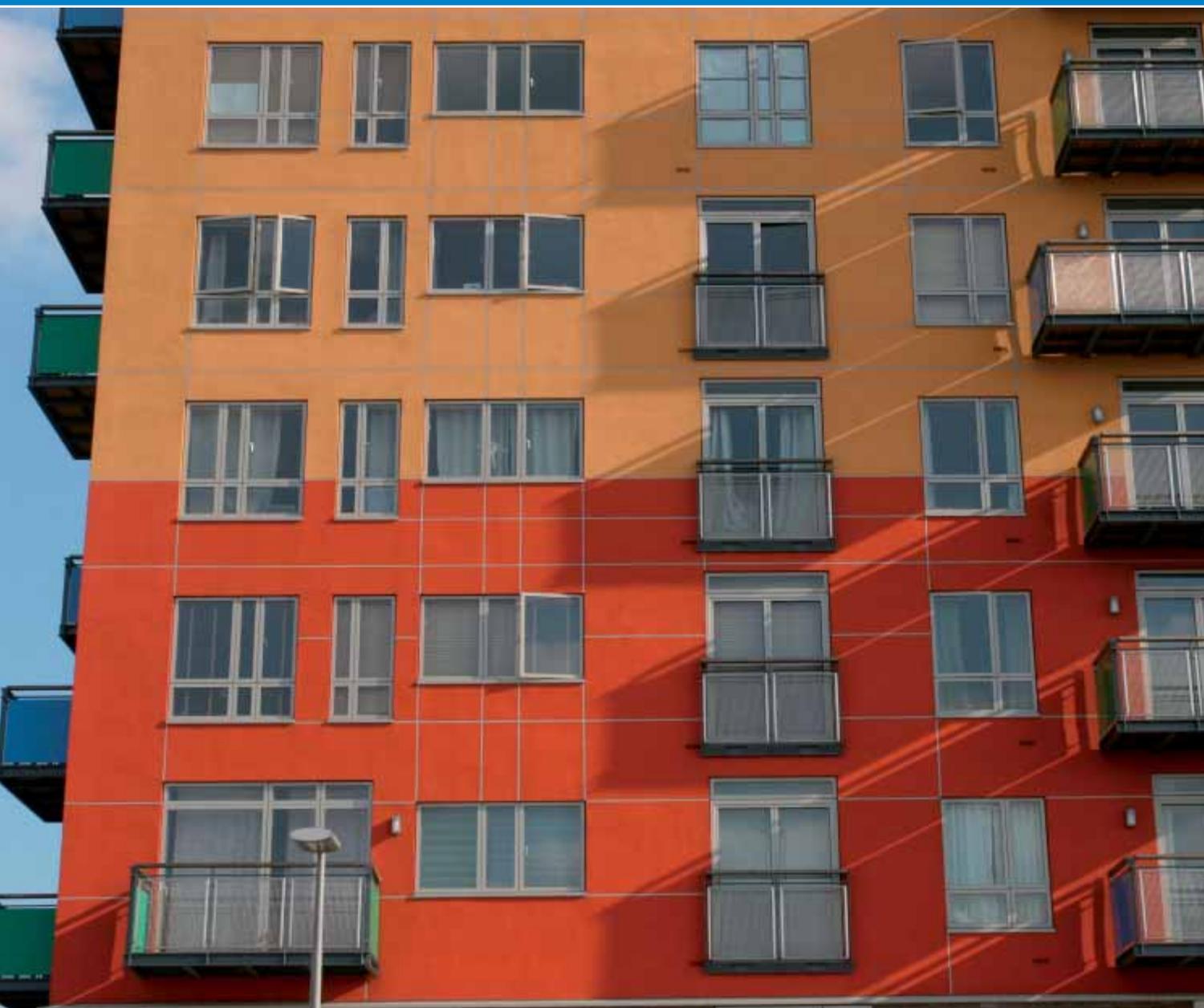


Unintended Outcomes?

Housing Corporation grant and affordable housing in London
June 2007



Unintended Outcomes?

Housing Corporation grant and affordable housing in London

June 2007

copyright

**Greater London Authority
June 2007**

Published by

Greater London Authority
City Hall
The Queen's Walk
More London
London SE1 2AA

www.london.gov.uk

enquiries **020 7983 4100**

minicom **020 7983 4458**

ISBN 978 1 84781 028 1

Cover photo © Belinda Lawley

This publication is printed on recycled paper

Planning and Spatial Development Committee Members

Committee Members

Tony Arbour (Chairman)	Conservative
Val Shawcross (Deputy Chair)	Labour
Sally Hamwee	Liberal Democrat
Darren Johnson	Green
Joanne McCartney	Labour
Bob Neill	Conservative

Rapporteur

John Biggs	Labour
------------	--------

Terms of reference for this rapporteur investigation:

To understand the circumstances under which boroughs in London use Housing Corporation Grant to secure social housing and how the different approaches to the use of that grant raises policy issues in meeting the Mayor's housing targets.

Assembly Secretariat contacts

Paul Watling, Scrutiny Manager
020 7983 4393 paul.watling@london.gov.uk

Teresa Young, Committee Co-ordinator
020 7983 6559 teresa.young@london.gov.uk

Lisa Jane Moore, Media Officer
020 7983 4228 lisa.moore@london.gov.uk

Table of contents

	Page
Rapporteur's foreword	5
Executive summary	7
 Report	
1 Introduction	9
2 Housing need and the need for affordable housing	11
3 Delivering housing in London – the major players	13
4 Housing capacity and housing targets	14
5 Performance in meeting London's housing need	16
6 Factors influencing the provision of affordable housing in London	20
7 Sub-regional working and the nomination process	22
8 Value for money and Housing Corporation grant	26
9 Looking ahead	30
10 List of recommendations	34
 Appendices	
1 Major players in London's affordable housing	36
2 London Plan Housing Targets	39
3 RSL proportion of new housing completions	40
4 Summary of borough policies on seeking contributions towards affordable housing	41
5 List of organisations contributing views and information	43
6 Principles of London Assembly scrutiny	44
7 Orders and translations	45

Rapporteur's foreword



Walk across Waterloo Bridge from North to South and count the number of cranes. Just as you think you have counted them all, more pop out as your view of the city opens up. I counted 30 by the time I got to the end, but I probably missed a few. London is booming bringing jobs and opportunities for many living in London.

As London grows, demand for property increases. Rising property prices are increasing the wealth of those who already own a house or flat but are moving the first step on the property ladder further from those on moderate incomes. And for those who cannot afford to buy, renting decent housing is the only alternative. This is why increasing the amount of affordable housing in London has become a policy priority and a cornerstone of the London Plan.

Subsidy will almost always be needed to build more new affordable housing and the biggest source of subsidy is public – from Housing Corporation grant.

This report reviews the operation of the Housing Corporation's grant programme for the provision of new affordable housing in London at a time of great change in housing policy in the capital. Over the next twelve months the Mayor is set to assume new housing powers, including to make decisions on the affordable housing part of the Housing Corporation's London programme.

Our review has found, at the headline level, that the Housing Corporation's 2006/08 programme will increase affordable housing output by 10,000 completions per year; and that the Corporation works hard to ensure that grant not spent one year comes back to London in later years.

