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HOW TO UNLOCK A COUNCIL HOUSING REVOLUTION

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The views expressed in this report are those of Shelter and do not necessarily reflect the views of those acknowledged.

Photography: Millie Harvey/Shelter; Dan Stockman; Rebecca Lupton.

INTRODUCTION

England is in the grips of a housing emergency. Decades of failure to build enough genuinely affordable social rent homes has led to record numbers of homeless households in temporary accommodation,[1] 1.3 million households on the social housing waiting list[2] and millions of people struggling to afford eye-watering private rents.[3] It is widely accepted that to meet the scale of urgent housing need facing the country, we need to build 90,000 social rent homes a year for 10 years.

While the scale of the challenge should not be underestimated, the government has already laid the foundations for boosting delivery of social rent homes. Bold policy changes have begun to turn the tide, with a significant boost to grant funding, limitations to the Right to Buy, a long-term rent settlement and a welcome return to focus on social rent as a tenure. The results are already seen in a modest improvement in delivery of social rent homes, which increased to 12,267 last year, the highest level for 12 years.[4] The recent announcement of the first phase of Social and Affordable Homes Programme (SAHP) grant funding included a welcome commitment to prioritise council-built and social rent homes in future allocations.[5]

Now is the time to build on these foundations and raise ambition to end the housing emergency for good. Delivering social homes on the scale we need is not something that can be achieved solely through reliance on the planning system and private registered providers, although both have an important part to play. The missing piece is public-led delivery, which economic policy has discouraged for decades. The government must empower councils to once again take a bold, active role in building and managing new homes on a scale not seen for a generation so everyone who needs one can access a permanent and affordable social rent home.

The wider environment for building new homes right now is challenging: persistent high inflation has driven up construction costs and high interest rates make borrowing more expensive. However, these challenges are no reason to defer or deprioritise action to increase direct delivery by local authorities; in fact, they make the case for change more urgent. When faced with falling private demand for market housing due to higher mortgage finance costs and lower interest from investors, private developers slow or stop efforts to build new homes to protect profitability. But unlike the ebbs and flows of demand for private housing, social rent homes built by councils meet a huge backlog of need for genuinely affordable housing for local people. This in turn reduces pressure on other local authority services and finances. In other words, social housing is counter-cyclical: it can boost productivity in an economic downturn when private development stalls. Getting councils back in the game of building and acquiring homes is vital to boost economic activity in a flagging market, sustain local SME builders and protect jobs in construction.

Local authorities have huge potential to deliver at scale again and meet the government's ambitions to tackle homelessness and bad housing: they have master planning and land assembly powers which mean they can build well-planned places where local people want to live. Councils also know their communities and see the financial and human impact of record homelessness and bad housing in their services every day, with the cost of temporary accommodation having soared to £2.8 billion.[6] This means they have the motivation to build genuinely affordable social homes in the places where they're most needed. Central government must once again see council housing as a safe investment, vital for this country's shared prosperity and the strength of our economy. It was delivered at a huge scale during the post-war period with support from governments committed to purpose-driven public investment, a holistic long-term view of public spending, and a productive and collaborative relationship between national government, local councils and development corporations.

But it has been decades since councils lived up to their potential for delivering new homes: last year, councils delivered just 3,800 social rent homes, which itself was the highest figure since the early 1990s.[7] The root cause is a shift in central government away from public-led delivery, leading to obstacles being put in the path of council housebuilding. Successive governments have failed to articulate a clear aim in their housing strategies beyond maximising output, our public finance frameworks prioritise immediate savings over long-term solutions, and, even when the government has committed to an increase in council building, efforts have been stymied by competing objectives.

Getting councils back to their post-war delivery levels is going to require sustained support and focus from central government to rebuild the finances of council housing and the capacity and culture of housing delivery in local government. It will also take action to empower councils to make the best use of public land and the existing housing stock in their local areas to increase the number of social rent homes.

COUNCIL BUILDING OF SOCIAL RENT HOMES HAS REACHED HISTORICALLY LOW LEVELS

New build permanent dwellings completed in England since 1946

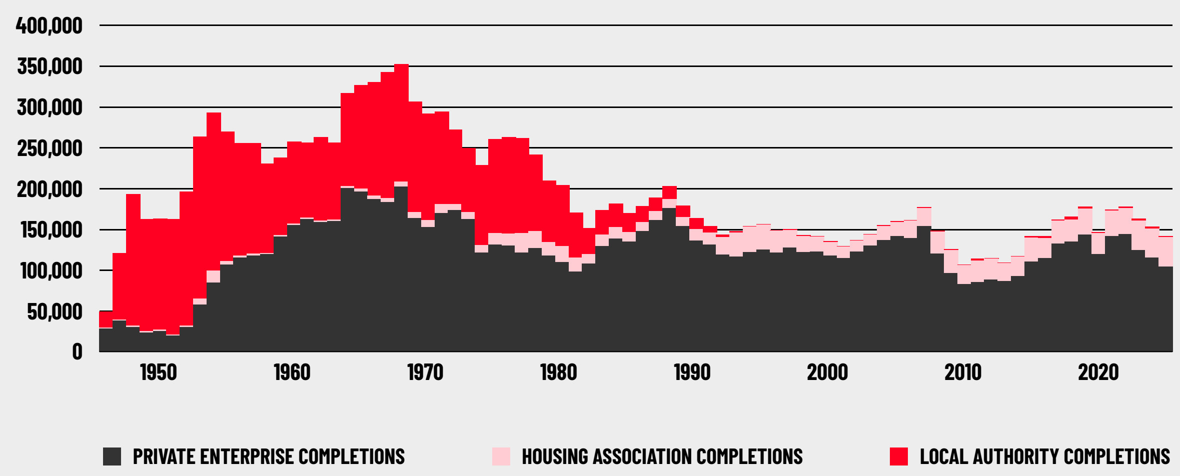

Figure 1 – New build permanent dwellings completed in England since 1946. Source: MHCLG, Live tables on housing supply: indicators of new supply, Table 244. Accessed September 2026.

CHAPTER ONE

A FINANCIAL PACKAGE FOR A COUNCIL HOUSING REVOLUTION

The Prime Minister has made clear his ambition to restore council housebuilding to levels not seen since the post-war era, placing it at the heart of his vision for national renewal.

Building on steps taken over the last two years, this marks a generational break with 45 years of housing policy that failed to articulate a clear aim beyond maximising overall output – with little regard to affordability, homelessness, or community needs. Yet the decline of council housing was driven not only by changed housing policy, but by the rise of fiscal conservatism as the dominant organising principle of economic policy – a framework that continues to shape and constrain the government's actions today. Nowhere is this more evident, or more self-defeating, than in the 2012 Housing Revenue Account (HRA) self-financing settlement and how the UK's fiscal framework treats public investment in social housing. Both have systematically driven council housing finances and social housing funding into the ground, and both must be reformed if the government is to succeed in its council housing mission.

Reconnecting political ends with economic means to build social housing

To overcome these hurdles and put forward a package of financial reforms commensurate with its own ambitions, **the government must reconnect political ends with economic means**. For too long, politicians and commentators in one breath call for greater investment in social housing and, in the next, defend the stringent fiscal constraints responsible for its decline. This contradiction severs the relationship between ambition and delivery, treating borrowing for investment as a problem to be minimised rather than a tool for achieving public goals, and fundamentally misunderstands cause and effect. Good growth and healthy public finances are the outcome of social housing investment rather than a pre-requisite for it; this is responsible fiscal policy.[8] In contrast, debt-to-GDP spiked sharply during austerity precisely because investment in public assets like social housing collapsed in favour of short-term penny pinching that cut vital services and demonstrably impoverished both people and the state.[9]

To truly tackle the housing emergency, the government must drive a change in economic consensus that places social housing investment at the centre of national renewal and carry this approach across Whitehall and Number 10 North.[10] As in the post-war period, the government must whole-heartedly recognise that large-scale social housebuilding is a safe investment and presents minimal market risk even in today's climate. As Pragmatix Advisory modelling commissioned by Shelter shows below, it improves public finances by supporting economic activity and generating substantial public sector savings and revenue.[11]

Far from fearing government insolvency, investors depend on gilts for their use as safe, liquid assets – interest and capital repayments are essentially guaranteed.[12] Increasing gilt issuance – in this case for social housing investment – is not in and of itself a key factor influencing government borrowing costs, as demonstrated by the low-interest, high-deficit environment post-Global Financial Crisis, as well as comprehensive long-term data analysis.[13] Instead, investors are primarily concerned with inflation and whether there is a credible account of how new spending will affect the economy and future fiscal and monetary policy – this is what impacts their bottom line.[14]

Social housing investment provides exactly that credibility. Strong uptake of the first Social and Affordable Homes Programme funding tranche shows the appetite and capacity to build when grant funding is available. At a time when private developers are scaling back delivery in response to weak demand for private new builds, social housing investment picks up this slack and expands the productive capacity of the economy to ease inflationary pressures. The government can strengthen market confidence further by embedding increased borrowing for social housing within a transparent fiscal strategy that explains how the economy will absorb this investment and set out measures to address supply-side constraints such as labour and materials shortages. Doing so would further avoid adding to UK borrowing costs which wider fiscal and monetary policy could actively reduce, as argued by prominent economists.[15]

The financial trade-off of not scaling up delivery to 90,000 social rent homes a year over a decade is quantified in Shelter and Cebr's Cost of Inaction report; £64.4 billion in direct costs to the government alongside £52.4 billion in lost economic benefits within the first 10 years alone.[16] This is the outcome of business as usual, with hundreds of thousands of people homeless or struggling to afford a home.

Ahead of the Autumn Budget, there are two primary financial barriers to building more council homes. Both are political choices rather than economic necessities:

a. unsustainable HRA debt owed to the Treasury, and

b. self-imposed fiscal constraints on social housing investment.

Ushering in a new golden era of council housebuilding starts with cancelling this debt and unlocking investment through fiscal reform.

1 ADDRESSING HOUSING REVENUE ACCOUNT PRESSURES

Housing Revenue Account debt is stopping councils from building

Every council that owns and manages a substantial number of homes holds a Housing Revenue Account (HRA) – effectively a ring-fenced 'landlord account' funded by tenants' rents, kept separate from the council's general budget. When the 2012 HRA self-financing settlement was introduced, councils took on a fixed level of HRA debt owed to central government in exchange for financial independence. New Savills research commissioned by Shelter examines the impact of this debt on councils.[17] It demonstrates unequivocally that the current financing model is broken and cannot deliver the council housing revolution this government promises. Nor can it sustain the investment needed to ensure current stock meets required standards.

Cancelling HRA debt would empower councils up and down the country to deliver the social homes our communities desperately need and help end poor standards in the social rented sector.

The 2012 self-financing settlement has been undermined

From the 1980s onwards, government policy increasingly treated council housing as a cost to be reduced rather than a public asset to be maintained and expanded. Prior to 2012, the government operated a subsidy system that redistributed HRA surpluses to councils running HRA deficits and therefore prevented councils from reinvesting surpluses in new social housing. The 2012 HRA debt settlement under the Localism Act promised greater power and agency for councils. Councils would self-finance investment in current stock through the rental income stream of those assets, and new build would fund itself aside from the initial grant provided by government.

In exchange, councils agreed to a total £29.2bn settlement for HRA debt, a figure that has since risen to £31.8bn. Each council was left with a debt equal to a formula-based calculation of the value of its stock, equivalent to the amount that it could pay back over 30 years, after accounting for management and repair costs. The settlement was supposed to increase management and maintenance allowances when compared to the final year of the subsidy system by 5% and the Major Repairs Allowance by 28%, raising expectations that councils would once again build at scale to meet local housing need.[18]

However, in direct contradiction to the spirit of the settlement, the government quickly undermined councils' new-found financial freedom with two major policy changes. First, it imposed a borrowing cap on HRAs set at (or close to) each council's original debt level under the settlement.[19] Driven by a fiscal framework – covered in the next section – that continues to discourage council housebuilding today, the cap prevented councils from borrowing to build new social homes. Although the government lifted the cap in 2018 after sustained pressure from the sector, council housing delivery increased only marginally, exposing deeper flaws in the settlement.

Second, almost as soon as the settlement came into force, the government expanded Right to Buy, increasing discounts to £75,000 nationally and £100,000 in London.[20] None of the associated financial losses and reduced income levels were included in the settlement or subsequently compensated for. Since 2012, councils have sold over 133,000 social homes through Right to Buy[21] resulting in an estimated £7.5bn financial loss to councils between 2012 and 2023 from the handout of large discounts.[22]

Subsequent policy changes and adverse economic conditions further undermined the assumptions underpinning the original settlement, increasing councils' costs and constraining income which has weakened their financial positions.

Higher inflation, rising operating and borrowing costs, new regulatory requirements, and rent reductions and caps have been compounded by the need to refinance low-interest debt taken out in 2012 at substantially higher rates with 50-year maturity lending from PWLB at over 6% (as shown in Figure 2).[23]

While some of these measures have been vital to improve conditions and ensure social homes remain genuinely affordable, none have been met with commensurate increases in government support.

