

MAYOR OF LONDON

Lord Best

The Smith Institute
Somerset House
South Wing
Strand
London WC2R 1LA

Date: 9 April 2019

Dear Lord Best

GLA response to Smith Institute Affordable Housing Commission

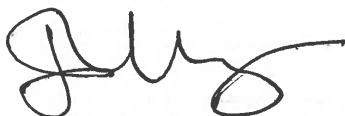
On behalf of the Mayor I welcome the opportunity to respond to the Smith Institute's Affordable Housing Commission. I enclose a detailed response which I hope sets out our view on the key themes the Commission is seeking to address.

Last year (2017/18), we started building more social rented and other genuinely affordable homes in London than in any other year since housing powers were devolved to the Mayor. This included more homes at social rent levels than the previous four years put together.

However, the Government must play its part too to enable the step change we need to truly fix the housing crisis – including by significantly increasing the level of affordable housing grant, legislating to reform land assembly rules, and reversing damaging welfare reforms which have caused homelessness to rise so steeply in recent years.

I look forward to seeing the conclusions of the Commission's work. If you would like any further detail on the information in the enclosed response, my team would be happy to meet you or your team to discuss. Please contact Rebecca Reid, Senior Policy Officer (Rebecca.Reid@london.gov.uk) if that would be helpful.

Best wishes



James Murray

Deputy Mayor for Housing and Residential Development

GLA response to the Smith Institute Affordable Housing Commission

April 2019

1. About the Mayor of London and Greater London Authority

- 1.1 The Greater London Authority (GLA) is the top-tier administrative body for Greater London, consisting of a directly-elected executive Mayor of London, and the London Assembly, made up of 25 elected members with scrutiny powers. Responsibility for affordable housing investment was devolved to the GLA in 2012 and since then the Mayor has taken direct control of Government funding for affordable housing. Since taking office the Mayor has negotiated over £4.8 billion from the Government's Affordable Homes Programme through to 2022.
- 1.2 Two of the most important statutory documents the Mayor produces are the London Housing Strategy and the London Plan. These documents set out in more detail the steps the Mayor is taking to build more affordable housing in London, with the latter setting out how this interacts with other priorities such as the environment, transport, and economic development.
- 1.3 The Mayor has established a Homes for Londoners Board which brings together other agencies and organisations that have important roles to play – including London's councils, housing associations, Transport for London (TfL), and the development industry – to help oversee and give advice on housing delivery and policy in the capital.

2. Understanding the affordability challenge

The origins of London's housing crisis

- 2.1 London has an acute housing crisis that is ultimately caused by a severe shortage of genuinely affordable homes, particularly those for social rent. This crisis is the result of a failure over decades to provide the number and types of homes that London, particularly with its growing economy, has required. Between 1997 and 2017, the number of jobs in London increased by 42 per cent, and the population increased by 26 per cent, however housing only grew by 16 per cent¹. A key reason for this is the prevailing homebuilding model which relies on a limited range of delivery models and dominated by a relatively small number of large developers building homes for market sale, often on large and complex brownfield sites.
- 2.2 In particular, London suffers from a severe shortage of social housing. In 1981, 35 per cent in London lived in social housing². Due to decades of underinvestment in new housing supply, and a failure to replace over 300,000 council homes sold through the Right to Buy in London, that has fallen to just 21 per cent³. This shortage has been further exacerbated by a series of decisions made by national Government in the last few years. These include the decision of the coalition Government to dramatically cut spending on affordable housing, the subsequent increase in housing associations' reliance on market sales, and the weakening of the definition of affordable housing with the introduction of Affordable Rent at up to 80 per cent of market rents.

¹ Greater London Authority, Housing in London 2018, July 2018

² Ibid

³ Ibid

- 2.3 The lack of social housing in London has meant it has become increasingly residualised and available only to those with the greatest need. As a result, many people whose housing needs should be met by social housing are living in the private rented sector which is increasingly unaffordable. Between 2005 and 2017 average private rents in London rose 41 per cent, while average individual earnings rose just 25 per cent. Private tenants are now paying on average 35 per cent of their income on rent, up from 30 per cent in 2010/11⁴.
- 2.4 Welfare changes since 2011 have further worsened affordability problems for many low-income households living in the private rented sector. The end of an Assured Shorthold Tenancy is now the single most common reason for households becoming homeless in London. The number of people who ended up sleeping on London's streets more than doubled between 2009/10 and 2016/17⁵. All of this underlines the urgent need for a rapid increase in the number of affordable homes in the capital.