However the review also found that, despite a general commitment to the provision of significant shares of affordable housing in new developments, completions remain variable across the boroughs – ranging from just over 10 per cent to just over 80 per cent – to give an average figure of just 31 per cent a year, well below the Mayor's target of 50 per cent.

We also believe that the Housing Corporation grant may be creating unintended outcomes, as some boroughs do not seek grant for developments in their own areas yet benefit by being able to fill housing units in more pro-active neighbouring boroughs with residents from their own waiting lists.

Under some Corporation rules, where schemes are not eligible for grant, developers are encouraged to seek a social housing partner who brings the greatest amount of subsidy to the scheme. In some circumstances developers will hold their own social housing partner "beauty contests" which are based on who would pay the most for completed affordable housing units, or who can add sufficient capital to remove the need for gap funding. This works against the smaller ones who are often most able to meet specialist local needs

This report highlights barriers to a more effective affordable housing policy and makes recommendations to support more effective delivery for homes for people on moderate incomes. London needs to do more to boost the number of homes available to buy and rent for those who don't benefit from exorbitant city bonuses. I hope this review will go some way to achieving that goal.

John Biggs AM

Executive summary

A significant problem facing many Londoners is finding a home that they can afford – not just to buy, but also to rent. Affordable housing has overtaken crime and safety to become Londoners' top priority for improving the city.

The Mayor has recently gained new powers that will enhance his housing role in setting out his priorities for tackling London's housing problems. Meanwhile the Housing Corporation, the largest source of public subsidy in the provision of new affordable housing in the country, has announced record investment in London, set to reach some £1.7 billion pounds over the next two years – up from £342 million in 2001/02 to over £800 million in 2007/08.

The number of new homes in London has risen from just over 18,100 in 2001 to over 28,300 in 2005/06. New affordable housing units, many of which benefit from Housing Corporation grant, contributed 31 per cent of conventional completions last year.

Not all those new housing developments aimed at providing affordable housing for rent make use of Housing Corporation grant. Some London boroughs are taking advantage of opportunities to access this record level of funding and are implementing very effective affordable housing policies, in terms of securing social housing grant. However, the performance of others is less strong.

In a previous investigation into affordable housing, this Committee was told there are a number of reasons for this variable output. These include:

- Insufficient public subsidy for affordable housing both in terms of total subsidy and subsidy per dwelling/per person;
- Less than effective use of section 106 as a form of subsidy for affordable housing;
- Boroughs may not have sufficiently high affordable housing targets. For example, in some boroughs there may be political opposition to increasing affordable housing targets.

This investigation found a number of other possible factors which may be determining borough policies on seeking affordable housing grant from the Housing Corporation to produce variable patterns of provision across London.

These may include:

- The requirement to make a proportion of new homes delivered with Housing Corporation grant available to residents on other boroughs' housing waiting lists;
- The effect of seeking to maximise value for money when allocating Housing Corporation grant. While this may increase the overall number of homes that can be funded it may also come at the expense of wider housing objectives such as creating mixed and balanced communities in boroughs where land values are either very high, or very low;

- Bidding guidance and funding rules favour larger Registered Social Landlords (RSL) with their own capital backing. These may be at an advantage when developers are seeking a social housing partner at the expense of smaller specialist landlords that could meet specific local needs;
- Imperfect access to housing opportunities for Londoners in the housing growth areas in the rest of southeast England;
- There is not always good integration between local and sub-regional housing and planning strategies. This can mean that there are conflicting priorities between meeting housing need and achieving regeneration objectives.

The report makes a number of recommendations that are summarised below:

- There should be a review of the reconciliation process for nominations to places in new affordable housing within sub-regions with possibly a greater proportion of nominations for host boroughs and the inclusion of nil grant schemes in sub-regional nominations.
- There is a need for a better system of auditing land sales which otherwise can be used to distort land values used in the calculation of Housing Corporation grant which is required to subsidise affordable housing.
- There should be an analysis of how value for money calculations in deciding the allocation of Housing Corporation grant may be changed they do not obstruct wider housing objectives of creating mixed and sustainable communities.
- There should be better support for small or specialist RSLs where they can cater for specific local housing need.
- There is a need for better integration of the National Affordable Housing Programme by opening up opportunities for Londoners to access new affordable housing in the growth areas in the south east of England.
- There should be closer integration between borough and sub regional housing and planning strategies so that housing need and regeneration principles are not working against each other.
- There should be a review into the working of the private rented housing sector in London to investigate how this sector is delivering solutions to housing need.

The Mayor's Housing Strategy, which is currently being drafted, offers the timely opportunity to undertake this assessment, before we are faced with a situation where the current system is viewed as failing to properly serve Londoners in housing need.

1 Introduction

- 1.1 A significant problem facing many Londoners is finding a home that they can afford – not just to buy, but also to rent. Affordable housing has overtaken crime and safety to become Londoners’ top priority for improving the city.¹
- 1.2 In London today there is some of England’s most extreme housing need. Severe overcrowding is growing in the Capital while in the rest of the country it is falling. Homelessness is an endemic problem and has intensified over the last 25 years. The number of people in temporary accommodation has doubled in the last decade.
- 1.3 Public investment plays an important part in meeting London’s housing need, particularly in the provision of new affordable housing for rent in a city where house prices are predicted to carry on rising at a faster rate than ever before.²
- 1.4 The Mayor has recently gained new powers that will enhance his housing role in setting out his priorities for tackling London’s housing problems. Meanwhile the Housing Corporation, the largest source of public subsidy in the provision of new affordable housing in the country, has announced record investment in London, set to reach some £1.7 billion pounds over the next two years.
- 1.5 The number of new homes in London has risen from just over 18,100 in 2001 to over 28,300 in 2005/06. New affordable housing units, many of which benefit from Housing Corporation grant, contributed 31 per cent of conventional completions last year.
- 1.6 But not all those new housing developments aimed at providing affordable housing for rent make use of Housing Corporation grant. The Committee heard during the course of a previous investigation that some London boroughs are taking advantage of opportunities to access this record level of funding and are implementing very effective affordable housing policies, in terms of securing social housing grant. However, the performance of others is much weaker.³
- 1.7 This brief investigation has sought to understand how boroughs in London decide to use Housing Corporation grant to secure social housing and how the different approaches to the use of this grant raise policy issues in meeting the Mayor’s housing targets.
- 1.8 Discussions were held with some of the key players in London’s housing community – the funders, the providers, the strategists and the implementers, to understand the complex dynamics surrounding the provision of affordable housing in this city. We also had the benefit of a range of views from a third of London’s boroughs that gave an insight into the wide ranging factors which are taken into account when trying to address London’s housing need at a local level.