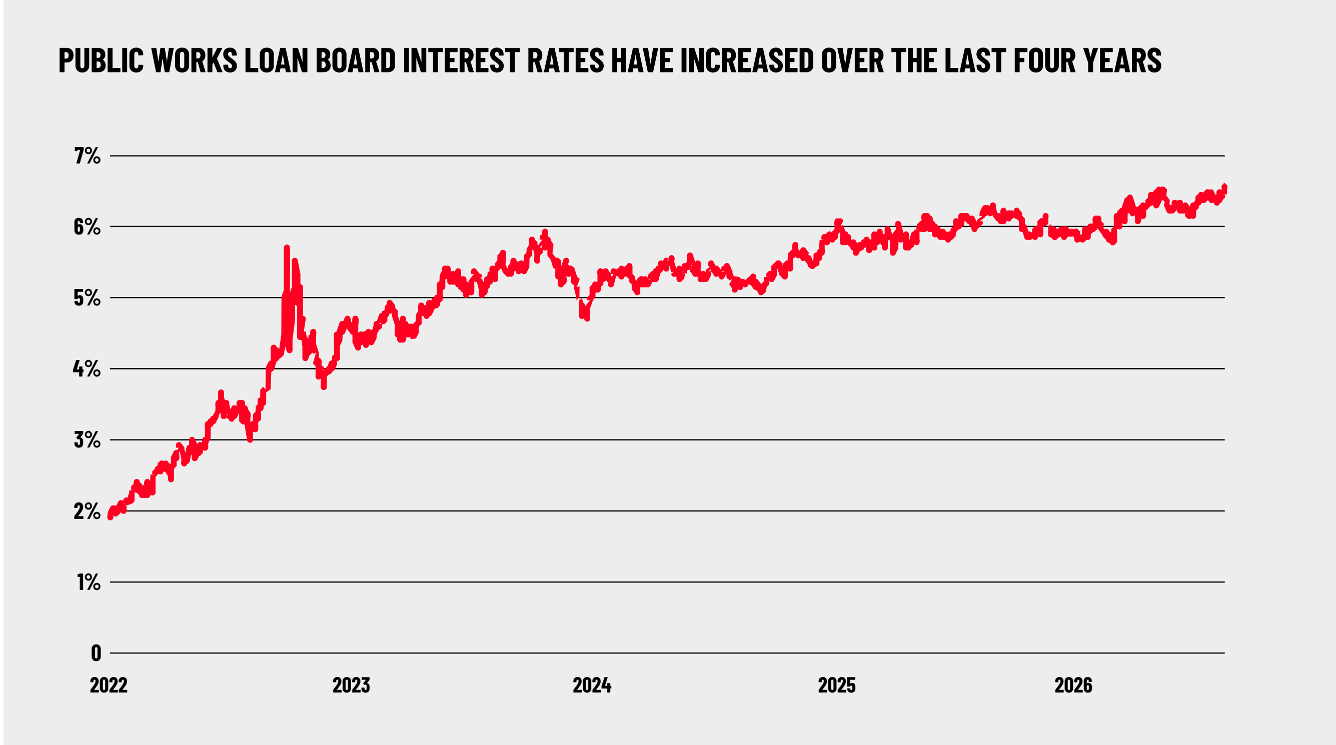

Figure 2 – Public Works Loan Board interest rates, 50-year maturity. Source: UK Debt Management Office, Historical interest rates, New Loan Maturity, accessed August 2026.

HRAs are increasingly financially unsustainable

Fast forward to today and the original principles of the 2012 settlement are utterly broken. The cost per property in today's HRA business plans versus the original debt settlement has ballooned from £30,900 to £74,000 (£49,900 in 2012 prices), even before additional costs to achieve Net Zero Carbon (estimated at £17,000 per property or £11,500/property at 2012 prices) are added to plans.[24]
At the same time, councils spend an average 15% of their rental income on HRA debt interest, with some paying more than 100%.[25]

As such, rental income from current stock is not enough to fund maintenance and repairs. Councils are therefore either delaying investment in current stock or are borrowing to fund it, illustrating the fracture in the settlement's self-financing principles.[26] This places stress on the health of their HRAs and reduces their ability and appetite to take on new delivery (see Box 1). In Camden, for instance, significant interest costs (£24.5 million per year) and rising interest rates are constraining the council's ability to deliver social rent homes. Similarly, while having a relatively manageable current debt level, rising cost pressures are driving the same outcome in Bournemouth Christchurch and Poole.[27]

BOX 1: HRA REGULATION AND METRICS – FINANCES PUSHED TO THE BRINK[28]

Following the abolition of the HRA debt cap in 2018, local authorities have a statutory duty to report on HRA-specific Prudential Indicators adopted within CIPFA's Accounting Code of Practice (the Prudential Code). Whilst a suite of measures is neither identical for every HRA, nor appropriate for every local HRA circumstance, management of capacity has developed around a series of indicators or metrics that are well understood across the sector, for example:

- Interest Cover Ratio (ICR) – measured both in terms of how net operating income can cover debt financing costs (Net Operating Income or NOI ICR), and in terms of comparables to the housing association sector[29]
- Debt to Turnover
- Percentage of rent income that is spent on interest costs.

As Figure 3 illustrates, there is wide variation across different HRAs. However, a consistent theme across HRAs of any size, authority-type or location, is that the key metrics have become tighter (i.e. interest cover reduced, debt increased, financing costs increased as a proportion of rent income) even before investing in new social rent homes. With a large new build programme, these metrics would be significantly worse in the short to medium term representing a very high level of risk to business plans. The current level of HRA debt therefore acts as a barrier to taking on borrowing to support extensive new build programmes without taking on an unacceptable level of risk in the short-medium term.

Figure 3 – Debt sustainability and Housing Revenue Account surplus per dwelling define four distinct profiles. Source: Pragmatix Advisory, *Funding the Future*.

Cancelling the debt unlocks potential for large-scale social housebuilding at little public cost

The government should cancel all £31.8bn of HRA debt and use the resulting borrowing capacity to kickstart a new era of council housebuilding. Full write-off would unlock capacity to build over 280,000 new social rent homes, with every £1bn cancelled enabling 8,900 social rent homes.[30] Combined with the fiscal package set out below, it will lay the foundations for a council housing revolution. Every region would see increased capacity for new delivery, including almost 41,000 in the West Midlands and 70,000 in London.[31]

As a basis for a return to post-war delivery levels, elaborated on in Chapter Two, the government should enter into a formal agreement with councils to build new social rent homes in exchange for debt reduction. Every one of the authorities Savills engaged with said they would sign up to a delivery compact, giving clear political alignment at all levels of government for new council building.

Crucially, **the act of debt cancellation in and of itself has limited impact on the government's fiscal rules.** Instead, it is largely a series of inter-government transfers, involving cancelling debt that the public sector owes to itself.

As set out in Figure 4, the fiscal cost of Housing Revenue Account debt relief falls primarily on two elements – the loss of annual interest income to the Exchequer from the Public Works Loan Board loans and the accounting treatment of the debt itself:

- The **annual interest income from Housing Revenue Account-related Public Works Loan Board lending is estimated at £1.2 billion.** Under full debt cancellation, this income stream would temporarily fall to zero, before rising again as authorities borrow to support the building of new houses.[32]
- **Housing Revenue Account debt** is an asset on the government's balance sheet, but a liability on the balance sheets of local authorities. These intergovernmental transfers (the cancellation of Public Works Loan Board debt owed by councils to the Exchequer) have a significant impact on the individual positions for central and local government, but measured out on a total government level, they broadly even out. The only exception to this is a small proportion of HRA debt held outside the Public Works Loan Board funding scheme, which would instead act as a transfer between government and the private sector.[33]

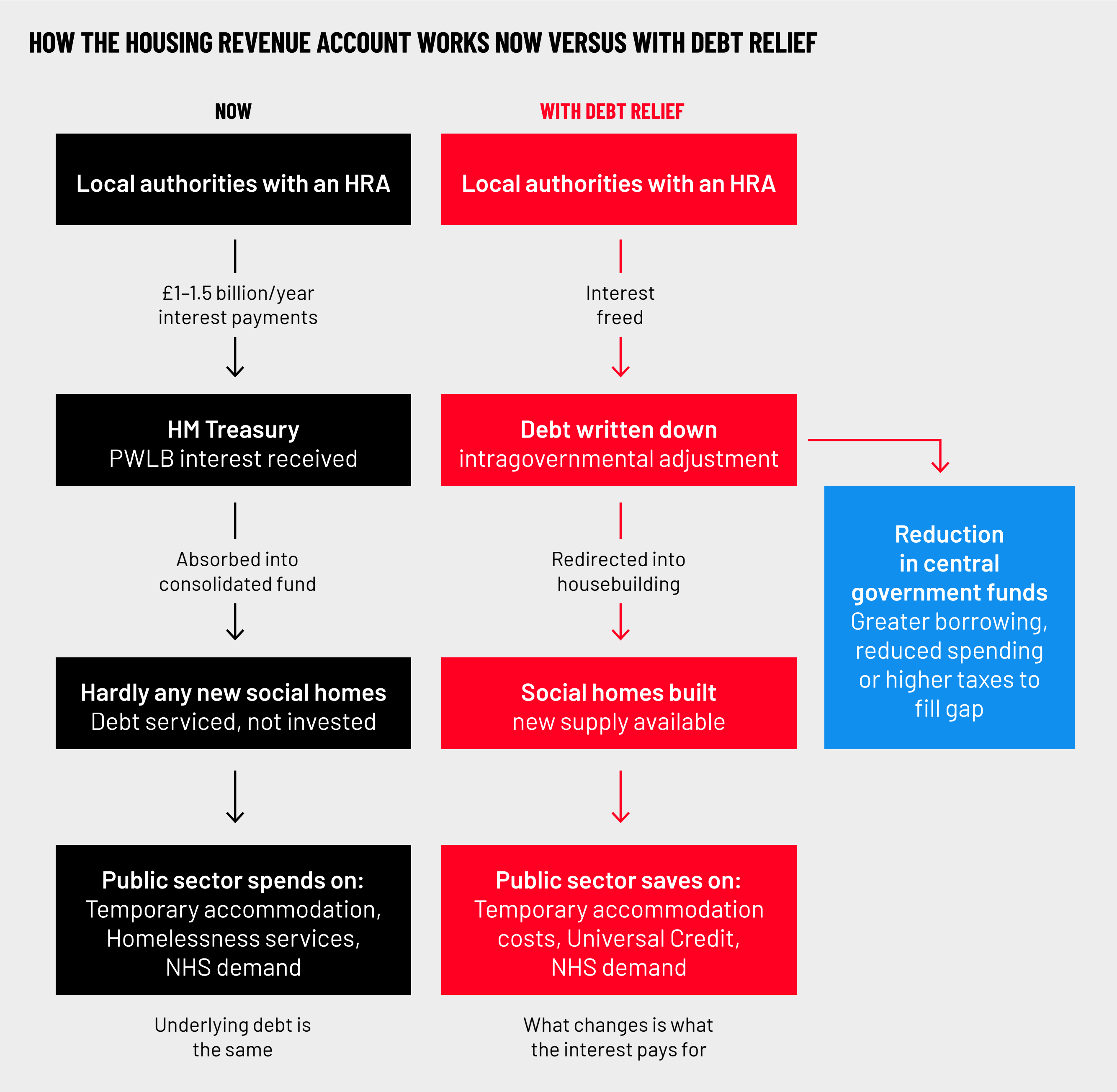

Figure 4 – The impact of debt cancellation on public finances. Source: Pragmatix Advisory, Funding the Future.

Critically, **debt cancellation would also give councils the capacity to invest in existing homes to meet modern standards**, including Net Zero, without borrowing against current stock.[34]
This would improve the quality of life for millions of tenants by helping councils meet regulatory requirements, tackle fuel poverty through energy efficiency upgrades, and secure the long-term future of social housing. It would also greatly reduce the longstanding tension between investing in existing council homes and delivering new ones – a trade-off that should never have arisen given the original self-financing principle that existing stock should fund itself.

The Localism Act allows the HRA debt settlement to be revisited where the assumptions underpinning it have changed.[35] Cancelling HRA debt is therefore entirely within the government's immediate control, requiring no primary legislation.

2 REFORMING THE FISCAL FRAMEWORK TO UNLOCK SOCIAL HOUSING INVESTMENT

HRA debt cancellation unlocks capacity, investment delivers the social homes

HRA debt cancellation and increased investment in social housing must go hand in hand: HRA debt cancellation will provide the capacity to build council homes, but it will take additional government investment to deliver them. While the government must do more within the current fiscal framework to **bring forward and increase SAHP grant funding as a top housing priority, the Treasury must also reform its fiscal framework to ensure it supports rather than hinders greater investment in council and social homes.**

Investment secures significant financial and economic benefits and complies with fiscal rules

Modelling undertaken by Pragmatix sets out an ambitious scenario for the government to deliver 280,000 council-delivered social homes within a 10-year trajectory, rising to a peak of around 45,000 social rent homes a year (see Figure 5).[36] This is based on the council housebuilding trajectory set out in Shelter's 'Brick by Brick' report and the Arup analysis that informed it, which called for council-led delivery to reach 34,000 social rent homes per year over 5 years (comparable to council output in the early 1980s).[37] The social homes modelled are additional to planned delivery under the SAHP. Additional grant would make up the large majority of funding, with section 106 contributions and Right to Buy receipts providing cross-subsidy in support. HRA debt cancellation also unlocks significant surpluses from existing stock to invest in new build, helping to reduce the level of central government borrowing required.[38] Within this context, total cross-subsidy for new building is modelled at 17%.

