

When the State Moves In

Central government's escalating intervention at Tower Hamlets poses direct questions for supported housing providers — in the borough, across London, and nationally

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Leonard Payne

supportedhousingbriefing.co.uk

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Supported housing providers in east London have, until recently, had reason to consider Tower Hamlets a relatively stable operating environment. The borough's acute housing pressures — over 30,000 households on the waiting list, more than 3,160 in temporary accommodation, and some of the highest population density in Europe — generate persistent demand for supported accommodation. Its housing benefit administration, while stretched, has processed exempt accommodation claims without conspicuous controversy. The planning pipeline, though constrained by Article 4 directions and selective licensing, has continued to function.

That stability can no longer be assumed. On 17 March 2026, Communities Secretary Steve Reed confirmed a significant escalation of central government intervention at the London Borough of Tower Hamlets under section 15 of the Local Government Act 1999. The advisory envoy model deployed since January 2025 has been replaced by a strengthened statutory intervention, with ministerial envoys granted enhanced “reserve powers” to exercise council functions directly should the authority fail to meet its Best Value Duty. The council retains executive decision-making for now. But the direction of travel is unmistakable.

For supported housing providers, the significance lies not in the headline political drama — colourful though it is — but in the specific scope of the intervention. The envoys' programme of forensic “deep dives” explicitly covers housing allocations, planning and licensing decisions, community grants, and financial management. Every one of these functions sits directly upstream of supported housing provision. When the machinery of local government through which providers secure referrals, obtain planning consent, receive housing benefit payments, and access complementary support funding is subjected to forensic external review, the consequences for the sector are tangible and immediate.

A Familiar Story, Grimly Retold

Tower Hamlets has been here before. The borough was under statutory intervention from December 2014 to September 2018, following a PwC inspection that identified best value failures in grant-making, property disposal, and publicity spending. That intervention was triggered during the first mayoralty of Lutfur Rahman, who was subsequently found guilty of corrupt and illegal practices by an election court in 2015 and barred from public office for five years.

Rahman returned. Having founded the Aspire party, he won the 2022 mayoral election and secured a council majority. Within two years, Whitehall grew uneasy. Significant churn at senior management level, a proliferation of interim appointments, and the expansion of the mayor's office through policy advisers costing a combined £1.4 million prompted the then-Secretary of State, Michael Gove, to commission a fresh Best Value Inspection in February 2024.

The resulting report, led by Kim Bromley-Derry CBE and submitted in July 2024, identified a “culture of patronage” and a breakdown in trust between the mayor's office and senior officers. It found failures across continuous improvement, governance, leadership, culture, and partnerships. Crucially, inspectors expressed scepticism about the council's capacity to self-improve.

The initial response was measured. In January 2025, ministers appointed a team of ministerial envoys to act as advisers, mentors, and monitors, with the intervention scheduled to run until March 2028. The council was to retain all its powers while the envoys oversaw an improvement programme. It was, in Whitehall's lexicon, a “collaborative” approach.

It has not worked. Or rather, it has not worked fast enough.

The Anatomy of Failure

The envoys' second progress report, made public on 17 March 2026, paints a picture of an authority that acknowledges problems in the abstract but cannot translate acknowledgment into action. The issues are structural, financial, and political, and they compound one another.

Financial deterioration

The borough's external auditor, EY, has identified what the Secretary of State describes as "significant and worsening" financial challenges. Ten "significant weaknesses" were flagged, including the absence of an effective internal controls environment to safeguard public money. The council's response to statutory recommendations has been slow. Its Section 151 officer departed, and there is a significant backlog in audit compliance. An additional assistant envoy with specialist finance expertise has now been appointed specifically to address this.

For a borough with a general fund revenue requirement approaching £488 million, the absence of adequate financial controls is not a technicality. It is a systemic risk.

Governance paralysis

The envoys have described the council's "golden triangle" of statutory officers — the chief executive, the monitoring officer, and the Section 151 officer — as "fragile." They have called on the monitoring officer to "robustly challenge" senior officers, particularly in the lead-up to the May 2026 local elections. The implication is clear: statutory officers have not been discharging their functions with sufficient independence from the political executive.

The LGA's corporate peer challenge review observed that Tower Hamlets has "lots of plans" and "a plan for a plan," but lacks the consistency, coherence, and evidence-based delivery narrative needed to convert aspiration into improvement. The envoys' own characterisation is blunter: the council has demonstrated "optimism bias" and "an ongoing reluctance to fully acknowledge the scale of the challenge it faces."