¹ Annual London Survey 2006 http://www.london.gov.uk/mayor/annual_survey/index.jsp

² “London’s Housing Timebomb.” London Housing Federation 2006

³ http://www.london.gov.uk/assembly/planning/2005/plan02nov/minutes/plan02novminutes_appa.rtf

- 1.9 This investigation aimed to assess the partnership arrangements that have been developed to deliver affordable housing in London, and examine whether there are tensions which hamper the provision of affordable housing.
- 1.10 As the Mayor assumes the roles of the London Housing Board and, through his housing strategy, influences the Housing Corporation's spending priorities, a further objective of the work was to anticipate further tensions that might emerge.
- 1.11 This study was necessarily brief and at a high level. The information obtained points to a number of conclusions, many of which are supported by a mixed body of evidence. In particular, much of our evidence regarding any tensions that might exist was received 'off the record' and this has made writing the report difficult, as the Assembly's practice is to draw conclusions only for which there is documented or attributable evidence. Therefore some of the conclusions remain in outline and require further investigation, but these can nevertheless be tentatively reported.
- 1.12 Our recommendations are set out in the spirit that further work will be welcomed by all those with an interest in making affordable housing as much a priority for themselves as for Londoners.

2 Housing need and the need for affordable housing

2.1 London's population is set to grow substantially over the next ten years, from 7.3 million in 2003 to a projected 8.1 million by 2016.

2.2 There were 3.1 million households in London in 2001 but the estimate in the London Plan is that the capital's population increase by 2016 could lead to an increase of 336,000 households – equivalent to 22,400 more households per year.

Housing need

2.3 London already has some of the most acute housing problems in the country and this growth will place tremendous strains on the capital's already creaking ability to house its own citizens. The London Housing Federation has described the situation as a time bomb.⁴ The Federation, which represents London's housing associations, has highlighted the need for more affordable housing in London as prices rise faster than salaries and the number of new affordable homes is outnumbered by those lost through Right to Buy.

2.4 The scale of the problem for London is challenging to say the least. As an illustration of this, in 2005/06:

- There were 63,000 households in temporary accommodation.⁵
- London had 333,000 households on council waiting lists – 22,000 more than the previous year.⁶
- 212,000 households were overcrowded.⁷

2.5 London is responding to this challenge and the Capital has seen an increase in home building from just over 18,100 homes in 2000/01 to over 28,300 in 2005/06.⁸ This represents an increase in the rate of new housing of 56 per cent. It is not however sufficient to accommodate the growth in population – it also needs to address the historic undersupply of new housing that has helped to create the problem of housing shortages in the Capital.

Lack of affordable housing

2.6 Since 1984 the total number of dwellings in London has increased by over 400,000.

2.7 Social housing now makes up 25 per cent of London homes, compared to 35 per cent in 1984. While there has been a doubling of Registered Social Landlord (RSL) stock, an increase of 188,000 dwellings, much of the RSL increase has been brought about by stock transfers of local authority housing. Partly as a result of this there has been a reduction of 298,000 local authority homes. New development and

⁴ London's Housing Time bomb. London Housing Federation, 2006

⁵ Department of Communities and Local Government, Statutory Homelessness, Quarter 4 2006

⁶ Department of Communities and Local Government, Housing Strategy Statistical Appendix data 2005/06

⁷ Department of Communities and Local Government, Survey of English Housing, live table S140

⁸ London Plan Annual Monitoring Report 3, March 2007

acquisition of social housing by RSLs has therefore not kept pace with the overall loss of local authority stock.⁹

- 2.8 Affordable housing is not defined by tenure. The London Plan defines it as housing designed to meet the needs of households whose incomes are not sufficient to allow them to access decent and appropriate housing in their borough.¹⁰ It comprises social housing and intermediate housing provision. It can be provided by local authorities, housing associations and co-operatives, developers or private landlords.¹¹
- 2.9 A landlord provides social housing where access is on the basis of housing need, and rents are no higher than target rents set by the government for housing association and local authority rents. Most people living permanently in the UK are eligible to join waiting lists for social housing. However priority must be given to certain groups (defined by law) such as those who are statutorily homeless, those with medical needs and those living in very poor conditions.
- 2.10 Intermediate housing is “sub-market” housing, which is above target rents, but is substantially below open market levels and is affordable to households on incomes of less than £52,500.¹² This category can include shared ownership and other sub-market rent provision and key worker housing which meets this criterion. It may also include some low-cost market housing where prices are equivalent to other forms of intermediate housing.
- 2.11 Market housing comprises both owner-occupied and private rented housing, which does not meet the affordability and access criteria for social housing or intermediate housing.
- 2.12 London’s housing need is increasingly being met by the private rented sector which now provides homes to 544,000 households, representing some 17 per cent of stock in the capital.¹³
- 2.13 The evidence base used to develop the current London Housing Strategy found that the amount of new housing required, based purely on housing need (affordability, size and condition criteria), would amount to the following number of new homes in the different tenures over the next ten years:
- Market 121,100 (34%)
 - Intermediate 24,500 (7%)
 - Social 207,900 (59%)

⁹ <http://www.london.gov.uk/mayor/housing/evidencebase/evidencebase.rtf>

¹⁰ London Plan, Draft Further Alterations, September 2006, Policy 3A.6 Definition of affordable housing

¹¹ <http://www.london.gov.uk/mayor/strategies/sds/docs/spg-housing.rtf>

¹² The figure is to be reviewed annually to reflect changes in income/house-price ratios

¹³ http://www.communities.gov.uk/pub/15/Table109_id1156015.xls

3 Delivering housing in London – the major players

3.1 As affordable housing has become a priority for policy makers, strategic, financial and organisational frameworks have been developed to rise to the challenge.

3.2 In London there are a large number of major players who interact to deliver the required increases in the numbers of new homes. These are:

- The Mayor of London, who has recently been awarded powers to prepare London's Housing Strategy and make decisions on the priorities for allocation of the "affordable housing pot" – the Housing Corporation's investment programme for London.
- The Housing Corporation, which is the national Government agency that funds new affordable housing and regulates housing associations in England. Under the National Affordable Housing Programme the Housing Corporation is planning to invest, in 2006/08, some £3.9 billion nationally, including £1.7 billion in London.
- Registered Social Landlords (RSL) who are independent not for profit organisations. Since the late 1980s almost all new social housing has been provided by RSLs. There are about 400 operating in London. RSLs submit bids to the Housing Corporation in a competitive bidding round. The Corporation approves schemes that meet local housing needs at affordable rents and that offer good value for money in terms of the public subsidy required and the quality of homes delivered.¹⁴
- The London Housing Federation, which is a regional office of the National Housing Federation and supports and promotes the work of RSLs and campaigns for better housing and neighbourhoods. Overall its members provide around 500,000 affordable homes in London.
- The thirty-three London boroughs, which still have statutory responsibility for key housing functions – including homelessness and lettings. For housing investment purposes, they are now organised into five sub-regions that were established in 2003 in response to changes in the Housing Corporation's investment programme. The sub-regions have each developed a housing strategy that is aimed at playing a major role in achieving the objectives set out in the London housing strategy.¹⁵

¹⁴ <http://www.communities.gov.uk/index.asp?id=1150313>

¹⁵ Further details of the roles and responsibilities of these major players are set out in Appendix 1

4 Housing capacity and housing targets

- 4.1 All regional and local planning authorities must develop their strategic and local approaches with regard to national policy. Government has set out its objectives for housing to ensure that everyone has the opportunity to live in a decent home, which they can afford, in a community where they want to live.¹⁶ Mixed and sustainable communities are a central part of this policy objective.
- 4.2 Variety of housing is the key for achieving mixed communities. Variety is considered in terms of tenure, size of unit, price and the demographic mix of different households such as families with children, single person households and older people.
- 4.3 Since the Mayor has decided that London's population growth is to be largely contained within the city's existing boundaries, the amount of land to build new housing is effectively a finite resource. Assessment of the capacity of different parts of London to accommodate this growth is therefore an important factor in the strategy to increase affordable housing.
- 4.4 A strategic view in London must make connections between housing need across the capital, different capacities of boroughs to deliver housing, the financial viability of housing development, the physical capacity available in each borough and the quantity of the existing social rented housing stock.