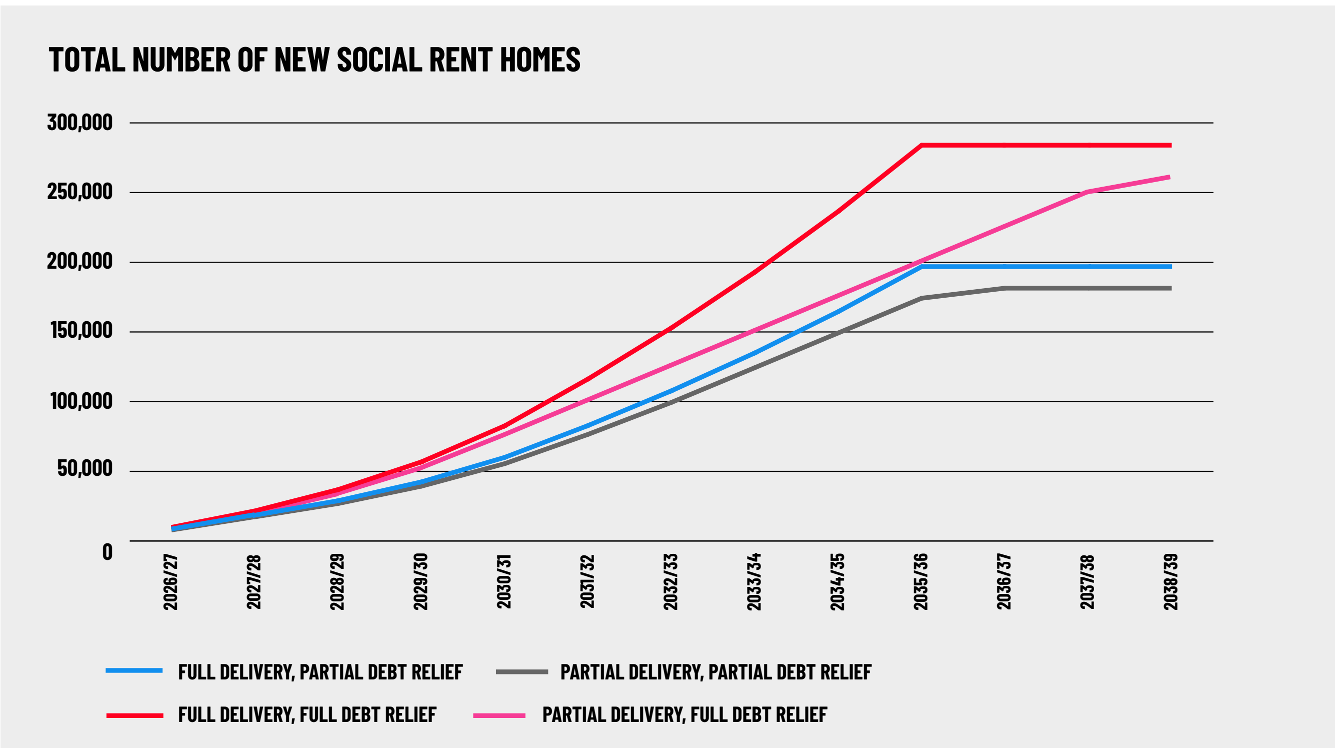

Figure 5 – Trajectory of council housebuilding post-debt cancellation, cumulative total number of social rent homes completed. Source: Pragmatix, *Funding the Future*.

The modelling also demonstrates a compelling financial and economic case to cancel HRA debt and ramp up additional investment. Under the proposed trajectory, analysis shows that cancelling HRA debt and building 280,000 council homes at social rent:

- Pays for itself within 20 years and generates a net benefit of £141.5 billion to the economy over 60 years.
- Delivers £411 billion of economic outputs over 60 years, supporting 2.5 million jobs.
- Government departments see savings of £64.7 billion, including £26.3 billion for the Department for Work and Pensions.
- Cuts the number of households in temporary accommodation (TA), currently at over 135,000 households, with savings to councils eventually hitting £672 million a year as households move out of TA.

Debt cancellation and delivering 280,000 social rent homes over the next decade in addition to planned delivery under the SAHP is also compliant with the government's 'investment rule' (see below), using around 56% of the current 'headroom' as of the OBR's 2026 spring forecast.[39] Further, the effects are broadly neutral for the government's 'stability rule' to see the day-to-day finances (recurring savings and costs) in surplus by the third year of the rolling forecast period.[40] While a more-than-worthy use of investment headroom, this self-imposed restraint on public investment creates artificial trade-offs with other policy areas, reducing the government's willingness to make this scale of investment.

As economists like Michael Jacobs demonstrate, the government can generate further fiscal room to support public investment by bringing down inflation or finding savings and extra revenue from elsewhere.[41] However, to make the necessary scale of social housing investment a more likely and attractive prospect for the government's finances, the buck ultimately stops with the current fiscal framework as the fundamental constraint on council housebuilding.

The government's fiscal framework blocks social housing investment

Fiscal rules disincentivise investment in social housing

The government's rolling target (the 'investment rule') to see debt to GDP falling in the third year of the OBR's forecast period compared with the previous year is the central barrier to ramping up social housebuilding. The rule actively discourages investment in long-term productive assets like social housing by focussing predominantly on the upfront cost of delivery and excluding much of the significant savings and returns it generates. It forces housing policy towards day-to-day spending on housing benefit and expensive temporary accommodation – which flows outwards from the public sector to private landlords. Many economists argue the rule is non-sensical, used only for political optics, and that its main aim to reduce debt-to-GDP is already largely achieved by the current budget rule (the 'stability rule') over the longer term.[42]

The debt measure treats social homes as a liability rather than an asset

It matters how government chooses to measure debt. At present, the chosen measure of debt – Public Sector Net Financial Liabilities (PSNFL) – disincentivises social housing investment by failing to value the physical asset created when a home is built on the government's balance sheet. Social housing is a demand-proof investment that generates significant revenue through the rents tenants pay, as well as wider public sector savings. It should be counted on the government's balance sheet alongside the government borrowing required to fund it.

Focussing on public sector-wide debt favours private over public-led social housing delivery

PSNFL, although an improvement on the previous government debt measure (Public Sector Net Debt (PSND)), **creates a two-tier fiscal system**. This system favours private-led social housing delivery – such as housing associations and for-profit registered providers, as well as speculative wider housing and infrastructure delivery – over public-led social housebuilding. This is because, unlike most EU countries that use a general government debt measure, PSNFL includes the entire public sector's debt (see Figure 6). It means that our fiscal rules include the debt of our public social housing providers even though these debts will be paid for by rents as opposed to taxation or wider government expenditure – classed by the ONS as 'market producing' (see Box 2 for more detail).[43] In contrast, many EU countries tend to build social housing with municipal-owned companies that are classed as market producing public corporations and are therefore excluded from their general government debt measures.

BOX 2: PUBLIC SECTOR DEBT AND COUNCIL HOUSING – AN EXPLAINER

Public sector debt is split into three main categories; central government, local government, and public corporations. Public corporations can either be classed as market or non-market producing, largely depending on whether 50% of their revenue comes from private sources, as prescribed by the Office for National Statistics (ONS).[44] Governments have a range of options for how they measure debt which determines the type of institutions included within fiscal rules that target debt, like the UK's 'investment rule'. Public sector debt measures include market producing public corporations whereas general government debt measures exclude them (see Figure 6). The choice of debt measure also decides the type of asset or liability that ends up being counted (see Annex 2). For instance, a debt measure may or may not include the financial asset created when the central government administers a loan (in addition to the liability created as a result of issuing a bond to 'fund' the loan), or the physical asset created when a new council home is built (see Annex 2).

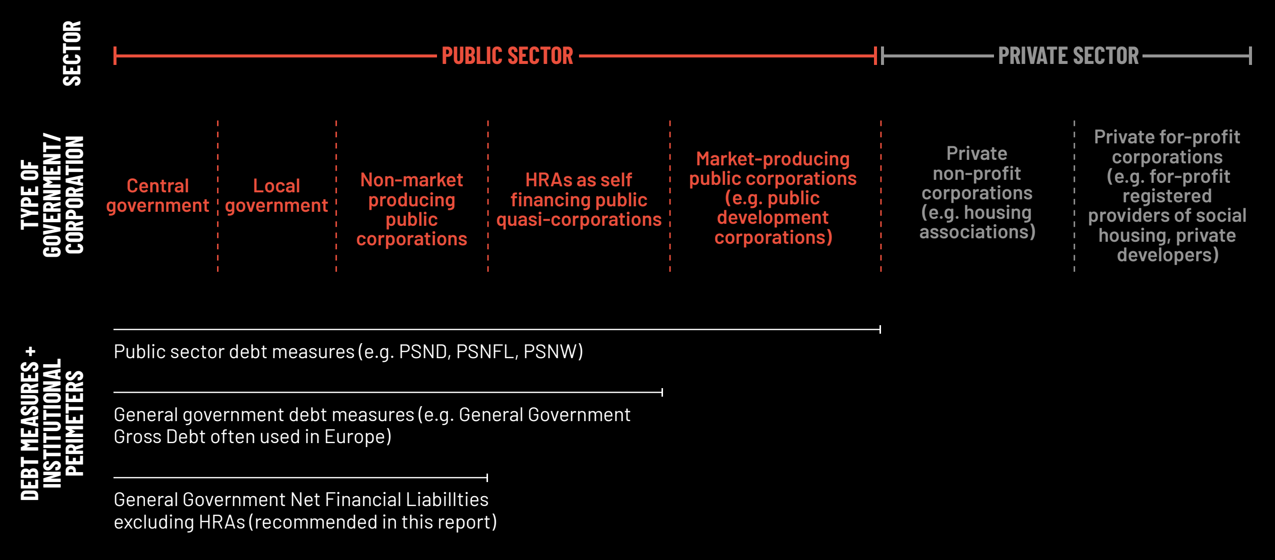

Figure 6 – Debt measures and institutional perimeters

If the UK aligned with EU standards to focus on general government debt, this would automatically exclude the debts of development corporations (like the bodies that built the post-war new towns), due to their full market producing public corporation status. However, the same is not true of HRAs. This is because the ONS treats HRAs slightly differently to development corporations: HRAs cannot take economic decisions on their own and local government remains ultimately liable for their debt so the ONS actually classifies the HRA as a 'public quasi-corporation'.[45]

The government's choice of accounting practices has serious real-world implications – disincentivising council building and other forms of public-led delivery. It is a central reason previous governments imposed the HRA debt cap between 2012 and 2018 to constrain council housebuilding. It is also the key driver behind the Public Private Partnership (PPP) approach being taken to the current new towns programme despite the clear success of the post-war New Town Development Corporation model.[46]

PSNFL prevents the government giving councils low-cost loans

Unlike the government's previous measure, PSND, PSNFL includes the financial asset created from administering a loan in addition to the corresponding liability created from the government borrowing from the bond market to 'fund' the loan. The change is welcome, enabling the government to take a more interventionist role within the financing of new social homes. For instance, this is a key reason why the government has been able to provide 0.1% interest loans to housing associations; the government's asset (created by loaning money – it will be paid back along with interest) and its liability (created by borrowing to 'fund' the loan) cancel each other out – making the loan fiscally neutral under PSNFL. The liability held by the housing association (to pay back the loan) is excluded from PSNFL because it is a private body outside the public sector.

However, the inclusion of HRAs and development corporations within the institutional perimeter of PSNFL means that if the government were to make the same loans available to these bodies, it would be treated as an overall liability on the government's balance sheet rather than as fiscally neutral. This is because the central government asset (created by loaning money) is actually netted off by the liability held by the loan recipient (the council or development corporation), precisely because of their inclusion in the debt measure. This leaves only the liability on the government's balance sheet created from the borrowing it undertook to 'fund' the loan. Annex 2 illustrates this visually.

Using public sector rather than general government debt measures creates an opportunity cost

By sidelining councils and development corporations, the government undermines its ambitions to ramp up council housebuilding, increase public control, and secure a better deal for the public sector:

- It forgoes opportunities to use public powers to acquire land, capture land value, and shape land and housing markets in the interests of local communities. Instead, PSNFL enables the funding of private developers who slow down delivery in difficult economic times and exploit viability loopholes to reduce the number of social homes they deliver.[47]
- Favouring for-profit providers can also drive up the level of public grant needed per social home delivered therefore reducing the number of social homes the SAHP can help build. This is because for-profit providers typically use higher discount rates to meet target returns and reflect alternative investment opportunities. As a result, they place a lower value on new homes than councils and so can require more grant to make schemes viable. For instance, assuming a 6.5% discount rate for private providers versus 5.5% for councils, this could increase grant requirements by around £14,000–22,000 per unit to meet the funding gap (see Annex 1).
- By stifling public-led delivery and ownership, it reduces democratic accountability over our social housing stock and erodes the state's long-term capacity to devolve power and shape social housing in tenants' interests.

How to fix the fiscal framework and unlock investment

To ramp up investment, the most obvious lever for the government to pull is to **bring forward planned spend earmarked for later stages of the SAHP and concentrate it mostly (or entirely) on social rent**. This would unlock billions in funding for councils and housing associations to get more social homes built faster, while the government should seek to **further ramp up overall grant in the SAHP to help fund the additional 280,000 social rent homes that HRA debt cancellation unlocks capacity for**. To deliver this, the government would need to change or amend the 'investment rule', deemed unlikely at the time of this report,[48] or adopt Public Sector Net Worth as the debt measure that this rule targets to make grant funding fiscally neutral (see Box 3).