Building more genuinely affordable homes

- 2.5 Since entering office in 2016 the Mayor has put a number of policies in place to increase the number of council, social rented, and other genuinely affordable homes. These steps are helping to diversify the types of homes that are built, who is building them, how they are built, and where they are built.
- 2.6 However, the Mayor recognises that many Londoners have, with good reason, become suspicious of the term 'affordable'. To address this, he has developed clear definitions of affordable housing, and successfully negotiated with the Government freedom to use his funding settlement to build genuinely affordable homes which meet Londoners' needs. For the Mayor, this means homes that are for: social rent (including 'London Affordable Rent'); London Living Rent; and shared ownership. More detail on these tenures is provided in section four of this response.
- 2.7 The Mayor has overhauled the GLA's approach to affordable housing planning policy with a new minimum threshold for affordable housing. This works by providing a Fast Track Route through the planning system for developments that provide at least 35 per cent affordable homes (50 per cent on public and some industrial land) without public subsidy, while making schemes that do not meet the threshold subject to a detailed viability analysis and review mechanisms.
- 2.8 The reaction from industry so far suggests developers accept this approach, with a recent Savills report highlighting that the Mayor's clear stance has led to 35 per cent affordable housing being factored into land values⁶. City Hall data also suggests that this approach is working; in 2018 more than half of referable schemes included 35 per cent or more affordable housing.
- 2.9 The Mayor has been making full use of the £4.82 billion affordable housing investment that he secured from Government to support 116,000 new social rented and other genuinely affordable homes being starting by 2022. The Mayor has already made progress in delivering these homes, with a record 12,555 homes started in 2017/18⁷. This represents the largest number of starts since the powers for delivering housing were

⁴ Ibid

⁵ St Mungo's, Street to Home, 2009/10 (indicates that 3,673 people were seen on London's streets); Greater London Authority, CHAIN Annual Bulletin, 2016/17 (indicates that 8,108 were seen)

⁶ Savills, Market in minutes: UK residential development land, May 2018

⁷ Greater London Authority, Affordable Housing Statistics, 2017/18

devolved to London in 2012. It includes 2,811 homes based on social rent levels – more than in the previous four years combined, and up from zero in the last year of the previous Mayor’s programme⁸.

- 2.10 The GLA has pioneered the use of ‘strategic partnerships’ with housing associations to boost their homebuilding commitments. The partnerships are struck with housing associations who are prepared to build homes a minimum of 1,000 new homes of which at least 60 per cent are affordable. The Mayor is pleased that this model is now being adopted by the national Government.
- 2.11 The Mayor is determined to help local councils build homes at scale again, which is why in May 2018 he launched his ‘Building Council Homes for Londoners’ programme. This is the first-ever City Hall programme dedicated to building council housing and will help local authorities across the city start building 11,154 council homes at social rent levels and 3,570 other genuinely affordable homes over the next four years. This is the highest level of council homebuilding since the 1990s.
- 2.12 As well as making full use of his planning and investment powers, the Mayor is refocusing City Hall resources towards a more proactive and interventionist approach to bringing forward land for homes. With a greater focus on brokering deals on the ground, this new approach will enable the GLA to intervene directly, or to support councils, housing associations and developers to do so, where land is suitable for new housing but is not coming forward for development.
- 2.13 To support such interventions, the Mayor has established a Land Fund, which comprises an initial £250 million from City Hall resources, and nearly £500 million he has secured from the Government. This Fund has already been used, for instance, to acquire 18 acres of the St Ann’s Hospital site in Haringey from the Barnet, Enfield and Haringey NHS Trust, and to make a £42 million loan to Peabody to buy the former Holloway Prison site, delivering 60 per cent genuinely affordable homes on the site.