Housing need, capacity and the provision of affordable housing

- 4.5 As the Regional Planning Authority for London, the Mayor is required to calculate and identify sufficient capacity to meet London's housing targets.
- 4.6 The 2004 London Housing Capacity Study assessed London's potential housing capacity over the period 2004 to 2027 and has underpinned the housing provision targets in the London Plan.
- 4.7 These new targets were published in December 2006 as the Housing Provision Targets, Waste and Minerals Alterations¹⁷ and, following the Examination in Public, were adopted from April 2007 as statutory London targets. They set out the ten-year housing target and annual monitoring targets for each borough and sub-region (Appendix 2).¹⁸
- 4.8 Mayoral targets for affordable housing provision are based on an assessment of housing requirements and capacity from all sources. Targets are also to take account of the London-wide objective that 70% of affordable housing should be social housing at or below target rents and that 30% should be intermediate

¹⁶ Planning Policy Statement 3, Housing, November 2006

http://www.communities.gov.uk/pub/931/PlanningPolicyStatement3Housing_id1504931.pdf

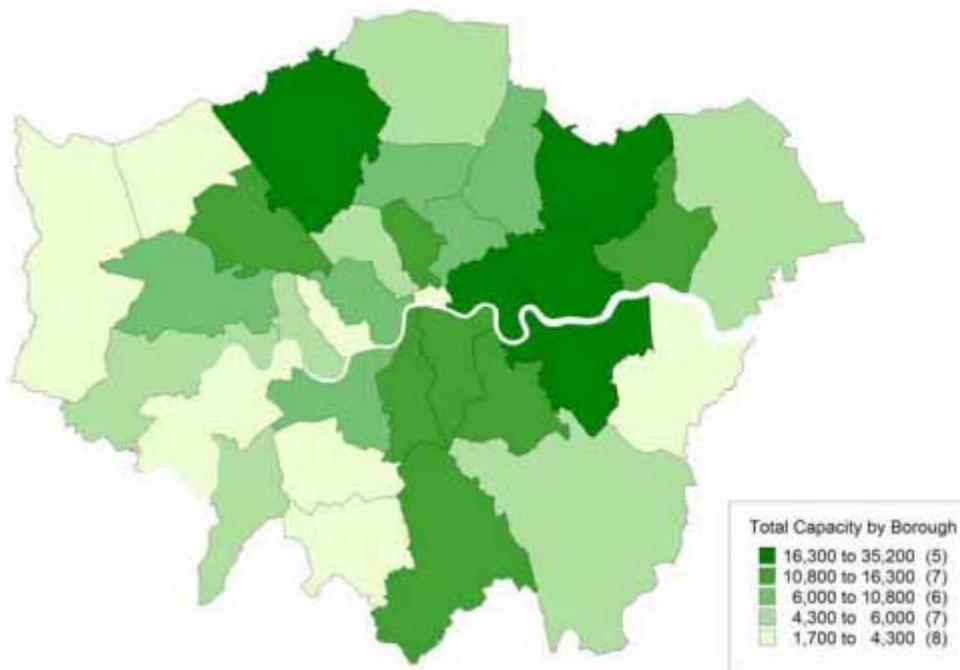
¹⁷ http://www.london.gov.uk/mayor/strategies/sds/lon_plan_changes/docs-final/early-alt.s.pdf

¹⁸ http://www.london.gov.uk/mayor/strateon_plan_changes/docs-final/early-alt.s.rtf

housing affordable by households in an annually updated income range. For 2007 this household income range is £16,900 to £52,500 per annum.

- 4.9 The distribution of capacity between the boroughs, shown below, is variable, and shows a strong concentration in the boroughs to the east. Some 38 per cent of London's capacity is located within the seven Thames Gateway boroughs.
- 4.10 Newham, Tower Hamlets and Greenwich have been allocated 27 per cent of the future housing capacity in London. Other major contributory boroughs are Barnet, Redbridge and Southwark.
- 4.11 Despite the concentration of capacity in the Thames Gateway, outer London boroughs have 53 per cent of London's capacity for new housing.

Housing capacity by borough



5 Performance in meeting London's housing need

5.1 General trends show a steady increase in the number of homes from all sources built annually in London:¹⁹

- 2001 18,156
- 2002 21,531
- 2003/04 24,608
- 2004/05 27,364
- 2005/06 28,309²⁰

5.2 The table below shows overall borough performance in 2005/06 in delivering new homes against the original London Plan target of 22,930 new homes per annum. The table also shows the net new affordable housing provision.

5.3 In total 28,309 net additional homes were provided which is 123 per cent of the original London Plan target and 93 per cent of the revised London Plan target of 30,500 new homes a year, which will apply from April 2007.²¹ Conventional new build affordable housing completions were 7,653 in 2005/06, which represented 31 per cent of the 24,813 total new homes in London.²²

Housing completions 2005/06	Net conventional completions - all tenures	Conventional component of housing provision target	Net conventional affordable supply
Barking and Dagenham	495	445	247
Barnet	768	740	308
Bexley	96	265	58
Brent	1039	485	196
Bromley	617	555	254
Camden	624	750	178
City of London	48	105	0

¹⁹ Housing statistics are published by a range of agencies using different systems and from a variety of sources. This makes accurate comparisons difficult.

²⁰ 2001/02 GLA Annual Housing Provision Monitor and London Plan Annual Monitoring Report 3

²¹ Performance was best in South and West sub-regions at 178% and 163% respectively. North was the only sub region to perform under its target with low output from Haringey and a net loss of units in Enfield. The Enfield figure appears unusual and may be because of estate renewal programmes. It has been investigated but no further clarification has been received as yet. London Plan Annual Monitoring Report 3, February 2007

²² Affordable housing can only be calculated as a proportion of conventional supply due to problems with the data on non-conventional affordable supply. Conventional supply relates to net additions to the supply of self-contained housing arising from new building and net gains from conversions of existing residential and non-residential premises. Non-conventional housing supply includes empty homes and non self-contained housing.

