Public Document Pack

Joint Meeting of Housing Select Committee and Sustainable Development Select Committee Supplementary Agenda

Monday, 2 December 2013
7.00 pm, Committee Rooms 1 and 2
Civic Suite
Lewisham Town Hall
London SE6 4RU

For more information contact: Charlotte Dale (Tel: 0208 3149534)

Part 1

Agenda Item 3

Housing and Sustainable Development Select Committees			
Title	Supplementary information	Item	3
Contributor	Scrutiny Manager		
Class	Part 1 (Open)	Date	2 December 2013

1. **Justin Carr**, Strategic Planning Manager (Development Decisions) at the Greater London Authority (GLA) and **Rachel Fisher**, Head of Policy, National Housing Federation, have agreed to attend the meeting to contribute to the discussion.

2. The following additional information is provided to Members of the Committee as background information:

   - Appendix C - Extract from North Deptford consultation report 2009
   - Appendix D - Heritage in Deptford: Proposals for Convoys Wharf (information considered by the Sustainable Development Select Committee)
   - Appendix E - Affordable Housing Output in London by borough 2009/10 – 2011/12
   - Appendix F - Joseph Rowntree Foundation - *Changes to Affordable housing in London and implications for delivery*
   - Appendix G - Joseph Rowntree Foundation – Innovative funding of affordable housing summary
   - Appendix H - National Housing Federation – *Planning for affordable housing*
   - Appendix I - National Federation of ALMOs – *Let's get building*

north deptford consultation

Lewisham

Ipsos MORI

urban practitioners

February 2009

10. Summary and Recommendations

This programme of consultation consisted of a deliberative event targeted at an audience reflective of North Deptford's socio-economic profile, supplemented by a number of workshops which were aimed at key local residents groups and stakeholders. It revealed a number of recurring themes and issues, shared by different groups for different reasons. This section draws out the headline priorities for each group at this point in time and from their own perspective, which will assist the Council with ongoing and future negotiation with developers of sites in the North Deptford area. It will also help the Council make strategic and key local decisions on how to improve the provision of local services and allocate resources.

The following sections summarise the headline views expressed by the major groups consulted:

Residents

- Traffic flow improvements, particularly on Evelyn Street, and adequate parking for residents;
- Public realm improvements to enhance North Deptford's local environment and image;
- Maintenance of residential buildings to decent homes standards;
- Improved safety and maintenance of security equipment;
- Upgrades to existing green spaces and provision of new public spaces as part of any new development;
- In the medium to long term, provision of a greater choice of retail, community and leisure facilities, and establishment of revenue funding streams to maintain existing facilities; and
- Celebration of heritage assets to enhance local identity and pride in the local environment

Public and Voluntary Stakeholders

- Delivery of health and education services to meet current and future need;
- Provision of new youth and community facilities, funded by S106 through long-term funding arrangements such as a trust providing revenue; and
- Use of this report to inform anti-social behaviour and housing and safety strategies at Lewisham, facilitated by a meeting of heads of service at the Council at which the report is presented.

Businesses

- Public realm and business space improvements to make businesses centres more attractive to employees and shoppers, and therefore more competitive; and
- More employment in the area as part of any new proposals, and measures to ensure that local people have best access to it.

Youth

- Improved youth facilities and youth activities in the area;
- Wider choice of shops to serve the local area;
- Improved reliability of public transport, particularly regarding traffic congestion; and
- Improved green spaces with more leisure suitable for young people.

LDF options

All groups were generally supportive of regeneration and growth in North Deptford, although most had reservations which would have to be addressed at the same time. Residents were supportive of change which will bring a wider range of job prospects, so long as these are accompanied by appropriate training programmes. There was also considerable support for removal of industrial sites, particularly the Oxestalls Road site, due to the adverse impacts these uses have on the local residential environment in terms of pollution and traffic.

The public and voluntary sector workshop group was supportive of residential growth in the area, but had concerns about its impacts on local services, especially education and health.

The Cannon Wharf Businesses were supportive of redevelopment of employment sites for mixed use due to the vibrancy this would bring to the area, and the Triangle Traders were supportive of growth, so long as it included an adequate proportion of commercial uses to meet local need, and was accompanied by measures to help the Triangle Traders compete with new retail development.

There was broad support for regeneration and growth among young people at the youth workshop, with many feeling that improvement could be delivered through long-term change.

Community benefits from major sites

- New pedestrian and cycle connections along the River Thames from Surrey Quays to Greenwich;
- New pedestrian and cycle connections to the River from Evelyn Street;
- New links through to Surrey Quays from Oxestalls Road via the Cannon Wharf sites;
- New uses on the Oxestalls Road site replacing the heavy industry and bring vibrancy to the area, particularly along Grove Street; and
- New community and shopping uses at the Convoys Wharf Site and a large public space, reusing historic buildings in the area.

Parks and open space

- Improvements to many of the greenspaces in the area, not just Pepys Park, with tidying, better security, maintenance and more planting as a short term measure; and
- In the long term, delivery of more leisure facilities and well organised activities to ensure that the parks are used much more by the local community.

Recommendations

Movement Traffic and Transport

Grove Street

For many residents, the poor quality of the pedestrian environment was the central point of concern. Much discussion with residents revolved around the importance of Grove Street. In the context of the major development sites in the area, a major opportunity to radically improve the environmental quality of Grove Street emerges. Grove Street is the key pedestrian link between Surrey Quays shopping centre and Deptford town centre.

Whilst there is concern about the already busy nature of Evelyn Street, the priority for local people in the context of potentially very significant local housing development is for a safe and attractive environment. It will therefore be important to seek to ensure that Grove Street is not seen as a through route. By continuing to focus vehicular movement along the Evelyn Street corridor, the Grove Street environment, particularly the central section opposite the Lower Pepys Park, could become the focus of a major public realm investment programme with the aim of anchoring the Grove Street area as the heart of the community.

Public transport – bus routes

In terms of public transport links, there was support for Lewisham investigating improved links between North Deptford and Greenwich. Local bus services are critical in ensuring local people have good access to local community services and employment opportunities. There was an aspiration for new services (potentially 'hoppers') linking the area more directly with the nearby centres of New Cross and Peckham, and for new local bus routes connecting local streets into the network, ideally running through Grove Street.

Evelyn Street

Traffic congestion along Evelyn Street was clearly a priority for residents in North Deptford. Evelyn Street is a strategic route controlled by TfL, giving the Borough limited scope to influence its management and control. It should also be noted that during the consultation major road works were being undertaken on the route. However, working closely with TfL, there may be scope for the Council to, through publicity and communication, help ensure that local residents and other stakeholders are better informed about the timescales and aims of traffic works, as well as measures being taken at a wider scale and by national bodies, to improve traffic flow in the North Deptford and south east London.

Long term

Should industrial sites be redeveloped for mixed and residential uses, in the longer term, pressure will grow significantly on the current transport network, requiring major transport improvements. The Council will therefore need to consider major transport improvements alongside measures to address current issues.

Physical Environment and Open Space

Short term

Residents were clear that improvements to North Deptford's physical environment, its streets and public spaces, would have a direct impact on their everyday lives. Physical improvements could help address a number of issues including crime and safety, under-use of communal spaces and lack of pride in the local area. Landscape improvements could present a cost-effective and high impact intervention – and could therefore represent an important quick win for the Council. Communication of existing landscaping initiatives would inform residents of the Council's current.

Resources are already allocated to making improvements to the Pepys Estate but the Council should consider the benefits of widening the brief for these resources. Street lighting and the provision of safer routes was a high priority for local residents and such improvements appeared to have a higher priority that the improvement of the area's open spaces.

Getting local youth groups involved in the process of designing the planned improvements to the area's open spaces should ensure greater value to them is given by local people thus reducing the likelihood of vandalism.

Long term

In the longer term, Lewisham should focus on maintenance and regular tidying of public and green spaces, including the revenue streams needed to fund this.

The issue of rubbish and fly tipping was also raised, and could be given further consideration as a Borough-wide policy issue.

New pedestrian and cycle routes should be a high priority in any redevelopment opportunities, particularly the chance to extend the Thames path from Surrey Quays to Greenwich, and other new routes between Evelyn Street and the River through potential development sites.

Crime and Safety

Many of the crime issues identified by participants related to maintenance issues. As with the public realm, the Council should investigate long-term measures to ensure sustained revenues for regular repair and upkeep of security provision, such as CCTV and lighting. In addition, it would be useful to establish links between local Wardens and landscape professionals as part of any landscaping improvement initiatives to establish how design could help reduce perception and likelihood of crime.

Much criminal activity was linked to a perceived lack of youth provision in the area. Links should be promoted between youth organisations and representatives such as the Riverside Youth Club and local police and Wardens to investigate activities and initiatives which would help reduce crime through structured activity.

Community and Youth Facilities

Youth provision was a very high priority at all the consultation events and should therefore be a key focus for action, support and investment.

The single most common request regarding community provision was for increased funding to existing youth facilities. Lewisham Council should consider ways of increasing and sustaining revenue funding to existing and any new youth facilities to ensure that they are effective within the community. The Riverside Youth Club has strong links with local young people and these links should be utilised by other community agencies to encourage greater youth participation and constructive ownership of North Deptford.

Participants were also keen to see greater provision of community leisure facilities for older groups. This could come in the form of new events at existing venues, potentially including the Riverside Youth Club and the 2000 Community Action Centre.

There will be significant investments made in the redevelopment of key sites in the area. These proposals are likely to include health and community facilities for residents. Consideration should be given to securing (limited) access for local people to any health/leisure facilities provided in the redevelopment of the major sites in the area.

In the longer term, additional community facilities, for example, a library, art gallery or fitness club, could be provided as part of redevelopment of the opportunity sites.

Community integration was a common concern regarding the opportunity sites. A starting point to address this, as suggested by participants themselves, would be to establish more community events, for example, farmers markets and festivals. These events would need to be firmly community-led, with the Council in a supporting role, in order to ensure ownership and by-in from the local community.

In the long term, it will be crucial to ensure that new development is properly integrated with the existing landscape in terms of physical routes and character. This could be addressed through design briefs for major sites.

Education and training

Planning controls to deliver local training and employment

Provision of employment and training was a key concern, and further debate could usefully be established on ways in which existing employment opportunities are offered out. Given the construction opportunities presented by the major opportunity sites, there is a short-medium term opportunity to bring significant levels of work to the area, secured and controlled through the planning process.

Housing

Local perceptions and communication

The state of existing housing on the estates was a major issue at the deliberative event and at the estates workshops, and should therefore be seen as a high priority for the Council. Whether or not there is scope to address this directly through the redevelopment of privately owned sites will need consideration. However, there was a strong sense of resentment that the Council was spending or making money on the redevelopment of these sites at the expense of those who already live in poor quality housing. This is a communications issue.

Some cosmetic improvements to these areas could have great impacts for local people and significantly improve their quality of life. As with other issues, funding may be at the root of these problems, but it would be worth establishing further debate on the issue of poor living conditions, and on the future of the buildings themselves. Contacts with local residents made during this consultation could be followed up to establish a focus group to this end.

Business facilities and employment

In terms of new job provision in North Deptford, there was all round support for new employment uses and rationalisation of existing heavy industrial uses. However, the overarching concern in this regard was how provision of new employment in the area could meet the needs of the local population. This will clearly need further consideration in terms of the economic viability, necessary skills programmes which could accompany new physical development and further consultation with local employers and residents would be very valuable in this regard.

Affordable employment space was mentioned as just as important as affordable housing.

Housing and Sustainable Development Select Committees			
Title	Heritage in Deptford: Proposals for Convoys Wharf	Item	3
Contributor	Scrutiny Manager		
Class	Part 1 (Open)	Date	2 December 2013

1. At its July and October meetings the Sustainable Development Select Committee considered items about retaining and enhancing heritage in Deptford. In July, Members heard from the 'Build the Lenox' project about their plans to build a replica 17th century ship (the Lenox) on Convoys Wharf, in celebration of the area's maritime history.

2. In October the Committee heard from Hutchison Whampoa, the current owners of Convoys Wharf, who have put forward plans for the complete redevelopment of the site. Their plans include proposals to build several thousand new homes, incorporating three tall towers of more than 30 stories on the currently unused site. Hutchison Whampoa's plans also include proposals to create new transport links, new facilities to support the development and new public spaces. It is intended that the historic elements of the site be incorporated into the new development.

3. The Committee is also due to hear from members of the Sayes Court Garden project about their plans for the revival of the historic garden, which was first founded by John Evelyn in the 17th century.

4. Information provided to Sustainable Development Select Committee members is included in the appendices to this report. Appendix 1 sets out the Lenox Vision for Deptford. Appendix 2 includes the question and answer to a Council question about building the Lenox. Appendix 3 sets out the views of the Sustainable Development Select Committee on the Lenox project. Appendix 4 provides a short summary of the history of Sayes Court Garden. Appendix 5 includes the question and answer to a Council question about Sayes Court Garden and the Royal Dockyard.

If you require further information regarding this report please contact Timothy Andrew (Scrutiny Manager) on 02083147916

Appendix 1:

http://www.buildthelenox.org/index.html

The Lenox Vision

Our proposal is to build a replica 17th century warship, over a 7-10 year period, on the very site the original ship was constructed, as part of the Convoys Wharf redevelopment in Deptford, Lewisham.

Once the Lenox is launched and completed, we propose to moor her in the restored Great Basin in front of the Olympia Building which will become her home port.

We propose to support the creation of an interpretation centre at the site, the Deptford Dockyard Museum, which will focus on the history of the King's Yard as well as the wider history of Deptford.

We propose to work in partnership with educational and government agencies to create a skills and training programme as part of the Lenox construction scheme.

We propose to support the establishment of a marine enterprise zone in line with the requirement to create a viable use for the protected wharf.

We intend:

- to build a 17th century replica ship using a combination of traditional and modern methods and to launch it
- to use the ship and its construction as the central focus of a heritage tourist attraction at the site. Along with Sayes Court Gardens, this opportunity signifies perhaps the last chance for Lewisham, as a riparian borough, to make the most of its riverfront
- to establish a future role for the ship both at the site and in an ambassadorial capacity, attracting visitors to the area and representing Deptford and the UK on overseas voyages
- to provide a platform for cultural, historical and educational exploration through collaboration with academic, heritage and scientific groups
- to provide training in manufacturing and maritime skills through apprenticeship programmes

To do this, we need:

- an agreement with the developer to use part of the site to build the ship, ideally the Double Dry Dock.
- space for an interpretation centre and visitor facilities
- subsequent use of a suitable mooring for the ship at the restored Great Basin. Mooring her at this location will put the Olympia Shed in context and connect it to the river
- a commitment from the developer and Lewisham Council to provide safe, suitable access to the site for visitors during the construction phase
- a commitment from Lewisham Council to establish and develop a proper tourism strategy for the area, which will support and enhance the community-led projects

such as the Lenox and Sayes Court Gardens, as well as the redevelopment of the site and the wider Deptford area
- to gain an understanding of the developer's planned phasing so that we can collaborate on our proposed timescales and construction programme to suit the site and afford the project the strongest chance of success

Some specific benefits (more details in the Lenox Vision)

Tourism

Building the Lenox at Convoys Wharf would create a tangible and undeniable link to the site's history that would have an immediate and lasting impression on visitors. With a ship in construction in the Double Dry Dock, or moored in the Great Basin, and the recreation of John Evelyn's Sayes Court Gardens nearby, the place-making aspirations of the redevelopment could be realised in a single stroke.

The projects will present an opportunity for Lewisham to create a new, cohesive tourism strategy, which focuses on the north of the borough. This will put Lewisham on the London tourist trail for the first time, a position strengthened by its proximity to the World Heritage site and the Cutty Sark at Greenwich.

There is a strong case for the history of the dockyard to be emphasised in the creation of an interpretation centre. This could be an annexe to the National Maritime Museum in Greenwich and the Museum of London Docklands. As well as those artefacts held by the Lewisham Local History Archive, there are a great many held in storage by the National Maritime Museum relating specifically to Deptford, which could bring the history of the site alive for local residents and visitors alike.

Regeneration

The project will have wider benefits of regeneration and rejuvenation, not just in the local area but also beyond. As well as contributing to the existing maritime cluster along this part of the Thames, the Lenox will become established as a viable and sustainable local business entity, contributing to the local economy and promoting volunteer and community inclusion. During construction, the use of sustainable materials will drive reforestation and responsible woodland management, and being a ship-building project will support the reinvigoration of UK maritime links and businesses.

Employment and training

Central to the Lenox Project is the opportunity to provide meaningful training and employment opportunities to local people, in collaboration with partner organisations in the area such as Lesoco, Greenwich Community College, Greenwich University and the Ahoy Centre. The chance to work on a live ship-building project which is also a visitor attraction represents a unique opportunity with exciting possibilities for learning and development.

Appendix 2:

LONDON BOROUGH OF LEWISHAM

COUNCIL MEETING

26 JUNE 2013

Question by Councillor Curran of the Deputy Mayor

Question

What progress has the Council made in supporting the proposals of Build the Lenox campaign?

Reply

Build the Lenox is a project to build a 17^{th} century warship on the site of King Henry VIII's Royal Dockyard at Convoys Wharf Deptford.

Council officers have been in regular contact with the Build the Lenox group over the past two years and have met them to discuss their proposals. Officers have also sought to facilitate a dialogue between the group and the owners of the Convoys Wharf site, Hutchison Whampoa, about the potential to deliver the project and have discussed the project with the developer to try to identify an area of the site that could be used. Very early discussions have also taken place with the GLA regarding the potential for the project on the site.

Most recently officers met with the group in May 2013 following the receipt of their vision for the proposal to examine the document and provided comments at that meeting to ensure that proposals are suitably robust and look at all of the available options on the site.

Officers have expressed their general support for the project and opportunities it could bring to the area. There are outstanding issues to be resolved about the location within the site which might be used and the full costs and implications of all the options have yet to be fully appraised.

Appendix 3:

Referral by the Sustainable Development Select Committee to Mayor and Cabinet (11/09/13):

On 11 July 2013, the Sustainable Development Select Committee considered a report entitled Build the Lenox and received a presentation from members of the Build the Lenox group.

The Committee recommends that the Mayor write to Li Ka-Shing, Chairman of the Board of Hutchison Whampoa to urge a meeting between the developer and the Build the Lenox group.

The Committee recommends that a review be carried out by planning officers to determine what support can be given to the Build the Lenox group to assist in achieving the Lenox vision.

The Committee acknowledges the potential lasting benefits the Build the Lenox project might bring to the borough, including the employment, heritage, tourism, training and education initiatives it should help to create. The Committee also acknowledges that the project could help to create an iconic destination for tourists from around the world.

The Committee acknowledges the success of similar projects in regenerating towns and cities across Europe.

The Committee urges the Mayor to work jointly with the office of the Mayor of London and the London Assembly to support the project.

The Committee welcomes efforts by the Build the Lenox team to encourage the builders of the L'Hermione in Rochefort, France to visit the borough and share their experiences of building a replica warship.

The Committee notes the relevance of sections of the Council's core strategy, specifically section 4B of the spatial strategy for regeneration areas, which relate to community wellbeing.

At the meeting on 11/09/13, the Mayor resolved that officers be tasked with implementing the Sustainable Development Select Committee's recommendations immediately.

Appendix 4:

Extract from the Sayes Court Garden website
(http://www.sayescourtgarden.org.uk/about.html)

John Evelyn established his garden at Sayes Court in 1653. Over the next 30 years he laid out his innovative designs, bringing ideas from the Continent and plants from around the world, using the garden as a setting for his experiments and research. The garden was famous in his own day, and the texts which he wrote from his research remained influential long after his death. Many of his concerns remain relevant today, such as adapting for climate change, or growing trees to purify the London air.

200 years later, when John Evelyn's garden had long since faded away, his descendant was concerned by the appalling living conditions in Industrial London. W J Evelyn decided to create a public park on the site of Sayes Court, to provide a place of beauty and fresh air for the people of Deptford in perpetuity. Through his discussions with Octavia Hill, this project at Sayes Court led to the formation of the National Trust.

Only a portion of Sayes Court Park still exists: the remains of the manor house, the site of John Evelyn's garden and the rest of the former Park now lie within the boundary of Convoys Wharf. The approaching development plans bring the opportunity to reclaim this land for the public, to create an experimental 21st Century garden and building to act as a centre of research, education and enterprise.

This project has the power to help integrate the proposed new development into the local community as a place for everyone - bringing education, jobs and training as well as a place of beauty and fresh air once more.

Appendix 5:

LONDON BOROUGH OF LEWISHAM

COUNCIL MEETING

27 NOVEMBER 2013

Question by Councillor Curran of the Mayor

Question

Will the Mayor advise us of any meetings he has had or intends to have with the Mayor of London to press for a decision that is sympathetic to Deptford's heritage with regard to Sayes Court Garden and the Royal Dockyard at the site sometimes known as Convoys Wharf?

Reply

The decision by the Mayor of London to intervene in the Convoys Wharf project is wrong and was opposed by this Council. The legislation which established the London Mayoralty gave that mayor individual powers in relation to planning matters which no other mayor, including myself, enjoys. This intervention exposes the dangers of giving an individual such unfettered power.