Political obstruction

The political culture is perhaps the most intractable problem. Opposition councillors have described a pattern of the mayor using his executive power and council majority to block scrutiny. In January 2026, Aspire councillors voted down a request from Labour to debate the government's intervention proposals at a full council meeting. Four of Aspire's own councillors have resigned from the majority group in protest at the administration's methods. The Secretary of State himself noted, with unusual directness, that he was "shocked that some councillors are more interested in campaigning overseas than fulfilling their responsibility to their community."

"Tower Hamlets Council is not improving fast enough. Financial management is deteriorating, and the council still does not grasp the scale of the challenge it faces." — Steve Reed MP, 17 March 2026

The Remedy: Reserve Powers and Forensic Review

The March 2026 escalation marks a qualitative shift. Under new Directions issued under the Local Government Act 1999, the envoys now hold reserve powers to exercise council functions

associated with governance, financial management, and the recruitment, performance management, and designation of statutory and senior officers. The model follows the precedent established at Warrington Borough Council: the council retains primary decision-making, but the envoys can intervene directly where necessary to secure compliance with the Best Value Duty.

Alongside the reserve powers, the envoys are leading a programme of forensic “deep dives” into the specific areas of concern that should most concentrate the minds of supported housing providers. These investigations cover five domains: patronage in recruitment and staff promotions; resource allocation, including community assets and community grants; housing allocations; licensing and planning decisions; and the structure, functions, and activities of the mayor’s office and mayoral advisory team.

A new Improvement Board, appointed by the envoys rather than by the council, will oversee the entire programme. All assurance mechanisms have been consolidated under a single governance structure. The council must bear all costs associated with the envoy team and the intervention process.

The intervention is scheduled to remain in place until 31 March 2028, though the Secretary of State has indicated that functions could be returned earlier if “sufficient and sustainable” progress is demonstrated. Few observers expect an early conclusion.

What This Means for Supported Housing

The Tower Hamlets intervention is, at its root, a story about governance failure. But the specific functions now under forensic review map precisely onto the operational dependencies of supported housing providers. The sector should read this story not as distant political theatre, but as a live case study of what happens when the local authority infrastructure on which supported housing depends is found to be structurally unsound.

Housing benefit administration under stress

Tower Hamlets administers housing benefit for exempt accommodation claims locally, as do all English local authorities. The EY audit findings of absent internal controls and weak financial management raise an immediate question: how robust are the borough’s housing benefit assessments for exempt accommodation?

The qualitative judgments involved in exempt accommodation — whether care, support, or supervision is more than minimal, whether it is provided by or on behalf of the landlord, whether the claimant was admitted to receive it — require careful, evidence-based decision-making by trained housing benefit staff operating within a sound internal control framework. When the external auditor describes the absence of such a framework, the reliability of every exempt accommodation assessment in the borough becomes an open question. Some providers may be receiving payments for claims that would not survive external scrutiny. Others may be experiencing delays, inconsistencies, or refusals that reflect an overstretched and under-supervised benefits service rather than a considered policy position.

Providers with live exempt accommodation claims in Tower Hamlets should, as a matter of prudence, ensure their own documentation — care and support assessments, evidence of the “real difference” test, records of service delivery — is impeccable. In a borough under forensic financial review, the HB team will eventually be required to demonstrate that its exempt accommodation decisions are defensible. Providers whose evidence is thin will be exposed first.

Housing allocations and referral pathways

The deep dive into housing allocations is, for supported housing providers, the most consequential element of the intervention. Tower Hamlets' allocations scheme governs who gets social housing and in what order. It is also the mechanism through which move-on from supported accommodation occurs: when a resident is ready to leave a supported housing scheme, their route to a permanent tenancy typically runs through the local authority's allocations process.

If the envoys find that allocations have been influenced by patronage — that political considerations rather than housing need have shaped who receives offers — the integrity of the entire system is compromised. For supported housing providers, this would mean that the move-on pathways they have relied upon may have been operating improperly. More immediately, it would mean disruption: any remedial action to restructure the allocations process will inevitably slow lettings activity while new procedures are established, and providers dependent on timely move-on to manage void rates and referral flow will feel the effect.

The broader principle is important too. Supported housing operates on the assumption that local authority allocations processes are lawful and transparent. When that assumption is tested and found wanting, the credibility of the framework sustaining the whole pathway — from referral, through supported tenancy, to settled accommodation — is undermined.

Planning and licensing

Tower Hamlets already operates a restrictive planning and licensing environment for housing providers. Article 4 directions require planning permission for HMO conversions, and a selective licensing scheme covers parts of the borough. These instruments are legitimate tools. But they are only as good as the decision-making process behind them.