If these options are too ambitious, the government must take interim steps within its fiscal framework to **exclude HRAs and public corporations (such as development corporations) from its current measure of debt** to exclude their debts and extend the neutral treatment of government loans. As the Resolution Foundation argued recently, low-cost loan financing represents a sensible way to ramp up social housebuilding while grant levels remain tight.[49]

Moving to a form of 'General Government Net Financial Liabilities' (GGNFL) that specifically excludes HRAs would be relatively straightforward, offering a robust bridge to higher levels of social housing investment while broader fiscal reform is considered. To achieve this, the government would need to take the following steps:

- Reduce the institutional perimeter of PSNFL from the whole public sector to just general government, bringing the UK closer to most EU countries.[50]
- Make a specific carve-out for HRAs, pushing them outside the debt measure.
- Continue with PSNFL's broader approach to the balance sheet (as opposed to PSND) that counts illiquid financial assets.

The above change would stay within current fiscal rules and, as Box 4 discusses, bring little prospect of 'spooking' the markets. Importantly, the government could kick off this change overnight with an HMT press release to shrink the institutional perimeter of PSNFL.[51] The process would also be administratively simple because the ONS already implicitly calculates a similar measure to the above in producing PSNFL.[52]

BOX 3: VALUING SOCIAL HOMES AS ASSETS ON THE PUBLIC BALANCE SHEET

Moving from PSNFL to Public Sector Net Worth (PSNW) would complete the expansion of the debt measure begun under Rachel Reeves. PSNW recognises the physical asset created from building a social home alongside the central government borrowing used to fund it. This would make both grants and loans fiscally neutral – enabling the government to increase the SAHP to deliver 90,000 social homes a year.[53] If not in the 2026 Budget, the government should work towards this as soon as possible, with a revised GGNFL (see below) as a strong interim step.

BOX 4: EXCLUDING HRAS AND DEVELOPMENT CORPORATIONS IS A SAFE BET WITH THE MARKETS

Major pension funds and economists are calling for similar fiscal reforms.[54] Investors are unlikely to react significantly to the exclusion of HRAs and public corporations, just as they showed little to no discernible change in their assessment of credit risk or inflation following the announcement of low-interest loans for housing associations or when housing association debt came onto the national balance sheet overnight between 2015 and 2017.[55] This is because:

- Investors care less about an entity's formal classification than the nature of the investment and the likelihood of state support.[56] A revised GGNFL would merely standardise the government's accounting treatment of England's social housing.
- HRAs are not materially different from public corporations or housing associations in this respect, as debts are paid off through sales and rents while sovereign backing is generally assumed for all three.[57] And they are tightly regulated, rarely engaging in risky commercial activities and have never defaulted.[58]
- Pairing this fiscal change with HRA debt cancellation would avoid reclassifying existing debt outside the fiscal framework, further limiting the prospect of market concerns.
- As under PSNFL, new gilt issuance to 'fund' HRA borrowing would be controlled under government frameworks giving investors clear sight of investment plans – abating the supposed disciplinary effects of the bond-market.[59]

Tweaking the current debt measure delivers transformational change

There are three essential benefits that adopting a revised GGNFL would bring. Firstly, it would **place HRA debt outside the fiscal rules, ending the incentive to limit council borrowing** and helping return council housebuilding to the heart of the government's housing ambitions. Development corporations would also once again be able to build social housing at scale too, including by borrowing direct from financial markets which some argue can drive more effective delivery.[60] In turn, the government could move away from the Public Private Partnership approach to new towns that its current fiscal framework has encouraged – one reliant on speculative development models and expensive practices (as previous experience shows[61]) – and return to the proven post-war model of public-led development that continues to underpin successful new settlements across much of Europe today.[62]

Secondly, and perhaps most crucially for councils, by making loans to HRAs broadly fiscally neutral, **it would enable the provision of 0.1% interest loans for HRAs**, likely administered by the National Housing Bank.[63] This is a recommendation supported by the Local Government Association (LGA) and the Association of Directors of Housing (ADoH).[64] Modelling by JJ Viability for Shelter (see Annex 1) shows this would support **a loan-only financing model**, enabling government to ramp up council housebuilding while easing pressure on existing fiscal constraints that continue to limit the size of the SAHP. The loan would be paid off over the loan term as opposed to using maturity loans. This is considered prudent to prevent burdening councils with continued debt and refinancing requirements.[65] Year 1 interest cover would be achieved under scenarios in both London (£440,000 loan) and the North West (£230,000 loan) while delivering reasonable payback periods of 43 years and 38 years respectively.

Similarly, **0.1% interest loans could be used in a supplementary capacity to plug viability gaps** where current grant rates and allocations fall short. The government should ensure this in-effect subsidy does not impact the Ministry for Housing, Communities and Local Government's (MHCLG) departmental expenditure limits.[66] Pragmatix modelling on the fiscal savings from new social rent delivery strongly indicates this subsidy would have minimal impact on the 'stability rule'.[67]

Third, adopting the **revised GGNFL would also support the government to reduce general PWLB rates and introduce greater flexibility over repayment terms** to help councils better access and make use of the SAHP. While the government's decision to retain the PWLB rate of 0.4% above its own borrowing costs until March 2027 is relatively favourable compared to previous rates, it remains far too high, with the current 50-year maturity lending rate at over 6%. As JJ Viability modelling (see Annex 1) shows, in both London and the North West, interest rates of 6% and 5% do not allow councils to borrow enough to bridge the gap between the development costs and grant, assuming loans are repaid within reasonable periods. The government must work with councils to ensure loan rates support council housebuilding:

- In London, the interest rate would need to reduce to 4.22% to enable local authorities to borrow enough over 60 years or 3.7% over 50 years.
- In the North West, the figures are 3.98% and 3.4% respectively as the net rental income used to cover the loan costs is proportionally lower than in London.

Ending the housing emergency requires the government to choose a different path from the last 45 years of fiscal conservatism that has hamstrung councils' housing finances and stifled public funding. It is now urgent the government puts forward a robust financial package to devolve financial power and align all arms of the state behind getting councils building again. To do so, politicians must adopt a new economic framing of the public finances that avoids the narrative traps laid long ago by the architects of neo-liberalism and offers instead a positive vision of social housing investment as not only possible, but common sense.

CHAPTER TWO

A NATIONAL COUNCIL HOUSING MISSION

Councils have a proud history as builders of the majority of our social housing stock, dating back more than a century, but barriers have been put in their way for decades which now prevent them from building at scale.

To deliver a culture shift back towards councils building tens of thousands of social homes, there must be a national mission backed at all levels of government. Only an ambitious, co-ordinated effort will dismantle the barriers and bring the benefits of high quality, council-built social rent homes to every part of England.

Across local authorities, there is a willingness to get building again and many have been active in a return to housing delivery as a response to austerity.[68] The recently announced first £10bn of Social and Affordable Homes Programme funding includes allocations to three councils as 'strategic partners', the first time councils have participated in this long-term part of the programme.[69] Although their allocations represent a small portion of projected SAHP delivery, this is a signal of the advances councils have already made. Throughout this chapter we feature case studies based on detailed interviews with local authorities about their delivery programmes. These case studies highlight the good work already underway in many parts of the country, but also the barriers currently holding these ambitious local authorities back from delivering social homes for their communities.

Set a clear target for social rent and council delivery

Getting councils building at scale again will require alignment of political priorities across central and local government. **This must start with a national target for the number of social rent homes that the government wants to see delivered by all providers**.

The government's 1.5 million homes target lacks a clear relationship to tackling the housing emergency and has left the government exposed to pressure to water down ambitions to build the social homes which genuinely end homelessness and housing unaffordability.[70] A social rent target would set a clear direction for the government's housing policy for the remainder of this Parliament and enable easier alignment of planning and housing objectives for local authorities.

To support achievement of this target, **government must agree a delivery compact with local authorities in return for HRA debt cancellation – a formal agreement for councils to build again at scale, with most of the homes for social rent**. Savills research found that local authorities with HRAs would agree to a delivery compact in return for cancellation of the debt they hold with central government. With the new Prime Minister aiming for post-war levels of council housebuilding, this should mean reaching 45,000 social rent homes per year, the level costed and modelled in Chapter One based on the capacity created by HRA debt cancellation. Councils like Bristol (featured as a case study in Box 5) with ambitious plans to deliver more homes but facing large HRA debt payments and significant requirements to modernise ageing stock would see significant capacity to build unlocked with debt cancellation.

BOX 5: BRISTOL CITY COUNCIL

Bristol is a large stockholding unitary authority, owning just under 27,000 homes.[71] Much of Bristol's stock was built in the post-war period when council homes were available to a wide range of the city's population, but in recent decades housing need has far outstripped the delivery rate of social homes, with 1,700 households in temporary accommodation[72] and 18,000 households on the waiting list.[73] Even households in the highest priority banding can find themselves waiting more than a year for a social home. It is this urgent housing need, as well as the need to build balanced communities in a city with high levels of inequality, that drives the council's delivery of social rent homes.

The council takes a long-term view of its Housing Revenue Account which enables it to invest in new homes despite the challenging financial environment for social housing construction. With a pipeline of homes planned to become part of the HRA, Bristol balances the finances of new development over the whole life of a programme rather than requiring each individual site to cover its own costs, as is common in other local authorities.

However, while the Council does what it can to maximise investment, it faces high levels of HRA debt which act as a brake on its capacity to deliver at scale.

The council itself builds directly on smaller scale projects of up to 30 units on its own land, often repurposing land previously considered undevelopable including garages. Some of these projects make innovative use of Modern Methods of Construction. For larger scale projects, the council has a wholly owned housing company called Goram Homes which enters into joint venture agreements with private developers to deliver sites of up to 1,400 homes, usually a mixture of social rent, private sale and some shared ownership.

As one of the largest stockholding authorities in the country, Bristol faces a significant challenge with its ageing stock requiring redevelopment to meet new standards and protect residents' health. Bristol has ambitions to replace its ageing stock and to densify and improve public services in some of its suburban estates. However, financial constraints on their HRA, construction costs and viability are a hamper to rebuilding on the scale required to replace social homes.

Responsibility for agreeing the delivery compact should be held by **a council housing champion** within the newly created Office of the Prime Minister and Cabinet, who would also be responsible for ensuring councils have adequate support to overcome the delivery and policy barriers they face. For decades, central government has assumed delivery will be private-led and pursued housing policy in ways that have 'designed out' council housing, from incentivising large-scale stock transfer under the Decent Homes Programme to capping HRA borrowing. Local authorities need an advocate within central government who can ensure that policy barriers to delivery are knocked down and change the culture in Whitehall to be supportive of local authorities' ambitions to build.

Central government needs to emphasise the importance of social rent over other 'affordable' tenures, which are often unaffordable for homeless households and other low-income households.[74] Although many councils recognise the importance of social rent for meeting local housing need and do their best to prioritise it (see Preston council case study below), they are not incentivised to deliver it because lower, genuinely affordable rents mean less income over time.

Building social rent reduces spending for councils and central government on temporary accommodation (and, for central government, brings lower day-to-day housing benefit spending). But local authorities are limited by the HRA ringfence in how much they can take wider savings into account in delivery plans. Nonetheless, economic analysis by Pragmatix for Shelter has demonstrated that, over the long term, councils stand to benefit by £53.3bn from the removal of their HRA debt and building of 284,000 council homes for social rent, including £15.1bn savings to their services.[75] **The government must ensure local authorities are properly supported to deliver new build social rent homes by providing adequate loan and grant funding to ensure social rent is a viable tenure for new council homes.**

Aligning planning and housing objectives

Councils have responsibility to meet the most urgent forms of housing need in their local communities, with duties to support households who are homeless or at risk of becoming homeless. They see every day how a lack of access to genuinely affordable social homes leaves local people struggling to afford private rents or stuck sofa surfing with friends and family. At the same time, in their role as Local Planning Authorities (LPAs), councils set local plans for how their areas will develop.

And yet for decades, reliance on private-led housing delivery has left communities watching on as homes they cannot afford are built around them, sapping public support for new building and leaving councils unable to step in when private developers slow or stop building, holding out for higher house prices. Councils are pushed to approve an increasing number of planning applications for private development, even though recent Local Councils Network research found that only 52% of homes given permission since 2012/13 have been built out.[76] Despite this councils are punished, via the Housing Delivery Test, for failure by private developers to deliver new homes.[77]

We need planning and housing objectives aligned at both national and local levels to enable council housebuilding to play an essential counter-cyclical role in meeting the government's manifesto commitment to 1.5 million new homes. Despite some welcome reforms, planning policy still bakes in the assumption that delivery will be private-led. For instance, local housing need assessments (which set the target for homes that should be built in an area) are based on the affordability of buying homes and do not take into account social housing waiting lists or levels of homelessness.

