

# “Unsustainable (council housing) debt” - cut it or cancel it?

Shelter is calling for the government to “remove the historic debt local authorities owe to the government” for council housing. They say that £29 billion in “historic housing debt”<sup>1</sup> is based on an outdated financial settlement from 2012; that it “sucks away money that could be invested in building new social homes”. Shelter calls for the government to “remove this debt from councils and put it on its own books without affecting the overall national balance sheet”.

This is a welcome move by Shelter. However, it should be said that it *would* affect the overall balance sheet because the government would lose approximately £1.2 billion a year, the cost of debt servicing paid by councils. Nevertheless, this is an easily manageable sum. Whilst the removal of this debt from councils would not resolve the funding crisis of housing revenue accounts (HRAs)<sup>2</sup> it would help councils with the financial costs of maintaining and renewing existing council housing stock. The government would simply have to forgo that, by the scale of its national finances, small sum.

We have previously explained why we think the so-called debt imposed on councils in 2012 when 'self-financing', a new financial system was introduced, should be cancelled (see [The case for cancelling council housing 'debt'](#))<sup>3</sup>. As the pamphlet explains

“The so-called debt has been manipulated by central government. For instance, rather than being the result of actual borrowing it is largely fictitious. Over the long-term tenants have paid more in rent than the costs of money borrowed to finance historic building programmes. From 1994 to 2008 HRAs were given 'allowances' of £60 billion yet tenants paid £91 billion in rent. The difference was more than outstanding 'historic debt', i.e. the borrowing associated with past building programmes. At least since the 1980s HRAs have been raided by government by various means. For instance, they could not keep their annual surpluses. They were forced to hand money over to the General Fund. At one time tenants who did not receive housing benefit had to pay for the benefit of those who did receive it.”

The 'debt' was an elastic figure subject to gross government manipulation. To encourage councils to transfer their homes to a housing association (existing or new) the government was prepared to write off debt if tenants voted 'the right way' in a ballot. As a result, by 2004/5 it was estimated to be only £12.7 billion. Yet it rose to £19 billion despite the fact that New Labour was not funding new council house building. Until the global financial crash councils were not allowed to apply for social housing grant. A large part of the increase of the supposed debt was the result of the government simply dumping the Arms Length Management Organisation (ALMO) programme of £5.7 billion onto the central HRA debt. In other words council tenants everywhere were paying for the work on ALMOs, organisations which were created to circumvent the need to ballot tenants, a legal obligation where transfers of stock to housing associations were proposed

Although the 2012 'debt settlement' improved the finances of housing revenue accounts, by ending 'negative subsidy'<sup>4</sup>, the new system was underfunded from the beginning. In 2004, in answer to a Parliamentary Question, the government admitted that “the 2004-5 level of allowance would have to increase by about 67% in real terms to reach the estimated level of need”. Yet, under the new system, the Major Repairs Allowance was only increased by 28% and the Management & Maintenance Allowance was increased by 5%.

No sooner had 'self-financing' been put in place than the coalition government introduced policies that resulted in *councils having a great deal less income than was projected in the debt settlement*. Since the amount of debt they were given was partly based on the estimate of their income, less income meant less money for their existing stock to maintain and renew it. The coalition government's changes to policy included

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- 1 Actually the debt was £26.8 billion. The £29 billion was the 'debt ceiling', that is the amount of extra borrowing that councils collectively were allowed to make.
  - 2 A Housing Revenue Account is the way that expenditure and income for council housing is accounted for and managed. Formally it sits in a council's General Fund but is 'ringfenced' so that the rent of tenants cannot be used for other purposes nor income from the General Fund be used for council housing. The 'ringfence' was introduced by Thatcher to stop councils using rates (precursor of council tax) to fund council housing, though in fact some councils used tenants' rent to subsidise other services..
  - 3 This is from 2021. We will publish an updated version of it.
  - 4 In 2005 the Audit Commission reported that 83 councils suffered from 'negative subsidy'. Not only did they receive no subsidy but they had to pay some of their rent into the central pool, to the tune of £630 million.