The deep dive into planning and licensing decisions will examine whether those decisions have been made lawfully and transparently, or whether political patronage has influenced outcomes. For supported housing providers, this matters in two ways. First, any provider that has obtained planning consent or a licence in Tower Hamlets during the period under review should be aware that their approval may be revisited if systemic impropriety is found. Second, any provider seeking new consent should expect a significantly more cautious and procedurally defensive environment. Officers will be acutely aware that their decisions may be scrutinised by the envoys, and the natural institutional response will be to slow down, demand more evidence, and err towards refusal rather than risk approving something that might later be questioned.

Community grants and the support ecosystem

Supported housing does not operate in isolation. The care, support, and supervision that defines exempt accommodation typically sits within a wider ecosystem of complementary services — mental health outreach, substance misuse support, employment programmes, tenancy sustainment — many of which are delivered by voluntary and community sector organisations funded through local authority grants.

Tower Hamlets has a substantial community grants programme, and the deep dive into resource allocation explicitly covers community assets and community grants. If the envoys find that grant-making has been influenced by patronage rather than commissioning logic, the resulting disruption to VCS funding could have direct consequences for the support infrastructure around supported housing. A provider that relies on a grant-funded partner to deliver floating support, for example, may find that partner's funding is frozen, redirected, or subjected to new conditions during the review period. The operational impact would be felt by residents.

Temporary accommodation pressures

With over 3,160 residents in temporary accommodation and a general fund spending between £5.5 million and £7 million annually on TA subsidy, Tower Hamlets is already under severe pressure in its homelessness response. The financial deterioration identified by the auditor will intensify this. A borough that cannot adequately control its own finances will struggle to commission, procure, or sustain temporary and supported accommodation at the scale its homeless population requires. For providers of short-term supported accommodation, including hostels and specialist provision for people with complex needs, the risk of delayed payments, renegotiated contracts, or sudden commissioning changes is elevated.

Beyond Tower Hamlets: The National Read-Across

The significance of the Tower Hamlets intervention extends well beyond the borough's boundaries. For the supported housing sector nationally, it contains several lessons.

Best Value as a live threat

The government has demonstrated that it is willing to escalate from advisory intervention to statutory reserve powers, with forensic investigations into specific decision-making, within a twelve-month period. Any local authority where exempt accommodation has been processed without rigorous assessment, where allocations have been opaque, or where planning decisions have been influenced by considerations other than planning merit is potentially on the same trajectory. The Best Value framework is no longer a theoretical backstop; it is an active enforcement tool.

SHROA in the shadow of intervention

The Supported Housing (Regulatory Oversight) Act 2023 depends for its implementation on local authorities that are competent, well-governed, and adequately resourced. Tower Hamlets demonstrates what happens when a local authority manifestly lacks these attributes. The national supported housing standards regime, the licensing powers being developed, and the enhanced local authority duties under SHROA are only as effective as the councils implementing them. Providers operating in boroughs with known governance difficulties should ask themselves whether those authorities have the institutional capacity to discharge their SHROA functions properly — and what happens to providers' own compliance obligations when the regulating authority is itself under intervention.

The deep dive precedent

The envoys' methodology for investigating housing allocations, planning decisions, and grant-making will inevitably be documented, shared, and adapted. If it produces findings of impropriety, it will become a template for similar reviews elsewhere. Supported housing providers whose operational model depends on a particular local authority's discretionary decision-making — whether that is generous exempt accommodation assessments, favourable planning determinations, or reliable grant funding — should consider how their model would fare if that discretion were subjected to external forensic review.

Election risk and institutional disruption

Tower Hamlets goes to the polls in May 2026. The intervention will continue regardless of the result, but the political dynamics could shift materially. A new administration might accelerate co-

operation with the envoys; a re-elected Rahman administration might produce a period of intensified friction. Either outcome implies institutional disruption. The lesson for the sector is that supported housing providers should never allow their operational viability to depend on the political stability of a single local authority. Diversification of operating geography, referral sources, and funding streams is not merely good business practice; it is a risk management imperative.

What Providers Should Do Now

The Tower Hamlets intervention is not a call to panic. Frontline services in the borough continue to operate, and the envoys themselves acknowledge good operational delivery across the board. But it is a call to vigilance.

Providers with operations in Tower Hamlets should audit their own documentation against the standards that a forensic external review would apply. Housing benefit claims for exempt accommodation should be supported by robust evidence of care, support, and supervision meeting the qualitative thresholds established in case law. Referral and nominations arrangements should be documented and demonstrably transparent. Any reliance on council-funded VCS partners for complementary support should be stress-tested against the possibility of grant disruption.

Providers operating elsewhere should treat Tower Hamlets as a leading indicator. The government's willingness to escalate, to authorise forensic deep dives into housing-related decision-making, and to grant reserve powers to external envoys establishes a precedent that could be applied to any local authority found wanting. The question is not whether this could happen in your operating area. It is whether your operating model would survive if it did.

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