The government has taken some positive steps forward in better aligning planning with need, including encouraging local authorities to set local targets for social rent homes on private developments.[78] But they must go further, allowing local authorities to focus plans on the homes that will best meet local housing need. To achieve this, the government must align planning policy and resources by:[79]

- **Setting a national minimum requirement of 20% social rent homes on all medium and large developments** (with higher requirements on public land and land released from the green belt), to support councils' ambitions for more social housing locally and provide a floor below which negotiations with developers cannot fall.
- **Amending the standard method for assessing local housing need** (which sets the requirement of homes to be built) to ensure that it takes into account the number of households experiencing or at risk of homelessness and people needing to move on from homeless accommodation as well as the waiting list for social housing.
- **Exempting social and affordable housing requirements from the 'tilted balance'**, which requires local authorities to accept planning permissions if housebuilding has not met targets, so long as the benefits are not substantially outweighed by adverse effects. Failing to meet local social rent needs should be explicit grounds for refusal and given significant weight as an adverse effect within decision making.
- With one in ten (11%) planning posts unfilled and just one in five (21%) planning departments fully staffed,[80] central government **must support councils to recruit and retain more planning staff**. The government should explore how the 'Pathways to Planning' programme, which recruits graduates, could be expanded to retain more senior staff in LPA teams.

Local authorities themselves must also find ways to break down siloed working between planning and housing teams. Planning teams sit within councils as an 'authority within an authority', and council housing delivery teams report that they often lack expertise in getting their own schemes through planning.[81]

Some councils, such as Cornwall (featured as a case study in Box 6) work hard to build greater alignment; for instance, by organising planning and housing functions under the same directorate so that strategy is aligned between the two and regular identification of surplus council land with first offer to housing, education and social services departments for development. Maximising use of public land for social housing and greater use of councils' powers to acquire land and homes would also substantially empower councils to step in where private developers are failing to deliver on the housing need requirements set out in local plans. Councils can make specific interventions to ensure the planning system better addresses local housing need:

- **Taking an active role in matching social and affordable homes agreed through 'section 106' (s106) planning agreements with registered providers**, including bringing homes into the councils' own stock. Councils have a crucial role to play in identifying potential landlords for s106 homes and in early negotiation with developers to ensure that homes meet the required standards for social housing providers.[82]
- **Proactively identifying sites within the local plan which are not coming forward** and reviewing where it may be appropriate for the local authority to step in with compulsory purchase of the site, with a view to developing the site directly or via a partnership (see Chapter Three).

BOX 6: CORNWALL COUNCIL

Cornwall Council is a stockholding unitary authority facing significant homelessness pressures, which motivates its delivery of social rent and other affordable housing. The cabinet has set a target to reduce the number of households who are homeless and living in temporary and emergency accommodation by half. However, the kind of affordable homes being delivered through the planning system and managed by registered providers locally do not meet the needs of homeless households, as there is a strong need for one-bed homes for single people, four-beds for larger families and adaptable and accessible homes for people with disabilities. Therefore, the council focuses its delivery efforts on meeting this need. As a stockholder with over 10,000 homes[83] managed by the Council's arm's length management organisation Cornwall Housing Limited (CHL), the council also needs to replace ageing properties which are coming to the end of their useful life and which it cannot afford to renovate to meet new standards. Cornwall sits in the top 30 councils nationally for delivery across all tenures,[84] and has delivered over 200 social rent homes in the past five years.[85]

All of its social and affordable delivery is organised by Cornwall Council with completed units forming part of the HRA stock and managed by CHL. Direct building has become more expensive in recent years, although Cornwall still engages in it through a framework partnership with a private master planner and other developers, including a wholly owned developer called Cormac. Cornwall Council recently completed a large development in Redruth, with a 100% affordable scheme of 52 homes, 11 of which are one-bed homes for social rent. Cornwall increasingly prefers acquisitions of new build homes owing to its lower cost. This includes purchasing section 106 homes for the HRA as well as going further with off-plan deals, engaging with developers early on to purchase units on top of those agreed through section 106. The Council has also recently purchased a block of discounted market sale units which were struggling to sell, bringing them into the social housing stock instead.

This effective approach to acquisitions is enabled through close integration between planning and housing functions in Cornwall. The Affordable Housing Team identify a pipeline of upcoming developments in the planning system which offer opportunities to bring homes into the HRA. This joined up approach extends to the treatment of Council-owned land, where land owned by Cornwall Council which has been identified as surplus to requirements is reviewed by departments on a monthly basis, with the affordable housing team able to flag land that they would like to use for building new homes for the HRA.

Navigate the challenge of local government reorganisation

Central government needs to ensure that its devolution priorities help rather than hinder the drive to increase council housebuilding. This is especially the case with Local Government Reorganisation (LGR), the process by which more than 200 councils will be merged into new unitary authorities (UAs), with the first new unitaries coming into being in 2027 and 2028. A recent survey of housing professionals by the Chartered Institute of Housing (CIH) found that 53% are highly concerned about the impact of reorganisation on housing service continuity.[86]

More unitary authorities offer a significant opportunity for housing. Unitarisation will mean far more communities across England will live in areas with a Housing Revenue Account (HRA), meaning more of the country's population will once again live in council areas which own and manage housing stock. Larger councils should in theory benefit from economies of scale when delivering new social homes, both in terms of procurement from contractors and utilising the new Small Sites Aggregator to package together small parcels of council-owned land for development. Some councils where housing delivery is a strong priority are already planning for increased delivery after reorganisation: Preston City Council (featured as a case study below) is taking advantage of the opportunity of joining a unitary to manage and build social homes once again.

BOX 7: WHICH COUNCILS ARE AFFECTED BY LOCAL GOVERNMENT REORGANISATION?

In many parts of England, the responsibilities of local government are currently split between lower tier district or borough councils and higher tier county councils. Responsibilities related to housing are largely held at the lower tier, including homelessness support, temporary accommodation and managing council housing stock where it exists. Districts are also the local planning authorities for their areas, with the exception of some specific planning issues like waste management. Unitary authorities hold the duties of district and county councils combined, meaning that new councils will handle housing alongside statutory duties currently held by counties, such as social care and education. Nearly a third of England's population live in areas affected by LGR.[87] London is not affected, as its boroughs already hold similar responsibilities to unitary authorities, nor are existing UAs.

BOX 8: PRESTON CITY COUNCIL

Preston is a district council with a strong mission driving action to tackle the housing emergency. Preston is a non-stockholding authority, having transferred its homes to a registered provider more than twenty years ago. Returning to delivering council homes has been a long-term ambition for the council as far back as 2011 and in 2026 Preston registered as a provider of social housing so that it can once again manage homes. This year it will take on its first new stock by acquiring 18 properties built under a section 106 agreement and bringing them into use as social rent homes. Since Preston is due to be merged next year to create a new unitary authority, this stock will be managed within a neighbouring council's HRA.

Preston has a 'Community Wealth-Building' ethos which drives the council's commitment to housing as a crucial cornerstone of efforts to tackle child poverty. This ethos has led the council over recent years to use its power to tackle housing unaffordability locally through a range of interventions. This includes setting a robust requirement for on-site affordable delivery in its local plan (30%), an award-winning empty homes scheme and stepping in to facilitate and support Community Land Trust and Registered Provider provision.

Social rent homes are desperately needed in Preston. While the local plan requirement for 30% affordable homes has delivered a high provision of affordable rent homes with rents at 80% of market rents, rising private rents as well as frozen Local Housing Allowance rates mean the council now finds these homes are simply not affordable for many local people in housing need. The council therefore wants to prioritise social rent homes for its future delivery, filling a gap in local affordable provision. To do this, it wants to scale up direct delivery of council homes, buying land or working in partnership, as well as acquiring empty city centre properties.

Preston is positive about the impact that becoming part of a larger unitary authority will have on its ability to deliver more council homes. This is due to the opportunities presented by greater land and assets and greater capacity to use Compulsory Purchase Order (CPO) powers. Underlying this confidence is a perceived alignment of political priorities and ethos with their prospective merging partner authorities, as well as some practical alignment on service delivery already in place.

However, previous waves of unitarisation have not resulted in an increase in council social housing delivery. In the short run, unitarisation has tended to be followed by lower levels of council housing delivery than the same authorities had achieved prior to being merged. Shelter analysis has found that councils' delivery of social rent homes almost halved in the five years after becoming a UA.[88] While these periods cover very different policy contexts for social housing, when comparing delivery today between unitaries and non-unitaries, merged authorities still compare unfavourably: in 2024/25, non-unitarised authorities were delivering 3.1 times the number of social rent homes they had done in 1995/96 compared to just 1.8 times for UAs and their predecessor authorities.[89]

Unitarisation is a complex process, but some of the key challenges for council housebuilding will be:

- Priority congestion: LGR comes at a time when there are multiple devolution priorities which councils need to navigate.[90] Within councils preparing to merge, statutory services like social care are likely to be prioritised over housing delivery.[91]
- HRA pressures: stockholding authorities' financial positions vary greatly with regard to the debt and expenditure to their HRAs.[92] Where two or more merging authorities are stockholding, merging HRAs is complex, especially where one HRA is in poor financial health and/or has poor quality stock in need of immediate investment to bring it up to standard.

- Loss of political impetus for housing delivery: As the case studies in this chapter show, where councils are currently building this is often driven by local prioritisation. For some the changed boundaries brought by LGR will mean change of leadership, leading to uncertainty about the future prioritisation of council building at a local level.

All these challenges mean the government must put in place measures to ensure that new UAs begin life with a clean slate and a clear mission to ramp up the number of social rent homes in their area. To smooth the transition and ensure that focus on council housing delivery is not lost through reorganisation, it is crucial that:

- **HRA debt is cancelled**, as discussed in the previous chapter, ensuring that authorities which merge their HRAs have a far simpler financial transition and unitaries do not face immediate financial pressures.

- **The council housing champion within the Office for the Prime Minister and Cabinet** must work with all levels of government to resolve potential conflicts between the government's multiple devolution priorities.

- **The Council Housing Support Service (CHoSS), funded by MHCLG and organised by the Local Government Association, ought to be adequately resourced** to ensure all councils undergoing reorganisation can access advice and support in merging their stock and scaling their housing delivery ambitions. This should be supported, as the CIH have suggested, with publication of clearer housing-specific guidance and timelines, particularly on areas like merging HRAs.[93]

Rebuild in-house capacity for council building

Local authorities have powers to assemble land and master plan for development, which mean they have potential to build on a large scale to meet the needs of their communities. However, they have lost the in-house expertise and capacity which facilitated high levels of direct delivery of social housing in the 1960s and 1970s. This is cited time and time again by councils as a crucial barrier to building social housing at scale.[94] Any commitment to ramping up delivery of council-led social housing must entail a significant rebuilding of the capacity of the public sector to plan and build social housing at scale. The recent announcement of £46m over three years for the Capacity to Build programme which supports councils to begin delivery programmes and recruit staff is very welcome.[95] The government should monitor the programme closely to identify opportunities to ramp up its activity and accelerate council delivery.

The current need to rely on private sector expertise in master planning and development, while often facilitating delivery that could not otherwise take place, can be extremely expensive and leave local authorities lacking control over development.[96] Local Housing Companies (wholly owned, arm's length development organisations) have enabled many local authorities to restart delivery in recent years, although they often face challenges of viability and scalability and are legally limited in their ability to focus on social rent homes.[97] However, the lack of development and construction expertise in the public sector (see Box 9) currently leaves councils with little choice but to rely on private partnerships.

BOX 9: PUBLIC-SECTOR DEVELOPMENT AND CONSTRUCTION

Much post-war social housing was built by public bodies (both councils and new town development corporations) with directly employed construction and development teams. This kind of expertise has long been lost from most councils, although some like Cornwall (see case study above) have wholly-owned construction firms or other in-house delivery capacity.

Some have suggested that central government ought to step in to rebuild public capacity in development. For example, Joseph Rowntree Foundation proposed the creation of a public master developer within Homes England which could plan large-scale schemes.[98] Although councils and new town development corporations still have the legal powers to undertake these high-level functions, a public sector body like this could fill a capacity gap for major strategic schemes.

But a more direct capacity challenge for a council building programme is the construction skills shortage.[99] Giving councils more resources to bring development in-house could prevent further losses caused by a slowdown in demand for market sale housing, which tend to cause an outflow of construction workers from the sector.[100] Another approach would be to encourage councils to adopt Modern Methods of Construction (MMC), which mean homes are built in factories off-site and quickly assembled in place, circumventing skills shortages in traditional trades.[101]

Central government must take action to help councils deliver social homes, particularly given the current challenging environment for construction. As set out in the introduction to this report, greater intervention would also support wider economic growth. Shelter's 2024 Brick by Brick report set out the following proposals to ensure that public-led delivery can be made more cost-effective and scalable:[102]

- **Supporting councils to pool resources together to create an 'agglomeration effect' for delivery of social homes.** Where they exist, Strategic Authorities are an excellent vehicle for achieving greater economies of scale in council delivery, including through the creation of mayoral development corporations and engagement with innovative, low-cost construction methods.

- **A new Social Housing Contractor Framework through Homes England.** The agency would adopt a contractor framework for social homes delivered by the council. This would set parameters around rates and pricing each year to provide certainty and confidence in long term planning.

Taken together, the proposals in this chapter provide a framework for local authorities to get building social rent homes at scale once again, with central government enabling and providing a clear political direction.