3. Towards a new affordable housing offer – increasing supply

Investment in genuinely affordable housing

- 3.1 Increasing the overall supply of homes in London to the levels required in the draft London Plan will require significant investment in affordable housing. The GLA recently worked with the g15 and the wider housing sector to calculate the amount of grant required to meet the affordable housing target set out in the new London Plan. This work is likely to form part of the Mayor’s submission to the 2019 Comprehensive Spending Review and will be published later this year. This work has evidenced that a much larger capital settlement would be needed for the Mayor to be able to fund 32,500 affordable homes annually in London (50 per cent of the overall capacity identified by the draft London Plan) between 2022/23 and 2031/32. It evidences the impact of the rising costs of works and construction on the grant required to develop in the capital, and draws conclusions about the limits to ‘cross-subsidy’ from market sales. Ahead of this data being published, we would be happy to confidentially discuss this work in more detail with the Commission.
- 3.2 It is important that such investment should be matched by practical changes in how investment in affordable homes works. Currently, London negotiates periodic deals with

⁸ Ibid

the Government on terms that tend to change with each iteration, meaning that long term planning becomes almost impossible. In the context of development, where some schemes can take decades to deliver, this lack of certainty has significant negative impacts.

Investment in infrastructure and reforms to land assembly

- 3.3 Investment in infrastructure has the potential to unlock the delivery of homes. In London, there are large areas of land earmarked for new homes that will not come forward quickly, nor at high enough densities, without significant improvements in public transport connectivity and capacity.
- 3.4 The Government's £5 billion Housing Infrastructure Fund (HIF) is designed to unlock housing delivery through investment in land assembly, site remediation and infrastructure. However, allocation of the funding has been slow, and the sites which it will support represent only a fraction of those requiring investment in London. The Mayor is calling for London's share of HIF to be devolved to the capital through a long-term settlement which, given the complexity of some of the sites, can give the certainty homebuilders require.
- 3.5 Delivering a significant increase in the number of genuinely affordable homes in London will also require significant reform of land assembly rules and legislation. The Mayor supports approaches that initially incentivise landowners to assemble their land on a voluntary basis, including the introduction of statutory mechanisms by Government to underpin and incentivise voluntary land assembly (or 'land pooling'), to minimise the number of landowners 'holding out' for an increase in land values.
- 3.6 Where attempts to assemble land by voluntary means have not been successful, compulsory purchase powers may need to be used. To support this, the compulsory purchase regime must be reformed to make it quicker and less complex, including by devolving the power to confirm compulsory purchase orders in London to the Mayor. The Government should also amend the Land Compensation Act 1961 to enable land acquisition at closer to existing use value. This would enable a greater proportion of the land value increases that result from development to be reinvested – including to speed up build out rates by delivering a more diverse housing offer with more affordable homes.
- 3.7 These proposals are informed by recently published research commissioned by the GLA to explore international models of land assembly⁹, and how these could support housing delivery in London. The research also acknowledged that whilst the public sector is in a unique position to take on complex coordination of land assembly, this is an expensive and time-consuming process. To enable land assembly efforts to work at scale, the research recommends that the public sector is adequately resourced with access to funding, appropriate powers to use actively or have in reserve, and the capacity to be able to quickly and credibly intervene in complex long-term land assembly projects.
- 3.8 Finally, the Mayor should be granted stronger powers over publicly-owned land earmarked for new homes, particularly land currently held by central Government departments and agencies. The rules governing how this land can be used – particularly the current statutory general consents to dispose of land, and the requirements to achieve best consideration – should also be reviewed.