- A change to the rent formula which determined the annual rent increase, from RPI plus 0.5%, to CPI + 1%. This meant less rental income since CPI is usually lower than RPI;
- The introduction of an 'enhanced Right to Buy' – increased discount for tenants – which produced a fourfold increase in RTB sales. The debt settlement was partly based on a calculation of much lower level of sales, so with the increased discounts councils lost a great deal more rent than was projected in the settlement.
- A four year rent cut was imposed which obviously eroded the income of HRAs even further.<sup>5</sup>

Inside Housing reported that David Hall, an independent consultant who was involved in the design of the self financing system, said that the 'debt settlement' would have been £10 billion lower if the changes to the rent formula had been included in the calculations.

### **“Unsustainable debt levels”**

In July 2024 the Chartered Institute of Housing proposed a review of debt and a reduction of it by £17 billion.<sup>6</sup> It said that

“In 2012, the government and local authorities agreed a self-financing settlement, aimed at making Housing Revenue Accounts sustainable and allowing for growth and investment. But the assumptions made then no longer fit with the financial and policy environment as it has evolved since 2012. The impact of rent controls, sustained higher-than-expected inflation, loss of stock through right to buy, and new regulatory burdens have all undermined the original settlement. The result is that councils have unsustainable debt levels and there is simply not enough money in the system to allow council housing to be run properly.”

In September 2024, 20 Councils produced the document “[Securing the Future of Council Housing](#)”, later signed by 109 councils. The document called for 'adjustment' (i.e. reduction) of HRA debt. It warned that

“England’s council housing system is broken and its future is in danger. An unsustainable financial model and erratic national policy changes have squeezed budgets and sent costs soaring. Unless something is done soon, most council landlords will struggle to:

- maintain their existing homes
- meet the new demands to improve them
- build new homes for social rent

Across the country development projects are being cancelled and delayed. This affects the local construction sector, jobs and housing market.

The reality is that some councils will have no option but to sell more of their existing stock to finance investment in an ever-shrinking portfolio of council homes.”

They supported the CIH proposal.

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

Since then, a survey conducted by Southwark council which had initiated “Securing the future of council housing”, has underlined the depth of the financial crisis. 71 stock holding councils responded.

“Overall, the survey found 9 in 10 council housing budgets under financial stress, taking or expecting to need to take substantial action or use emergency funds to balance their books by 2029. For example,

5 The Office for Budget Responsibility estimated that housing providers would lose 12% of their expected income by 2020. The Chartered Institute of Housing estimated that councils would lose £2.56 billion over four years and £42.7 billion over the 30 year life of their business plan.

6 See [Why councils are underinvesting in housing and how an updated debt settlement could put that right](#)

61% of councils have already cancelled, paused or delayed housebuilding projects and more than one third have cut back on repairs and maintenance of council homes.

In order to balance their budgets before the next general election:

- 71% of councils expect to cancel, pause or delay current projects
- 68% expect to scale back their overall commitments to redevelop or build new council homes
- 28% expect to sell off existing council homes to make ends meet

Even with these steps, 67% of councils said there is a risk they will not be able to set a balanced budget.

Nearly half of councils told Southwark they have been forced to use their reserves – funds meant to cover emergencies - to cover day to day spending. More than a third reported that they would empty these emergency funds by the end of this parliament.”

## **Reopen the debt settlement?**

In 2019 the Labour Manifesto committed to reviewing the amount of debt owed by councils in their HRAs. Since they lost the election that never came to fruition. However, the increasing financial difficulties of HRAs led to the issue of a review of the 2012 'debt settlement' being widely discussed. The 2011 Localism Act gives the government the power to reopen the debt settlement "if a change is made that would have a substantial, material impact on the value of the landlord's business". Since councils were losing tens of billions of pounds as a result of the four year rent cut alone, there is a clear case for revisiting the 2012 debt settlement. More and more organisations have drawn this conclusion, whether they call for part or all of the debt to be written off or transferred to the government.