I have already made it very clear that the Council is supportive of the Build the Lenox and Sayes Court Garden projects. Council officers will work with the GLA, Hutchison Whampoa, Sayes Court Garden Group and the Build the Lenox Group to review and agree the most appropriate way forward to ensure the inclusion of the projects in the overall Convoys Wharf development. We will also make very clear the key issues and concerns about this scheme more generally. I shall demand a meeting with the Mayor of London to press those views at the most appropriate time ahead of his decision making on the application.

TABLE 2.7 AVERAGE AFFORDABLE HOUSING OUTPUT AS A PROPORTION OF OVERALL CONVENTIONAL HOUSING PROVISION OVER THE THREE YEARS TO 2011/12

BOROUGH	TOTAL NET CONVENTIONAL AFFORDABLE COMPLETIONS				AFFORDABLE AS % OF TOTAL NET CONVENTIONAL SUPPLY			
	2009/10	2010/11	2011/12	TOTAL	2009/10	2010/11	2011/12	TOTAL
Barking and Dagenham	24	143	113	280	12%	42%	29%	30%
Barnet	136	224	319	679	18%	30%	30%	27%
Bexley	239	154	30	423	68%	52%	15%	50%
Brent	414	184	414	1,012	51%	47%	74%	57%
Bromley	223	248	203	674	40%	33%	35%	36%
Camden	216	142	66	424	51%	26%	18%	32%
City of London	0	2	0	2	0%	2%	0%	1%
Croydon	728	396	362	1,486	52%	35%	53%	46%
Ealing	229	73	325	627	53%	27%	48%	45%
Enfield	30	220	79	329	11%	48%	27%	32%
Greenwich	141	787	370	1,298	26%	69%	28%	43%
Hackney	621	350	403	1,374	37%	40%	40%	38%
Hammersmith & Fulham	441	196	80	717	50%	38%	17%	39%
Haringey	281	89	381	751	47%	21%	47%	41%
Harrow	209	167	153	529	40%	38%	36%	38%
Havering	288	89	34	411	67%	47%	34%	57%
Hillingdon	189	175	322	686	31%	58%	33%	36%

TABLE 2.7 AVERAGE AFFORDABLE HOUSING OUTPUT AS A PROPORTION OF OVERALL CONVENTIONAL HOUSING PROVISION OVER THE THREE YEARS TO 2011/12

BOROUGH	TOTAL NET CONVENTIONAL AFFORDABLE COMPLETIONS				AFFORDABLE AS % OF TOTAL NET CONVENTIONAL SUPPLY			
	2009/10	2010/11	2011/12	TOTAL	2009/10	2010/11	2011/12	TOTAL
Hounslow	381	349	319	1,049	59%	52%	54%	55%
Islington	456	-66	458	848	31%	-14%	37%	27%
Kensington & Chelsea	22	61	19	102	7%	36%	16%	17%
Kingston upon Thames	30	65	81	176	21%	43%	36%	34%
Lambeth	417	744	348	1,509	36%	56%	41%	45%
Lewisham	168	339	467	974	22%	47%	39%	36%
Merton	49	48	60	157	15%	13%	14%	14%
Newham	712	390	429	1,531	48%	46%	47%	47%
Redbridge	175	111	54	340	18%	32%	10%	19%
Richmond upon Thames	76	45	75	196	36%	14%	36%	27%
Southwark	710	562	598	1,870	52%	40%	55%	48%
Sutton	-15	222	235	442	-7%	67%	40%	39%
Tower Hamlets	864	301	593	1,758	30%	23%	66%	35%
Waltham Forest	-130	248	358	476	-84%	58%	72%	44%
Wandsworth	479	109	268	856	31%	23%	27%	29%
Westminster	385	152	71	608	56%	20%	8%	27%
London	9,188	7,319	8,087	24,594	37%	39%	38%	38%

Source: London Development Database

JRF JOSEPH ROWNTREE FOUNDATION

INSPIRING SOCIAL CHANGE

CHANGES TO AFFORDABLE HOUSING IN LONDON AND IMPLICATIONS FOR DELIVERY

Ben Harrison, Joanna Wilson and Jennifer Johnson,
Future of London

This paper gives an overview of the London housing market with a particular focus on affordability and the impact of recent policy reforms on affordable housing. It argues that a new, sustainable delivery model for London is needed if the capital is to meet its affordable housing challenge.

MARCH 2013

Background

London's housing market is distinct from the rest of the country. The demand for property, the mix of tenures and households, the difference in affordability of renting or buying, and the levels of acute housing need, all distinguish the London housing market from England as a whole, and have major implications for the delivery of housing that is affordable.

In order to provide further detail on the unique nature of the London housing market, and a greater understanding of the landscape against which practitioners are currently operating to deliver affordable housing, the **first section** of this paper summarises a number of relevant housing indicators. The **second section** then sets out the key housing policy reforms undertaken by the Coalition Government. The **third and final section** explores the implications of these for London practitioners.

Contents

Key points

- There is a significant lack of clarity over what 'affordable' and 'housing need' mean in a London context, and for whom new housing products are intended. The disparity between rental and income levels is rising, and demand outstrips supply.
- New freedoms for London boroughs and registered providers to increase rent levels and manage their housing stock more strategically provide the opportunity for local innovation.
- Boroughs are adopting bespoke approaches to the delivery and allocation of new homes. However, welfare reform, increasing rent levels, changing allocation criteria and tenancy reform all risk excluding lower-income households and those not deemed in acute need from accessing affordable housing.
- A new, sustainable delivery model for new housing in London is needed, underpinned by clear definitions of 'affordability' and 'housing need'. It is critical that London practitioners continue to seize the initiative and work together to develop this ahead of the next affordable housing programme in 2015.

A review of the London housing market

Rising demand and contracting supply

London's 8.2 million people[1] currently live in roughly 3.3 million households[2]. Over the next 20 years this population is expected to reach 10 million people[3] and 3.9 million households, with single occupancy households accounting for almost a third of this growth.[4]

New supply of housing in London has historically lagged behind household projections. Official projections for London suggest that household numbers will grow at an average of c. 36,000 per year to 2033.[5] New supply in London amounted to 24,870 homes in 2011-12, and has averaged 24,582 per year for the past five years.[6]

In 2011/12, there were 4,372 new affordable housing starts across the capital, contrasted with 16,176 completions. The previous higher level of affordable housing starts was the result of central Government fiscal stimulus monies and kick-start programmes.[7] The total number of new starts and completions over the past three years is illustrated in Figure 1 below.

Figure 1: New affordable housing starts and completions 2009–2012

Time period	Total affordable housing starts	Total affordable housing completions
1 April 2011 – 31 March 2012	4,372	16,176
1 April 2010 – 31 March 2011	16,331	12,870
1 April 2009 – 31 March 2010	15,691	12,792

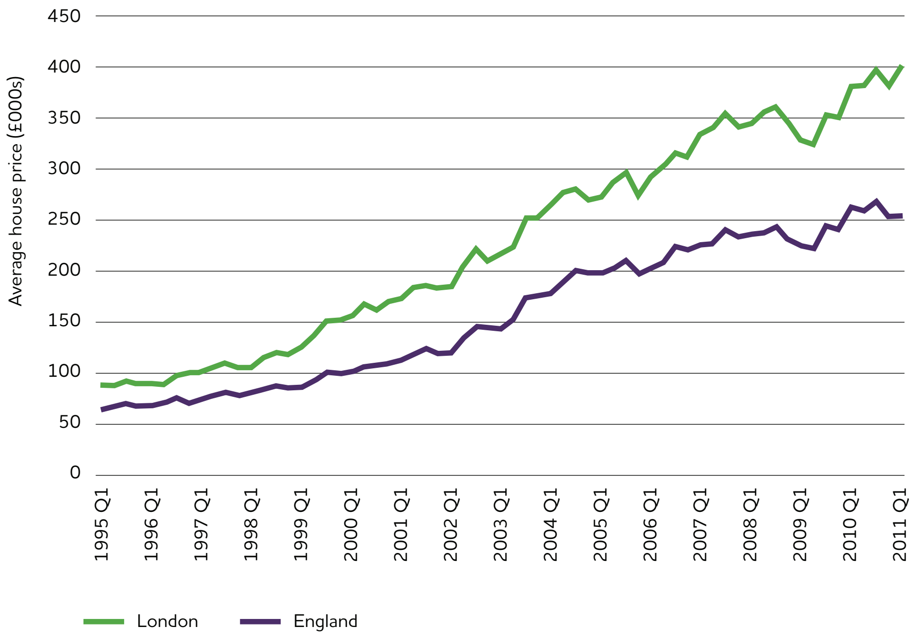
Source: Homes and Communities Agency (2012) 'National Housing Statistics June 2012'

The cost of buying a residential property in London is continuing to increase

On average, house prices in London are 57 per cent higher than England as a whole, and continue to grow at a faster rate than the wider English housing market.[8]

The capital has experienced significantly higher house prices over the past 17 years than the country as a whole, despite seeing a sharper decline in values during the property market crash in 2007/8 (see Figure 2).

Figure 2: Average London house prices compared to England



Source: Communities and Local Government (2011) 'Table 504: Simple average house prices, by new/other dwellings, type of buyer and region, United Kingdom, from 1992 (quarterly)'

In 24 of the 33 London boroughs, house prices have risen over the past 12 months. Particularly strong rates of growth have been recorded in both Inner and Outer London, with annual rises of 23.7 per cent recorded in Kensington and Chelsea, and 19.32 per cent in the City of London, for example (see Figure 3).[9]

By contrast, average prices have fallen in nine London boroughs, with Merton and Greenwich experiencing a drop of more than 2.5 per cent (see Figure 4).[10]

Figure 3: Top five increases in the average residential property price across London boroughs, 2011-12 (Q3-Q3)

Rank	London borough	Average price (£)	Annual change (per cent)
1	Kensington & Chelsea	1,603,607	23.70
2	City of London	574,033	19.32
3	Hammersmith & Fulham	742,796	15.13
4	Brent	422,861	14.67
5	Camden	823,891	10.80

Source: Communities and Local Government (2012) 'Table 581: Mean house prices based on Land Registry data, by district, from 1996 (quarterly)'.

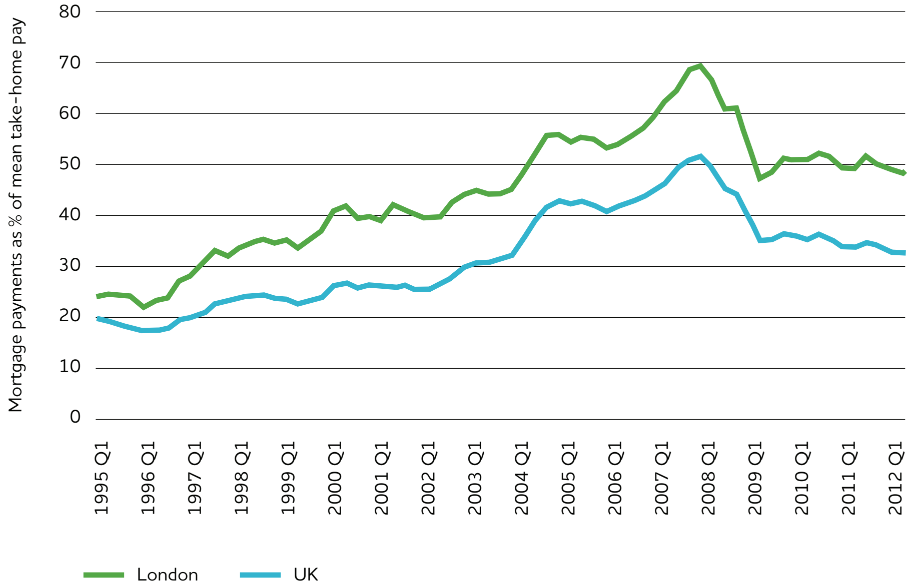
Figure 4: Top five decreases in the average residential property price across London boroughs, 2011-12 (Q3-Q3)

Rank	London borough	Average price (£)	Annual change (per cent)
1	Merton	449,790	-7.69%
2	Greenwich	298,590	-3.60%
3	Richmond upon Thames	590,093	-1.80%
4	Barking & Dagenham	181,765	-1.55%
5	Southwark	423,646	-1.04%

Source: Communities and Local Government (2012) 'Table 581: Mean house prices based on Land Registry data, by district, from 1996 (quarterly)'.

Affordability in London continues to lag behind the rest of the UK, as the size of mortgage payments as a percentage of mean take-home pay is nearly 20 per cent higher in London than across the UK (see Figure 5).[11]

Figure 5: Affordability of housing for first-time buyers in London compared to the UK



Source: Nationwide Building Society (2012) 'First Time Buyer Affordability Measure'

As a result of these factors, there are an estimated 240,000 households living in overcrowded accommodation across all tenures in London. London has the most overcrowded households of any region. Overcrowding increased 50 per cent between 2000 and 2009-10.[12]

The cost of renting a residential property in London is also increasing

The average rental asking price in London is the highest in the country: significantly higher than that of the South East of England, and nearly twice as much as other English regions including the East Midlands, Yorkshire and Humber and the North East (See Figure 6).[13]

Figure 6: Average private monthly rents across England, October 2012

	London	South East	South West	East of England	East Midlands	West Midlands	North East	Yorkshire & Humber	North West
Average. rental asking price	£1,102	£781	£641	£760	£546	£563	£530	£540	£593
Average. rental yield (%)	5.1	5.1	3.9	4.9	6.0	6.0	5.2	6.7	7.3
Annual rental change (%)	7.0	3.2	0.3	1.8	-1.5	2.2	2.7	1.6	2.6
Monthly rental change (%)	0.9	0.7	0.5	1.4	-1.8	-0.5	0.2	-0.3	-0.2

Source: LSL Property Service plc (2012) 'Buy-to-let index October 2012'

This differential is increasing rapidly, with London rents seeing an average annual increase of seven per cent from 2011, where in most other parts of the country, rents have experienced only a small increase.[14]

Despite this rise, rental yields remain only 5 per cent, a major challenge to attracting institutional investment to boost supply in the sector.[15]

In 19 of the 33 London boroughs, the median private sector rents are in excess of £1,000 per month; in 13 of the boroughs, average rents are between £800 and £999 per month; and in just one borough these rents are below £800 per month.[16]

Looking specifically at mean social rents in London, recent data shows that they are £89.17 a week for local authority housing, which is 23 per cent higher than in England as a whole.[17] In terms of housing provided by registered providers, mean social rents are 25 per cent higher than the English average, at £97.46 per week.[18]

London has a distinct mix of tenures and households compared to the rest of the country

Proportionately fewer individuals in London own their own home, with more living in social rented accommodation than across England – 50.7 per cent of Londoners own their own home, compared with 66 per cent of households across England, while 23.9 per cent of Londoners live in social rented accommodation, compared to 17.5 per cent across England. The private rented sector now accounts for 25.4 per cent of London households, up from 21.5 per cent in 2008-09.[19]

Nearly half of London's households live in flats, compared to 20 per cent in the rest of England.[20]

Furthermore, levels of home-ownership have been falling in London, from 59.6 per cent in 2000, to 50.7 per cent in 2010/11.[21] This reflects a national trend. Home-ownership levels have fallen across England in recent years – from a high of 70.9 per cent of households in 2003, home-ownership levels have since declined to 66 per cent of households in 2010-11[22].

These factors in turn have an impact on levels of churn within the London housing market. Around 10 per cent of households in London have moved within the last 12 months, with approximately two thirds of these being among those in the private rented sector (PRS).[23] This affects on the provision of public services across the capital – a London School of Economics study in 2007 estimated that high population mobility cost London councils more than £100 million per year.[24]

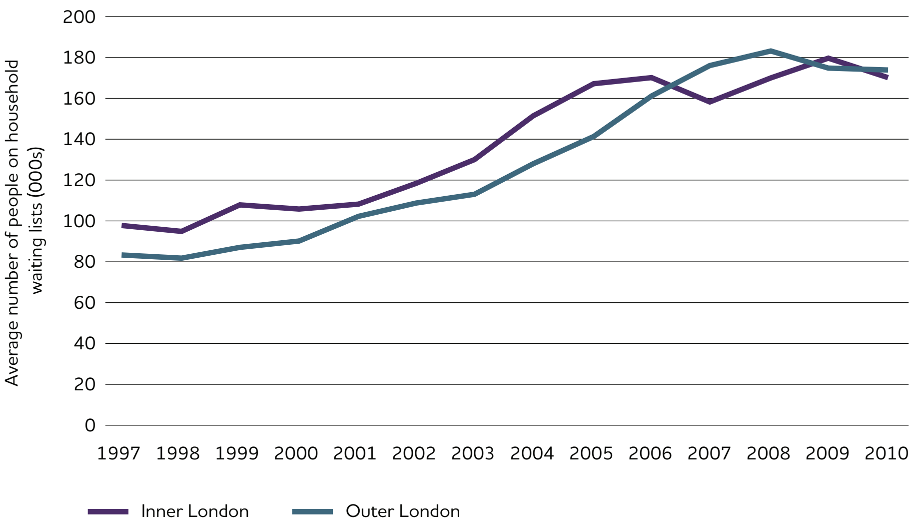
Acute housing need remains a significant challenge

After declining for more than two decades, homelessness in London is again on the rise, with 3,350 households accepted by local authorities as homeless. This is an annual increase of 27 per cent in 2011-12.[25]

London accounts for the majority (72 per cent) of temporary accommodation cases in England.[26]

Household waiting lists have continued to rise across the capital in recent years, although the rate of the increase has recently slowed (see Figure 7). Across London, there were 366,613 households on waiting lists in 2011, an increase of 1.2 per cent from 2010, and up 73 per cent from 2001.[27]

Figure 7: Average number of people on household waiting lists 1997–2010



Source: Communities and Local Government (2011) 'Table 600: Number of households on local authorities' housing waiting lists, by district, England 1997-2011'

The absolute and relative size of housing waiting lists varies widely across boroughs (see Figure 8). Waiting lists for social housing in Newham especially are far larger than any other borough, with 32,045 households on their list, representing 34.9 per cent of households in the borough. On average across London, 11 per cent of households are on local borough housing waiting lists.[28] The large number of households on these lists indicates huge unmet demand for social housing.[29]

Figure 8: Top 10 London borough housing waiting lists 2000–2011

Rank	London borough	Year			Per cent of households on housing waiting list in 2011
		2000	2005	2011	
1	Newham	9,901	25,317	32,045	34.9
2	Tower Hamlets	6,751	21,183	23,128	23.6
3	Haringey	9,510	19,930	18,940	19
4	Lambeth	16,220	10,648	23,894	18.4
5	Barking and Dagenham	1,925	2,321	12,223	17.6
6	Waltham Forest	7,476	8,837	16,153	17.6
7	City of London	787	1,204	1,219	16.3
8	Camden	5,884	16,532	17,052	15.9
9	Brent	12,603	17,351	14,443	14.8
10	Hackney	7,011	7,744	13,423	14.6

Source: Communities and Local Government (2011) 'Table 600: Number of households on local authorities' housing waiting lists, by district, England: 1997-2011'

Conclusions: London's unique housing market

This review of the London housing market highlights a number of key factors in relation to the provision of affordable housing:

- Demand continues to outstrip supply. London's population is growing, as is the number of single occupancy households, both of which drive demand. Supply has failed to keep up, even with years of Government subsidy. This subsidy has been cut significantly, and it is expected that minimal levels will be the norm for the foreseeable future.

- House prices in London are higher than the rest of the country. There has been growth in 24 of 33 London boroughs in the last 12 months, with significant changes seen in both inner and outer London boroughs.
- Levels of affordable housing provision look set to decline, leading to higher levels of homelessness, temporary accommodation and overcrowding.
- As levels of home-ownership fall, and boroughs struggle to meet demand for social housing, the PRS is occupying an increasing role in London's housing market.

A review of the Coalition Government's housing reforms

Having reviewed the fundamentals underpinning the current state of the London housing market, it also important to consider the shifting policy landscape that is shaping the delivery of affordable housing in the capital.

Against a backdrop of severely constrained public finances and macroeconomic uncertainty, the Coalition Government has embarked upon wholesale reform of housing policy since assuming office in 2010, in an attempt to boost the supply of new housing nationally, and devolve significant new powers to a local level. These reforms have particularly significant implications for affordable housing provision in London, given its unique development context. However, given the scale of cuts to affordable housing subsidies that have been implemented alongside reform, it is doubtful that, even when taken together, these measures will facilitate a return to previous levels of affordable housing delivery, let alone an increase.

Cuts to affordable housing subsidies and a new affordable rent model

The 2010 Comprehensive Spending Review announced that the Department for Communities and Local Government (CLG) would take a 51 per cent cut in their budget to the end of the current spending round. This has affected council grants heavily, with 28 per cent of the cuts predicted to come from planning budgets.[30] It also led to a drastic reduction in the national housing budget to £4.5bn for the duration of the funding round (housing spending in 2010-11 alone was £10bn).[31]

This has significant implications for London practitioners, particularly given that, under the previous system, there is strong evidence to suggest that boroughs have been failing to meet their affordable housing targets. For example, 13 boroughs did not reach 50 per cent of their target for new-build social housing between 2008 and 2010.[32]

Developer contributions have historically been vital to funding new affordable homes, but they are being stretched more thinly across different priorities and funding requirements. The Mayoral Community Infrastructure Levy (CIL) alone charges between £20 and £50 a square metre. In addition, with boroughs now setting their own CIL to support development, there is concern in the private sector that councils will prioritise infrastructure over affordable housing, and expect developers to foot the additional housing costs, which could ultimately render development unviable.