Croydon	669	670	244
Ealing	602	545	237
Enfield	973	560	265
Greenwich	1774	730	200
Hackney	805	295	185
Hammersmith and Fulham	316	565	101
Haringey	530	720	450
Harrow	447	260	131
Havering	310	320	85
Hillingdon	499	380	98
Hounslow	481	390	303
Islington	736	680	491
Kensington and Chelsea	211	520	65
Kingston upon Thames	333	245	18
Lambeth	1069	1165	438
Lewisham	916	560	92
Merton	698	405	134
Newham	919	720	388
Redbridge	636	500	175
Richmond upon Thames	893	245	91
Southwark	1165	960	362
Sutton	502	365	58
Tower Hamlets	2575	1825	1126
Waltham Forest	492	345	206
Wandsworth	1315	775	104
Westminster	1260	970	365
London	28309	22930	7653

Source: London Plan Annual Monitoring Report 3

5.4 Taking account of overall completions figures this is an encouraging performance and within this affordable housing output has also increased since 2002/03:

- 2002/03 – 6,484 homes
- 2003/04 – 7609 homes
- 2004/05 – 7,712 homes
- 2005/06 – 7,653 homes

5.5 It is estimated that the Housing Corporation's 2006/08 programme will increase affordable housing output to about 10,000 completions per year but, if this rate remains constant over the next ten years, this will still "undershoot" the original London Plan affordable targets by 133,000.²³

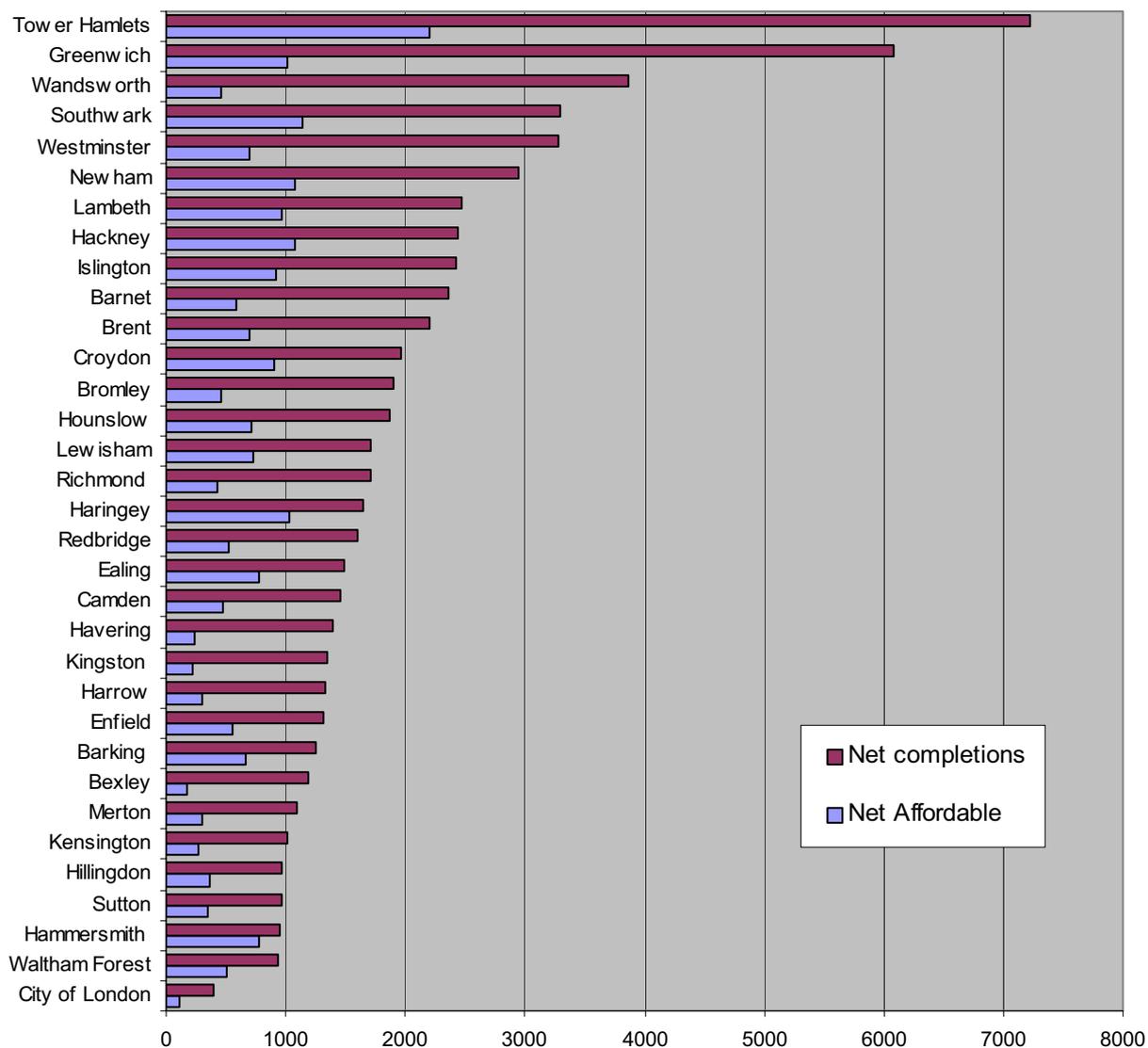
²³ London Plan Annual Monitoring Report 3 February 2007
http://www.london.gov.uk/mayor/planning/docs/monitoring_report3.pdf

- 5.6 A cornerstone of the London Plan is to increase the supply of affordable homes and there is an objective to raise this to 50 per cent of all new homes each year in the period 2004 to 2016.
- 5.7 In recent years the proportion of affordable housing has slipped back to around 30 per cent of total completions. It is lower than the proportion in the 1997- 2001 period, where the proportion was between 40% and 45%.²⁴
- 5.8 Performance across the boroughs, relative to affordable housing targets, is variable to say the least.
- 5.9 The three-year timeframes that the Housing Corporation's programme uses may give approximations of trends but even figures over a longer period may be distorted by particular individual schemes. Equally, viewing figures over a longer timeframe can disguise factors such as estate renewals that result in net losses of housing.
- 5.10 The graphic below shows an illuminative view of affordable housing completions. It shows the actual level of building compared to affordable housing completions and reveals the boroughs' different performances in terms of numbers of homes.
- 5.11 In a previous investigation into Affordable Housing the Committee was given a number of reasons for this variable output.²⁵ These include:
- Insufficient public subsidy for affordable housing both in terms of total subsidy and subsidy per dwelling/per person;
 - Less than effective use of section 106 as a form of subsidy for affordable housing;
 - Boroughs not having sufficiently high affordable housing targets. For example, in some boroughs there may be political opposition to increasing affordable housing targets.
- 5.12 The remainder of this report explores these suggestions and some of the other reasons for this variable output and the way boroughs are using Housing Corporation grant to meet the London Plan's affordable housing objectives.

²⁴ The reason for the fall is that the Housing Corporation in 2002/3 switched a significant proportion of its funding to purchase of existing market homes under the Homebuy programme. This programme while giving middle-income households access to existing market housing does not increase the supply of new affordable housing.