⁹ Urbed, Capital Gains: A Better Land Assembly Model for London, 2018

Community-led housing

- 3.9 The Mayor believes that community-led housing has the potential to play a greater role in increasing supply in the city. His London Housing Strategy sets a target to identify a pipeline of community-led housing schemes by 2021 with capacity to deliver at least 1,000 homes.
- 3.10 In 2018 he established a new Community-Led Housing London Hub, which helps individuals and groups interested in developing new community-led housing to overcome barriers to doing so, for example by providing community groups with much-needed advice and expert guidance. The pilot of the Mayor's 'Small Sites, Small Builders' programme, which makes small sites of surplus public land available to smaller homebuilders, earmarked two Transport for London sites for the development of community-led housing, which are currently being built out by London Community Land Trust. In January 2019 he launched the £38 million London Community Housing Fund, making both capital and revenue funding available to community groups to support development of new affordable homes.
- 3.11 The Mayor is calling on local authorities to champion the development of community-led housing in their areas, and to work with interested groups to advance their development plans. He is calling on Government to provide longer-term certainty to the sector by making clear their plans for future funding settlements.

Improving the skills, capacity and building methods of the industry

- 3.12 It will not be possible to build the number of homes required without a strong construction industry. However, the construction industry in London is facing a number of challenges, including a significant skills gap. In 2017, the UK Employer Skills Survey reported that almost a quarter (23 per cent) of vacancies in the London construction sector were hard to fill for skills-related reasons¹⁰. In London, this challenge is likely to be exacerbated by Brexit as the construction industry in London has a much higher percentage of EU workers (28 per cent) compared to the UK workforce as a whole (14 per cent)¹¹.
- 3.13 The Mayor is taking a number of steps to support the construction industry. This includes establishing the Mayor's Construction Academy which will help to connect construction training providers with employers to ensure that training is tailored to the needs of industry, alongside a campaign to attract new and more diverse entrants to the construction profession.
- 3.14 If the construction industry is to deliver on the scale required, it is also vital that the industry modernises and adopts new approaches such as the precision manufacture of homes (also referred to as off-site manufacturing, or modern methods of construction). Precision manufacture of homes has the potential to offer greater consistency and quality control, alongside additional benefits in terms of speed of delivery, cost efficiencies, and safety on site.
- 3.15 The Mayor is supporting precision manufacturing by making funding available for developments that use this approach through his Affordable Homes Programme. In addition, the Mayor has commissioned a new digital design tool to support the delivery of

¹⁰ IFF Research Ltd for Department of Education, UK Employer Skills Survey, August 2018

¹¹ Greater London Authority, Housing in London 2018, July 2018

precision manufactured homes in London. This responds to a need for a practical resource which can help test the feasibility of, and plan for, precision manufacturing methods in the delivery of new homes from early in the development process.

- 3.16 Finally, the delivery of enough homes to make a real difference to London's housing crisis relies on councils having the skills and capacity within planning and housing departments. Over the last eight years, planning and development departments in councils have experienced cuts of up to 50 per cent¹². The Mayor has recently offered planning and housing departments in local authorities the chance to bid for a share of up to £10 million revenue funding to accelerate housing delivery. He is clear, however, that this funding will nowhere near close the gap caused by Government cuts.

4. Towards a new affordable housing offer – managing demand

Types and definitions of affordable homes

- 4.1 The definition of affordable housing has become increasingly complex and often mistrusted in recent years. The Mayor would support an updated and clear legal definition of affordable housing. Such a definition must protect social rent as a tenure as well as allowing for intermediate affordable housing types that are genuinely affordable to the groups they are aimed at. The Mayor believes that all types of social or affordable housing should remain affordable in perpetuity, with provision made to recycle any subsidy and reinvest it elsewhere if homes are sold. A new definition should end the Starter Homes initiative, and enshrine the established role of sub-national authorities, such as the GLA, in tailoring the definition locally.
- 4.2 Notwithstanding the need for a range of affordable housing, the overwhelming need in London is for homes on very low rents. For those on low incomes, the Mayor supports homes for social rent ('London Affordable Rent' is a current workaround which allows the Mayor to make use of national Affordable Rent funding by capping the rents for homes in London that use this funding at social rent levels). For low-cost homeownership, the Mayor's preferred housing type is shared ownership, which enables Londoners to purchase a share in a new home and pay a low rent on the remaining, unsold, share. He also supports other types of low-cost home to buy as long as they are affordable to those whose household incomes fall under £90,000 per year.
- 4.3 The Mayor recognises that there are many Londoners, generally living in the private rented sector, who want to buy a home but are unable to afford even shared ownership due to high prices and/or high deposit requirements. The Mayor therefore created a new type of rent for new-build homes, the London Living Rent (LLR), which is based at one-third of local earnings and calculated at ward level. London Living Rent helps middle income earners by providing them with an affordable home whilst they are saving money to get onto the housing ladder. When funded through the Mayor's programme, London Living Rent homes are, in line with his agreement with the Government, able to be converted to shared ownership over time, meaning people can remain in the same home they have been renting.