With this in mind, a new model of affordable housing provision, less reliant on public subsidy, was required. The Affordable Rent Model (ARM) was established to meet this need. It consists of a delivery model that allows for a higher proportion of delivery costs to be met by borrowing on future rental receipts and existing assets, supported by a rental model that collects higher amounts than conventional affordable housing by charging up to 80 per cent of market rent.[33]

The programme has enabled CLG to pledge the delivery of 20,000 more new affordable homes nationwide than the initial Comprehensive Spending Review (CSR) target of 150,000. In London, this will mean the delivery of 16,130 affordable homes to rent, with a further 5,726 affordable homes to own. This represents the largest proportion of homes being delivered under the ARM programme compared to other parts of the country.[34]

London boroughs and their registered provider partners have taken different approaches to delivery under the new programme, meaning specific rent levels and prices for these properties vary across the capital. In the majority of cases, a blended rental rate is being applied, with some units being rented at 80 per cent of market rate, while others remain at, or close to, previous target rent levels for social housing. The impact of these rates on affordability depends on the particular development economics and property values of different parts of London, with sharp differences often existing between boroughs.

As a result, it remains too early to accurately predict in any detail the impact that the new regime will have on local housing markets across the capital. Indeed, this continuing uncertainty is causing concern for many in the sector, who feel that more progress should have been made now that we are almost halfway through a four-year programme.

New attempts to boost supply

On 6 September 2012, the British Government announced a package of proposals designed to complement its Housing Strategy and kick-start homebuilding.

This series of measures includes:

- the removal of restrictions stalling 75,000 homes that are currently designated as commercially unviable;
- delivering up to 15,000 affordable homes, building an additional 5,000 homes for rent at market rates, and bringing 5,000 empty homes back on to the market;
- a £280m extension of the FirstBuy scheme to help 16,500 first-time home buyers; and
- the temporary removal of planning restrictions that hamper improvements to home-owners' and business properties, along with options to fast track planning decisions.

Altogether, this housing and planning package is stated to help deliver up to 70,000 new homes, 140,000 jobs, £40 billion for major infrastructure projects, and a further £10 billion for new homes.[35]

Social housing tenancies and welfare reform

The Coalition has also made radical alterations to the current social housing system, believing that the previous housing benefit and tenure allocation regimes were both unfair and provided a barrier to social mobility – providing some benefit claimants with comparable or higher incomes than some individuals in employment, and therefore no incentive for unemployed social housing tenants to re-join the labour market.

Furthermore, lifetime tenancies for socially rented homes make it very difficult to rebalance the housing stock over time and allocate due to real need should individual tenants experience a change of circumstance, such as, for example, progression in the workplace, or their children leaving home.

In an attempt to remedy this situation, the Government has sought to replace lifetime tenancies with flexible tenancies for new occupants of social housing. These flexible tenancies will be a minimum of two years, and no maximum length of term, meaning an individual or family's situation can be reviewed, and tenancy not extended if they are no longer deemed to be in housing need.

This will facilitate housing being reallocated to those considered in the most need, according to local definitions. While those people with existing lifetime tenancy contracts will not be affected, all new affordable homes, and a proportion of existing stock, will be allocated in this way.

There has also been reform to social housing allocations. Previously, there was a national standard, which technically allowed anyone that met it to apply for social housing should they wish to. However, the Localism Act announced that councils would decide allocations locally. While these changes do not affect existing tenants, they are likely to have huge implications for London neighbourhoods with social housing. These implications will depend on the approaches taken by London boroughs, a number of which are already in the process of reviewing their allocations policies to prioritise certain groups depending on local political and development priorities.

In addition, the Government is pursuing major reforms to housing welfare, first announced in the Emergency Budget during 2010. The main reform is a cap on housing benefit of £250–£400 depending on the size of dwelling. The cap is set nationally, and does not account for differing regional rental values across the country. Therefore, it is clear that the reform stands to significantly affect a higher proportion of individuals receiving housing benefit in London than elsewhere, due to its average rent levels.

The Department for Work and Pensions (DWP) estimates that affected households will on average be £1,144 per year worse off in London[36], while the Greater London Authority has estimated that up to 9,000 households may have to move when the caps are introduced.[37]

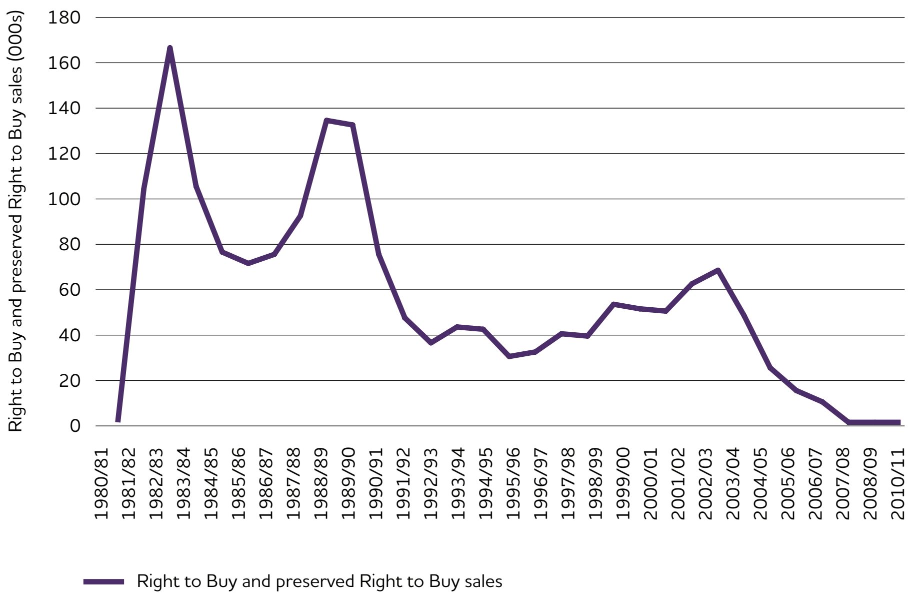
However, while there is a lack of reliable data to demonstrate whether these estimates are being played out across the capital, it is worth noting that in the recent interim report from the DWP on the implications of the Local Housing Allowance, relatively few respondents indicated financial reasons as the motivating factor behind their last move. Indeed, only three per cent of interviewed Housing Benefit claimants in London cited wanting to pay a lower rent as the reason for moving into their current accommodation. Of claimants that had looked for accommodation in London while claiming housing benefit, nine per cent indicated that housing was unaffordable due to low or lower Housing Benefit payments (DWP, 2012).

Revived Right to Buy

The Coalition's National Housing Strategy reintroduced the concept of 'Right to Buy', originally conceived to incentivise council tenants into buying their own homes by offering them at a discounted rate, depending on the length of tenancy. Though experiencing peaks and troughs of popularity over the years, its trajectory has essentially been downhill since its first year, and evidence suggests it has had very little use since 2008/09 (see Figure 9). The area-based discount caps that Labour introduced to combat council housing shortages upon assuming office in 1997 had a severe impact on London's Right to Buy market. Unsurprisingly, it faced the highest cap of 16 per cent.

As of 2 April 2012, the discount cap has been increased to 75 per cent nationwide, in order to incentivise the maximum number of tenants to buy their properties. This is surprising, as in the Housing Strategy it was recognised that a balance must be struck between offering tenants a substantial discount, and having sufficient funds for building more stock. If the Government is to fulfil its ambition of building a new affordable home for every one that is sold through Right to Buy, it will be even more difficult to construct them in London with such large discounts applied, due to high land values.

Figure 9: Right to Buy and preserved Right to Buy sales 1980/81 to 2010/11



Communities and Local Government (2011) Table 670: Local authority stock sold through the right-to-buy scheme, by region (FINAL VERSION). Available at: https://www.gov.uk/government/statistical-data-sets/live-tables-on-social-housing-sales

Local incentives to deliver more homes

Additional measures designed to encourage proactive local attitudes towards new development have also been introduced, including the New Homes Bonus (NHB) and the Community Infrastructure Levy (CIL). The NHB mechanism is intended to increase incentives within the local government finance system for local areas to embrace growth. To do this, the NHB allocates local match funding to the additional council tax raised through the provision of new homes and properties brought back into use, with an additional amount for affordable homes, for the following six years.

There is a significant divergence between boroughs in terms of the amount that they stand to generate from the New Homes Bonus, based on the allocations for year one and two of the scheme. Tower Hamlets stands to collect just over £10m from the scheme – a significant sum to invest in local priorities – but is very much the exception, with over half of London boroughs receiving under £4m, and many receiving less than £2m over the first two years of the scheme.[38]

CIL, which was introduced by the previous Government and retained by the Coalition, came into force in April 2010. CIL formalises developer contributions previously charged through Section 106 negotiations into standardised charges. Many London boroughs are still deciding how to set their CIL, reflecting the difficult balancing act all face in prioritising infrastructure investment, the delivery of affordable homes and development viability.

Of those that have announced their CIL rates, a number of approaches can already be identified. For example, Redbridge is prioritising simplicity and transparency by charging a flat rate of £70 per square metre, regardless of the type of development.[39] On the other hand, Lewisham is proposing a variable rate that reflects different development economics within the borough, with residential charges of £100 per square metre along the northern fringe of the borough, and £70 per square metre in the remainder.

Alongside these measures, the Coalition has devolved significant new powers to local government as part of its broader localism agenda. Most notable amongst these has been the devolution of the Housing Revenue Account to a local level. This move has been heralded as the biggest change in social housing since the Right to Buy, and has huge implications for the 29 London boroughs with social housing stock. On 1 April 2012, £7.2bn of housing debt was passed to boroughs. The debt is by no means spread evenly, with some boroughs seeing a reduction in their overall debt, others an increase. In either case, the management of this debt, and the assets connected to it, requires boroughs to be more proactive and strategic with their housing stock, entering into long-term partnerships with registered providers, underpinned by borrowing against future income streams to boost supply. This should have a positive effect on the number of housing starts across London, although much will depend on the individual circumstances facing boroughs in terms of their housing stock, and the attitudes towards risk and debt management that they decide to adopt.

A strengthened role for the Mayor

Through these reforms, the Government has attempted to create a more decentralised and incentive-driven national housing policy framework. In London, however, the picture is more complex. While across the country, Regional Development Agencies and centralised targets for new house-building were abolished in 2010, the Mayor of London has gained further strategic control of housing across London over the past two years.

The Mayor's London Housing Strategy[40] sets out a clear vision for the future development of the capital, while London's spatial development strategy, the London Plan, details how this vision can be executed. It combines an assessment of the housing market, land availability and demographics to produce targets of provision for each borough, including numbers of new affordable homes. Boroughs are expected to meet (and preferably exceed) these targets in their Local Development Frameworks, and they are a means of monitoring boroughs' performance.

The Localism Act has also further strengthened the Mayor's authority over housing investment. Since April 2012, the Mayor's office has established a new Housing and Land directorate, transferring the responsibilities of the London area Homes and Communities Agency, as well as the now abolished London Development Authority.

This sees the Mayor, and the Deputy Mayor for Housing, Richard Blakeway, responsible for an additional 530 hectares of public land that previously resided across the two bodies.[41] A number of bodies have cited this consolidation of public assets as a key means through which additional affordable homes can be delivered over the coming years.

New 'Kickstart' funding pots

On a national level, Government is providing a number of small pots of money to aid local development. These include the Get Britain Building fund, £570m of investment announced in the Housing Strategy for England. Like the previous Kickstart Stimulus programme, the funds will be targeted at stalled housing projects that already have planning permission by providing development funds to building firms.

Of the 105 projects shortlisted, 12 are in London boroughs, which in principle should support the construction of an estimated 1,380 new affordable homes. Subject to due diligence procedures, all schemes will be on site by March 2013 and all homes completed by March 2015.[42]

Similarly, the £500m Growing Places Fund is aimed at enabling local infrastructure for areas with planned high levels of housing growth. The funds are administered to local enterprise partnerships, who are encouraged to demonstrate in their applications that they will use them as revolving infrastructure funds to maximise their effect.[43]

London has had £69m allocated for the period 2012/13, but no details are yet available as to the kind of projects these funds will be used to support.

Conclusions: Coalition housing reforms

The Coalition Government has embarked upon a programme of wholesale reform of housing policy over the past two years, with the broad objectives of encouraging new development at the same time as localising decision-making, eradicating a number of perceived iniquities in the housing benefit and welfare system, and reducing the cost of affordable housing provision to the state.

And so Government subsidy for affordable housing provision has been slashed; the cap on affordable rents has been lifted at the same time as a cap on housing benefit has been introduced; regional control of housing policy in London has been strengthened, while greater discretion has been afforded local government for allocations policies and the management of local assets; and the Right to Buy has re-emerged along with a number of other new local incentive schemes to encourage development.

Each of these reforms is significant in its own right, and could be expected to have far-reaching consequences. Taken together, they represent a hugely complex wave of change, the precise impact of which is impossible to accurately predict. However, it is clear that there remains a big challenge for London boroughs to make sense of these measures, and do more to support local delivery of affordable housing in their area.

Implications for London practitioners and policy-makers

The characteristics of the London housing market, together with the range of recent policy changes outlined in this paper, clearly present a number of significant challenges for practitioners attempting to deliver affordable housing in the capital.

In particular, there is an urgent need for policy-makers to arrive at a clear definition of housing need. The discourse surrounding housing need in London has been broadened significantly in recent months, with big implications for local housing policy. There is also an imperative for London boroughs to explore the potential to deliver additional affordable housing outside of the Affordable Rent Model, which will deliver some housing at target rent levels, but significantly less than the previous regime. And finally, there is a need for practitioners to consider what happens in two years' time, when the Affordable Rent Model concludes: what will a new, sustainable model for funding affordable housing provision beyond 2015 look like?

Reaching a new definition of housing need: Who is affordable housing for?

The definition of housing need in London is currently in flux. Previously it has referred specifically to people in the most urgent need, but new mechanisms and the policy framework underpinning them have led to a broadening of the definition in policy debates to include those who are looking to buy their first home but cannot afford it, as well as other groups currently failing to access home-ownership. In this sense, viewing London's affordable housing challenge just through the prism of boosting housing supply numbers and targets is to miss a crucial part of the equation: it is not just a case of needing to build many more 'affordable homes', but also to reach a clear view of who these properties are for.

This broadening of the definition of housing need has happened in response to the perception that there are a growing number of individuals who do not qualify for housing support from the state, but who nevertheless cannot afford to live in London. Proponents of this position argue that a cliff edge exists between those in socially rented tenure and those who do not receive any state support in London, particularly in relation to those looking to live in central London, or the more affluent parts of outer London.

The impact of the changes outlined in the previous section, including the introduction of the new Affordable Rent Model, with rents increasing to up to 80 per cent of market rates, has led many to question for whom we are building affordable housing. Indeed there is a broad consensus across London practitioners that we have moved from a situation where the framework underpinning affordable housing was broadly understood by practitioners, providers and citizens, to one where nobody has a clear picture of who products are being targeted at, or what the consequences of these changes will be in the years ahead.

In particular, changes to the benefit regime mean that families and individuals across London are facing new housing pressures, leading to a rising need for additional temporary and permanent solutions, and an increased use of bed and breakfast accommodation across a number of boroughs in the meantime. As highlighted in the previous section, the tensions that this can cause have risen to the surface in recent months, with a number of London boroughs choosing to attempt to move tenants out of London to other parts of the country.[44]

Reaching a clear local view of housing need is an urgent task for all London boroughs, but there are tensions here, and in reaching a clear definition, difficult decisions regarding the allocation of limited housing stock will be required. Many boroughs are currently revising their allocations policies to reflect their local circumstances and political priorities, in order to bring clarity to what is recognised as housing need within their area. Many will continue to focus their energies on housing those in the most urgent need of accommodation at rent levels as close to target rate levels as possible. However, the new policy landscape will likely require at least a recognition of different categories of need within the majority of boroughs, with the aim being to develop a suite of affordable housing products over time that are capable of meeting them.

Additional measures to boost supply: exploring new means of subsidising affordable housing

The provision of affordable housing ultimately relies on subsidising construction to make housing cheaper for the end user. In the past this has primarily involved central government grant supporting the delivery of affordable housing. Reflecting the significant reduction of available central government grant, a number of London boroughs are exploring other ways to subsidise the construction of additional numbers of affordable homes, alongside or outside of the Affordable Rent Model.

Barking and Dagenham, for example, have recently announced a scheme that involves the construction of 477 privately funded affordable homes in Barking town centre, underpinned by a 60-year rental guarantee from the borough, whereby the borough is responsible for the renting and maintenance of the properties once they have been constructed.[45]

The arrangement does not require any central government grant, but the borough has invested the land for development for free. For 20 per cent of the new homes built, rents are being charged close to target rent level, with the remainder subject to a range of up to 80 per cent of market rates, mirroring the affordable rent model. However, given median market rents in Barking and Dagenham, even the top end of this range aligns to a social rent product across many other parts of London. The borough has taken advantage of Government reforms to set strict access criteria on these units. In order to apply to rent one of the properties being let above target rent levels, tenants must have a net household income such that the rent represents no more than 35 per cent of their net income.

Southwark's new approach to funding affordable housing

In inner London, Southwark is proposing to build 1,000 new homes by 2020 using a newly formed funding pot, the Affordable Housing Fund (AHF). The initial funding will be pooled from 'in lieu' payments generated from development activity in the borough, predominantly from major developments with exceptional circumstances, including: King's Reach, Potters Field, Union Street and Neo Bankside. The council has estimated that the agreements in place could generate £44,500,000 for the fund. It is envisaged that the money will be used to deliver new affordable and specialist affordable housing directly, or help to keep the costs down on schemes, in order to make some units truly 'affordable'. Some sites for new housing have already been identified, and Southwark's Cabinet agreed phase 1 of a direct delivery programme in October 2012.

Clearly there are risks and challenges associated with this kind of model, including the length of time for which rents have been guaranteed, and whether there are realistically enough people living locally who can meet the allocation criteria and can afford to pay this rent. Nevertheless, it represents a clear example of a borough being proactive in pursuing innovative models to deliver additional affordable housing, despite changes to housing policy and the difficult development environment.

Meanwhile, in Hackney, the council is seeking to take advantage of rising land values and infrastructure investments in the borough, together with the reforms to the Housing Revenue Account and key changes in capital finance for regeneration outlined in the previous section, in order to embark upon one of the biggest and most ambitious local authority housing regeneration programmes in the country.[46]

Over the next 12 years, the borough will develop a total of 2,300 homes for social renting at target rents, shared ownership and private sale on 15 separate sites. Although there will be a minimal input of Government grant through the 2011/15 affordable homes programme of just over £4million, the large majority of the programme, requiring around £400m total investment over the 12 years, will be funded through three main income streams:

- Land receipts: all new proposed schemes will be designed by architects for the council and residents. Land areas earmarked for private sale homes will either be offered directly to the market with detailed planning permission, or with a developer combined within a land sale/construction partnership.
- Rental income: with the new freedoms given to local authorities under Housing Revenue Account reforms and the Localism Act, target rents on social rented homes and rent on the un-purchased equity element of shared ownership will enable Hackney to borrow against these net incomes. In addition, with the reallocation of debt amongst authorities, Hackney now has extra initial borrowing capacity.
- Shared ownership: in addition to the rental stream, the council will raise funds from the initial sale percentage purchased by the buyer. Council shared-ownership products offer a range of opportunities, including new approaches to affordability and access for what remains in Hackney a sizeable deposit.

Islington has stepped outside of the Affordable Rent model altogether. Instead the council plans to grant land to housing associations and provide £1 million of its £3.7 million New Homes Bonus for them to develop social rented homes.[47]

It is worth noting that these examples depend on the presence of developable, council-owned land that can be invested at nil cost to subsidise development, or for some cross-subsidisation between developments, and not all London boroughs will be in a position to pursue these types of measures.

However, the Greater London Authority (GLA) housing land review of 2009[48] estimated that in total London has capacity for the construction of 360,062 new homes between 2011 and 2021. According to the study, four boroughs – Barnet, Newham, Tower Hamlets and Greenwich – have capacity for 22,300–30,000.

The same GLA study also stresses the potential of London's 99,918 small sites of less than 0.25 hectares, which in principle could provide a total of 33,000 new homes over the coming decade. So, while not all of this capacity will be used for new affordable homes, and question marks remain over whether land assets are located in areas with the greatest strategic need for new housing, there is clearly scope for many London boroughs and the GLA to deploy, and in some cases invest, land assets more proactively to pursue these kinds of arrangements.

Conclusion: towards a new model for affordable housing delivery

This paper has provided an overview of the London housing market with a particular focus on affordability, and the impact of recent policy reforms on affordable housing.

The key messages arising from this analysis are:

- **Delivering affordable housing in London is a long-term challenge that requires an urgent policy response**. Prices and rents have been higher, and have risen faster, than in the rest of the country throughout the previous decade. Demand for housing has consistently outstripped supply, and even between 2008 and 2010, when there was significant subsidy supporting affordable housing delivery, 13 boroughs did not reach 50 per cent of their target for new-build social housing.