CHAPTER THREE

PRIORITISING LAND FOR COUNCIL HOUSING

Since the post-war boom in council housebuilding, government policy and broader economic trends have driven a sharp rise in land values, which now account for around 73% of UK house prices.[103]

The gains from this growth have largely flowed to private interests, as successive governments have shied away from capturing greater land value uplift to channel into social housing. Meanwhile, public land has increasingly been used to generate short-term revenue for the state, with its role in supporting social housebuilding and wider public goals steadily diminished. This loss of public control over land amidst its sky-rocketing price has weakened councils' ability to build the social homes their communities need, concentrating power and profits among developers and landowners which has reduced housebuilding of all kinds.[104]

While councils are likely to focus on small and medium-sized sites in the short term – with Homes England, development corporations and strategic authorities leading larger projects – their significant public land holdings and acquisition powers make councils central to the government's aim to rapidly increase the supply of social housing.

For private land, the state must once again strengthen the ability of local delivery bodies like councils and development corporations to acquire and assemble land – including stalled sites – at a low cost and increase the public capture of land value uplift.[105] Realising the full potential of public land for social housing will require more than public land release alone. The government must refocus public land use frameworks to optimise land use in the public interest – which should explicitly include high levels of social housing beyond what planning policy dictates to better meet local housing need.[106]

Prioritising public and non-profit-led delivery models where appropriate will further help to secure high social housing rates, maximise value for money and unleash councils to get on and build.

Ultimately, land is central to increasing social housebuilding. The devolution agenda provides an opportunity to align public land with the objectives of mission-led councils, development corporations and regional authorities, while also supporting these bodies to acquire private land at lower cost, helping accelerate social housing delivery.

An opportunity lost: lessons from the last 45 years of public land privatisation

Successive governments' short-sighted approach to public land has imposed a staggering opportunity cost on this country in the context of today's housing emergency. Beginning with the fire sales of the 1980s and 1990s, 1.6 million hectares of public land have been transferred from the public to private sector since 1980, with local authorities selling 60% of the land they owned in the 1970s.[107] Much of this land was sold at a fraction of its potential value as central government pressured public bodies to dispose of sites quickly, weakening the state's negotiating power,[108] while reliance on the speculative development model has gutted successive government aims to stimulate housing delivery on said land.[109]

Recent government programmes to unlock departmental land specifically for housing have similarly proved ineffective and wasteful, tending to deliver only around 6% social rent housing while also underdelivering on overall housing targets.[110] The National Audit Office and Public Accounts Committee argued the 2015–2020 Public Land for Housing Programme failed to deliver value for money or address the housing crisis, throwing away a 'once-in-a-generation opportunity ... to develop a strategy for public land disposal'.[111]

While data is harder to gather for council land, studies and projections towards the end of the 2015–20 programme suggested that local authority land disposal would generate around twice the receipts from central government land disposal during the tenure of this initiative.[112] Despite positive examples of councils attempting to use public land to deliver against policy objectives, financial pressures continue to push council property teams to sell off land as a way to generate short-term receipts. Even when councils transfer land internally, UCL research identifies that council property teams are often driven to charge their own HRA or council company a 'market' rate for the land,[113] creating a short-term cash injection for the General Fund while undermining the provision of council housing.[114] Even where there is no charge for the land, councils and housing associations may still factor land costs into viability assessments which can unnecessarily inflate grant requirements.[115]

The management and use of public land, beyond just disposing of it, is also inefficient with large swathes of land sitting empty or underutilised, despite proactive efforts by programmes such as the One Public Estate.[116] At present, the government's National Housing Delivery Fund to help unlock land for housing development, while a welcome source of additional funding with capacity to unlock 713,000 new homes, does not require recipients to deliver any additional social housing even when it is used to unlock public land.[117] As Mariana Mazzucato and other economists have argued, such conditionality is essential if public investment is to generate public value, rather than simply socialising risk and allowing private actors to capture the gains.[118]

Reconnecting planning, public land and social housing delivery

Despite the mass privatisation of public land over the last nearly 50 years, there remains a significant amount of public land from which to kickstart a council housing revolution. Previous NEF research forecast enough central government public land for 100,000 homes and around 100–150,000 homes on local government land over 5 years.[119]

The government must make effective use of the planning system to ensure this land is best used to end the housing emergency, aligning land values and use with public policy goals. As the *Parkhurst Road* judgment (2018) and the subsequent changes to Viability Planning Practice Guidance made clear, land value for planning purposes should be determined by existing use value and policy-compliant development, not simply by the prices paid for development sites.[120] Land values should adjust to policy, not vice versa. For instance, land prices should fall in response to higher social housing requirements, reflecting the reduced financial value of what can actually be built on that land.

But public land continues to be managed inconsistently across the public sector, with ambiguous rules often interpreted as prioritising financial returns over public policy objectives. The challenge is therefore not to create an entirely new framework, but to ensure that current regulations and planning policy make clear that land values should follow public policy objectives, and that those objectives are ambitious and robustly enforced.

As previous modelling by the National Housing Federation shows, using public land at 'no-cost' in a large social housing programme could deliver a 62% reduction in the grant levels needed on these sites.[121] Pragmatix modelling strongly implies that the prospective reduction in land sale receipts would be offset to a significant degree across the public sector by the savings generated from subsequent increases in social rent delivery.[122]

Regulations on land owned by local government and public bodies

The regulations governing public land disposals are currently understood differently by different councils, leading to a mix of practices, some of which work against social housing delivery. Section 123 of the Local Government Act 1972 requires councils to obtain the 'best consideration reasonably obtainable' when disposing of land outside the Housing Revenue Account,[123] with similar requirements applying to Mayoral Development Corporations and Homes England.[124] In practice, public bodies often treat this as a requirement to secure the highest possible sale price, creating significant opportunity costs for social housing delivery and limiting the ability of councils to transfer land at lower values to housing associations and community-led housing groups.[125]

The General Disposal Consent 2003 has compounded this problem. By allowing councils to dispose of land at 'less than best consideration' where specified wellbeing benefits can be demonstrated, subject to financial caps, it implicitly suggests that achieving wider social and economic objectives sits outside the concept of 'best consideration' rather than forming part of it.

However, the introduction of the spatial planning system through the Planning and Compulsory Purchase Act 2004 fundamentally changed the basis on which land should be valued and effectively redefined 'best consideration'. As the *Parkhurst Road* judgment illustrates, land values should reflect policy-compliant development rather than the highest conceivable sale price, rendering the 2003 consent theoretically redundant.[126] And yet, with notable exceptions (see Box 10), many public bodies continue to treat social housing-led disposals as departures from best consideration, rather than recognising that such disposals can represent the best use and value of public land in the first place.[127]

BOX 10: WEST MIDLANDS COMBINED AUTHORITIES' PUBLIC LAND CHARTER

The West Midlands Combined Authorities' Public Land Charter, published in 2022, convened all public landowners, including government departments, to establish a shared approach to public land use.[128] It expects public landowners 'to achieve the best sustainable long-term value for their land' by applying 'a consistent, joined-up approach to best consideration' and 'justifying when they can accept the highest capital receipt in the short-term'. As a result, it makes default that public land should be retained, repurposed, or sold with conditions to support public policy, sustainable development, and economic growth objectives. Only where land cannot reasonably contribute to these aims should it, exceptionally, be sold for maximum value, subject to planning policy.

Regulations on central government-owned land

Different iterations of the Treasury's 'Best Value' framework have also driven government departments to maximise sale receipts from their land. However, the approach has improved with, for instance, the Government Functional Standard aligning property management and disposal with government policy objectives and requiring a cross-government strategic approach. This aims to ensure 'property objectives are aligned to government policy and organisational objectives' and 'actions are taken in the best interests of the public'.[129] The Cabinet Office's recent Managing Surplus Government Property guidance published in November 2025 introduced an 'optimal land use policy framework' aimed at ensuring departments and arm's-length bodies put government assets to their best possible use in support of public policy goals.[130]

Unleashing public land to maximise social housing delivery

The government should introduce an optimal land use duty, as first developed by the Best Consideration Reform Group headed up by land economist Stephen Hill, to clarify existing rules and ensure public land is used (managed or sold) to advance public policy goals, including social housing delivery. Specifically, the government should:

- **Implement a duty on public landowners to secure the optimal use of public land** and legal estates to promote or improve the economic, social and environmental circumstances of their areas ('the optimal use duty'), building on good local initiatives such as that cited in Box 10. This should apply to all public landowners; primarily principal councils in England, including strategic authorities, all types of Development Corporation, and Homes England. A similar duty should apply to government departments and associated public bodies, building on the recent changes in guidance discussed above.[131]
- At the same time, the government should **withdraw the General Disposal Consent 2003** and make clear within updated guidance and communications with relevant public landowners why selling land at a price that achieves public policy objectives does not create a 'less than best' situation and in fact constitutes the 'best consideration' for the fully policy compliant optimal use of land.

- **Require public landowners to prepare and publish a land use management plan**, as many already do, to demonstrate how existing and proposed land uses are being optimised to achieve economic, social and environmental objectives.

- **Build on and significantly strengthen cross-public-sector initiatives like One Public Estate** so that public bodies work together to make the most effective use of public land – with social housing delivery treated as a priority outcome, not an afterthought.

Public land also provides a crucial opportunity to deliver far higher levels of social rent homes than planning policy requires, while the body delivering the social homes can greatly influence whether a higher level is viable. For instance:

- Public and non-profit providers are often best placed to maximise the long-term public value of public land as they can help stretch grant further, as discussed in Chapter One, and avoid the slow build-out rates often associated with speculative development.

- When delivering new homes on land they own, councils can consider the full business case to justify higher rates of social housing delivery. For example, where a piece of council-owned land might have a negative land value if there are remediation costs and the council is aiming for 100% social rent homes, the council could manage the loss within their own business framework, perhaps by taking into account savings on temporary accommodation, whereas they likely would not be able to pay another provider or developer to take on the land to build out the development.

To further optimise the use of public land to support the government's council housing ambitions and tackle the housing emergency, Shelter recommends that the government:

- Adopt the strongest possible definition of 'optimal use' that requires the use of public land to **meet *and where possible exceed* public policy objectives**.

- **Include a specific requirement to achieve the building and development of social rent homes** and associated infrastructure.

- Include a presumption that **the optimal use duty will be fulfilled by the use or development of public land by central government, local authorities and associated bodies** or by purpose-led organisations (such as housing associations, community housing organisations and community land trusts) unless the disposal of land to a for-profit purchaser can be shown to deliver greater public benefit. This will help support the reinvigoration of council housebuilding.

- As set out in Chapter 2, **the government should implement a higher social and affordable housing requirement on public land** in support of the optimal use duty.

- **Standardise the treatment of public land in development appraisals** to ensure free or low cost public land is reflected in viability.[132]

Land acquisition and assembly to accelerate social housing delivery

To achieve its council housing ambitions, the government must also go beyond public land and support councils to acquire and assemble land at a fair price to sustain social housing delivery over the longer term. In 2023, 57% of councils cited a lack of land and 56% cited a lack of suitable sites as the two top barriers to direct housing delivery, while coverage of available developable public land is uneven.[133]

The government should **start by capitalising on the recent legislative change in the Levelling Up and Regeneration Act 2023 that reinstated the ability of councils and other public bodies (like development corporations) to disapply hope value when compulsory purchasing land.** These reforms remain a huge opportunity for the government to tackle the housing emergency and deliver on its devolution agenda. As detailed within Shelter and NEF's 2025 new towns report, the use or threat of CPO and hope value disapplication enables councils and development corporations to acquire land at (or close to) existing use value.[134] As with the post-war new towns, the existence of this power can encourage landowners to sell voluntarily at this price thereby cutting public costs and capturing greater land value uplift.

Social and private housing delivery in England both suffer from a lack of state intervention, while modelling shows that higher rates of social housing in England speed up private housing delivery.[135] Multiple studies show that higher delivery rates in countries such as Germany and the Netherlands are associated with effective public land value capture, active state-led land assembly and binding land-use frameworks that provide planning certainty and depress land values.[136] In Germany, for example, local authorities are effective at embedding public land value capture early in the planning process and their compulsory purchase powers, although rarely used, incentivise private landowners to sell at existing use value. German municipalities also have powers to freeze land values after planning designation, further strengthening land value capture and assembly while helping to dampen speculation and land values more broadly.[137]

MHCLG recently proposed a similar mechanism – a general power for the Secretary of State to direct that hope value be removed from compensation assessments for specific categories of sites where justified in the public interest.[138] Applying this 'Right to Assemble Land' would transform councils' and development corporations' ability to deliver social housing by streamlining their land acquisition process and ensuring fixed, predictable compensation for landowners. The government should explore further support for council-led land assembly, including land readjustment.[139]

To support councils to compulsorily purchase land" and disapply hope value, as well as development corporations who must once again play a central role in England's housing delivery, the government should:

- **Insert into the NPPF a presumption that hope value disapplication in CPOs will be confirmed** if it meets government criteria.[140]

- Require Homes England to work directly with a council to **take forward a landmark test case in disapplying hope value** – not a single relevant public body has yet used the power since its implementation.

- **Provide local authorities with the resource and legal expertise** to disapply hope value themselves and support councils to build up their own internal capabilities.

- **Introduce more flexibility in the 'statement of commitments' requirement** needed to remove hope value. Shelter has heard from councils unwilling to take on the work of demonstrating their commitment to delivering in the public interest on a particular site before CPO approval and hope value disapplication are confirmed.

- **Expand the current definition of 'public interest' to include infrastructure** vital to the delivery and functioning of new towns (e.g. transport).