²⁵ GLA Planning Decisions Team, evidence to the Assembly's Planning and Spatial Development Committee meeting on Implementation of the London Plan (Affordable Housing), November 2005
www.london.gov.uk/assembly/planning/2005/plan02nov/plan02novitem05.rtf

Completions 2003/06 – Total Completions and Net Affordable Completions



Source: London Plan Annual Monitoring Report 3, February 2007

6 Factors influencing the provision of affordable housing in London

- 6.1 Subsidy will almost always be needed for affordable housing. This subsidy can take a number of forms, including direct government subsidy in the form of social housing grant (normally from the Housing Corporation), a financial contribution from a developer under a Section 106 agreement, or a subsidy from a landowner (through discounted land disposal), employer or other third party.
- 6.2 Evidence from the sample of boroughs suggests there are different approaches to seeking Housing Corporation grant.²⁶ Some boroughs have a policy of maximising grant on all affordable housing while others do not. There is a variation between boroughs in relation to the types of intermediate housing where grant is sought with the majority having a policy against seeking grant for this type of tenure.
- 6.3 Record levels of Housing Corporation grant are now available to London – up from £342 million in 2001/02 to over £800 million in 2007/08. Despite this increase some stakeholders believe that grant would need to increase eight-fold on existing record levels to meet London’s affordable housing needs.²⁷ Others estimate a smaller shortfall of some £2.5 billion between funding requirements and projected allocations from now until 2016.²⁸
- 6.4 The process to spend that money is a complicated one. RSLs must acquire land and prepare schemes, often involving bringing together partnerships to ensure financial viability. Programmes are then drawn up for viable schemes and are allocated throughout the sub regions against programme budgets. However on occasions schemes are withdrawn if an assessment reveals they are not likely to deliver within the programme timetable.
- 6.5 This would matter if grant were being lost through “under bidding”. In one year some £40 million was not spent. However this was not lost to London. The Housing Corporation was able to reallocate this spending to other regions across the country and recycle it back to London in later years. And in most cases there are enough schemes that can be substituted for those which are withdrawn and grant appears to be successfully reallocated to other schemes and the units are being delivered.
- 6.6 With experience, the programming skills of the RSLs and boroughs should improve so that there are enough schemes submitted for funding to ensure all available funds are used every year.

²⁶ Appendix 4 has a summary of borough policies

²⁷ Meeting with London Housing Federation

²⁸ GLA Housing and Homelessness Team evidence to the House of Commons Select Committee
<http://www.publications.parliament.uk/pa/cm200607/cmselect/cmcomloc/47/47iwe23.htm#n71>

- 6.7 Given the existing and likely level of future available public subsidy it appears that the capacity exists within the RSLs, private developers and boroughs to make use of the entire grant available.
- 6.8 As Housing Corporation grant in London is virtually all used it therefore might be argued that fine details of where it is spent are of almost academic interest. The reality is that even with record spending by the Corporation in recent years, there are currently over 60,000 families in London in temporary accommodation.
- 6.9 It is therefore a public responsibility for policy makers to look harder at how the needs of Londoners are being met and how the available investment is being maximised and the benefits of this equally available to all Londoners in housing need, and not just those who live in areas with the capacity or will to build new housing or in sub-regions with access to the opportunities.
- 6.10 This requires a closer examination, recognising the proper sovereignty of boroughs, of whether public investment in housing in London is achieving the most efficient and effective outcome for Londoners in housing need.
- 6.11 The Mayor's Housing Strategy, which is currently being drafted, offers the timely opportunity to undertake this assessment, before we are faced with a situation where the current system is viewed as failing to properly serve Londoners in housing need.

7 Sub-regional working and the nomination process

- 7.1 For the delivery of Housing Corporation Grant, and in response to changes in the Housing Corporation's investment programme in 2003, the 33 London boroughs have been organised into sub-regions.
- 7.2 Each sub-region is a combination of inner and outer London boroughs and the Corporation's investment in new affordable housing is now allocated on a sub-regional basis rather than a borough-by-borough case. The Sub Regions are North, East, West, South East and South West.
- 7.3 The sub-regional approach has developed out of the pragmatic recognition that housing needs and house-building opportunities are not restricted to within borough boundaries. Each region of London has its own particular housing needs, priorities and opportunities to develop solutions. In some boroughs meeting their affordable housing needs is particularly difficult.
- 7.4 The five sub-regions have each developed a housing strategy that is aimed at playing a major role in achieving the objectives set out in the London housing strategy.
- 7.5 Additionally, the aim of the sub-regional structure was to establish and strengthen the links between the sub-regions and, the then, London Housing Board and Housing Forum for London, and to ensure that the housing priorities identified by the five sub-regions were incorporated into the 2005 London housing strategy.
- 7.6 From the evidence we received it is clear that boroughs accept the concept of sub-regional partnerships at a corporate level and there is a professional and genuine commitment to making sure it works. We met a number of committed and professional officers and there is no suggestion other than of partnership and cooperation in meeting London's needs through the Housing Corporation guidance and programmes.
- 7.7 At a political level however the awareness of and commitment to sub-regional working is patchy. Put simplistically, local councillors are elected to serve the needs of their constituents, and their borough, and not the needs of another borough or neighbourhood.
- 7.8 From the figures we have seen, and despite the variation in housing completion statistics, there is no obvious pattern to how new affordable housing is being provided in London, either at a borough or sub-regional level.²⁹ But boroughs do perform differently. Some boroughs clearly much prefer low-cost home ownership to social renting, and others the opposite.

²⁹ Appendix 3 – completions by sub region – annual monitoring report.

- 7.9 We have seen evidence that following a change of political control the emphasis between these types can, and probably will, fundamentally change.³⁰ While it is accepted that the sub-regional model is more or less delivering new housing in London, the changes in local political priorities may make this less true in the future.
- 7.10 While the idea of sub-regional working is accepted in principle, any implementation of it, seen to disadvantage individual communities or boroughs will tend to be resisted. A logical effect of this is that there will be a divergence between boroughs in the amount of social rented or low-cost ownership housing they seek to provide. Three conclusions follow from this:
- Left to their own devices and sub regional agreements, boroughs will seek agreements between developers and RSLs that maximise benefits to local people and do not always lead to widespread complementary co-ordination of strategies and investments.
 - This is not necessarily sub-optimal from a local perspective. In retaining the political power for deciding and promoting investment priorities locally, boroughs need to base such decisions on meeting perceived local housing needs.
 - It may be that the shared sub regional strategies will need to be refined to better match political priorities and housing need.

Funding and sub-regional nominations

- 7.11 There is a further aspect to the sub-regional system that may be having an influence on the delivery of housing in London.
- 7.12 The sub-regional arrangements exist to enable the housing needs of one area to be partially served by “spare” capacity within another borough. Housing delivered with Housing Corporation grant is eligible for “pooled” nominations from across the sub region. Each sub region negotiates a formula for calculating the percentage of units in any new scheme that are eligible for pooling across the sub region.
- 7.13 For example, in the west London sub region, the host borough retains a premium of 15% of all units plus an allocation based on the basis of an annually calculated Housing Needs Index (HNI). Hammersmith, for example, has a HNI of 15%.
- 7.14 Therefore, in a new scheme of 100 units in Hammersmith, the borough would retain 15 units as host borough and the remainder will go into a 'pool', together with new homes from other Boroughs in the sub-region. Once all the units in this pool are known they are allocated according to HNI. Were the development of 100 units in Hammersmith the only homes built in the sub-region, Hammersmith would only get another 15% of the remaining 85 units according to its HNI, which is equivalent to another 13 units. The borough would therefore retain nomination rights on 28 units in the scheme with the remainder being made available to residents on the

³⁰ West London Housing Partnership meeting

waiting lists of the other boroughs. In reality, by netting off against the contributions made from other Boroughs, the majority, perhaps all, of the units will stay with Hammersmith. There will normally be small flows of residents between Boroughs although in the event of a great difference in numbers of new homes between Boroughs the number could become large.