- **The affordable housing policy landscape is being transformed**. In response to these factors, as well as pressure on public finances, the framework underpinning affordable housing delivery has undergone significant reform in recent years. This reform has been characterised by a significant reduction in the level of Government subsidy for new affordable homes, and new freedoms for London boroughs and registered providers to increase rent levels and manage their housing stock more strategically.
- **It is not yet possible to fully understand the cumulative impact of these changes for the capital**. As with any wide-ranging package of reforms, it will be some years until we can accurately gauge the impact of these changes. This is exacerbated by the fact that the application of the new Affordable Rent Model varies across London, while boroughs are adopting bespoke approaches to the delivery and allocation of new homes. Meanwhile, other reforms, such as those to Housing Benefit, will also have far-reaching consequences for the affordable housing sector in London.
- **There remains a lack of clarity over what terms like 'affordable' and 'housing need' mean in a London context, and who new housing tenures are intended for**. Increasing rent levels, changing allocation criteria and reforming tenancies all risk excluding certain parts of the population from accessing affordable housing.

What does this mean for the future of affordable housing delivery in London? Despite the potential for boroughs to deliver more affordable homes through innovative use of their assets or revenue streams, it must be recognised that over the coming period, the majority of new affordable housing in London will be delivered through the Affordable Rent Model, which covers the period up to 2015.

Given the state of public finances, we are very unlikely to see a return to the previous regime of affordable homes subsidy from central Government when the current round of the Affordable Rent Model concludes. At the same time, the kinds of models being pursued across London that depend upon the public sector investing land at zero cost – or that use revenue raised by private sector property sales to subsidise the construction of affordable homes – are unlikely to be replicable across the capital, or able to be scaled up significantly over the long term, although they are useful in the short term or for particular organisations.

It seems clear then, that any sustainable solution to the challenge of providing affordable housing will build on recent reforms, and necessitate a further shift away from grant-dominated models, towards a greater focus on 'investment' in more flexible affordable housing as a means of alleviating welfare dependency, and progressing social mobility.

What might this mean in practice?

It is likely to require further changes in the incentives that underpin the existing allocation of affordable housing delivery. If it is not possible to build greater numbers of affordable homes, then the ones we have will need to be used more efficiently. Clearer requirements could be introduced for all tenants to endeavour to move themselves towards the labour market, or alternatively further up it, while they occupy affordable housing. This would likely require clear time limits on tenancies, together with a more gradual raising of rent levels over that time period, that both provides tenants with the time that they need to improve their own economic position, as well as removing the cliff edges that currently exist between different tenures in London.

Such a system would, in theory, allow funding dedicated to the provision of affordable housing, together with the physical assets themselves, to be recycled and provided to those most in need, with properties potentially moving across tenures over a longer time period.

However, there would also be enormous challenges associated with this kind of shift. Any such model would need to ensure that the framework underpinning affordable housing in London can drive greater aspiration amongst tenants, without engendering a lack of security or clarity in the system. An overly fragmented system, while allowing greater flexibility, could also create greater complications and have implications for investors and tenants seeking certainty and stability. In addition, greater supply across tenures would still be required, if those moving out of affordable housing were to successfully relocate.

In addition, the success of such a model would depend entirely upon significant resources being dedicated to helping people in affordable housing to improve their life chances. This would necessitate the involvement of a whole range of council services, all of which are currently facing unprecedented pressure to reduce their budgets. Given the difficulties associated with alleviating entrenched economic deprivation, the task of moving affordable housing tenants up the socio-economic ladder must not be underestimated.

Nevertheless, a new, sustainable delivery model for London is needed if the capital is to meet its affordable housing challenge. It is therefore critical that London practitioners continue to seize the initiative and work together to achieve consensus on the key elements that will underpin this model ahead of the next Comprehensive Spending Review in 2015.

About Future of London

Future of London is an independent not for profit organisation focused on developing skills and capacity across the urban regeneration sector in London, through the provision of training, policy briefings and new analysis: www.futureoflondon.org.uk

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FOR FURTHER INFORMATION

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INSPIRING SOCIAL CHANGE

INNOVATIVE FINANCING OF AFFORDABLE HOUSING

Public funding cuts and scarce mortgage credit have made it much more difficult to finance the supply of new affordable housing. This study highlights promising policies from the UK and abroad that provide innovative funding ideas to increase the supply of below-market-price housing.

Key points

- The general shift upmarket to supply shallower subsidy and affordable rather than social housing means higher rents and more limited security of tenure. This will have profound consequences for people on low incomes.
- This movement, amplified by innovations found elsewhere, suggests a number of emerging themes. On the one hand, there is a desire to use more state-backed guarantees, encourage competition among providers, sweat existing assets and encourage alternative sources of provider income. On the other hand, opportunities also exist to 'blend' different subsidies creatively and encourage solidarity-based co-operation among providers.
- In the longer term, fundamental market failures such as in the land and credit markets will need addressing, and funding programmes for social housing prioritised if rising housing need is to be met. This will need to be part of a clear, overarching policy vision identifying the overall mix of policies, which would also need to include how they are to be delivered and by whom.

The research
By Kenneth Gibb (University of Glasgow), Duncan Maclennan (University of St Andrews) and Mark Stephens (Heriot-Watt University)

MARCH 2013

BACKGROUND

Alongside a companion study on land supply (by the University of Cambridge), this review draws on national and international evidence on innovative ways to support financing for new affordable housing supply. It is set in a context of declining public funds for housing and mortgage market failure. Recent housing policy has focused on low-income households, because home-ownership and liberal mortgage lending catered for the great majority. This is now threatened. The Government seeks to encourage private-sector participation in higher-rent intermediate or affordable rented supply, rather than traditional social housing. This gives rise to tensions, because financial logic shifts the focus to the mid-market, whereas housing need suggests a requirement for more social housing.

Emerging themes

Despite an appetite for state-backed guarantees, caution is required. Guarantees have been debated in Europe as sources of unfair competition. Currently, given prevailing interest rates, investors may receive guarantees less warmly simply as a mechanism to reduce borrowing risk and hence the cost of borrowing. Moreover, recent financial governance problems associated with Dutch social housing are a warning to the UK. There have been concerns about market distortions associated with state-backed guarantees. However, the Scottish National Housing Trust offers a low-cost intermediate solution with potentially flexible exit routes, and including more long-term and social provision options. Competition or contestability among providers (both for profit and non-profit) is important, encouraging efficiency, lower subsidy costs and experimentation.

The evidence suggests that subsidy can be distributed from the centre (national tax authorities or federal programmes) to lower tiers of government, which have more local freedom to augment subsidy (with land, for instance) for locally tailored, affordable solutions. Such arrangements are possible in the UK. Subsidies from different tiers of government and agencies in federal/devolved systems could be combined, as a more discretionary and flexible use of subsidy. Again, this can promote experimental, tailored solutions.

Innovation in housing policy is increasingly 'bottom-up', with national policy responses framed around relatively simple supports that can be locally blended and augmented to serve different purposes. However, the need for value for money means that tests are required to ensure that subsidy is not over-provided or poorly targeted. Regulators could oversee subsidy systems, through tests by relevant agencies checking for value for money, or by incentivising bidding mechanisms.

Various European systems indicate that social housing can benefit financially (and in its governance) from more solidarity-based or collaborative structures. While this may not be culturally translatable to national non-market housing systems in the UK, it may be feasible on a smaller, more local or specialist scale, such as community-based housing association clubs within a city-region. Collaborative models such as pooling and recycling surpluses and linked revolving funds – i.e. recycling original funding – could operate alongside subsidy mechanisms encouraging lower-cost and less-per-unit subsidy through competition.

Policy-makers and providers are increasingly interested in management income streams associated with real estate investment trusts, sale and leaseback vehicles and tax credit models. Additional revenue is also increasingly important to social providers, but is not a guaranteed source of income. In contrast to complex schemes, simple schemes that users can understand are valuable, as the effects are easy to follow and unintended consequences less likely. Canadian 'silent mortgages' (like second mortgages but where the repayment terms are flexible and may in fact be discounted in different ways) and policies like revolving funds possess these features.

The shift upmarket in rent levels has meant relatively shallow subsidy per unit, so that more units can be funded from a given sum of public money. If the overall funding programme still operated at pre-austerity levels, this resource could be stretched in terms of units completed. But mechanisms like the Affordable Homes Programme operate at much-reduced scale (they also risk not delivering the planned scale of output). The other key measure is 'sweating' providers' existing assets. The Affordable Homes Programme is such a process, capturing the rise in balance sheets and financial capacity associated with the property boom. This is a more volatile, risky approach. It depends on asset growth and maximum gearing of loans, raising new financial governance and regulatory requirements.

The scope for innovation is closely related to the regulatory context – not just social housing governance, but also the interface between non-profit housing and the private financial sector and its regulation. Public accounting rules also determine the degree of flexibility and providers' financial capacity to borrow when subsidy, public loans or guarantees are involved.

Transferable international policy examples

Many policies have merit for the UK context, but measured against the tests outlined above, six have particular potential:

1. *The Spanish VPO ('officially protected housing') developer/occupier new supply subsidy*. This has provided scale, responsiveness and efficient subsidy but, while means-tested, has been less tightly targeted and has somewhat succumbed to the economic crisis. It is flexible in principle, if not completely transparent. The scheme is readily transferable as it would not require new institutional infrastructure, and could stimulate activity.

2. *The Australian National Rental Affordability Scheme (NRAS) tax credit application of the US low-income housing tax credit model*. The combination of competition among providers, opportunities to blend subsidy and beneficial placemaking (designing and managing public spaces through ongoing consultation with the local community) are attractive innovations. NRAS targets moderate-income households, with capped subsidy, and can operate responsively and to scale.

3. *State-backed loan guarantees on the lines of the Scottish National Housing Trust,* rather than as a way of generally lowering the cost of bonds (as the new English £10 million fund will do), or *a Dutch-style guarantee and governance model*. The Scottish model offers tailored outcomes and is only a marginal public finance commitment.

4. *Policies to assist sustainable home-ownership*. These include first-time buyer policies that assist with deposits, via the Canadian silent mortgage or adjustment to FirstBuy or NewBuy models, such that the indemnity allows for a slightly higher (or more conservative) deposit percentage than the 5 per cent currently in practice.

5. *The Danish housing association national surplus fund*. While based on solidarity principles that may seem alien to the UK, this allows creative use of surplus funds, though the Government may simply offset the fund with lower subsidy. However, this may be a more acceptable way voluntarily to unlock housing association long-term 'free' reserves.

6. *The Irish model of private renting with a discounted long-lease rent*. This addresses work incentives and augments affordable supply by binding private landlords into long leases and sub-market rents. This model has grown quickly in Ireland and may act to limit future social security expenditure.

Conclusion

A strategic housing policy needs suitable framing within a long-term policy vision rather than tackling crises as they arise. Long-term housing policy needs to address market failures such as in the credit market and seek to permanently reduce housing market volatility. That means re-examining housing taxation and the safety net for vulnerable home-owners. It would also mean supporting the private rented sector's wider market role (for example through developing investment linked to Self-Invested Pension Plans). Long-term flexibility in housing supply needs to be increased systematically, which will involve changes to the land supply and planning system.

Caution is required to avoid hasty transfer of policies from abroad. While this review has identified interesting ideas with potential value for the UK, it would be important to test their performance and assess their institutional suitability for transfer (e.g. the role of welfare benefit regimes in shaping and sustaining housing supply).

The financial crisis and its ramifications have initiated a fundamental reassessment of how to provide non-market housing, who will receive it and on what terms. Affordable housing policy, while financially much reduced, is remarkably fluid and subject to innovations and novelty. It remains essential that such innovation be securely located in a long-term policy framework that is coherent, progressive, inclusive for those in pressing housing need, and consistent with tackling market failures.

About the project

The researchers reviewed UK and international research and grey policy literature on funding affordable housing supply. With the help of in-country experts, a long list of potentially valuable policies was then identified before a shortlist of policies from eight countries was evaluated in detail against consistent criteria. A similar process considered innovative affordable supply policies from the UK.

FOR FURTHER INFORMATION

The full report, **Innovative financing of affordable housing: International and UK perspectives** by Kenneth Gibb, Duncan Maclennan and Mark Stephens, is available as a free download at www.jrf.org.uk

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NATIONAL HOUSING FEDERATION

Briefing

Planning for affordable housing: effective engagement with local planning authorities to maximise delivery

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Summary

It has been a year since the introduction of the National Planning Policy Framework (NPPF) marked a real shift of responsibility for planning to Local Planning Authorities (LPA). It introduced the presumption in favour of sustainable development where the local plan is silent, indeterminate or out of date. While the 27 March this year marked the NPPF's anniversary, and the point at which local plans needed to be reviewed to not fear falling foul of the presumption, only a small minority of authorities have irrefutably completed this process.[1] Authorities will need to take action to rectify this and it is vital that housing associations help feed into this process.

Since the introduction of the NPPF, the planning system has been beset by further reforms with the Growth and Infrastructure Act and the continued roll-out and amendment of the Community Infrastructure Levy (CIL). These all provide numerous challenges and opportunities to the delivery of affordable housing and make it critical for housing associations to effectively engage LPAs to safeguard delivery. This briefing intends to provide a clearer picture of the current planning policy landscape in order to show what's at stake in terms of affordable housing delivery and how it can be maximised through good interaction with LPAs. It builds on the previous NPPF briefing, which provides a fuller examination of the Framework's provisions.

1.0 Why engage?

1.1 The NPPF

The 12 months that local authorities had to bring post-2004 plans in line with the NPPF has now elapsed. While debate rages on how successful local authorities have been in completing this process, it is clear that further work needs to be done.[2]

[1] DCLG have highlighted the fact that 71% of English authorities now have a *published* plan. Recent research by *Planning* (March 25 2013: http://www.planningresource.co.uk/news/1175782/) showed that while around half of English local authorities had an adopted local plan, less that 7% could be seen as incontrovertibly NPPF compliant, in that they have either had a new or revised plan adopted since the NPPF's publication. However, other local authorities may have considered their plans in light of the NPPF and decided no further action is required.

[2] See above.

As authorities undertake this work it is vital that housing associations help feed into this process. Most crucially for housing associations, in order to be NPPF compliant, authorities will need to 'objectively asses' housing need - for both market, affordable and other accommodation. The NPPF expects authorities to meet the 'full' need for affordable housing and plans should be prepared that demonstrate how these needs will be met. This effectively places the burden on local authorities, rather than regional structures, to identify the level of housing growth that they should meet, and how they will meet it.

As plans are adopted and/or made NPPF compliant there are therefore opportunities for housing associations to have the strategic conversations to help planning authorities identify the need for affordable housing and develop policies that secure appropriate levels, types and tenures (see 2.1).

As well as these opportunities, housing associations should effectively engage to ward against a significant threat: applicants with poor affordable housing provision arguing that a plan is out of date if it has not been brought in line with the NPPF and that the presumption in favour of sustainable development should apply. Members should monitor the larger applications and appeals and, if appropriate, support LPAs with evidence of the need for affordable housing in the area and the adverse consequences of failing to meet those needs within proposals. Where there is a clear and immediate need for affordable housing, if the local plan is out of date and a replacement is not proceeding quickly, housing associations should consider promoting their own schemes.

1.2 **Growth and Infrastructure Act**

Section 106

The Growth and Infrastructure Act provides a mechanism to allow developers to make formal requests to modify or discharge Section 106 affordable housing obligations on the grounds of economic viability, immediately after an agreement is signed. The provisions are intended to be temporary, initially lasting for three years.

The Federation was concerned that, over the long term, this would unnecessarily water down affordable housing obligations and reflected a view that affordable housing is of secondary importance to other planning obligations. This was of particular concern when there was no evidence that the affordable housing component of Section 106 agreements were routinely stalling development.

We therefore pursued an amendment to limit the renegotiation period under this clause to three years. This would allow development requirements to be reviewed if necessary at a time of economic uncertainty but also plan for a more certain future. Our work with politicians from across the political spectrum proved successful and the Government put forward their version of our amendment, which was passed. The Government added to our amendment the power to extend the time limit by order if they feel it is required.

The Government also brought forward an amendment to make clear that this legislation should not be used for rural exception sites.

Clearly it will be useful for, where possible and appropriate, housing associations to be involved in the renegotiation of planning agreements in order to safeguard delivery (see 2.2).

Making a planning application directly to the Secretary of State

The Act gives developers the option to take planning applications directly to the Planning Inspectorate where an authority has consistently failed to meet statutory requirements to consider applications on time.

Such a power is likely only to be required very sparingly, with most local authorities doing their best to deliver the statutory requirements in the required time and therefore being best placed to identify and deliver local needs. Effective engagement and monitoring at a local level will be required in order to ensure this power is used successfully by housing associations in their role as lead developers.

Town & Village Greens

The Act prevents Town and Village Green (TVG) applications where a planning application has been submitted or approved, or when land has been allocated for development by the authority as part of a local or neighbourhood plan. These provisions also apply where these plans are in draft.

Additionally, landowners who wish to allow some public use of their land will be able to do so without risking its development potential. They will be able to place a 'landowner's statement' detailing their plans with the commons registration authority. This is to prevent public use rendering the site vulnerable to a TVG application.

The Federation is pleased that the Government has listened to our repeated calls about the problems of TVG applications being used erroneously to cynically halt development and chosen to sync the consent regime with the planning system. The new provisions provide a great opportunity for housing associations to actively manage their own land assets to further their long-term ambitions and engage local authorities and communities when plans are being prepared to ensure suitable development land is advanced while protecting existing TVGs and other valued green space.

1.3 Community Infrastructure Levy

The CIL system allows councils in England and Wales to raise funds for infrastructure by imposing a charge per square metre of development. On the local adoption of the levy, or nationally after a transitional period (currently ending 6 April 2014), the regulations restrict the local use of planning obligations for pooled contributions towards items that may be funded via the levy. While affordable housing is still intended to be delivered through Section 106, the levy is the Government’s preferred vehicle for the collection of pooled contributions for general infrastructure.

The Government is currently consulting on, amongst other things, extending the transitional period from April 2014 to April 2015.

In light of the real and potential impact that CIL can have on the delivery of affordable housing, the continual tweaking of the CIL regulations and the progress of charging authorities in setting schedules, the Federation supports a longer transition period and will be responding to the consultation on that basis.

There is an emerging pattern within some charging schedules that accepts that development plan levels of affordable housing may not be achieved. This is despite the fact that Lord Atlee confirmed during the passage of the Localism Bill that the introduction of CIL should not prejudice the delivery of affordable housing. While the Federation has been working with the Department of Communities and Local Government (DCLG) to improve the CIL guidance on this point, and recent amendments have emphasised that proposed rates should not threaten the plan as a whole and should consider development costs arising from requirements like affordable housing, we do not feel this goes far enough in explicitly stating that CIL should not prejudice affordable housing.

This makes the interaction of housing associations, and other stakeholders with an interest in the delivery of affordable housing at the local level, even more important (see 2.3). At present, while a number of authorities have heeded the views of Lord Attlee, as well as the position in their own development plans, and have sought to set CIL at a level that will not prejudice the provision of affordable housing; unfortunately, many have not.

2.0 What does effective engagement look like for housing associations?

2.1 The local plan

To support the delivery of appropriate levels, types and tenures of affordable housing the most crucial element to see properly demonstrated in an up to date plan is clear and robust targets. These targets should be in the form of both percentages of market led developments, real numbers and time periods.

These targets should be based on an objective assessment of up to date evidence. When engaging with local authorities about the formulation of these numbers, housing associations may want to think about:

- How they relate to the overall target of homes required and how both figures have been calculated. When so doing it might be helpful to consider the How Many Homes website (http://www.howmanyhomes.org), which the Federation has worked with a number of other housing and planning organisations to help create, and provides toolkits that collate ONS and DCLG population and household projection data at a local authority level. This could help provide a good starting point to feed into and interrogate housing numbers.
- Whether there has been a consideration of suppressed demand. This may be particularly important in relation to considering how local authorities have incorporated the recent DCLG household figures that provide interim projections for the 2011-21 period. The substantially slower growth rate that these project, in comparison to the previous figures, are clearly influenced by the household formation dynamics that were a direct result of the economic crisis.
- What consideration there has been of the required types and tenures of affordable and specialist housing. Ideally, targets and delivery mechanisms for this level of specificity of housing should also be agreed.
- How much of the need is being proposed to be met, as many authorities are not seeking to meet affordable housing need in full.

Although we recognise that it may not be possible to meet this need in the short term it is important that a long term plan is put in place to rectify this.

- While the housing numbers should be based on housing need, it may also be useful to discuss with local authorities the economic benefit of new affordable housing in their areas. For every £1 of Gross Value Added (GVA) as a result of investment in new affordable homes, an additional £1.41 of GVA is generated in the wider UK economy.[3]

To help enable the effective delivery of the ‘full’ identified housing need it would be helpful to discuss with local authorities and see in local plans:

- Policies that secure an appropriate percentage of affordable housing on suitable market led sites and identify the level and tenures of affordable housing that should be provided on allocated sites. The latter is particularly important if the number of affordable homes anticipated through a set percentage of market led schemes does not equate to meeting ‘full’ housing need.
- The NPPF principle that affordable housing needs will normally be met on-site. There is a need to carefully monitor off-site provision.
- The allocation of specific sites for affordable housing.
- A thorough consideration of affordable housing as it relates to viability. Reference is made to affordable housing policies and the effect that they might have on development viability in several places in the NPPF (see paragraphs 174 and 177). Clearly the effect of requiring affordable housing in market led schemes will have to be carefully considered at a plan level.

