authority Housing Fund. There is already a legal ringfence preventing council housing funding leaking into social care or other services.
- **Give flexibility over spending from different funding streams.** A particular challenge facing councils is the requirement that certain funding streams cannot be combined in the same development, such as grant funding and Right to Buy receipts. This is ostensibly to ensure each ‘pot’ of subsidy generates additional homes that can be scored against respective Government programmes but in practice creates unnecessary barriers for councils, who want to build new homes, but sometimes find that they cannot make their plans stack up so end up buying up existing homes instead (such as former council homes sold under the Right to Buy). This does nothing to increase the overall housing stock. The rules preventing funding streams from being combined prevents councils from using funds more creatively. HRAs are legally ringfenced accounts which means that there is no risk that additional Government subsidy would displace council investment. In relation to Right to Buy receipts, Government should also increase or remove the cap on development costs to address site-specific viability challenges. Temporary reforms to the Right to Buy receipt spending framework introduced in early-2023 – including the ability for boroughs to keep the full receipt sum – should be made permanent.
- **Support local authorities to develop S106 sites in areas where RPs are reluctant to engage.** This is important currently because RPs are pulling away from these opportunities in some areas, meaning that if local authorities do not step in the potential for social housing via S106 agreements will be lost. Some authorities have traditionally focussed mainly on government grant (from Homes England or the GLA) to fund new housing and lack experience with S106 agreements.
- **Allow councils to own and manage accommodation let on secure tenancies but at market rents without the need to establish housing companies.** This would help councils to provide a mixed tenure offering that works in their local area. The homes let at market rents would be those that did not benefit from any grant funding.
- **Relaxing borrowing conditions.** This would make it easier to borrow on commercial markets to fund housebuilding. Reforming the borrowing rules of the Public Works Loan Board would allow councils to borrow at an – ideally reduced – fixed-rate. This approach would bring the Public Works Loan Board in line with private sector lending practices and give councils much-needed certainty for longer-term planning.

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- **Invest into developing council housebuilding skills and expertise.** The GLA has a track-record of supporting councils via a number of initiatives such as the [Home Building Capacity Fund](#), the [Land for Council Homes revenue fund](#), and [Right to Buy-back revenue fund](#). Government should build on these initiatives and invest into building council skills and expertise to safeguard and increase council-led delivery across the country.
- **Invest into council housing and planning services.** Government cuts to local housing and planning authorities over the past ten years are being felt acutely. Councils are struggling to recruit and retain skilled planning officers, which is contributing to delays in the planning system and overall housing delivery, including council housing.

### Homes England should

- **Ensure that nomination agreements agreed in funding agreements to RPs are clear and legally watertight.** A complex and largely informal system of nominations agreements governs how many housing association lettings council have the right to nominate ‘their’ households to – whether from waiting lists or people who are homeless. It can be difficult for councils to have visibility on this or to enforce nominations agreements, especially if they do not have a strong working arrangement with the relevant RPs. Given the extent of housing need, councils would like to see 100% nominations in perpetuity as the norm throughout England (as it is in London) and the Regulator could work with councils and RPs to ensure that nomination agreements reflect everyone’s needs.
- **Increase grant rates for brownfield sites.** This would enable councils to develop urban infill sites that are otherwise unviable. Developers are often unwilling to take on these sites, because of viability concerns.

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### Councils should:

- **Ensure that they have an up-to-date local plan.** This should set out their spatial vision for their area, including allocations of land for housing delivery of all tenures, including council housing and regeneration.
- **Look to a mixed tenure model.** Focusing solely on building council housing is unlikely to be viable in many areas. Instead, a focus on building a mixed tenure community can help provide housing of all tenures, including private rented housing and build sustainable communities. A variety of different models for working with the private sector may work best in different areas, including joint ventures, direct commissioning and partnerships.
- **Address understaffing within local authorities.** Councils need to improve recruitment and retention in their housing and development departments, particularly for architects and chartered surveyors.

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## Conclusion

Poor housing quality causes homelessness, damages health and reduces opportunities in life. It contributes to carbon emissions and fuel poverty. Housing shortages make housing unaffordable and hold back economic growth as well as trapping people in poverty. Fixing our housing crisis won't be easy – and will require a long-term strategy with upfront spending – but we believe there is a way forward.

Our vision for housing in 25 years' time is one of sufficient housing for everyone, supported by improved infrastructure in well-designed places where communities flourish and ensure a **Quality Home for All**. We need a new generation of good-quality homes of all tenures, including council homes, as set out in our [Manifesto for Housing 2024](#).

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