- 7.15 As described above, where housing need is high locally, elected Councillors understandably see providing housing to those in need in their own borough as a priority rather than delivering housing to residents of other boroughs, as set out under the terms of Housing Corporation funding and sub-regional working.
- 7.16 This may be a disincentive to seeking grant. Some suggest privately that some boroughs would rather not support a scheme if “importing” residents from another borough were a condition of building it.
- 7.17 Indeed there may even be a perverse outcome where boroughs with relatively low waiting lists export families to boroughs with larger waiting lists. This could happen where there has been a bulge in the number of completions in, for example Docklands boroughs, which coincidentally have some of the longest housing waiting lists. There are then more new homes available for other boroughs in the sub-region to nominate their own residents to.
- 7.18 Is this happening in reality? Figures show that 80% of inner London boroughs have seen an increase in the proportion of RSL housing completions after the introduction of the sub-regions compared to less than 50% of the outer London boroughs.³¹
- 7.19 This could indicate that outer London boroughs may be able to satisfy some of their own housing need for social rented housing outside their boundaries by benefiting from the work of more pro-active inner London boroughs.
- 7.20 We have been told that, in theory at least, the pattern of nominations is evened out over the funding cycle through a review of flows of nominations between boroughs.³² However, the process by which the nominations process is “reconciled” over the whole sub region is complex.
- 7.21 It is less clear how efficient the reconciliation process is because the annual process of “netting-off” allocations between boroughs often means that properties are filled before the nomination debts are calculated. It is therefore not always clear that high-level pooling arrangements actually work on the ground.
- 7.22 More work is needed to understand the effect of political objectives. If political considerations move a borough to object strongly to pooling nominations, weaknesses in the robustness of the system can force a time-consuming reworking of the sub regional agreement.

³¹ Appendix 3 –Total housing completions and RSL completions as a percentage of the total by borough and sub-region

³² Housing Corporation and West London Housing Partnership meetings

Recommendation 1

The Mayor and the boroughs should undertake a detailed review of the nominations reconciliation process to ensure that fears of “winners and losers” do not affect the number of schemes supported by boroughs. The review should consider the merits of a greater proportion of host borough nominations for new affordable housing.

7.23 This review may wish to consider two further areas in relation to sharing allocations.

- Firstly, whether “windfall” sites, which may become available, for example from old industrial sites, should be included or exempt from the sub regional calculation or otherwise treated differently.
- Secondly, whether affordable housing which is developed without the aid of Housing Corporation funding should be subject to sub regional sharing of nominations. This is explained further in section 8 of this report.

8 Value for Money and Housing Corporation grant

- 8.1 Some boroughs find it difficult to secure housing without grant because low local land values make developer contributions unviable.
- 8.2 Land values, house prices and building costs all have an impact on the viability of proposals for affordable housing development. High land values can make affordable housing provision less viable. Where house prices are high it is possible to cross-subsidise social housing units through section 106. Where house values are low, less “surplus” is available for affordable housing and more Housing Corporation grant is required.
- 8.3 Some boroughs where land values are high will not secure Housing Corporation grant due to the high level of grant per unit or person needed relative to the Housing Corporation thresholds,³⁴ which are now determined on a sub regional basis, and rely on section 106 to deliver new affordable homes.
- 8.4 The Mayor, London boroughs and the Housing Corporation test the viability of residential schemes against the Mayor’s affordable housing target of 50% of new housing provision, and whether any social housing grant is required to contribute to this target. This is often known as the “Three Dragons” model.³⁵
- 8.5 It has been suggested that this assessment can be distorted by the use of land transfers between large property groups which introduces higher land values, based on current prices, as opposed to the original lower prices which may have been paid in the past for sites which were subsequently “banked”.³⁶ In certain circumstances this would render a scheme unviable in terms of affordable housing units or would mean Housing Corporation grant would exceed the value for money requirements.

Recommendation 2

The Three Dragons model can be distorted by land transfers prior to the submission of planning applications at values higher than originally purchased. This can make developer subsidy seem unviable or needing Housing Corporation grant above accepted thresholds. The Mayor should investigate methods of audit trailing land sales to attempt to uncover instances of disguising land costs to developers.

³⁴ As a general illustration of average Housing Corporation grants “per unit” the London figure is around £85,000. However this varies from just under £54,000 in Redbridge to over £144,000 per unit in Southwark and reflects the different costs involved to build new housing across London. Housing Corporation, London Allocation Statement 2006/07 and 2007/08

http://www.housingcorp.gov.uk/upload/xls/London_Allocation_Statement_2006-08_tables_20060612122223.XLS

³⁵ Affordable Housing Development Control Toolkit, 2006/7

<http://www.london.gov.uk/gla/publications/housing.jsp>

³⁶ GLA Housing and Homelessness meeting

- 8.6 In high value areas there is evidence that the developers subsidise social housing up to one third the cost of providing it.³⁷ Some boroughs allow for the use of council owned sites at nil or discounted value to make up the public subsidy contribution which is then supplemented by the Housing Corporation to make schemes viable.
- 8.7 There are other instances where Housing Corporation grant is withheld due to section 106 contributions being prioritised to infrastructure, rather than housing subsidy. Similarly there are high land value locations that cannot qualify for grant as sums would breach the upper level of Housing Corporation subsidy thresholds. But many of these areas already have all social and physical infrastructure in place.
- 8.8 Better joined up thinking would take into account all public subsidy required for a site, including that already invested in infrastructure to assess the viability of grant applications. Housing Corporation grant would then reflect the existence of other public expenditure contributing to sustainable communities and therefore could, in these cases, go above existing thresholds.
- 8.9 Housing Corporation funding policies rule out the use of grant for estate renewal, but such schemes clearly are important in delivering the Government's decent homes programme and this may equally deserve review in any wider consideration of funding policies.
- 8.10 The interplay between development costs, land values, developer contributions, infrastructure costs and infrastructure needs, other S106 priorities, other potential public sector funding contributions and Housing Corporation Grant is complex. The ability of developer contributions to facilitate affordable housing is lessened or strengthened by the relative demands and contributions from these other sources and pressures. The Housing Corporation requirement for value for money expressed as a grant rate cannot easily be disentangled from these other factors.

Recommendation 3

The Mayor and Housing Corporation should review the interplay of development costs, land values, developer contributions, infrastructure costs and infrastructure needs, other S106 priorities, other potential public sector funding contributions and Housing Corporation Grant to ensure that housing objectives are maximised. The review should consider how grant should be made available for schemes in areas of housing need and high land value locations so that simplistic value for money calculations do not preclude housing which contributes to wider mixed and sustainable community policy objectives.