Right to Buy

- 4.4 A key driver behind the current shortage of social housing in London has been the impacts of the Right to Buy; since the policy was introduced in 1980 more than 300,000

¹² Centre for London, The London Intelligence - Issue 4, May 2018

social homes have been sold by councils in London, the vast majority of which have not been replaced. One of the key issues is the lack of flexibility given to local authorities and unnecessary restrictions on how they can use the receipts from Right to Buy sales.

- 4.5 Through his 'Building Council Homes for Londoners' programme, the Mayor has offered councils an opportunity to ringfence unspent Right to Buy receipts returned to the GLA for use in their borough of origin. He believes recent proposals from the Government to provide additional flexibilities in how councils can spend receipts do not go far enough, and that decisions on Right to Buy receipts should be devolved entirely to councils.
- 4.6 This devolution should include: ensuring that councils can retain 100 per cent of Right to Buy receipts; further raising the cap on expenditure per replacement unit; removing the time limit for spending new and existing receipts; and implementing the recommendation from the Communities and Local Government Select Committee that councils and housing associations are offered first refusal on resale of homes sold through Right to Buy¹³.

Making the private rented sector more affordable

- 4.7 As outlined earlier in this document, the significant shortage of affordable housing in the capital means that many Londoners rely on the private rented sector. However, there are a number of challenges facing private renters, many of which are underpinned by the fundamentally weak system of security of tenure which persists for private tenants in England and Wales.
- 4.8 The Mayor is developing a new model for tenancy reform called the London Model, which will propose: an end to 'no fault' evictions; a new right to open-ended tenancies for renters; and an effective system to ensure landlords can gain possession where they have legitimate reason to do so. In addition, the Mayor also believes the arguments for a system of rent control are becoming overwhelming, and has asked his Deputy Mayor for Housing James Murray to work with Karen Buck MP to look at what models of rent control might work best in the capital.

Welfare reform

- 4.9 Over the last eight years, many Londoners have been significantly impacted by changes to Local Housing Allowance (LHA), including the freeze in rates introduced in 2016. Many have also been affected by the deductions from Housing Benefit, or the housing support element of Universal Credit, that result from the Benefit Cap. The effects of these measures have typically been more significant for the growing number of low-income households living in the private rented sector, especially larger families, and for younger people. Some social housing tenants are also experiencing difficulties covering the rent for their homes because of the Bedroom Tax. Delays in the assessment and award of Universal Credit, and aspects of the way in which it operates, are also fuelling rent arrears and the resulting risk of homelessness.
- 4.10 In recent years cuts to welfare have contributed to: the steep rise in homelessness; the increasing cost of providing Temporary Accommodation (TA) for homeless households; the growing number of concealed households¹⁴; and the increasing difficulty that local authorities have in preventing homelessness and moving people on from TA or hostels.

¹³ House of Commons Communities and Local Government Committee, Housing associations and the Right to Buy , 2016

¹⁴ Concealed households are those which live as part of another household because they cannot afford their own place to live

The relatively high proportion of households in London who receive benefits, and particularly help with housing costs, means any negative impacts of Universal Credit will be especially widely felt in London.

- 4.11 The Mayor believes the Government must: reverse damaging changes to LHA and the way rates are set to ensure they are sufficient to meet market rents; amend the Benefit Cap in London by restoring it to at least initial levels (and then at a minimum increasing it annually in line with rent inflations); and bring exemptions into line with regulations that apply to work search requirements in the wider welfare system. He also believes that the Bedroom Tax should be ended, and that Universal Credit should be closed to all new claims until it is fit for purpose and transitional protections are in place for all legacy benefit claimants.