  Housing associations have a good local understanding of the viability of development, the strength of the housing sector and the potential effect of different affordable housing policies. Members should work with authorities to make sure that decisions on viability are taken sensibly, and not just on the basis of lobbying from landowners and private developers.
- Affordable housing as a percentage of commercial development, where appropriate.
- Affordable housing as a percentage of change of use development, where appropriate.
- Realistic fall-back mechanisms to cater for under-provision.

2.2 Renegotiation of Section 106 agreements

It is likely that in many local authorities the provisions in the Growth and Infrastructure Act around modifying or discharging affordable housing requirements will be used as a last resort, with local authorities still being willing, where necessary, to renegotiate on a voluntary basis.

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[3] *Centre for Economics and Business Research, The economic contribution of building new affordable homes and of housing associations at the national, regional and local levels: Report for the National Housing Federation*, January 2013

Yet there are significant risks to delivery with the opportunity to vary affordable housing requirements straight away if these powers are not robustly used. Although housing associations are unlikely to be involved directly in discussions unless they are party to the Section 106 agreements they could help support local authorities, where possible and appropriate, by:

- Feeding into scheme viability appraisals and any subsequent reviews. The supporting guidance to the Act is clear that authorities have to look at viability much more robustly at the planning stage in order to review this on the same basis, where necessary, on application for changes.
- Providing a sense check on assumptions made, and particularly benchmarking any figures in relation to affordable housing.

This should help ensure that assumptions are robust and that other obstacles (such as lack of development finance or site assembly) are not the real barrier to the development commencing.

2.3 CIL charging schedules

Unfortunately, there are many adopted and emerging CIL charging schedules where the effect of CIL on affordable housing has been ignored or dealt with in a summary fashion. Worse still, some charging authorities have set CIL levels assuming affordable housing levels inconsistent with development plan aspirations.

In order to facilitate a more thorough consideration of affordable housing and a better balance between assumptions in charging schedules and plan levels of affordable housing we would suggest associations, where possible and appropriate:

- Support planning authorities in reviewing the viability of affordable housing provision when plans are updated and made NPPF compliant. This could be through, for example, providing evidence around the bid price for units. If this assessment is robust, then there should be little justification for assuming less than plan levels of affordable housing through CIL examinations.
- Actively feed into the development of CIL charging schedules throughout the consultation process and at public examinations.
- Discuss the relationship between CIL and rural exception sites in order to maintain adequate delivery through this mechanism.

3.0 Conclusion

The introduction of the NPPF last year and the move towards more localised planning responsibility was only the start of a more uncertain world for the delivery of affordable housing. In order to safeguard the delivery that is so desperately needed it is vital the housing associations and other local stakeholders actively engage authorities to support them in planning for affordable housing.

National Federation of ALMOs

championing better homes and communities

Let’s get building

The case for local authority investment in rented homes to help drive economic growth

A report published by the National Federation of ALMOs jointly with

Arch
ASSOCIATION OF RETAINED COUNCIL HOUSING
a fair deal for all our residents

CIH

Local Government Association

and in association with

cwag
Councils with ALMOs Group

Let's get building

The case for local authority investment in rented homes to help drive economic growth

A report by the NFA jointly with ARCH, CIH, LGA
and in association with CWAG

John Perry

November 2012

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Members of the National Federation of ALMOs contributed photographs for the front cover, case studies and other supporting information as the project developed.

However, none of those acknowledged bear responsibility for the report's contents.

Foreword

All of Britain's political parties want to see more house building. The property industry agrees. We know that the construction industry stands ready to deliver these homes. House building creates jobs and boosts the economy as well as providing much needed homes that people urgently need. Why can't we just get building?

Councils own around two million homes and they now manage their own 'self-financed' business plans. The debt on these homes is very low, on average £17,000 per house. A lot of businesses and homeowners would be delighted to have such a small amount of debt. They could take advantage of their situation to invest now for the future. We are asking in this report that councils be allowed to make the same sorts of choices as normal citizens and companies. Let us take advantage of low levels of debt to raise loans to build homes. We estimate we could deliver as many as 60,000 homes in five years.

We can get Britain building again very soon. There are many 'shovel-ready' sites standing idle. We are already working with the house builders and the construction industry to get on with the job but we could do more. What is stopping us? The answer is that each council has a centrally imposed debt ceiling. We just cannot use the borrowing power tied up in our stock. If the government is serious about building new homes this must change. It must make use of all options available to it, not just the private sector and housing associations. Councils can add significantly to the provision of much needed affordable housing. They must also be allowed to play their part.

We therefore spoke to the markets to see what they thought about our plans to borrow a maximum of £7bn over five years for house building. They said that this amount of money was insignificant in the scheme of things. It is a sum that falls well below the amount allowed for standard statistical errors in our public borrowing figures. Of course senior people in the markets also said that safeguards would need to be in place to continue to monitor the overall level of debt at a national level, and we would be happy to work with government to find a suitable way for them to control the level of additional borrowing that would take place. These days councils have a well-earned reputation for sound management of their finances. This shone through from the positive reaction from the markets.

Some economists argued that financing such an economic stimulus from additional borrowing would not only be inexpensive but – most importantly – would not be regarded as risky by the markets and by ratings agencies given the small size of the proposed programme – as long as it formed part of an agreed policy shift towards infrastructure and housing, and overall national debt levels were still managed carefully.

The report making this case has been jointly produced by a partnership of the Chartered Institute of Housing, the Local Government Association and the Association of Retained Council Housing, supported by the Councils with ALMOs Group and led by the National Federation of ALMOs.

The report makes use of two new pieces of work. The first one, carried out for ARCH in association with the LGA, NFA, HouseMark and CWAG by CIH, assesses in detail the capacity of the local authority sector and its readiness to build new homes. The full results from the ARCH-led study will follow on from the current report and, when available, will complement its findings and proposals. The second, commissioned by the NFA, LGA, ARCH and CIH from Capital Economics, assesses the market's reaction to the extra borrowing that would be required if the proposals made here were to be adopted. Its results are summarised later in the report.

The five organisations which are jointly supporting this study believe it makes a powerful case for change, and call for a response from government which recognises a golden opportunity both to help tackle the housing crisis and to stimulate the economy. Let's get building.

Councillor Paul Ellis
Chair, Association of Retained Council Housing

Robin Lawler
President, Chartered Institute of Housing

John Statham
Chair, Councils with ALMOs Group

Councillor Mike Jones
Chairman, Environment and Housing Board, Local Government Association

Sue Roberts MBE
Chair, National Federation of ALMOs

Executive Summary

In this report we demonstrate:

- The impact dedicated investment in housing could make to overall growth and to meet housing need locally. Investing in building an extra 60,000 homes would add 0.6% to Britain's GDP.
- The role that councils and ALMOs can play in meeting this challenge. Our work has demonstrated that, provided with the necessary financial flexibilities, councils and ALMOs could deliver 60,000 additional homes over five years – quadrupling current projections.
- That the market recognises the positive and stable track record of councils' financial management and sees the proposals in this paper to borrow a maximum of £7 billion over five years for house building as an insignificant amount in terms of the wider market impacts.
- Options available to allow councils and ALMOs to play a more proactive role and deliver significant numbers of new affordable homes through a relaxation or removal of the unnecessary, centrally imposed debt cap.
- Longer-term proposals which would bring the UK in line with approaches to measuring government debt employed by other countries.

Councils and ALMOs can play their part in securing future economic growth quickly and cost-effectively by further direct investment in housing.

If allowed by government, councils and ALMOs will:

1. Use their land and assets effectively to drive local growth.
2. Exploit and use to best effect the potential within the self-financing system to bring forward new homes in a managed and planned way.
3. Collaboratively develop and support voluntary standards led by the sector to maintain effective financial governance of housing accounts.

The five organisations sponsoring this report want to work with government to make the most of this potential. They therefore recommend that the government:

1. Unlocks the potential to invest in housing by removing the HRA borrowing caps and relying instead on prudential borrowing rules to ensure that investment is sustainable.
2. Considers the longer-term case for a planned and transparent move to adopt internationally recognised rules to measure government borrowing, to bring Britain in line with our competitors.

The key questions this report answers

Why do we need to boost construction?

- The construction sector has been hit hard by the current recession and has massive spare capacity, so it is well-placed to respond to any additional investment. The UK Contractors Group has shown that:
  - for every £1 spent in building, 92p stays in the UK
  - every £1 spent on construction generates a total of £2.84 in extra economic activity
  - for every £1 spent by the public sector, 56p returns to the Exchequer, of which 36p is direct savings in tax and benefits
  - government's role is key because it represents 30-40% of construction demand.
- Official figures indicate that investing in building 60,000 homes adds 0.6% to GDP.
- Of all aspects of construction, house building is one of the easiest to get 'shovel-ready'.

- Continuing low levels of starts by private developers result overwhelmingly from lack of effective demand. This is reflected in many housing market indicators, e.g. the CML forecast of total mortgage advances in 2012 being even lower than in 2010 and 2011.
- Developers therefore cannot sell houses to owner-occupiers because of the limited mortgage market, but they can build houses for rent.

What is the case for more investment in housing?

- Based on official household projections, there is a case to build 83,000 homes per year to be available at rents below market levels.
- A range of indicators, such as numbers on housing registers, poor affordability of private lettings and growing use of temporary accommodation, support this case.
- Overall housing supply, and supply of homes at less than market rents, are both well below what is needed. Total affordable supply at 57,950 in 2011/12 was about two-thirds what is required.
- The capacity of the whole social sector – local authorities and ALMOs as well as housing associations – needs to be used to fill this gap.

Can ALMOs and councils actually deliver? What is their track record?

- Since becoming Investment Partners with the Homes and Communities Agency (HCA) in the last few years, local authorities across the country have built over 3,000 homes and ALMOs specifically have delivered over 1,000 new homes. This demonstrates that councils and ALMOs can gear up quickly to deliver investment.
- In addition, local authorities have shown they can build at significantly lower levels of grant per unit for equivalent properties.
- Much available land is council-owned and councils are well-placed to get community support for new build. In some cases, land availability is dependent on the council controlling the development because of the nature of sites available.
- Surveys have shown most councils have released housing land and are willing to release more.
- Councils and ALMOs can link construction work to apprenticeship and work experience schemes, in partnership with private sector contractors.

Why should councils be allowed to borrow to 'prudential levels'?

- Council housing has been 'self-financing' since 1st April this year but councils and ALMOs are currently prevented from investing to their full potential, despite having low levels of current debt (just over £17,000 per house).
- Debt levels are restricted by 'borrowing caps' imposed by government, which are much lower than the levels at which councils could borrow sustainably.
- Currently councils have 'headroom' to borrow an additional £2.8bn to invest in housing. But without the caps they would currently make plans to invest a further £4.2bn. If encouraged to invest, their maximum potential might be £7bn over five years, building up to 12,000 extra homes per year.
- Borrowing to finance this investment would be well within the levels sustainable from projected incomes from rents.
- Councils adhere to the CIPFA *Prudential Code for Capital Finance*; they have a long record of responsible borrowing with virtually no defaults.

What are the implications for government?

- Increasing the amount of affordable or social rented housing would help reduce the housing benefit bill over time as it increases the availability of cheaper properties to rent, and there would be significant savings if tenants moved from more expensive private lettings or out of temporary accommodation for the homeless.
- Many authorities would be able to fund their increased build programme from additional borrowing. However a number of councils would still require limited access to grant funding to ensure viable developments.
- Additional local authority borrowing would add to total public sector debt levels under current fiscal rules; but the marginal increase in borrowing would be justified by the economic benefits and by the benefits of providing affordable homes.
- CIPFA has in any case argued that the 'borrowing caps' are unnecessary since borrowing can be controlled properly under prudential rules.
- While there are risks, these are manageable within prudential rules and with a proposed voluntary code that is being developed.

What are the alternative options?

- The UK uses a wide measure of public sector debt; most governments measure 'general government' debt which would exclude council housing because it is self-financing.
- There is not a level playing field between local authorities and housing associations as their borrowing is counted differently; this is not the case elsewhere in Europe.
- The government is planning guarantees for house builders which will produce a contingent liability in the event of default. However, if the government allowed more building by councils it would carry less risk to government and provide a more direct economic stimulus.
- Local authorities have high credit ratings and an excellent track record of sustainable borrowing over many decades.
- Any change to allow more freedom to borrow for council housing investment would therefore simply bring the UK into line with international rules.
- While market opinion suggests caution would be needed in making any rule change over the short term, the government could plan such a change in a transparent way, over a suitable time period, that would bring the UK into line with its competitors.

1 Economic stimulus and how housing can provide it

'Increasing the housing supply, especially of affordable homes, also has an important economic purpose... Building affordable homes, when you look at the bare statistics, is a great economic multiplier.'
Mark Prisk, Housing Minister, NHF conference, 17 September 2012

The need for stimulus

Britain's economy, along with those of most of the rest of Europe and North America, is barely growing. The case for economic stimulus through house building is generally accepted, because:

- construction is likely to be a particularly rapid and effective way of achieving stimulus
- house building has 'shovel-ready' projects already available
- building social housing would use spare capacity and provide immediate work for building firms when there is insufficient effective demand for new private housing.

For these reasons the government has already announced £10bn of guarantees for new building by housing associations and private developers. This report argues the case for a modest further stimulus that is highly cost-effective.

Advantages of investment in construction

One reason for focusing on construction is that the sector has contracted very sharply. Construction output is lower than at any time since 2000.[1] The ONS estimates that the sector's contraction accounts for one-fifth of the decline in overall GDP.[2]

Both the IMF and the Director-General of the CBI have made the case for a massive boost in construction spending, arguing that it is three times as effective as tax cuts in stimulating the economy.[3] The IMF argues that a fiscal stimulus with a strong multiplier effect not only boosts GDP but means that the economy is better placed to repay government debt through the tax yields that result.

The UK Contractors Group and Get Britain Building have argued in some detail (see Figure 1 on page 10) that:

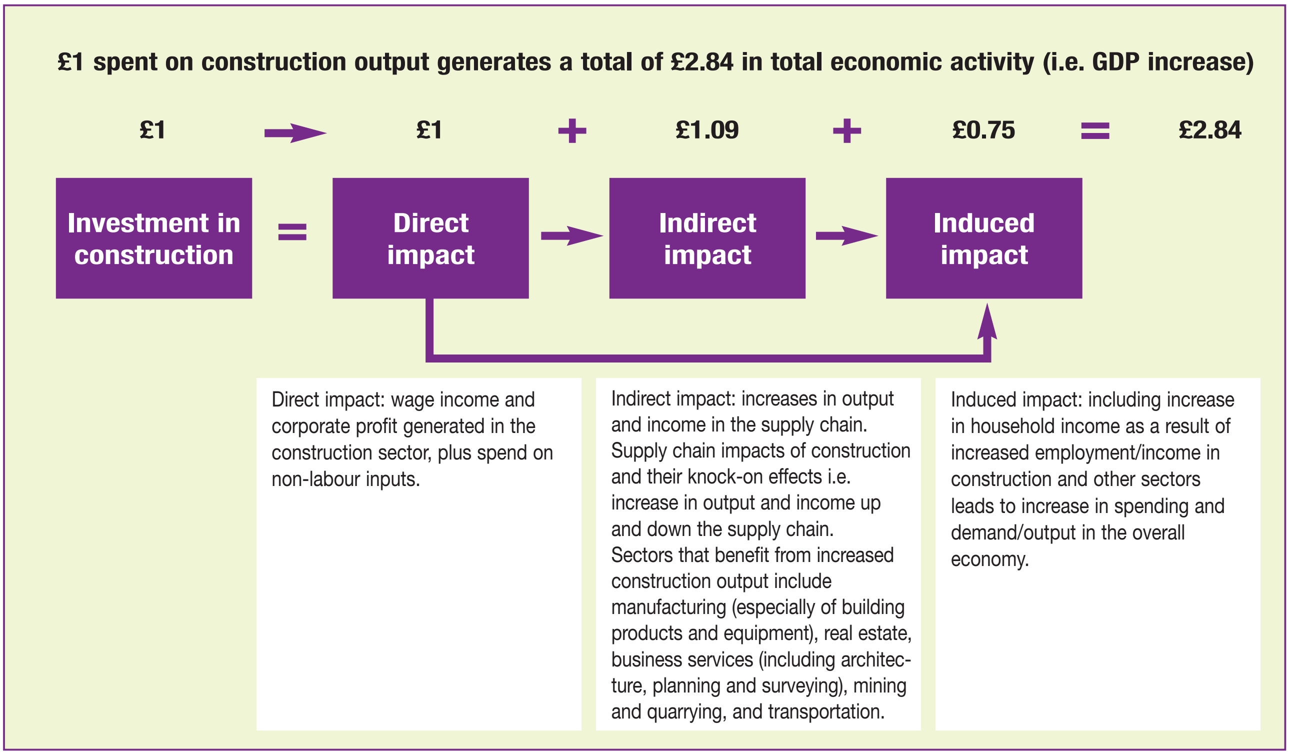
- for every £1 spent in building, 92p on average remains within the UK
- for every £1 spent by the public sector, 56p returns to the Exchequer, of which 36p is direct savings in tax and benefits
- almost 60% of construction employees are low-skilled, with relatively limited alternative employment opportunities
- government has a key role because historically it represents 30-40% of construction demand.[4]

Case study – Nottingham City Homes

Nottingham City Homes commissioned an evaluation of the impact of its 'Secure, Warm, Modern' investment programme from Nottingham Trent University Business School. Among its conclusions it found that the £37m programme had generated £56m of spending in the local economy around Nottingham, and that the employment training associated with the investment added at least £13m to the lifetime earnings of the participants.[5]

1 ONS (2012) *GDP Preliminary Estimate*, Q3 2012. London: ONS.
2 ONS (2012) *New Orders in the Construction Industry*, Q2 2012. London: ONS.
3 Freedman, C. *et al* (2009) *The Case for Global Fiscal Stimulus*. Washington, DC: IMF.
4 L.E.K. Consultants (2012) *Construction in the UK: The benefits of investment*. London: UK Contractors Group (see www.ukcg.org.uk).
5 See www.nottinghamcityhomes.org.uk/improving_your_home/impact_study/employment.aspx

Figure 1: Multiplier effect of construction spending in the UK economy



Source: *Construction in the UK economy: The benefits of investment.*

Case study – Gloucester City Homes

In Gloucester they calculate that if they provide an apprenticeship to an unemployed young person (under 25) with the construction of every new house, then there will be an annual saving to the public purse of more than £9,800 each in terms of saved welfare benefits and increased tax income. This very substantially offsets the cost of a typical apprentice's wages and associated employment costs.

Advantages of investment in house building

As a stimulus to the UK economy, there are at least five advantages to house building compared with investment in other forms of construction:

1. Housing construction can be 'shovel-ready': needs are already known, land is often available with planning permission, and house building can start more quickly on site than most other types of building.
2. House building can quickly add to GDP. Using official figures it is estimated that 60,000 new homes would boost GDP by 0.6%.
3. Such a programme would increase total housing output each year by over 10% on 2011 figures.
4. As the government acknowledges, every £1m of new housing output supports 12 new jobs (net) – seven direct and five indirect – for a year.[6]
5. Low housing output means there is considerable spare capacity in the industry. Compared with the first quarter of 2007, when almost 50,000 units were started, in the last eight quarters house building starts in England have been in the range 20-30,000.

6 Job estimate based on DCLG calculation, see DCLG (2011) *Laying the Foundations: A housing strategy for England*. London: DCLG.

2 Why we need more investment in affordable rented housing

The primary case for more investment in housing – and specifically in new housing built by councils and ALMOs – obviously rests on evidence of growing housing need and unsatisfied demand, and that this specifically requires more affordable rented housing in general and homes built by councils and ALMOs in particular. Recent research, often using official sources, makes a convincing case.

Housing need

Overall need for new homes

The government's housing strategy *Laying the Foundations* said that current household projections indicate a demand for 232,000 extra homes each year over the next 20 years. The *English Housing Survey* showed that, in 2010-11, 390,000 new households were actually created.

Alan Holmans, formerly the civil servant in charge of housing need projections, has recently done a fresh appraisal of needs which takes into account the household projections, loss of stock and other factors. He concludes that an average output of 252,000 new homes is needed annually over the period to 2026. Based on household characteristics and incomes, he projects that 169,000 of this new supply should be market housing (both for sale and rent) and 83,000 should be social housing at sub-market rents.[7]

Different types of housing need

As would be expected, the needs of new households arise primarily from young adults. Of new households formed in 2010-11, 89% were people under 35 years old. The *English Housing Survey* shows the importance of rented homes for such young households. For all but 14%, their first home is rented: one in five new renters are social tenants and four in five are private tenants.