There is historical precedent for writing off debt sitting with the Public Works Loans Board. According to the UK Housing Review debt write-off, to encourage transfer of housing stock, was [£7.082 billion by 2016/17](#). By then 1.317 million council homes had been transferred.<sup>7</sup>

Even the Tories have written off debt, in the case of the NHS. In 2020 £13.4 billion NHS debt written off in 2020. Health Secretary Matt Hancock said the measure would “wipe the slate clean”.

“These loans will be frozen from 1 April when interest will cease, and loan principal and outstanding interest extinguished from balance sheets following a transaction during 2020/21.”

Extinguished from balance sheets!

Whilst the writing down of the debt such as proposed by the CIH would be a step forward (councils would have to spend less of servicing a lower debt), compared to the status quo, we can see no reason why it cannot be written off completely. It would be an act of justice for tenants who have been fleeced by central government for decades and would give councils extra funding for their existing stock.

## **Central government grant**

One final point. The £1.2 billion is unlikely to be used for new building. Given the scale of the financial crisis of HRAs and the increasing demands of government on councils in relation to their existing housing. For instance, of 98 councils inspected by the Regulator of Social Housing, 37 of them have been graded C3 - “serious failures” – and 7 graded C4 - “very serious failures”; a combined 49%. Understandably, they are focusing on the condition of their existing homes.

Sarah Elliott of Shelter told the Guardian in relation to the debt

“It is absurd councils cannot build the homes we need because of a housing debt that was passed on to them by the government, which it has made almost impossible to pay off,” said Elliott.

The debt should be written off, for the reasons we have explained above. But it is not the key reason why councils are not building/acquiring many homes. Council housing is not a priority for the government. It is not providing funding dedicated to council housing. Asked by Daniel Hewitt on ITV, why don't you do what the Attlee government did, build council housing, Minister Steve Reed said that people have different aspirations today. Most people want to be home owners. But there is an unbridgeable gulf between the

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<sup>7</sup> Tenants were told stay with your council and there is no money to improve your homes, vote for transfer and there will be more investment. In fact what this meant was that the new housing association would be able to borrow private sector money, which was more expensive than if a council borrowed from the Public Works Loans Board.

want and the means without assistance from “the bank of mum and dad”. Millions can't call on that resource. Home ownership is not a prospect for the 134,000 households in temporary accommodation or the 1.3 million households on the waiting lists.

The £39 billion which the government has committed to over 10 years (dependent on a second term, the prospects of which are looking bleak) is for 30,000 “affordable homes” a year. Andy Burnham has suggested that this should all be devoted to council housing. If it was devoted to social rent homes that would provide an average grant of £130,000 per property<sup>8</sup>. With that level of grant, the 90,000 social rent homes a year that Shelter has been campaigning for, would require, **over 10 years, £117 billion - £11.7 billion a year.**

A Ministry of Housing, Communities & Local Government spokesperson told the Guardian, “Our reforms will change the landscape for councils, give them confidence to once again build at scale, and is backed by the £39bn Social and Affordable Homes Programme.” But they cannot build at scale without the necessary funding. You cannot spend confidence to pay to build a house and councils cannot be confident of even getting the grant.

Cancellation of the largely fictitious council housing debt is certainly needed. It would be a positive step forward. **We need to campaign for the government to relieve councils of it.** But £1.2 billion a year won't bridge that gulf between £39 billion and £117 billion for new build and acquisitions<sup>9</sup>.

Martin Wicks  
June 11<sup>th</sup> 2026

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8 Unfortunately the government has not decided on a definite amount of grant per property. It has said that bidders “will be expected to minimise the level of grant requested and maximise their own contribution.”

9 Over the last six years, 44% of additional council homes have been acquisitions – homes bought on the market, often ex-council homes.