

# Subject: Meeting London's Future Affordable Housing Needs

Report to: Planning and Housing Committee

Report of: Executive Director of Secretariat

Date: 29 March 2011

This report will be considered in public

## 1. Summary

- 1.1 This report sets out background material for the Committee's meeting with guests to discuss the subject of affordable housing in London.

## 2. Recommendations

- 2.1 **That the Committee notes the action taken by the Chair, in consultation with other Members of the Committee, to agree the scope and terms of reference for its investigation into affordable housing in London, as set out in paragraphs 3.5 to 3.8.**
- 2.2 **That the Committee notes this report as background and puts questions to the invited guests.**

## 3. Background

- 3.1 At its meeting on 23 November the Committee agreed a work programme report (Item 6) that recommended the Committee agrees that the main agenda items for its final two meetings of 2010/11 are based on issues surrounding Government proposals that affect housing in London.
- 3.2 One of the main items of the Committee's ongoing work relates to examining issues affecting the delivery of new homes in London and to make positive contributions to the Mayor's housing strategy. As a key part of this process the Committee will want to understand the issues that affect how affordable housing provision can be delivered in the future and how demand for that housing will change following the Government's announced housing reform packages and the financial settlement that sets the London Region Homes and Communities Agency budget.
- 3.3 A number of Government policy and financial proposals relating to housing have been announced. These affect, among other issues; the budget for affordable housing; ways of increasing new housing supply; review of the Housing Revenue Account Subsidy System; and the "Affordable Rent" model to be offered by housing associations.
- 3.4 At the time the agenda for this meeting went to print it is expected that the Mayor will produce a revised housing strategy for consultation with the Assembly and Functional Bodies in April/May 2011 and for consultation with the public in June/July 2011. The revised housing strategy is likely to reflect a number of Government and Mayoral policy developments including:

- Implications arising from the final housing budget allocation for London;
- Relevant Government policy proposals such the new affordable rent product for housing associations, devolved delivery and arrangements following the transfer of responsibilities of the Homes and Communities Agency (London) to the Mayor; and
- Mayoral housing initiatives such as his proposals for promoting housing choice and mobility and to address rough sleeping.

### **Terms of reference for the next two Committee meetings**

- 3.5 Following consultation with the Committee Members at an informal meeting on 9 February 2011, the term of reference was agreed as: *“To inform the Assembly’s contribution to a revised Mayor’s housing strategy and to identify the key issues that the Mayor will need to consider in revising his strategic approach to housing in London.”*
- 3.6 Specifically the Committee will want to understand what volume of affordable housing provision can be provided in the new 2011/15 spending period and how demand for that housing will change following the Government’s announced social housing reform and funding settlement.
- 3.7 These meetings will allow the Committee to discuss with external experts the implications of housing reform proposals and budgets for the Mayor’s housing strategy when a draft is sent to the Assembly for comment and would prepare the ground for the second meeting, with GLA housing officers/Mayoral advisers regarding the strategy consultation.
- 3.8 Members may wish to use this meeting as an opportunity to discuss with external experts the implications of the various policy and budgetary changes that will affect the delivery of affordable housing in London by a wide variety of partners. Discussions will also cover the issues that have led to the need to revise the strategy as part of a “pre-scrutiny” so that they may be better prepared for responding to the Mayor’s formal consultation later in the year.

## **4. Issues for consideration**

- 4.1 The Mayor appears to be on track to achieve his target of 50,000 new homes in London by 2012. However the Mayor’s ability to maintain this progress in the next investment period is less clear as the Comprehensive Spending Review set tough limits on public subsidy for affordable housing.
- 4.2 The final budget for Homes and Communities Agency 2011/15 funding for London has yet to be confirmed, although the national budget has been set at some £4.5 billion. Under the 2008-11 affordable housing budget London received funding estimated to deliver around 27 per cent of national outputs. The Government expects that the HCA will deliver a similar share from the 2011/15 programme in London<sup>1</sup>.
- 4.3 In November 2010, the Government published “Local decisions: a fairer future for social housing”<sup>2</sup>, setting out plans for radical reform of the social housing system. The paper signalled the Government’s intention to change legislation governing the types of tenancies granted to social housing tenants; the way social housing is allocated; how local authorities discharge their main homelessness duty; as well as legislating to improve mobility for social tenants.

<sup>1</sup> Paragraph 2.35 <http://www.homesandcommunities.co.uk/public/documents/Affordable-Homes-Framework.pdf>

<sup>2</sup> <http://www.communities.gov.uk/documents/housing/pdf/1775577.pdf>

4.4 As set out by the Department for Communities and Local Government<sup>3</sup>, the main elements of the package of reforms to tenure, allocations, homelessness and mobility, covered in the consultation paper were:

#### **Tenure**

- The creation of a new local authority flexible tenancy with a minimum fixed term of two years and with similar rights to secure tenants - in addition to secure tenancies.
- Protection for the rights of existing secure and assured tenants.
- Providing that all new secure and flexible tenancies include a right to one succession for spouses and partners; giving landlords the flexibility to grant whatever additional succession rights they choose.
- Placing a new duty on local authorities to publish a tenancy strategy.
- Giving the Secretary of State a power to direct on the content of a Tenancy Standard.

#### **Allocating social housing**

- Giving local authorities new powers to manage their housing waiting list.
- Making it easier for existing social tenants to move within the social sector – by removing the constraints of the allocation legislation from transferring tenants not in housing need.

#### **Mobility**

- Legislating to facilitate the introduction of a nationwide social home swap scheme to increase mobility for existing social tenants.

#### **Homelessness**

- Giving councils the power to bring their homelessness duty to an end with offers of suitable private sector accommodation without requiring the agreement of the person owed the duty.