Not surprisingly, young people's aspirations to homeownership have been tempered by the credit crunch. A CIH study found that only 69% of 25-34 year-olds thought that homeownership was their ideal tenure compared to 83% before the crunch.[8] Separately, Professor Steve Wilcox has estimated that about 100,000 (of mainly young) households annually are being prevented from becoming first-time buyers by the tighter credit restrictions applying since 2007.[9] A recent study suggests that 1.5m *more* young people (aged 18-30) will live in the private rented sector over the period to 2020, because of continuing constraints on access to homeownership and social housing.[10]

A further indication of unmet housing need is homelessness. Tackling this was described in *Laying the Foundations* as a 'demanding task'. The *Housing Report* published by CIH, NHF and Shelter in June 2012 pointed out that homelessness acceptances have increased by 27% since mid-2010 and there has been a sharp increase – of 37% – the use of bed and breakfast accommodation in the last 12 months, although overall homelessness acceptances have now fallen slightly.

Need for homes at affordable rents

National data continue to indicate that private sector rents are rising faster than inflation. For example, the *RICS Residential Lettings Market Survey* shows rents reported as 4.3% higher in the year to June 2012, with landlords projecting further rises of 2% and 3.9% over the next six and 12 months respectively.[11]

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7 Holmans, A. (2012) *Interim Revised Estimates of Future Demand and Need in England in 2006 – 2026*. Cambridge: CCHPR.

8 CIH (2009) 'Young people move away from home ownership,' Chartered Institute of Housing press release, 14 June. Coventry: Chartered Institute of Housing.

9 Wilcox, S. (2010) 'The Deposit Barrier to Homeownership' in Pawson, H. and Wilcox, S. *UK Housing Review 2010/2011*. Coventry: CIH.

10 Clapham, D. *et al* (2012) *Housing Options and Solutions for Young People in 2020*. York: JRF.

11 RICS (2012) *RICS Residential Lettings Market Survey* (www.rics.org/lettingssurvey).

Renting privately can of course be a preferred choice for many people. But as demand grows and rents increase, many households have no other option and need housing at more affordable rents or with more security than the private sector provides. For example:

- Analysis by Shelter showed that in 2011, using a yardstick of tenants not having to spend more than 35% of their income on rents, private rents were unaffordable at median incomes in 55% of local authorities.[12]
- A study by Alison Wallace[13] showed significant numbers of private renters preferring to be social housing tenants, including:
  - 37-44% of private renters with incomes below £29,999 per year
  - over half of those aged 45-64
  - over half of couples under 55 with children.
- More people are losing their private tenancies – Ministry of Justice figures on court orders for eviction show a 12% increase over 12 months and a 70% increase over three years; statutory homelessness cases involving loss of an assured shorthold tenancy rose 42% between 2009 and 2011.
- The recent *English Housing Survey* shows that 11% of private rented households have someone on a waiting list for social housing.
- Demand for social rented housing, with 1.84m households reported on council housing registers in April 2011, is 4.5% higher than a year earlier.

A thriving affordable rented sector is therefore important to complement private renting, both to ensure there are sufficient housing options for residents and to provide a more stable rental market.

Case study – Bristol

Bristol has a housing waiting list of over 13,000 applicants (June 2012) but in the past 12 months the city council has only built 12 new homes with plans for 16 this year. At the same time, housing associations built 292 homes last year and this year expect to build 241. The council has taken active steps to tackle empty property, reducing numbers by over 500 in 2011/12, although there are still 1,725 empties (84% privately owned). The private rented sector has doubled since 2001 to account for over 20% of the housing stock, bigger than the social sector, but demand is such that on average nine people are chasing every vacancy.

Source: Bristol Poverty Action (see: www.landlordreferencing.co.uk/blog/2012/08/10/shocking-bristol-poverty-report-reveals-an-average-of-9-people-are-chasing-each-private-tenancy/#).

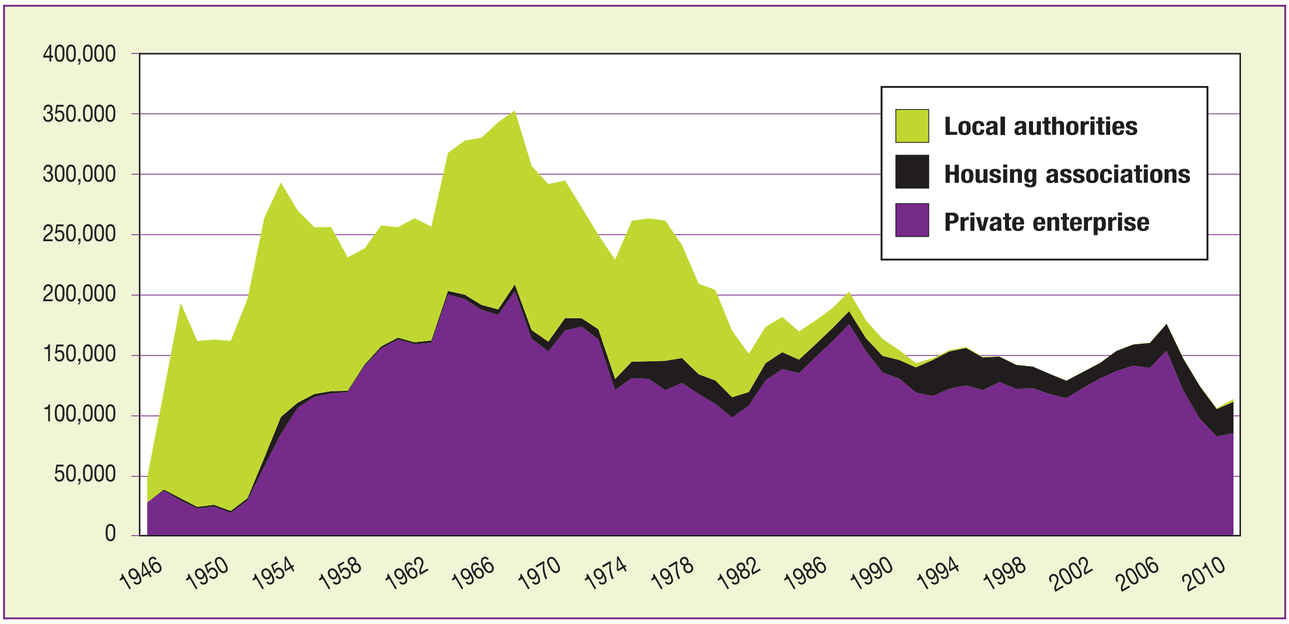
Housing supply

After the credit crunch, new house building fell to historically low levels and, despite a welcome improvement in 2011, output remains well below recent performance (see Figure 2 on page 13). The 2011 figure, of 114,160, compares poorly with the 2001-2010 average of 142,000, even though it represents a 7% improvement on 2010. It is still well below the requirements for new homes based on household growth, already mentioned.

Within total output, the key component is the numbers of units at below-market rents. As noted above, Alan Holmans projects a need for 83,000 new units per year. The government has a target output of 170,000 over the four years to 2015 (or about 42,000 per year).

12 Shelter (2011) *Shelter Private Rent Watch* (http://england.shelter.org.uk/).
13 Wallace, A. (2010) *Public Attitudes to Housing*. York: JRF.

Figure 2: New housebuilding in England to 2011



Source: DCLG Live Table 244.

In 2011/12, 57,950 homes were supplied at below market prices, exceeding the government target but well short of the Holmans estimate, and 4% below 2010/11.[14]

There are also concerns about aspects of the current programme:[15]

- In 2011/12, there were just 15,698 starts on site, suggesting that 2012/13 output will be much lower than last year's; indeed new starts in April-June 2012 were down 23% on the previous quarter.
- Within the 2011/12 total, the proportion of Affordable Rent starts is much higher than before (8,873) and of social rent units much lower (3,305), showing how the balance of the programme is changing rapidly.
- Government moves to ease 'planning gain' (or section 106) agreements will reduce affordable housing output that otherwise would have resulted from private development schemes.

Supply of social rented homes is therefore likely to fall substantially this year as the HCA concentrates its resources on the Affordable Homes Programme and developers concentrate on building for sale.

The demand-supply imbalance

New supply is falling significantly below projected needs. Government programmes to stimulate building of affordable homes for sale, while very welcome, have not yet had much impact on new starts. And as is well known, while there is likely to be further growth in private renting, in the past this has largely been through transfers of property from other tenures rather than new build for rent (one of the main reasons for the government inquiry led by Sir Adrian Montague). Action to promote further new build by councils and ALMOs is therefore very desirable but currently constrained by fiscal policies.

For applicants on housing registers, the crucial statistic is not new *output* but the availability of *new lettings* (from the current housing stock plus any new additions). The total number of new lettings improved slightly in 2010/11 (reflecting the increase in output of new homes noted above). At 231,000, lettings were 8% higher than the previous year's total. However, new lettings remain at historically low levels – two-thirds of their levels in the mid-1990s.

14 DCLG (2012) *Affordable Housing Supply, England, 2011-12* (see also DCLG Live Table 1000).
15 Analysis in this paragraph is based on HCA (2012) *National Housing Statistics 2012* (as revised in August 2012 – see www.homesandcommunities.co.uk/housing-statistics).

Quite apart from the overall demand-supply imbalance, there will also be changes in the make-up of new lettings by social landlords. Practically all new lettings are currently at social rents, but this will gradually change as new units are built for Affordable Rent, including replacements for right to buy sales, and as a proportion of existing units are changed to Affordable Rents when they are relet. Although it is difficult to project trends which are only just beginning, one estimate of the effects on the total stock of properties let at social rents is that there will be 250,000 fewer in 2015 compared with 2010.[16]

Making best use of the sector's capacity

Most housing association output is now via the government's Affordable Homes Programme. While this meets demands that cannot be met by the private sector, there is concern about how to satisfy the continued need for homes for lower-income households who cannot afford the new rent levels especially in regions where there is a big gap between social and private rents. Also, the Affordable Homes Programme is very 'back-loaded' and is likely to deliver most homes towards the end of its four-year life.[17] The Public Accounts Committee has drawn attention to other risks in the programme. For example, it will have used much of the capacity of the housing association sector to leverage-in private funding, leaving very limited capacity beyond 2015.[18]

Given the scale of housing need, it makes sense to use the capacity of councils and ALMOs to build homes *in addition* to using the capacity of housing associations. Indeed, this report argues that it would be a grave error to underutilise this capacity, especially given the favourable circumstances for new building by councils and ALMOs following the government's implementation of self-financing on 1st April.

Building new homes is also a crucial aspect of effective asset management – being able to respond to changing needs (e.g. for more small units, in response to welfare reform) or replace unsatisfactory/under-occupied stock. Housing associations have always had development programmes which have given them scope to reconfigure their stock, but local authorities have not: self-financing potentially provides the opportunity to do this as part of their business plans.

While the report therefore makes comparisons between local authorities and housing associations, these are purely to provide answers to potential questions as to why councils and ALMOs should build and to argue that it should not be left solely to associations, who of course have a long and admirable track record of delivering new homes.

The rest of this report is about using the resources of local authorities and ALMOs to complement the current Affordable Homes Programme with a further initiative that will secure additional, new rented homes. The original 'prospectus' for self-financing called on councils to use their new capacity to build 10,000 new homes per year. We believe that councils and ALMOs can rise to this challenge and indeed exceed it.

16 Assessment by Jules Birch, 15 June 2012 (see http://julesbirch.wordpress.com/2012/06/15/vanishing-act/).

17 Inside Housing (2012) 'HCA defends 2015 completion targets' *Inside Housing*, 10 August 2012.

18 Public Accounts Committee (2012) *Financial viability of the social housing sector: Introducing the Affordable Homes Programme*. London: PAC (Thirteenth report).

3 Why we need more house building by local authorities and ALMOs

Currently there are 167 English local authorities which own social housing, totalling 1.7m dwellings, managed either directly or through ALMOs. What is their recent track record, how well-placed are they to invest in more new housing and what are the advantages of them doing it? This section of the report specifically addresses the situation of English authorities, although Wales faces similar issues and has similar opportunities. Scottish councils do not face the same constraints (see box at end of chapter).

Recent investment in council housing

In recent years local authorities have made very significant levels of investment in social housing, but as is well known the vast majority has been investment in the existing stock to achieve the near delivery by 2010 of the Decent Homes Standard. As the latest *English Housing Survey* acknowledges, the local authority sector has outperformed all other sectors (housing associations, private landlords and owner-occupiers) in achieving the standard. In the case of ALMO authorities (and in the last year some authorities who manage their own stock) this investment was aided by significant amounts of extra subsidy. But quite apart from this, all councils have mobilised their own resources to make the required investment and in many cases have achieved higher than the required standard.

Because of the urgent need to concentrate on achieving decency, and the lack of specific financial assistance for new build, until 2010 local authorities built only 200-300 units per year, levels maintained continuously since 1997. However, only 20 years ago output was much higher, with (for example) as many as 14,000 local authority completions in 1990 alone.

Renewed grant funding from 2010 allowed councils to start 1,390 units in that year, almost a ten-fold increase on 2009. Over the two years 2010 and 2011, 3,020 units were completed and a further 430 added in the first half of 2012, demonstrating that councils and ALMOs can gear up quickly to deliver investment in new build – as well as in their existing stock.

The majority of these completed units were financed under the HCA's Local Authority New Build (LANB) programme, whose first approvals were only announced in September 2009. The LANB programme also demonstrated that local authorities and ALMOs can deliver at a lower per unit cost.[19] The level of central government grant received by local authorities was almost £10,000 lower than for housing associations overall. In some regions this was even more pronounced (for example, in London the difference was £36,000).

Councils are now also participating in the government's latest Affordable Homes Programme – 26 are so far taking part.

Councils and ALMOs are well-placed to start building

Not only are councils and ALMOs ready and with recent experience of building homes, but in the current situation they can do so when private developers cannot, and also make use of private construction capacity. This is because:

- Continuing low levels of starts by private developers are mainly the result of lack of effective demand, as is shown by many housing market indicators, e.g. the CML forecast of total mortgage advances in 2012 is lower even than in 2010 and 2011.[20]
- Public housing building can take up this slack, because almost all the work is done by private contractors and demand for rented homes is extremely high.
- While local authorities are already collaborating to stimulate private sector housing, as the HCA has pointed out,[21] they are also very willing and ready to build themselves.

19 LGA (2010) *Housing Shortages: What councils can do* (see www.local.gov.uk/web/guest/publications/-/journal_content/56/10171/3367721/PUBLICATION-TEMPLATE).

20 See the CML Housing and Mortgages Forecast (www.cml.org.uk/cml/publications/forecast).

21 HCA (2012) *Local government and home builders collaborate on delivery of new homes*. HCA press release, 22 June 2012.

- Local authorities have recent experience of getting investment moving quickly as demonstrated above.
- Government capital expenditure is due to fall in real terms by almost 8% over the current spending review period; but the cut in housing investment (through the HCA) is 63%, a further indication of spare capacity in the sector.[22]
- Long-term underinvestment in affordable rented housing puts a significant constraint on the UK economy, limiting labour market flexibility and absorbing resources into housing through rising house prices. A growing supply of affordable rented homes will contribute to Britain's competitiveness.

The potential of self-financed council housing

The reform of council housing finance and the start of self-financing on 1st April this year has been a massive boost to councils' ability to manage their housing finances more positively. Through this process, councils have taken on about £8bn of extra debt, but despite this are now financially much better equipped to make new investment because they have full control of their incomes and (like housing associations) no longer have any government subsidy towards their running costs.

Self-financing has created a new business framework with a range of factors that support new investment:

- Councils all now have proper 30-year business plans and asset management strategies for their stock, whereas before 1st April their business plans were far weaker, because of the uncertainty of annual decision-making through the HRA subsidy system.
- While councils are subject to borrowing caps, many have already been able to plan more investment than they were able to contemplate prior to self-financing, because of the headroom they have within the borrowing caps – this totals some £2.8bn.
- Councils have already or are in the process of separating out their housing debt and managing it as a distinct portfolio, enabling them to make their reserves work in supporting new investment.
- Council debt levels are modest on a per-property basis; average council housing debt is now just over £17,000 per property, similar to that for housing associations (but more evenly spread, so that the proportion of debt to equity (the 'gearing ratio') is typically 50% below those of developing housing associations).
- Councils have low borrowing costs for new debt which has also helped to create headroom in their budgets (see below).
- Councils have lower management costs than housing associations; rents for new lettings are on average £12 lower; average weekly housing benefit payments to tenants are some £9 lower.
- As a consequence of these factors, and the ability to cross-subsidise building costs from sales and other revenue and to provide free land, many councils' plans for new build include only limited or no reliance on grant funding from the HCA.
- Councils formally adhere to the CIPFA *Prudential Code for Capital Finance* and have a long-standing track record of responsible borrowing with virtually no defaults, over many decades.

The above is a brief summary of the advantages which council housing currently enjoys as a vehicle for investment in new housing. Some of the points mentioned will be picked up in more detail later in this report.

Councils' current potential and plans for house building

The current £2.8bn headroom available to councils following self-financing already enables them to plan a limited but still significant new build programme. The headroom is however very unevenly distributed: some councils have no or very limited headroom and may not be able to plan any new build.

Councils' current plans to use their headroom therefore vary considerably. The early evidence from the study being carried out by CIH for ARCH (in association with the LGA, NFA, HouseMark and CWAG) indicates that:

22 See NFA (2012) *Member briefing on the Government's housing and growth package*.

- some councils anticipate access to grants from the HCA at current rates under the Affordable Homes Programme; their lower borrowing costs would lead to lower rents
- others expect to build without grant
- some could maintain a modest annual new build programme from revenue resources, without extra borrowing
- many councils want to create mixed schemes of social rent and Affordable Rent, and for open market sale, with cross-subsidy within the scheme
- councils have mixed plans in terms of whether schemes are purely council-led or whether they involve partnerships with housing associations or private developers
- some councils have already been invited to work with private developers who have stalled schemes that are not currently viable as building for sale
- many developing councils and ALMOs currently look to provide around 50 new homes per year, but some would aim to provide (say) 500 if they were not limited by their current debt caps.

At this early stage following self-financing, not all councils have made firm new build plans as they will also (of course) have to plan and execute planned maintenance and decent homes work on their existing stock. However, the ARCH-led study so far suggests it is likely that plans for new build could be of the order of 15,000 units spread over five years, with the current caps in place, or about 3,000 per year.

Practical examples

Stroud District Council have a stock of 5,200 properties. They borrowed £91.7m as part of the transition to the self-financing regime The council plans to use the new flexibilities to invest over £23m in existing properties and build over 100 new council-owned properties to extend its stock. If Stroud were provided with the flexibilities we are seeking they would be able to build a further 188 properties – almost trebling their build programme.

If **Mid-Devon District Council** were provided with flexibilities and increased local discretion they could increase their new build programme by 1,000 homes over ten years.

Newark and Sherwood Homes manage a stock of 5,500; if provided with further flexibilities and increased local discretion through self-financing, up to 300 new homes could be delivered in ten years.

Councils' ability to facilitate investment

Quite apart from the benefits of self-financing, councils have several intrinsic advantages in making investment in new housing because of the way that their landlord role complements their strategic housing responsibilities. For example:

- Much building land is council-owned, often associated with existing council estates. Many councils have already used small sites (e.g. sites land-locked by other housing) in developments part-funded by the HCA. In some cases, land availability is *dependent* on the council controlling the development because of the nature of sites available.
- Councils are willing and able to release land. In a recent LGA survey, 75% of respondents said that their council released its own land for housing development over the last five years and 85% that their council planned to release housing development land in the next five years.[23]
- Use of council land keeps down costs and makes better use of existing public sector assets. Current unit costs in the Affordable Homes Programme are £127,000 (although a higher proportion of these units are probably in high-cost areas).[24] A survey of house building by stock-retaining councils found average costs of completed houses to be £119,000 per unit and £114,000 for those still under construction, including land.[25] In this report we have therefore assumed an average unit cost of £116,000.

23 LGA (2012) *Unlocking and Stimulating Housing development: A survey of councils* (see www.local.gov.uk/c/document_library/get_file?uuid=0ddb3e55-1772-46ba-b6a1-9686fe399b6d&groupId=10171).

24 HCA (2012) *Affordable Homes Programme 2011-15: Summary of offers accepted as of the end of June 2012*. London: HCA.

25 APSE (2011) *Firm Foundations: The holistic benefits of building by stock-retained councils*. London: ARCH.

- Councils can link new build to the reconfiguration of their existing stock, to produce housing which best meets current local needs. This might involve selective replacement of difficult-to-let or hard-to-modernise stock, or replacement of wrong-sized stock with new housing that better matches the profile of tenant needs (see examples).
- In these cases, councils need to liaise with tenants' associations and plan new developments that carry their support, especially ones in or adjoining existing estates. As landlords, they are best-placed to do this.
- Councils have enormous advantages because they know their communities. They can therefore develop the right product, plan developments and move through the planning process more quickly, make best use of small sites, get local communities on board and deliver more quickly.
- Councils which have housing stock are also strategic housing authorities which maintain Strategic Housing Market Assessments for their areas. This means that they can initiate new house building that complements the activity of other providers, including housing associations and private developers, in their areas.

Practical examples

Newark and Sherwood Homes delivered 52 properties during 2010 and 2011 through the Local Authority New Build (LANB) programme. They used eight infill sites and addressed issues relating to parking, rubbish dumping and anti-social behaviour. The project offered opportunities for local communities through a training plan and apprentice schemes, which allowed residents to gain skills and employment.