Overseas buyers and empty homes

- 4.12 Many Londoners are concerned about empty homes in London, and the impact of overseas investors. In 2016, the Mayor commissioned the most thorough research ever undertaken on the role of overseas investors in London's housing market¹⁵. The research found that more than half of sales to overseas buyers were for properties costing between £200,000 and £500,000. On the back of this he accepted a voluntary 'First Dibs' offer from developers, which ringfences new homes for market sale at up to £350,000 for UK-based buyers for three months before they are marketed overseas. Those living or working in London also get an additional period of exclusivity of up to a month at the beginning of this window. To date 40 developers have signed up to the approach¹⁶.
- 4.13 While the number of recorded long-term empty homes in London is at a historically low level, at 0.6 per cent of total housing, cases of suspected empty homes seem to be concentrated in higher value areas such as in prime central London. Twenty-nine councils in London currently levy the empty homes Council Tax premium on properties that have been empty for two years or more. This levy currently equals an additional 50 per cent of the Council Tax payable for a property, and in 2017, the Government announced its intention to double the premium. However, as the Mayor has previously argued in his representations to Ministers, he believes councils should be allowed to set the levy at whatever rate is necessary to make it effective, and loopholes in the legislation should be closed. In his draft London Plan, the Mayor has set out his support for councils who choose to address 'buy to leave' properties through appropriate planning measures based on local evidence.

5. What else needs to change?

Ensuring the voices of social tenants are heard

- 5.1 The Mayor believes more needs to be done to improve protections for Londoners living in social housing and ensure their views are heard and acted upon. As a minimum, it is essential that the system for regulating social housing is genuinely responsive to the concerns of tenants, leaseholders, and freeholders on social housing estates. This includes ensuring that residents have their voices heard by landlords at a local level, and by policy-makers at the national level.

¹⁵ LSE, The role of overseas investors in the London new-build residential market, 2017; University of York Overseas Investors in London's New Build Housing Market, 2017

¹⁶ Greater London Authority, Housing in London 2017, 2017

- 5.2 The Regulator of Social Housing should have two responsibilities in this area: first, to ensure residents of social housing receive an adequate service; and second, to protect public investment by ensuring social landlords are well managed. The Regulator should carry out these responsibilities through ongoing performance monitoring of landlords to encourage responsible behaviour, as well as more detailed investigations of potential organisational failure, with enforcement action where necessary.
- 5.3 In the London Housing Strategy, the Mayor sets out his concern that the Social Housing Regulator will only take regulatory action in relation to residents' issues if the test of 'serious detriment' is met. This sets the bar too high and as such he supports the removal of this test.
- 5.4 In addition, to truly give tenants and leaseholders a voice at the heart of Government, the Mayor believes Ministers should appoint a Commissioner for Social Housing Residents. The Commissioner should be a social housing tenant and their role would be to champion the views and interests of social housing residents and make recommendations for future Government policy.
- 5.5 The Mayor has shown his commitment to resident engagement by introducing a new condition of City Hall funding for strategic estate regeneration projects. This condition requires residents to have voted in favour of plans that involve the demolition of social homes. This is the first time such a policy has been introduced anywhere in the country, placing residents at the heart of decision-making about their homes.

Building safety

- 5.6 The Mayor is clear that every step must be taken to ensure a tragedy like the fire at Grenfell Tower never happens again. He strongly supports the London Fire Brigade's campaign to increase automatic fire suppression systems, such as sprinklers, across all building types, and especially high-rise buildings and those with more vulnerable occupants. This campaign extends to retrofitting within existing tower blocks and the Mayor is calling on the Government to make funding available to support this work.
- 5.7 In his submission to the call for evidence for the Hackitt Review, the Mayor highlighted the problems with a market approach to building control. He believes the competitive approach to building control should be ended to ensure decisions are made based on safety, rather than market share. He was pleased to see that the final recommendations included a restriction of the role of Approved Inspectors through the Joint Competent Authority. He is concerned, however, that the review's focus on high-risk residential buildings over 10 storeys does not go far enough to protect Londoners and he is calling on Government to explore how the recommendations could be implemented for a wider range of buildings.