- **Implement the 'Right to Assemble Land', as originally proposed by MHCLG**, to provide relevant public bodies with the power to disapply hope value across entire areas and categories of sites, in addition to case-by-case hope value disapplication.

From stalled building sites to new council homes

The proliferation of stalled sites across England, with 1.4 million homes left unbuilt by developers between 2007 and 2024, also presents an opportunity for councils to acquire land and deliver social homes.[141] As set out in Chapter Two, planning policy currently punishes councils through the Housing Delivery Test when not enough homes have been built in their area. However, once planning permission has been granted, local authorities have little control over the rate of housing completion which rises and falls as the demand for private sale goes up and down with the wider economy. Permissioned sites may not even start until a developer is satisfied that the final selling price of houses will be sufficiently profitable. These practices undermine section 106 agreements, which are based on the financial position of a development at the point in time of application.

Redressing this power imbalance is vital to maintaining construction through the current economic downturn. It is also important in supporting SME builders: large developers have sufficient market power to pause building during downturns and wait for better returns,[142] whereas SMEs often rely on subcontracted work that dries up when major sites stall. If councils were instead empowered to take those sites forward, not only would the homes built be better aligned with local housing need, but local SMEs would see the benefit in continued demand for their work. Crucially, robust CPO powers can act as a strong disincentive to delaying build out, meaning that the credible threat of CPO would support the increased delivery of homes of all tenures.

The government has taken some important steps to increase local authorities' ability to improve build out rates, including in early 2026 giving councils power to issue conditional CPOs which can be triggered when sites with planning permission are not built out in a timely manner.[143] The government also announced in May 2025 that it would bring forward a 'Delayed Homes Penalty' which councils could apply where sites fall behind expectations of build out – although no further detail on this commitment has been made public.[144] The lack of any taxation on vacant land fuels the speculative development model by allowing private companies and landowners to hold developable land without any financial cost or penalty for failure to build permissioned homes, holding out for higher prices.[145] This must be addressed to both speed up build out and incentivise sale of land to councils for social housing delivery.

To empower councils to tackle waiting lists and end homelessness in their areas, there is an urgent need to support them to make best use of their compulsory purchase capabilities, taking a more active role in meeting housing need and disincentivising slow build out. We recommend that:

- **Government provides local authority planning departments with additional support and resource** to ensure that new conditional CPO powers can be adopted rapidly and consistently used across councils. This should include maximising opportunities to share expertise and resource across councils or within Mayoral strategic authority areas.

- **Government should reconsider expanding 'hope value' disapplication to stalled sites.** This was ruled out in response to the 2025 consultation on compulsory purchase reform,[146] but would be a vital support to councils making use of conditional CPOs on stalled sites identified within local plans for development to ensure the land can be brought forward for social housing.

- **Reform land value and property taxation** to discourage speculative land holding, encourage sustainable development, and tackle inequality. Implementing the Proportional Property Tax or another form of land value taxation which applied to unbuilt homes and/or undeveloped land would support faster build out while delivering a more equitable tax system.[147]

- **The forthcoming Law Commission review of compulsory purchase law should be published and result in streamlined legislation being brought forward as soon as possible.**[148] The law around compulsory purchase has become incredibly complex and challenging for local authorities and other public bodies to navigate. Reform to ensure CPO use is more widespread is vital to support the government's council building and devolution agendas.

CHAPTER FOUR

ACQUIRING HOMES TO QUICKLY RAMP UP COUNCIL SOCIAL RENT DELIVERY

Across the country hundreds of thousands of homes are sitting empty or neglected.

There are over 300,000 long-term empty homes in England which for a range of reasons are unused by their owners, a 49% increase over the last decade.[149]

The severe shortage of social homes also leaves low-income private renting households struggling to pay market rents for homes which can push them into poverty and debt: shockingly, the lowest income private renters spend half (50%) of their income on rent.[150] Far too often those homes are also in poor condition and expensive to heat. It is a signal of our broken housing system that 970,000 private renting households live in homes which fail the Decent Homes Standard but still have to rely on housing benefit to afford the roof over their heads.[151]

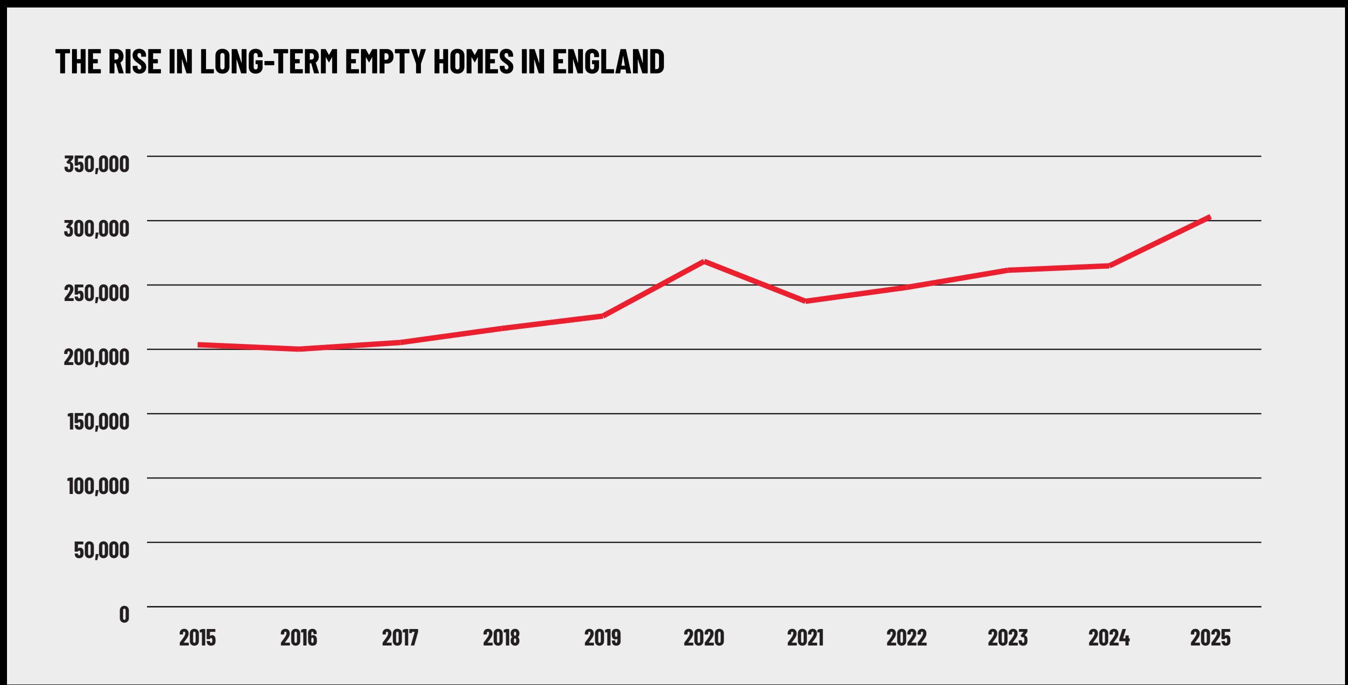

Figure 7 – The number of long-term empty homes in England, 2015–2025. Source: MHCLG, Live tables on dwelling stock (including vacants), Table 615

There is far more that could be done with the existing housing stock to ensure that everyone is able to access an affordable, permanent and healthy home. Successive governments have lacked a clear strategy to their housing policy beyond maximising the number of new builds, with no clear goal of ensuring the homes we already have meet the basic need for everyone to have an affordable and decent place to live. It is therefore welcome that the government has committed to producing a housing strategy: this must include an aim to reduce the number of people forced to live in expensive, poor quality private rented homes. A well-designed acquisitions programme could achieve this aim, by converting properties that are currently empty or neglected into council-owned social homes. This is a rapid way to build a more equitable housing system and get households out of temporary accommodation while supporting councils without a build programme to develop experience in housing management.

Set a vision for an equitable housing system

With a new Prime Minister, the government must take the opportunity to set out the purpose of its housing policy in the long-promised housing strategy. As well as centring new delivery of genuinely affordable social homes, the strategy should also set a clear vision and purpose for the kind of housing system that the government wants to create. As the Nationwide Foundation Affordable Housing Commission found in 2020, to address the affordability crisis that has emerged over recent decades there is a fundamental need to rebalance our housing system.[152] This rebalancing means building many more social rent homes, but also ensuring that the mix of tenures in the existing housing stock shifts to ensure people across the country are better able to access a home they can afford.

Principally, this means addressing the fact that decades of shortage of social rent homes has driven up the number of households living in the expensive private rented sector (PRS).[153] As the Affordable Housing Commission and many other organisations have argued, without access to secure social tenancies, families on low incomes have been increasingly forced to live in private rented homes for the long term.[154] The growth of the PRS has been actively fuelled by the Right to Buy policy, which has resulted in around 835,000 former council homes (whose sale the government subsidised) being let out privately at market rents.[155]

With the passing and implementation of the Renters' Rights Act, the government has made a series of long overdue reforms, including finally ending the scourge of section 21 'no fault' evictions which were a leading trigger of homelessness.[156] The Act will mean private renters will have far greater security and stability in their homes. However, it does not address the fact that, for many low-income households, the private rented sector is simply not suitable for their needs, owing to high unregulated rents and the continued ability of landlords to put up discriminatory barriers like guarantor requests. Private renting ought to provide genuine stability, security and quality of service and homes. Shelter support the calls of the Renters Reform Coalition for the government to go further, particularly in taking action to reduce the cost of private renting, regulating property agents and removing barriers to entry like requests for high-earning guarantors.[157]

But **for low-income households, only the genuinely affordable rents linked to local incomes provided by social rent homes can guarantee long-term stability**. Successive governments have baulked at the high cost of adequately supporting low-income households to live in the PRS through housing benefit, with the local housing allowance (LHA) frozen for most of the last 15 years rather than tracking the cheapest third of the market as it is supposed to.[158] This short-term approach to housing support has been driven by Treasury rules to limit day-to-day spending, but by pushing families into homelessness has driven up local authority spending on temporary accommodation. Unfreezing LHA is essential to prevent homelessness right now: **but it is clear that a housing policy which forced millions of people struggling on low incomes to live in the PRS has failed**. This is because:

- Many of the homes where households rely on housing benefit are in poor condition and harm the health of their occupants, with little hope of investment from their landlords.[159] Renters have very little power to demand improvements to their home and, even if they could demand them, the lack of rent regulation means necessary improvements could simply translate into an unaffordable rent increase.

- For households who struggle to sustain a tenancy, a private landlord is very unlikely to provide the broader support and signposting to services that a good social landlord should give: indeed, 90% of private landlords are unwilling to let to tenants with a history of rent arrears.[160]

- And even with reform, secure tenancies in social housing support stability in ways that the PRS is unlikely to ever provide, such as the incoming protections for survivors of domestic abuse to retain their tenancy if a perpetrator moves out[161] and succession rights for the children of residents.

Government must use the housing strategy to address how it will change course and reduce the reliance of low-income households on the PRS. As well as new building, this means setting an ambition to make the best use of the homes we already have by ensuring that empty homes and neglected properties in the PRS are repurposed and renovated as genuinely affordable social rent homes.

Now is the right time to set a vision for the housing system that the government wants to see and make bold interventions to achieve it. In a good housing system, the PRS would have greater regulation to ensure it is more affordable and provides secure, permanent homes with fair access. But the level of regulation needed to achieve this is likely to mean fewer landlords are willing to operate in the sector, especially given the small-scale, investment-focussed nature of most landlords' businesses in England.[162] Moreover, research by Joseph Rowntree Foundation has found that landlord profit margins are overwhelmingly healthy, but there is a small minority who make a loss on their rental income who are financially exposed to policy change and may need an exit route if greater regulation of rents is introduced.[163]

Reducing the size of the PRS in a sustainable manner should be an objective of government policy. Government should take a far more active approach than it has thus far shown willing to do: when posed with the question of whether PRS homes that are sold by landlords unwilling to do business in a more regulated market could be brought into the social housing stock, the Minister in the House of Lords stated 'I would like to think that that might be the case, but we will wait to see whether that happens'.[164] Rather than a 'wait and see' approach, **government must intervene to make this a reality with policy measures which facilitate and incentivise tenure shifting** to ensure that more families who need one can access a genuinely affordable social home.

As set out below, this should include a targeted acquisitions programme and stronger powers for local authorities to enforce sale and compulsorily purchase empty properties. To support this programme, government should consider implementing policy proposals which would help rebalance our housing system to bring greater affordability, including:

- **A Capital Gains Tax exemption for residential property sales for a social purpose:** Shelter, Action on Empty Homes and the Nationwide Affordable Housing Commission have recommended that private landlords and second homeowners should be incentivised to sell to local authorities and registered providers by reducing the rate of Capital Gains Tax charged on these transactions to zero.[165]

- **Reform of land and property taxation:** as discussed in the previous chapter, reform of our land and property taxes, such as the adoption of the Proportional Property Tax (PPT), would incentivise the timely building of homes with planning permission. It would also discourage ownership of vacant homes: analysis has previously suggested that PPT could bring up to 600,000 empty and second homes back into use as permanent residences.[166]

- **First right of refusal on purchase of homes for social housing, backed by funding to do so:** New Economics Foundation proposed that councils, social landlords and community housing organisations should have a 'community right to buy', giving mission-led housing organisations a competitive advantage over buy-to-let landlords, particularly in areas of low demand from first time buyers.[167] Similar proposals from the Fabian Society suggest these powers should be targeted at ex-Right to Buy properties and Houses in Multiple Occupation.[168]

A targeted acquisitions programme to rapidly convert homes

Acquisitions used to be a core part of council housing delivery, with 14,000 homes acquired on average for the social housing stock per year by the end of the 1970s.[169] The government's recent decision to permit councils to own up to 1,000 homes before they are required to open a Housing Revenue Account creates an important opportunity for those who have not owned or delivered homes in decades to become social housing providers once again. Enabling these councils to strategically acquire homes from the existing stock would support a rapid expansion of council delivery while their capacity for direct delivery is ramped up. An acquisitions programme can also boost the capacity of other social housing providers, including community housing organisations, who are already active in some parts of the country.