Exeter City Council used LANB to build 21 attractive small units aimed at people aged 55+, and intended to release family-size units in the existing stock in order to better meet Exeter's waiting list demands.

The London Borough of Wandsworth used LANB to build extra units onto unused land which was causing an environmental nuisance in one of its estates, and used its precise knowledge of local needs in specifying the make-up of the new units. Work has just been completed.

Northwards Housing in Manchester has plans to develop a number of inaccessible pieces of land within estates such as garage sites or demolition sites. They are considering modular forms of building allowing units to be completed on site quickly with minimum disruption to residents. They aim to move older people currently under-occupying family homes to new, energy-efficient homes within their existing communities, freeing-up much needed family housing.

Nottingham City Homes are building 27 new properties, using a local building firm, on four under-used garage or vacant sites, funded directly from the housing revenue account. They want to expand this programme because they are demolishing 1,000 flats that are no longer viable and they plan 350 replacement houses and bungalows to meet current needs.

The London Borough of Barking and Dagenham has committed to build 763 affordable homes by 2015. Of these, 477 are in partnership with fund manager Long Harbour, one in five at social rent. The remainder of the programme is HCA-funded, with Affordable Rents – but well below the maximum allowed.

Blackpool Coastal Housing with Blackpool Council is using its debt headroom to develop a new sustainable low-rise housing estate in Queens Park, to replace five 1960s tower blocks that are unpopular and costly to maintain. Construction will create local job opportunities, and the new design will tackle anti-social behaviour and crime issues. There will be a mix of family accommodation and flats that can be converted to family homes as and when required. All existing tenants who want a home in the new development are guaranteed one, maintaining the sense of community.

Six Town Housing in Bury has completed a development with 38 two-bedroom and two one-bedroom extra care apartments with associated communal facilities, including a bistro and hairdressers, for older people. The scheme at Red Bank, Radcliffe, was built by a private contractor with grant from the HCA.

The broader economic impact of investment by councils

In addition to the wider economic stimulus provided by new house building described in Section 1, local authorities are geared up to maximising the local benefits of new construction in a variety of ways:

- councils are able to link construction work to apprenticeship and work experience schemes, in partnership with their private sector contractors
- as well as directly creating jobs, new build can be tied into worklessness prevention schemes among council tenants, getting people into work and reducing benefit dependency
- councils can most readily identify and make available land from stalled private sector building projects
- many recent local authority new build schemes (e.g. those through the LANB fund) have achieved high energy-efficiency levels and serve as exemplar schemes locally.

It is important to recognise the wide differences between regions and that in some parts of the country the priority is regeneration, where replacing existing unsatisfactory stock can both provide housing that meets today's requirements and contribute a much-needed stimulus to local economies.

Practical examples

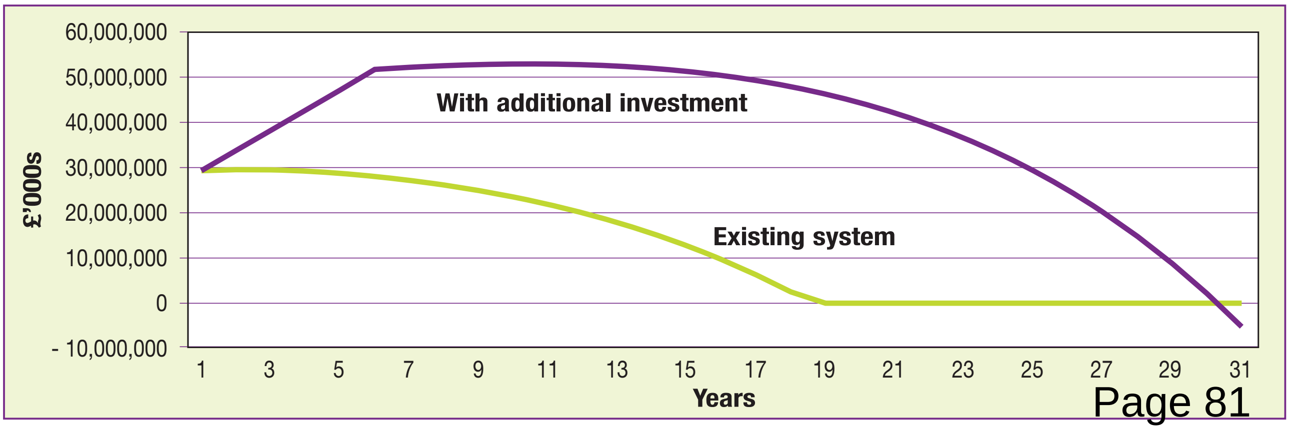
Wolverhampton Homes has a range of activities to promote jobs in the building industry among its tenants, including a programme called LEAP (learning, employment and achievement programme) which offers 10-month apprenticeships, with training, in building skills. It created 69 apprenticeships in two years, of which 58 have been sustained, and so far this year 17 apprenticeships and 14 trainee placements have been offered. It also supports a social enterprise called the Timkins Project which provides training in building skills for young people not in mainstream education and for adults referred from the health service and other agencies.

The London Borough of Croydon has been building houses since 2008, and uses its programme to provide training in construction skills. So far it has had 18 direct short-skill courses, 13 indirect short-skill courses and seven indirect employed placements. It has also introduced contractual requirements about training and use of local sub-contractors and suppliers.

How councils would invest further if they were able to do so

A provisional assessment of the full potential for councils to invest, if councils were able to make prudential use of their full borrowing potential now that they are self-financing, has been made using the DCLG self-financing model. It shows that they could theoretically borrow up to £20bn in the next five years with their current projected income and up to £27bn if they charged higher Affordable Rents on newly built stock. Figure 3 (based on these results, and taken from the ARCH-led study) shows the debt profile for the sector if borrowing above the caps were allowed (in this case with no change in income, other than increases in rents at RPI + ½%).

Figure 3: Potential for extra housing investment by local authorities, with the same income



This extra borrowing would enable 170-230,000 extra homes to be built in total, if all the potential investment were devoted to new build. This could of course be even more if grant were available from the HCA.

In practice, provisional results from the ARCH-led study suggest that authorities would *stay well* within their theoretical capacity, and at present might consider building a further 36,000 homes costing £4.2bn. These figures are very tentative and probably reflect reluctance to express a view given the reality that investment is still capped. Taking this reluctance into account, but also bearing in mind limitations such as land and organisational capacity, possible additional investment of £7bn over five years, to produce an extra 60,000 extra homes in total, would appear a reasonable estimate of the sector's *maximum* additional new build capacity. This is the headline figure used in the remainder of the report in considering the economic consequences of such increased investment.

Effects of potential new investment

If 12,000 new homes were built each year, in addition to the limited programme which councils already plan to finance, this would be a significant boost. It would raise overall house building output by more than 10% and compares favourably with the total of 15,000 homes promised by the government's plans to boost house building announced in September.

Using the multipliers noted in Section 1 of the report, additional investment of £7bn would be the equivalent of a £20bn boost to the economy and generate almost 17,000 new building industry jobs each year over five years.

These figures are necessarily tentative. Much fuller details of local authorities' actual potential to invest sustainably if they were no longer subject to same borrowing caps will be available when the ARCH-led study is released later this year.

Lessons from Scotland

In 2011, the 26 stock-owning Scottish councils started 1,224 new homes, the highest level for more than 20 years. Their performance is similar to that of England's even though Scotland only has one-tenth of England's population.

Local authorities' ability to build at relatively low grant rates has proved attractive to the Scottish Government, with flat-rate payments of £25,000-£35,000 per dwelling equating to only around 20%-25% of scheme costs (as compared with grants of around 60% needed by housing associations in 2009/10). Councils' ability to do this partly reflects the bolstering effect of local authority-owned land contributed at nil cost. In a few cases significant contributions have also come from second homes council tax income or developer payments levied under planning powers.

Delivery of new council housing at low grant rates has come mainly from additional investment via rent fund contributions or through prudential borrowing, where the cost of debt repayments is partly borne by *all existing tenants* rather than being accounted for just at scheme level, as has been traditional for housing associations.

Why has such performance by local authorities been possible in Scotland and not in England? Scottish local authorities are not constrained by borrowing caps. For many years they have had no subsidy system comparable to England's and they have been effectively self-financing. While (as in England) they are subject to prudential rules, they have been willing to finance extra borrowing from rents. Their extra borrowing counts against government borrowing measures, but has not been sufficient to cause difficulties.

Source: based on Pawson, H. and Wilcox, S. (2011) *UK Housing Review 2011 Briefing Paper*. Coventry: CIH, 2011.

4 How a new build programme could be financed and its implications for government

Overall effects

A new build programme of the scale outlined would be financed from a combination of new borrowing, local authority reserves and (in some cases) government grant. Each of these has different consequences for government expenditure and borrowing.

Revenue costs and savings

The implications for government of an expanded council new build programme, in terms of its revenue costs and savings, are complex, and the following is a summary and very approximate forecast of the effects:

- There is no longer any direct revenue subsidy to local authority housing accounts, so direct costs only arise from the financing of any grant (now known as 'social housing assistance') from the HCA. However, many authorities are planning to avoid the need to claim grant, funding the costs entirely from income (including, of course, the income from the new lettings). If grant were paid at a similar rate to that which applies in the Affordable Homes Programme (£20,000 per unit), and half of the possible output of 60,000 units required grant, the total cost would be £600m.
- Some 65% of council tenants receive housing benefit and to the extent that rents bear the costs of extra borrowing, this does of course imply higher levels of government spending (through rent rebates). However, the effects are not straightforward, because almost half of new entrants to social housing were previously private renters. In such cases (assuming any eligibility for benefit is the same), there are potential savings of (on average) £2,000 annually in benefit costs for each new unit let, because of council rents being much lower than private rents. If 60,000 units were built, and say one-third of the new lettings that resulted (both in the new units and in existing stock) were to go to benefit recipients moving from the private sector, there would be an annual saving of £40m continuing into the future.
- Government welfare reform seeks to limit the growth in the annual cost of housing benefit. However, it is clear that the private rented sector will continue to grow and – in the absence of alternatives – benefit-dependent households will have to continue to use the sector. Creating more new lettings in the social sector potentially creates more space for tenants who pay their own rents in the private sector, helping to reduce the benefit bill. Even though difficult to quantify, this is likely to be particularly important in areas of high demand where market rents and competition are high.
- Revenue savings could be even greater if new lettings go to people moving out of council-financed temporary accommodation (including bed and breakfast hotels) – see the box below. If the lettings that resulted from a new build programme reduced the overall use of temporary accommodation by 10% (not an unreasonable assumption) then the potential annual savings would be in the range £100m-£250m.
- In Section 1, we showed how any extra costs to government could be more than offset by the increases in tax revenue, at least initially, from extra employment and other additional economic activity produced by the new build programme. A £7bn investment programme would have a wider economic impact of around £20bn. If assumptions set out in section 1 are correct, there would be offsetting income to the Exchequer of £2.5bn over five years in extra tax and in benefit savings.

The points above show, albeit in crude terms, that any extra direct costs to government of an investment programme could be substantially offset by savings within the housing and welfare budgets – and potentially be more than matched by the tax income from the additional economic activity generated.

Potential savings from temporary accommodation

There is particular potential for substantial savings (as well as for relieving real hardship) if households can be moved from expensive temporary accommodation into permanent lettings, as a result of the extra lettings capacity which a significant new build programme would create. Currently (June 2012), there are just over 50,000 households in temporary accommodation.

An indication of the savings is given by figures in a recent House of Commons Library Note.[26] A basic saving is that DWP allowances to local authorities per unit of temporary accommodation are £2,000-£3,000 annually (depending on location). However, a fuller estimate of savings to the public purse is that these would amount to about £5,000 per household annually – a significant figure to offset against the annual costs per unit of new building.

Capital costs and borrowing

From a central government perspective, the main concern about an enhanced local authority new build programme is the extra borrowing that would be required, which we assess as a maximum of £7bn over five years. If this were principally to be financed from new borrowing (although some may be financed from receipts and reserves) this would inescapably add to general government borrowing.

To the extent that local authorities borrow within the caps set by government, this should be within current Treasury and OBR forecasts of public sector net borrowing (PSNB) and total debt (PSND).

Where borrowing to fund an enhanced new build programme exceeds the current caps, as proposed here, there are implications for both PSNB and PSND. The government could respond to this in two ways:

- accept that Public Sector Net Borrowing will increase (or not contract as quickly as planned), as a valid price to pay for a much-needed fiscal stimulus and help to a struggling housing market, especially given that revenue income will be generated that can itself be used to pay off debt
- review its fiscal rules and bring them into line with international conventions, which would no longer require council housing investment to be counted against the main measures of government borrowing and debt.

The first of these – extra borrowing under current rules – is dealt with in Section 5. The second – reviewing and changing the rules – is dealt with in Section 6.

26 House of Commons Library (2012) *Homeless Households in Temporary Accommodation (England)*. HoC Library, 8 October 2012.

5 Extra borrowing under current fiscal rules

Why extra borrowing for new housing is justified under current rules

Section 1 of the report put forward the case for an economic stimulus and Sections 2 and 3 showed how building new houses, and specifically new rented homes built by local authorities, would not only be one very effective way of helping to create this stimulus but would also meet pressing housing needs and have wider economic and social benefits.

The organisations sponsoring this report recognise the importance of the government's overriding objective of reducing public sector debt. Even so, we believe that there is a straightforward case for some additional borrowing to achieve the beneficial outcomes of such investment for the economy. We have been joined in this argument by many other bodies who either call generally for an investment stimulus (most notably, the IMF) or specifically call for extra housing investment. Indeed, the economic case has recently been made by city broker Tullett Prebon for a specific local authority/housing association investment programme that would total £10bn annually.[27] The maximum programme we are proposing – amounting to some £7bn over five years – would be much less than this.

The case for additional borrowing rests partly on the intrinsic merits of the investment proposed and its expected outputs, but also on the argument that the UK economy has 'fiscal space' (the IMF's term) for limited extra borrowing aimed at promoting growth. The argument is based partly on UK debt levels and partly on the costs of servicing this debt.

The UK has significant advantages in financing its debt (and in adding marginally to its debt) compared with other countries. The average maturity of UK sovereign debt is about 14 years, meaning that it is not vulnerable to sudden increases in interest rates. Current borrowing costs are of course extremely low, an advantage in itself, but even if they start to rise the long maturity of Britain's overall debt means the effects will be limited. Furthermore, the UK is recognised as having the distinct advantages (in the current climate) of its own currency and central bank.

Some economists have therefore argued that financing an economic stimulus from additional government borrowing would not only be inexpensive but – most importantly – would not be regarded as risky by the markets and by ratings agencies given the small size of the proposed programme, as long as it formed part of an agreed policy change to shift expenditure towards infrastructure and housing and overall national debt levels were still managed carefully.

In this context, the extra borrowing proposed – adding only marginally to total public debt – would have strong economic advantages.

Who would provide the new borrowing?

Three-quarters of long-term borrowing by local authorities is currently from the Public Works Loan Board (PWLB). Many authorities would seek to borrow further from the PWLB, but already some are considering bond issues (usually on a joint basis among authorities), for example for investment in renewable energy for housing. Borrowing from banks and building societies might be attractive on a short-term basis, later to be refinanced through other mechanisms.

An issue arises if the proposal to be outlined in Section 6, to change fiscal rules, were to be adopted. The government would then encourage councils to use sources other than the PWLB, since PWLB borrowing is inescapably part of government borrowing. But as just noted, some councils are already exploring private sources of borrowing which may already be competitive with PWLB rates.

27 Morgan, T. (2012) *Building a Road to Recovery?* London: Tullett Prebon (available at www.tullettprebon.com/announcements/strategyinsights/notes/2010/SIN20120824.pdf).

How would the borrowing be managed?

If the principle of additional borrowing above the current caps were to be accepted, the government would have a range of options for managing such a move. Removal of the caps would of course be the option strongly preferred by the five bodies commissioning this report, since even in their absence the government would retain its statutory powers to intervene if borrowing became excessive, either generally or in a particular case. We argue below that there is a strong argument that the existing prudential framework is a sufficient safeguard that such borrowing would be sustainable, and the scale of borrowing anticipated is in any case well within the capacity to repay it.

However, if the government were not willing to go this far, the bodies sponsoring this report would of course be very willing to negotiate alternative mechanisms.

What are the risks?

The basic risks now carried by council housing are similar to those of housing associations, in that repayment of debt depends primarily on income from rents.[28] Rental income can be threatened by factors such as arrears, excessive voids, reduced demand, contraction of the asset base (e.g. through right to buy sales), etc. However, local authorities are well used to dealing with such risks and many ALMOs in particular have to manage the risk because they are paid via a fee relating to the numbers of units in management.

One new risk faces all social landlords: the progressive effects of the government's welfare reform programme, and especially the implementation of universal credit planned for 2013. Landlords are likely to be factoring in higher levels of potential arrears into their business plans, to reflect the new risk. However, as noted above, local authorities enjoy some protection because of their lower gearing levels and lower rent levels compared with associations, and also generally lower arrears and management costs.

Who carries the risk and how can it be monitored?

While many councils are now separating their housing and non-housing debt for treasury management purposes, any default would be a call on the local authority as a whole, not (as with associations) purely on the housing business.

Total local authority borrowing is currently about £81bn, including the additional borrowing taken on to enable council housing to be self-financing. The maximum £7bn extra investment proposed in this report would therefore be significant, although well within the sector's borrowing capacity and its ability to sustain debt given low debt levels per property and a buoyant income stream from rents. Local authority debt of course accounts only for a fraction of total government debt – just over 6%.

Nevertheless, the issue about who carries the risk of additional borrowing is bound to arise. The prime responsibility for treasury management risk lies with the local authorities themselves, and they are subject both to statutory guidance on this and to a CIPFA treasury management code. Councils have a strong track record of prudential borrowing governed by the code. In the event of failure, a local authority has to finance the costs itself.

A detailed case has been made by CIPFA (in evidence to the CLG Select Committee[29]) that the borrowing caps imposed on local authorities when self-financing began are unnecessary, arguing that:

> *'...the introduction of [the] Prudential Code has clearly proved that Local Authorities can be trusted to act prudently with regard to borrowing. Under prudential borrowing, a local authority must only borrow when and if the debt*

28 There is a comprehensive assessment of risks facing social housing, principally housing associations, in Jones, M. and Lupton, M. (2011) *Viability and Vitality: Sustaining the financial viability of housing associations*. London: Savills.

29 CIPFA (2012) Written submission from the Chartered Institute of Public Finance and Accountancy. London: House of Commons Communities and Local Government Committee.

repayments and interest are affordable. Affordability is crucial and therefore aggregate borrowing should never reach unaffordable levels. The cost and availability of loans in itself provides the commercial discipline, obviating any need for regulation.'

CIPFA went on to argue that the introduction of prudential borrowing for councils in 2004 had been a complete success, with borrowing levels remaining modest and prudent, and never with any indication that the Treasury might have to use its reserve powers to intervene. CIPFA added that 'councils can be trusted to manage complex finances on behalf of their local communities. Localism is a good model for ensuring joined-up decision-making, efficient outcomes and economic growth'.

It might be added that housing associations do of course have to manage their own debt, and while none have had direct recourse to government, the regulator has in the past intervened to secure solutions to major threats of default such as the Ujima case. Nevertheless the solution was contained 'within the sector'.

There is therefore a strong argument for the new investment proposed in this report, based on current fiscal rules and against the backdrop of the UK's debt position, simply to be financed from extra borrowing using the current prudential regime to govern the risk.

Additional safeguards being considered to ensure robust business plans

Local authorities are nevertheless conscious that self-financing does carry risks which they did not bear themselves when they were locked into and dependent on a national subsidy system. For this reason, work is already being done to develop a self-regulatory code of practice for HRA self-financing. No decisions have yet been made, but it is likely to focus on areas such as these:

- Business planning principles around long-term financial management, asset management and risk strategy (risk identification and management).
- Rent setting in the context of the viability of the self-financed HRA business plan – ensuring appropriate interplay with the democratic mandate.
- Models of governance for a self-financed HRA. This should be principles-based with supporting guidance or case studies on how it is working in practice at a number of places in the context of existing democratic and governance structures.

If it goes ahead, such a voluntary code will provide even greater protection from risk.

6 How fiscal rules hold back investment and why they should be changed

Although there is a perfectly credible argument for more investment under current rules, this report also wants to restate the case for a new approach that would bring self-financed council housing much closer into line with housing associations and make a permanent change towards facilitating sustainable investment in new homes.

This alternative approach rests on the fact that, according to the main international measures of debt that have been in place for many years, extra investment for council housing would not count as adding to government borrowing levels. In other words, such borrowing is an issue because successive UK governments have used a particular measure of public sector debt that is not widely used outside the UK. On the measure that is used more widely, the only part of the extra cost of any new council housing investment that would be counted would be any government grant, not the extra borrowing itself.

This section sets out this argument in more detail.