#### **Affordable rent**

- 4.5 The funding of affordable housing is changing as Government grant is set to be reduced and replaced by more borrowing from the private sector funded by higher rents for new tenancies.
- 4.6 In December 2010 the Government announced the new “Affordable Rent” model to be offered by housing associations from April 2011. It is intended that Affordable Rent will give housing associations the flexibility to convert vacant social rent properties to Affordable Rent at re-let, at a rent level of up to 80 per cent of market rent. Housing associations will be able to convert vacant properties to Affordable Rent where they have reached an investment agreement with the Home and Communities Agency about how additional rental income will be reinvested in the supply of new affordable housing<sup>4</sup>.
- 4.7 Nationally, around £2 billion of the £4.5 billion HCA budget for 2011/15 will support the delivery of new Affordable Rent homes.

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<sup>3</sup> <http://www.communities.gov.uk/documents/housing/pdf/1853054.pdf>

<sup>4</sup> <http://www.communities.gov.uk/statements/corporate/localismbillsocialhousing>

- 4.8 On 14 February the HCA published the Affordable Homes Programme Framework (2011/15)<sup>5</sup> that set out the details of how the new Affordable Rent product will generate the additional financial capacity needed to support the supply of new affordable housing.

### **Arrangements in London and the role of the Mayor**

- 4.9 The Mayor already has strategic responsibility for housing in the capital through his statutory London Housing Strategy (published February 2010) that sets out his vision and policies for housing and informs his funding priorities for the 2011-15 period. From April 2012, the Mayor will take responsibility for housing investment in the capital.

- 4.10 The Framework includes information on how arrangements will work in London, reflecting the Government's intention to devolve responsibilities for delivering new affordable homes to the Mayor.

- 4.11 As set out in the Framework:

*"Providers will be expected to deliver a range of rents across their development proposals from homes let at target rents up to a maximum of 80 per cent of the market rent. In order to maximise the number of new homes, it is expected that most will be let at, or close to, the 80 per cent limit. However, there will be circumstances where rents may need to be set at lower levels. This may include areas where market rents are exceptionally high, in the provision of supported housing or in regeneration schemes where there is a clear pre-existing commitment to the re-provision of homes at target rent levels."*

- 4.12 Housing associations raising additional borrowing capacity from the conversion of social rent properties to Affordable Rent in London will be encouraged to reinvest those resources in new supply in London.

- 4.13 The Framework refers to the targets within the Mayor's draft replacement London Plan for the annual provision of an additional 32,210 homes and, within this, 13,200 new affordable homes every year and identifies:

*"London's most pressing need is for more family-sized affordable homes. The Mayor will therefore expect providers to come forward with proposals which contain a significant element of three-bed or larger units."*

- 4.14 It also refers to the way the proposals will relate to the implementation of the Mayor's First Steps affordable home ownership programme, Pan-London Mobility scheme and Overcrowding Action Plan<sup>6</sup>.

### **Areas of discussion**

- 4.15 It is suggested the Committee should use this meeting to discuss various issues affecting the future delivery of new affordable homes in London and the implications of the various proposals, set out above, for forthcoming revisions to the Mayor's housing strategy. Subjects for discussion may include:

- What difference the new affordable rent model will make to the volume of homes that will be built in the future.
- The way arrangements for framework contracts between housing providers and the Mayor will work in London.
- Implications for the Mayor's First Steps, mobility and overcrowding policies.

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<sup>5</sup> [www.homesandcommunities.co.uk/affordable-homes](http://www.homesandcommunities.co.uk/affordable-homes)

<sup>6</sup> Paragraphs 7.8 – 7.15 <http://www.homesandcommunities.co.uk/public/documents/Affordable-Homes-Framework.pdf>

4.16 Guests for this item include the following:

- **Rod Cahill, Chief Executive, Catalyst Housing Group.** Catalyst Housing Group provides more than 19,000 homes across west London and the Thames Valley. It plans to increase the number of homes it manages to 30,000 by 2012. Its construction goal during the next few years is to double development completions to exceed 1,000 new mixed tenure dwellings a year by 2012/13. Catalyst's tenure balance will shift towards sale (intermediate and outright) compared with previous years. Catalyst is planning to improve profitability by 50 per cent by 2012 so it can generate capacity to invest in homes and services.
- **David Montague, Chief Executive, London and Quadrant (L&Q).** L&Q manages over 62,000 homes in London and the south-east and plans to add 7,000 more homes to its portfolio in the next few years. Its turnover increased from £306 million to £330 million last year, and the group posted a surplus of £61 million which was re-invested in the delivery of more homes, stock improvement and neighbourhood schemes. 62 per cent of L&Q homes were allocated to those on housing waiting lists a third of whom had previously been registered homeless. In January 2010 L&Q raised £300 million in private funding through a debut bond issue to help fund its future development programme to support its development plans for 10,000 homes over the next five years.
- **Professor Steve Wilcox** (University of York and special adviser to House of Commons Committees). Professor Wilcox has specialist knowledge in the area of housing finance and is editor of annual UK Housing Review published by the Chartered Institute of Housing and the Council of Mortgage Lenders. He has been responsible for developing a number of innovative policy proposals, for example with respect to the finance and management of local authority housing. His current and recent research has focused on low income working households in the private rented sector, the need for market and affordable housing and developing the Sustainable Home Ownership Partnership.

## 5. Legal Implications

5.1 The Committee has the power to do what is recommended in the report.

## 6. Financial Implications

6.1 There are no direct financial implications arising from this report. Financial implications for individual programmes of work in 2011/12 will be dealt with separately in reports to the Committee as and when the Committee is required to make relevant decisions.

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### List of appendices to this report:

None

<b>Local Government (Access to Information) Act 1985</b>
List of Background Papers:
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