Long-term empty homes present the most obvious opportunity for an acquisitions programme. There are over 300,000 long-term empty homes in England while over 135,000 households are homeless,[170] a potent symbol of the failure of our housing system to meet housing need. The grant needed to purchase and bring a property up to standard can be 20% lower than new build for social rent, and it takes just months compared to years to complete a new build home.[171] In 2024, Shelter set out a *10 City Plan* for bringing long-term empty homes which blight communities back into use for social rent.[172] The Plan set out a series of policy measures needed to better facilitate the acquisition of empty homes including reform to compulsory purchase. While the government has undertaken reforms such as increasing council tax premiums for second and empty homes, more could be done and the following section sets out the powers councils need to facilitate larger scale acquisitions.

Additional modelling suggested that the *10 City Plan* could be ramped up to a national programme to deliver 22,600 social rent homes in five years across urban and rural areas, at an estimated cost of around £2.5bn.[173]

An acquisitions programme which aims to rebalance the housing system will need to go beyond empty homes and take on neglected private rented stock. As previous proposals by the Fabians Commission on Poverty and Regional Inequality and New Economics Foundation set out, acquisitions should serve to raise the quality and energy efficiency of the housing stock by targeting private rented properties which fall below Minimum Energy Efficiency Standards (MEES) and Decent Homes Standard.[174] These properties are likely to overlap with the kind of homes which the Affordable Housing Commission suggested targeting, with values in the bottom 10% of house prices.[175] As the Commission also suggested, there should be flexibility for councils to purchase 'off-plan' new build homes that may struggle to sell given the current downturn in the private market, which was a key aspect of acquisition programmes in the 1990s.[176] Westminster should learn from the success that the Welsh government has seen in its own acquisitions programme in recent years, which has enabled exactly the kind of flexible, locally-led approach to acquisitions recommended by previous policy work in this area (see Box 11 for details). It has contributed towards a remarkable 128% increase in the number of homes acquired or converted for use in the social housing stock over the last three years.[177]

BOX 11: THE TRANSITIONAL ACCOMMODATION CAPITAL PROGRAMME (TACP)

TACP has provided flexible grant funding for Welsh councils to purchase empty, private rented and new build/Modern Methods of Construction homes in their areas for conversion, as well as invest in bringing void social homes up to housing quality standards. The aim of the scheme is to rapidly acquire homes to reduce reliance on temporary accommodation, with around half of homes on permanent social tenancies. It has contributed to significant progress towards a target for delivering 20,000 new low-carbon social and affordable homes in Wales by 2026.[178]

TACP was originally designed to repurpose unspent housing block grant but has proved so successful that it has been topped up each year and has now been used to acquire over 2,700 homes in three years.[179] Councils participate by submitting an expression of interest to the TACP team at the Welsh Government, followed by more detailed proposals for the properties to be acquired or refurbished, which can be batched together.[180] Shelter understands that the Welsh Government takes a flexible approach, allowing local authorities to reallocate funds within the year if originally identified properties are unable to be purchased – important given the inherent uncertainty about acquisition processes.

Shelter Cymru and Bevan Foundation research has highlighted the speed that the flexible approach of TACP has enabled for acquisitions as well as learnings about how the very high requirements for the Welsh Housing Quality Standard limits the ability for councils to purchase older housing stock.[181]

Some councils already have acquisitions programmes and any new scheme should aim to bolster these locally-led efforts. Local authorities like Cornwall and Preston (see Chapter Two) are already focussed on maximising acquisitions either of empty or PRS homes or 'off-plan' new builds from developers. Currently, many local programmes focus on the need to reduce pressure on local homelessness services, including by acquiring homes for use as council-owned temporary accommodation (TA) which is often cheaper than relying on private providers and can be more readily inspected for quality and safety. Financial decision-making within councils sometimes incentivises acquisition for TA over permanent homes: due to the HRA ringfence, the cost savings from moving households out of TA cannot be taken into account when deciding whether to build or buy homes for social rent, but purchasing homes for use as TA is modelled as directly reducing costs from private providers.[182]

However, Shelter research has found that the human impact of life in TA goes beyond just poor conditions and affordability: **households in TA are still homeless and stuck with lives on hold**, able to be moved around with little notice and lacking a place to put down roots.[183] It is vital that any acquisitions programme aims to convert purchased homes into long-term social rent, even if initial use is for TA to reduce immediate cost pressures. Such an approach is consistent with ramping up to delivering 90,000 social rent homes a year for 10 years across new build and acquisition, which would significantly reduce social housing waiting lists and the reliance on temporary accommodation to meet housing need for more than brief periods.

Taking all of these proposals and learnings together, the **government should launch a locally-led dedicated acquisitions programme**, with the following attributes:

- **A standalone funding programme separate to the Social and Affordable Homes Programme**. This will provide maximum flexibility for local authorities in how they use funding and prevent demand for acquisition from crowding out new build programmes. In line with the proposals in Chapter One, government could choose to make the funding available to councils as low-interest loans rather than grant to enable the programme to have a minimal impact on Treasury rules, in tandem with reforms to the fiscal framework.
- **A five-year timeframe as a minimum** to rapidly target long-term empty homes while giving enough certainty for local authorities to plan and bid for funding. Government should emulate the flexible approach taken by the Welsh Government's TACP to bidding and funding draw down to allow councils to maximise local opportunities for acquisition where purchases fall through.
- **Flexibility over the use of funding for acquisition and renovation**, so long as homes initially used for temporary accommodation are converted to social rent within 10 years of purchase. There should be flexibility for councils to pass homes on to community groups and registered providers subject to agreement to retain the homes at social rent levels.
- Guidance for the scheme to **focus on purchasing long-term empty homes and properties that fail to meet MEES and decency requirements**, particularly in areas with a high concentration of PRS properties and low demand from potential owner-occupiers (to avoid artificially inflating house prices).

Empowering councils to acquire empty homes

To deliver a successful acquisitions programme, the government must drive a shift within councils' empty homes teams beyond simply returning properties to the market or temporary affordable use and toward acquiring them as a route to delivering permanent social rented homes. To deliver this, councils will need more capacity and expertise in acquisitions and enforcement tools like Compulsory Purchase Orders (CPOs) and enforced sales. **A national Empty Homes Flying Squad** should be set up to help councils establish or scale up local programmes, as well as supporting collaboration with Mayoral strategic authorities.[184]

In the cases where owners cannot be traced, refuse to engage, or decline to sell, the government should also strengthen these enforcement powers. So far, the government has made some welcome changes to support the compulsory purchase of empty homes, including reducing the administrative and compensation costs involved.

But the message from our engagement with councils is clear: compulsory purchase of empty homes remains costly, complex, and time-consuming, and further change is needed to support councils to increase their usage. A major reason why the process is so onerous is that the current legislative framework was never designed for the acquisition of individual empty homes, being instead intended primarily for large-scale infrastructure and regeneration projects and occasionally occupied homes. This means councils buying empty homes are forced to navigate extensive and disproportionate procedural requirements, with the system remaining heavily weighted towards the property owner.

And yet, compulsory purchase of empty homes is fundamentally different from other acquisitions. It targets properties that have often stood vacant for years, wasting precious housing stock and damaging our neighbourhoods while homelessness rises and local families remain in temporary accommodation. The public interest case is clear and immediate while the impact on the owner is limited; they do not live in or use the property and receive full market price for the acquisition.

If the government is serious about tackling empty homes and increasing social housing supply, it must:

- **Legislate a dedicated CPO framework for empty homes** that is proportionate, streamlined and low-cost. At its heart, written into the legislation, must be **a statutory presumption in favour of confirming the compulsory purchase** reflecting the clear public interest case in reclaiming empty homes to directly reduce homelessness.

In designing the new framework, the government should also:

- **Ensure councils don't bear the costs of appeals** even when they win, and ideally empty homeowners should pay appeal costs in all cases – reflecting the effort councils already put into trying to bring the property back into use.
- **Simplify valuation arrangements by requiring both parties to accept a valuation produced by the District Valuer**. This would reduce delays, avoid costly disputes and limit opportunities to inflate compensation claims.
- **Extend the class of notices that currently exclude the payment of basic home loss payments**. Basic home loss payments raise public costs and can perversely encourage empty homeowners to hold out for a CPO instead of selling on the open market. Non-engagement shouldn't be rewarded with extra compensation.
- **Fully scrap VAT on renovating empty homes for social rent** – new-builds are zero-rated, so tax policy shouldn't penalise reusing existing homes.

Enforced sale is another mechanism available to councils. It is used where a property owner has failed to comply with a notice from the council, such as where a property is dangerous, and is triggered by failing to pay debts related to the enforcement notices. Unlike CPO, enforced sale is fast, popular with councils, and puts costs on the owner, not the local authority. At the moment however, properties subject to enforced sale usually go to private buyers at auction since councils can't afford to buy them themselves. With a flexible acquisitions funding scheme, councils could instead buy and convert them to social rent. The government should:

- **Actively encourage wider use of enforced sale** and consider widening the debts that qualify.

By setting a strategic direction to make the homes we already have better meet the housing needs of local communities, and supporting councils with the funding and powers to convert neglected properties into good-quality social rent homes, the government would accelerate achievement of its social housing ambitions within the term of this Parliament.

CONCLUSION AND SUMMARY OF RECOMMENDATIONS

This report has set out the steps the government needs to take to knock down the barriers which have held councils back from building for decades. By rewiring the system, the government can enable councils to build tens of thousands of social homes a year once again, playing their part in ending the housing emergency for good.

A financial package for a council housing revolution	Cancel all £31.8bn of Housing Revenue Account (HRA) debt and use the resulting borrowing capacity to kickstart a new era of council housebuilding
	Bring forward planned spend earmarked for later stages of the Social and Affordable Homes Programme and concentrate it mostly on social rent homes, and increase the overall size of the programme
	Exclude HRAs and public corporations (such as development corporations) from the Treasury's debt measure, enabling the government to introduce: • A new 'loan-only financing model', providing councils with 0.1% interest loans to build social rent homes without using up the limited levels of grant currently available in the SAHP • Lower-cost public loans from the Public Works Loan Board (PWLB) to support councils to tackle viability challenges and deliver more social homes using grant funding

Establish a national council housing mission	Set a national target for the delivery of social rent homes by all providers
	Agree a delivery compact with councils for increased housebuilding in return for HRA debt cancellation, with the majority of homes built to be for social rent
	Appoint a council housing champion within the newly created Office of the Prime Minister and Cabinet to agree the delivery compact and ensure that the government's devolution and local government reorganisation priorities support rather than hinder council housebuilding
	Align planning objectives with local housing need by setting a national minimum requirement of 20% social rent homes on all medium and large developments, with higher requirements on public land and land released from the green belt, and ensuring local housing need calculations include homelessness and social housing waiting list figures
	Set out plans to ensure local planning authorities have sufficient staff and resource to take a robust role in aligning planning and housing objectives, including through support for compulsory purchase orders (CPOs), robust negotiation of section 106 agreements and closer working with housing teams
	Support councils to pool resources together to create an 'agglomeration effect' for delivery of social homes
	A new Social Housing Contractor Framework through Homes England to provide certainty and confidence in long term planning

Prioritise land for council building	
	Implement a duty on public landowners to secure the optimal use of public land, including maximising the delivery of social rent homes, replacing the outdated General Disposal Consent 2003
	Require public landowners to prepare and publish a land use management plan
	Build on and significantly strengthen cross-public-sector initiatives like One Public Estate
	Support councils and other public bodies (like development corporations) to disapply hope value when compulsory purchasing land, including resources and support for a test case and implementing a 'Right to Assemble Land' to provide relevant public bodies with the power to disapply hope value across entire areas and categories of sites
	Reform and streamline complex compulsory purchase law more broadly to ensure wider CPO use by councils, particularly in relation to stalled sites
	Reform land value and property taxation to discourage speculative land holding, encourage sustainable development, and discourage empty home ownership

Acquire homes to deliver social housing quickly	
	Set an ambition in the forthcoming housing strategy to reduce the number of low-income households in the private rented sector
	Introduce a Capital Gains Tax exemption for residential property sales for a social purpose to encourage homes to move from the private rented sector to the social housing stock
	Introduce a national five year acquisitions programme with its own funding stream for the acquisition of empty and neglected private rented sector homes and their conversion to social rent
	Create a national Empty Homes Flying Squad to support councils to get their acquisitions programmes up and running
	Legislate a dedicated CPO framework for empty homes that is proportionate, streamlined and low-cost. This should include simplified processes and reduced costs for councils
	Scrap VAT on renovating empty homes for social rent
	The government should actively encourage wider use of enforced sale and consider widening the debts that qualify

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