Fiscal rules – a brief outline

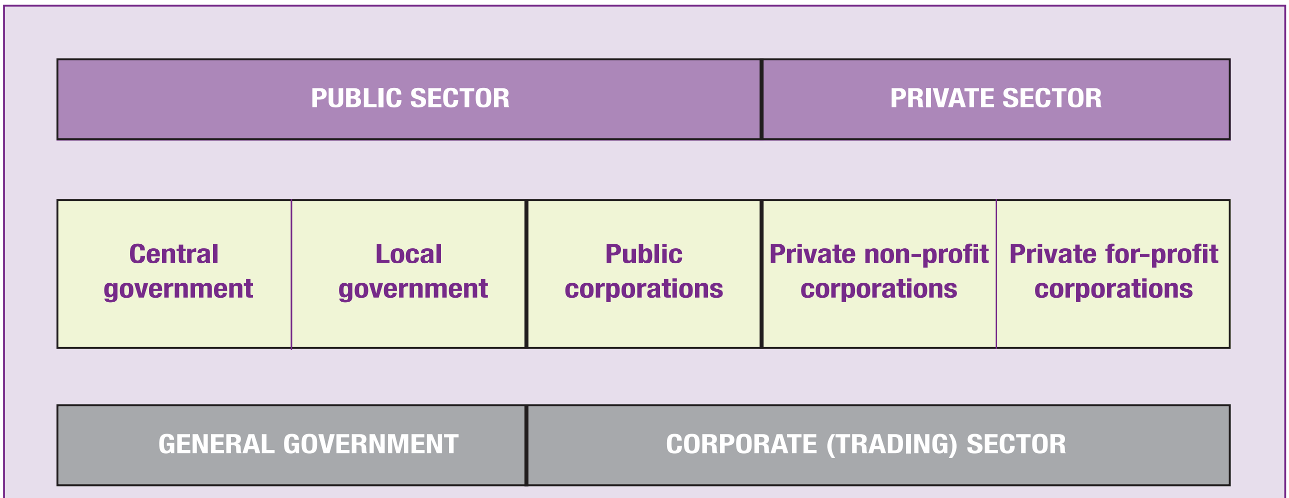
The government has two fiscal targets to help steer the UK's fiscal position back towards balance and ensure that the debt ratio as a share of the economy is on a sustainable, downwards trajectory:

- The government's forward-looking fiscal mandate is to achieve a 'cyclically-adjusted current balance' by the end of the rolling, five-year forecast period.
- The fiscal mandate is supplemented by a target for public sector net debt (PSND) as a percentage of GDP to be falling at a fixed date of 2015/16.

Public Sector Net Debt (PSND) is the key measure by which the supplementary debt target is measured by the Treasury and by the OBR, alongside the fiscal mandate. However, other countries and international organisations use other measures of debt. The most widely used measure is General Government Gross Debt (GGGD), which is the main measure used by the EU, IMF, OECD and the credit-rating agencies.

The differences between the UK and international rules are illustrated by Figure 4. If the diagram is a sandwich, the 'filling' represents the classifications used by the ONS to identify different sectors of the economy; these follow rules set by Eurostat (the EU's statistical office). These classifications are common to both measures of debt. The difference between the UK and international debt measures are the 'slices of bread': the upper one shows the 'public sector' used to define PSND under current UK rules; the lower one shows the smaller 'general government sector' used to define GGGD.

Figure 4: UK rules compared with international rules



The essential difference is the inclusion or exclusion of the public corporate sector. This covers a range of bodies that are publicly owned but whose activities are financed principally from their incomes (fees, rents, etc.). Examples include Manchester Airport, local authority bus and tram companies, the Royal Mail, the Royal Mint, as well as rescued banks such as RBS. In the 1980s, this sector was far bigger as it included the likes of British Gas, BT, etc., which have since been privatised and are now classified as private for-profit corporations.

Fiscal rules – how they affect housing investment

Figure 5: Public borrowing definitions and housing

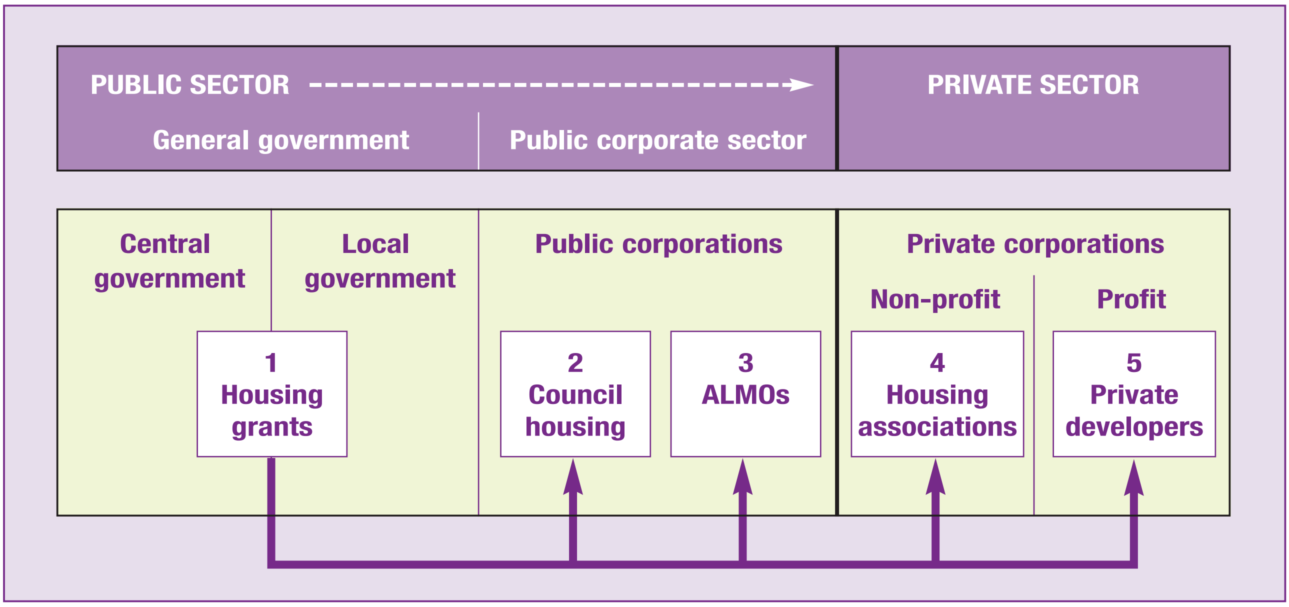


Figure 5 shows how the fiscal rules relate to the different bodies involved and flows of finance in housing. The main points about this are:

- Housing associations are classified as non-profit private corporations; private developers (including those receiving HCA grant) are for-profit private corporations.
- All ALMOs are individually classed as public corporations; council housing services are known as 'quasi-corporations' and are also part of the public corporate sector.[30]
- Government grants to councils and to housing associations are general government expenditure (as were local authority grants to housing associations, when they existed).

The effect of the rules is, of course, that while housing associations' expenditure and borrowing *does not count* against the current measure of UK debt (PSND), similar expenditure by local authorities *does count* against PSND, notwithstanding the different classification that council housing has compared with most other activities of a local authority. So, at present, while for housing associations only the grant they receive from the HCA is subject to the government's fiscal rules, for councils both any grant they receive *and their borrowing* are subject to those rules, even though for both types of body the costs of the borrowing are met from rents.

Fiscal rules – the arguments for and against change

The broad case for change is that moving towards international debt measures would bring the UK into line with other countries and would not affect the way our debt is viewed internationally. The change would recognise the fact that public corporations are different entities to government and give British public corporations the same freedom to

30 See ONS (2007) *UK National Accounts: Case law on classification of quasi-corporations*. London: ONS.

borrow to invest as their international counterparts. In housing, it would recognise the essential similarities of council housing and housing associations and allow much needed investment, again within prudential rules. The change does not prevent government from having rules to ensure that borrowing by corporations is prudential, and indeed could be more transparent and accountable than the current situation in which there are various exceptions or one-off arrangements to get round the present rules.

The government argues for retaining PSND as the key measure because it is the best principled measure of government indebtedness.[31] One reason for this is because the government is generally likely to step in if public corporations cannot service their liabilities, and so a focus on PSND provides a fuller and more transparent picture of government's total liabilities. If there are no controls over public corporations' accrual of liabilities then this means that government does not have control over its contingent liabilities, which if called upon would impact on the deficit as well as GGGD.

One argument for change is that where government has intervened in the financial sector to rescue banks, those interventions have been excluded from the PSND. However, the government justifies this because the measures have been non-discretionary and temporary policies and the government anticipates receiving a full return on the items excluded. In the government's view, such arguments would be less valid for excluding other policy decisions, which will be higher risk and thus more likely to permanently impact on debt and represent a long-term liability for government.

In response to these points, several arguments can be made:

- there are many bodies outside the public sector that also present contingent liabilities to government; they include privatised services like water and power, and PFI schemes where these run essential services such as transport or health
- government has already had to intervene in such cases, e.g. the taking into public ownership of East Coast Mainline
- unlike these bodies, where contingent liabilities may be called on very rapidly or even overnight, public corporations have ongoing accountability to government and strict rules can be applied to ensure they have minimum or no resort to government rescue
- as has been demonstrated several times this year, the banks continue to be a risk, yet they are excluded from PSND (if publicly owned) or are outside PSND (if private), despite considerable contingent liabilities for government that – again – may be called in at very short notice
- as demonstrated earlier in this report, council housing investment is not 'higher risk' – as evidenced by local authorities' high credit ratings, their excellent track record of sustainable borrowing for many decades and the very small proportion of public sector debt attributable to them.

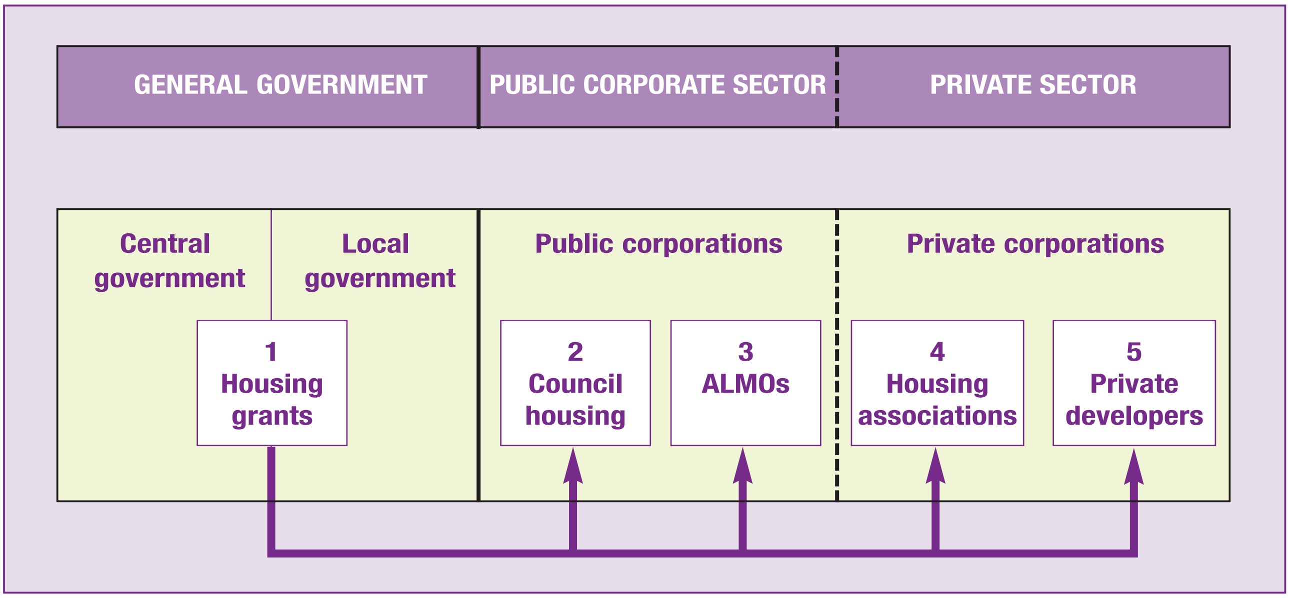
Fiscal rules – the key changes proposed

Figure 6 on page 29 shows how (compared with Figure 5) the dividing line between what does and does not count towards measures of UK debt would be moved to focus solely on government bodies (central and local).

This report accepts the importance to government of the current fiscal targets. The proposed change is that these (or any subsequent) targets are applied to government borrowing and debt measured against the GGGD rather than PSND. Such a change need not be made overnight, but the PSND measure could be progressively replaced by GGGD, and of course GGGD data are already published (e.g. in the Budget Red Book) and submitted to and published by Eurostat.

31 The text here is summarised from HM Treasury's response to the case made by Westminster and three other councils, which argued for similar changes in 2011 (HM Treasury, 7th March 2011).

Figure 6: Proposed new basis for measuring borrowing and debt



As a component of this change, it would be essential to establish additional measures to monitor/control the extent of contingent liabilities arising from public corporations' borrowing. It may be desirable, in addition, to build on the separation of HRA and non-HRA debt by changing the rules so that in future local authorities would secure their borrowing for HRA purposes on their housing assets, not on the general income of the authority.

It is outside the scope of this report to cover all the remaining bodies in the public corporate sector, but the framework for local authority housing investment described in Section 5, with the added safeguard of a voluntary code and with the government's reserve powers to intervene, would we believe provide a robust basis to manage these liabilities.

Fiscal rules – response to change

This report is of course not the first to advocate changes in the fiscal rules, especially from a housing perspective. The first attempt was made in 1995[32] and was followed by a report by Coopers Lybrand (now Pricewaterhouse-Coopers) showing how market opinion would be unlikely to respond adversely to such a change.[33] The case was rejected by the then government.

The most recent attempt was made by Westminster Council, on behalf of a number of councils, in 2011.[34] This was rejected by the current government.

This section has attempted to anticipate the response from HM Treasury to the proposed rule change, and to suggest ways in which obstacles might be overcome, based on the detailed reasons given by HM Treasury in a note explaining why it rejected the Westminster proposal.

Critical views also include those of the markets and credit ratings agencies, who judge and respond to the UK's performance in managing its debt and might react against any change seen as 'bending the rules'. Market responses to this and other aspects of the report's proposals are considered in the next section.

32 Hawksworth, J. and Wilcox, S. (1995) *Challenging the Conventions: Public borrowing rules and housing investment*. Coventry: CIH and Coopers and Lybrand.

33 Coopers and Lybrand (1996) *Consensus for Change: Public Borrowing Rules, Housing Investment and the City*.

34 Westminster Council (2011) *The Case for Borrowing for Investment in Housing*.

7 Market reaction to the proposals

Clearly the government will be concerned as to how the market would judge the various proposals in this report, and the likely reaction in terms of the government's credit rating and the effect on guilt yields (i.e. costs of new government borrowing). To make a preliminary assessment of market reaction, Capital Economics (CE) was commissioned to survey key market figures and produce a report on 'the view from the City'. This section summarises the report's findings.

Capital Economics' study

CE spoke to 13 economists, fund managers and credit ratings analysts in September and October 2012, using a semi-structured questionnaire, to provide a qualitative assessment of City opinion. The topics discussed and the responses (which were diverse and sometimes conflicting) are summarised below.

The full report will be available on the NFA website alongside this report.

Achieving growth – a priority for the government and for the markets

All interviewees saw achieving growth as an economic priority. One said:

> *'I do think there is need for fiscal stimulus and a scope for it, but I do think that government has to behave quite cautiously as there isn't a mechanistic connection between how much the market borrows and how the markets react... However, if the UK economy doesn't recover, although in the short term that may be good for bonds, in the long term it isn't good for bonds. What happens is that debt ratios continue to rise, policy becomes unpopular and the chances begin to grow that eventually there is some sort of disaster...* ***A well constructed and targeted package: I think the markets could accept that quite readily.****'*
> Roger Bootle, Managing Director of Capital Economics

David Kern, of Kern Consulting, explained that since 'Plan A' is clearly well behind schedule, the markets are more forensic now. But the markets also understand that we need growth to avoid a vicious circle of recession and ballooning deficits. The key is to persuade them that the measures taken will boost productive potential and help to eliminate the structural deficit, albeit later than originally intended.

Maintaining credibility is crucial

The majority of interviewees felt the government should stick to its current targets. However, it was noted that gilt yields may not react significantly to any increase in borrowing above current plans, especially given the scale of the plans proposed in this report (see below).

Ian Fishwick, fund manager at Fidelity Investments, explained:

> *'It would depend on how it was done: some relaxation would be perfectly sensible, but if they threw caution to the wind and went off down a completely different track that would change my assessment of UK gilts.'*

Peter Warburton, director of Economic Perspectives LLP, was also cautious:

> *'I'm on the side that I think a lot can be considered in terms of the redistribution of government spending, but it would be highly dangerous, given the vulnerabilities we have, to exceed our borrowing projections.'*

The size of the borrowing under consideration is too small for markets to worry about

All interviewees regarded the amount of extra borrowing in question that the local authorities might undertake, estimated at a maximum of £7bn over five years, as insignificant and far smaller than the standard statistical error for public borrowing figures. The extra debt would not concern them. However Roger Bootle noted that a large increase in debt is composed of many small increases in debt for particular policies, and as such a lifting of the current caps on local authority borrowing should be assessed in the same way as a policy that might potentially lead to much bigger increases in borrowing.

Effect on interest rates

Fund managers saw sticking to the current plan as key, but also looked at other factors such as the inflation and growth outlook and the Bank of England's actions when assessing UK gilts. Just a small increase in borrowing, or borrowing offset by further quantitative easing, might have a negligible effect on bond yields in the short term. One interviewee noted that even though he thought a large fiscal stimulus was not a good idea, he was unsure that it would lead to any increase in gilt yields, given the UK's safe haven status, the worsening situation in the Eurozone and the power the Bank of England has to purchase gilts.

Effect on credit rating

The ratings agencies have been clear that weak growth or further increases in debt would almost certainly lead to a downgrade of UK sovereign debt. Some respondents viewed a downgrade as overdue in any event, and any modest change might trigger it happening. However, there was no clear view on the effects of a downgrade and how important it would be.

Considerable support for greater priority for infrastructure investment and recognition of severe need for investment in housing

Interviewees generally felt that investment was important and several expressed the view that there should be a shift in government fiscal policy towards investment. A few noted that capital investment had fallen significantly and that capital spending has more effect on the economy.

Several pointed out that infrastructure investment only counted towards the supplementary debt target and not the fiscal mandate. Both Geoff Dicks of Novus Capital and Peter Warburton of Economic Perspectives said that in their view the fiscal mandate (which requires the structurally adjusted deficit to be zero by the end of the forecast horizon) was more important than the supplementary target (which requires overall net debt to be falling by 2015/16).

Most interviewees recognised that there was a severe need for investment in housing in the UK and this is consistent with the needed shift on spending priorities, although some saw transport infrastructure investment as a priority. Tim Morgan, Head of Global Research at Tullet Prebon, argued that housing investment would be a good fiscal stimulus policy.

There were few concerns about borrowing for local authority-managed projects.

Need for rationale for policy change

Several interviewees emphasised that the market would require a clear explanation of any policy change. One interviewee said that any change that increased borrowing would have to be backed up by a demonstration that the private sector could not do the job and that there was a genuine market failure. (We believe this is demonstrated clearly in this report.)

Change in fiscal rules

Most felt that moving to reporting the Gross General Government Debt definition of public debt (as opposed to the Public Sector Net Debt) in the current situation was not appropriate, but few objections were raised about a move in the long term.

International investors use the GGGD; the PSND is potentially confusing to investors based outside of the UK, but any changes to debt figures would have to be transparent.

Recommendations and our offer to government

Councils and ALMOs can play their part in securing future economic growth quickly and cost-effectively by further direct investment in housing.

If allowed by government, councils and ALMOs will:

1. **Use their land and assets effectively to drive local growth.**
2. **Exploit and use to best effect the potential within the self-financing system to bring forward new homes in a managed and planned way.**
3. **Collaboratively develop and support voluntary standards led by the sector to maintain effective financial governance of housing accounts.**

The five organisations sponsoring this report want to work with government to make the most of this potential. They therefore recommend that the government:

1. **Unlocks the potential to invest in housing by removing the HRA borrowing caps and relying instead on prudential borrowing rules to ensure that investment is sustainable.**
2. **Considers the longer-term case for a planned and transparent move to adopt internationally recognised rules to measure government borrowing, to bring Britain in line with our competitors.**

All of Britain's political parties want to see more house building. House building creates jobs and boosts the economy as well as providing homes that people need. Why can't we just get building?

Councils own around two million homes and they now manage their own 'self-financed' business plans. Debt on these homes is very low. They could take advantage of this to raise loans to build homes. We estimate we could deliver as many as 60,000 homes in five years.

We can get Britain building again very soon. There are many 'shovel-ready' sites standing idle. We would work with the house builders and the construction industry. What is stopping us? Each council has a centrally imposed debt limit and cannot use its full borrowing power. If the government is serious about building new homes, it should remove these restrictions and allow councils to play their part alongside the private sector and housing associations.

The report makes a detailed case to government, covering:

- how house building can stimulate the economy
- the need for more investment in rented housing
- the case for house building by councils and almos
- financing the programme and its implications for government
- extra borrowing under current rules
- the case for changing the fiscal rules
- how markets would respond.

The five organisations supporting this study believe it makes a powerful case for change, and call for a response from government which recognises a golden opportunity both to help tackle the housing crisis and to stimulate the economy. Let's get building.

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