The provision of “nil grant” affordable housing

³⁷ Royal Borough of Kensington and Chelsea written submission

- 8.11 Developers often provide social and low cost home ownership housing as part of the “affordable” element in their schemes. This is particularly common in boroughs with large private house building activity.
- 8.12 Only 8 per cent of new affordable housing was funded solely through planning obligations (section 106 planning agreements). However around 44 per cent of new affordable housing units in 2004/05 were provided with the help of some contribution from section 106. This was the same proportion as in 2003/04 but up from 21 per cent in 2001/02.³⁸
- 8.13 As described above, there are complex questions about the nature of subsidy and the involvement of Housing Corporation grant in these schemes. Quite a large number of homes are provided without grant and, while this may represent an efficient means of securing public benefits without direct public cost a number of questions need to be answered.
- 8.14 Would greater public benefit be achieved if grant were received for such schemes? For example, would more social rented homes be achieved?
- 8.15 It is true that schemes that are not dependent on grant are exempt from Housing Corporation standards on space and design quality. From the information received from the sample of boroughs we have spoken to there is little empirical evidence to support a policy of avoiding seeking grant so as to avoid Housing Corporation standards in terms of design and quality. But of course one would not expect any borough to openly state this as policy.
- 8.16 However the question remains as to whether such nil grant schemes are subject to sufficient external scrutiny and validation from the boroughs or sub regional partnerships.
- 8.17 As we have already seen an additional consequence of securing social or low-cost housing without grant is that the housing provided sits outside of the sub-regional pooling that is required when grant is used. It could then be that in a borough with large developer led social housing schemes the spirit of sub-regional working is being breached on a large scale.

Recommendation 4

Nil grant schemes should be included within sub regional housing totals in calculating nomination obligations.

- 8.18 Partnerships between boroughs and RSLs also develop over the years with boroughs often having preferred partners who are knowledgeable of local needs and conditions.

³⁸ London Councils. Housing Investment in London 2004 to 2005.

- 8.19 Bidding guidance and funding rules favour large RSLs and large private developers with their own capital backing. A further consequence of seeking 'nil grant' schemes is that developers are actually encouraged to seek a social housing partner who brings the greatest amount of subsidy to the scheme rather than the smaller ones which meet specialist needs.³⁹
- 8.20 Developers often select RSLs on the basis of stability, financial advantage and capacity. These 'beauty contests' are fairly common when seeking a RSL for the purposes of stock transfers of local authority housing but they are becoming more common when developers are seeking partners for affordable housing schemes. Developers will often hold their own RSL 'beauty contest' which is based on who would pay the most for completed affordable housing units or who can add sufficient capital to remove the need for gap funding.
- 8.21 Although we heard of consortia of smaller RSLs who have worked together on bids, this is far from widespread. The result is that established local housing associations rarely get a look in while larger RSLs, sometimes with no local connection but happening to have large capital reserves or access to borrowings to enable them to build up stock, secure the management of the affordable element of nil grant schemes.
- 8.22 This mitigates against the need for social landlords to have strong local connections and commitment if they are to meet the housing and other social needs of today's low-income tenants.

Recommendation 5

The Mayor, Housing Corporation and boroughs should be required to support applications from small or specialist RSLs where they can demonstrably cater for local needs and where bidding guidance or funding rules disadvantage these types of providers. Local authorities and the Mayor should consider looking at ways of supporting appropriate RSLs for the social housing elements of private developer led schemes with adequate recognition of the important role played by locally based and specialist RSLs.

³⁹ London Housing Federation meeting

9 Looking ahead

Mobility and pan London lettings

- 9.1 The Mayor's recently published consultation on his forthcoming housing strategy contains potential approaches to developing a pan-London lettings system. Initial evidence suggests that such a scheme, in conjunction with the use of properties owned by local authorities outside London, could significantly assist pan-London mobility.⁴⁰
- 9.2 This could reduce the emphasis on the nomination process and thus reduce any incentives that may exist for boroughs to not apply for grant. Conversely, a pan-London letting system may provoke resistance from boroughs, some of which may fear the imposition of such a scheme used in conjunction with the Mayor's housing and planning powers.
- 9.3 Another potential source of making nominations available to Londoners in housing need is to consider the national picture and London's vital importance therein. If the Government wants to meet its own housing targets it must be successful in reducing housing need in London.⁴¹
- 9.4 Each region of the country is part of the National Affordable Housing Programme and in theory there would be scope for nominations to be made available between regions and particular housing growth areas outside London in areas such as Milton Keynes or the M11 corridor.
- 9.5 We also heard evidence about seaside homes. For many years the Greater London Council ran a "Seaside Homes" scheme for tenants who wanted to move out of London that was very popular and successful. Clarification is required as to the availability of nominations to the former GLC seaside and country homes. Are Londoners being short-changed if this obligation is no longer being met?
- 9.6 This investigation found little evidence that authorities from outside London's boundaries have accepted significant numbers of London's residents. There are examples of this happening, but the process appears to be difficult to negotiate between London boroughs and other authorities in England.⁴²
- 9.7 Ultimately it seems that boroughs consider their statutory duty to house those in need above all else and, if residents are housed elsewhere, some boroughs may fear the consequences of losing investment if they are not providing housing for those in need locally.

⁴⁰ GLA Housing and Homelessness meeting

⁴¹ GLA Housing and Homelessness internal presentation, Housing in London. 11 January 2007

⁴² West London Housing Partnership meeting

Recommendation 6

The Mayor should lobby Government to review ways in which London's housing need can be tackled by opening up opportunities for Londoners in the rest of the country – particularly in growth areas in the south east. This would better integrate the National Affordable Housing Programme with London's housing need.

Regeneration and housing need – is there a conflict?

- 9.8 It has been suggested that developers much prefer low cost home ownership to on-site social housing and that when required to provide social housing often seek off-site provision. This can lead to socially segregated enclaves and is generally against government policies designed to achieve mixed and sustainable communities.
- 9.9 It is also apparent that in high density housing schemes developers and often local planning authorities prefer the social or low-cost housing to be provided as smaller units which do not meet the need for larger family homes.
- 9.10 Anecdotally, some boroughs complain that housing often just “gets delivered” to housing departments by the planning system that dictates the numbers, sizes and types of new homes. There is a suggestion that the co-ordination of borough planning and housing strategies may need improvement and that it must be certain that affordable housing strategies and regeneration strategies do not conflict.
- 9.11 While there are examples of good practice between the housing and planning services, where planners are in constant dialogue with their housing colleagues about the kind of housing that is needed, this may not always be the case.
- 9.12 For example, a borough's regeneration strategy may prioritise the development of intermediate and market housing to re-balance housing tenure mix for the impact it can have on sustainable communities. The housing strategy however may be focussing purely on meeting local housing need, which in turn could be judged to prioritise affordable rented housing. And where a private development of smaller units is being built, planning policy may lead to an over-supply of smaller social rented units as the affordable element.
- 9.13 There appears to be scope for better co-ordination within boroughs and the sharing of best practice to ensure any competing priorities between housing and regeneration departments are avoided. There may well be an opportunity for the Mayor's housing strategy to promote cooperative working between borough departments.
- 9.14 London Councils is in a good position to promote and to facilitate good practice but, ultimately, decisions will be taken at a borough level and the local political will needs to exist to ensure the approach to providing affordable housing does not conflict with the strategic objectives set out in the London Plan and the Mayor's Housing Strategy.

Recommendation 7

To ensure that the delivery of affordable housing receives topmost priority it is of vital importance that there is closer integration at a strategic level between borough and sub regional housing and planning strategies. The Mayor and boroughs should undertake a review of how the relationships at borough and sub regional level can better integrate the need for new affordable housing with the planning system with particular emphasis on how far regeneration principles should affect the type and mix of affordable housing schemes delivered.

The role of the private rented sector

- 9.15 Although it was not a term of reference in our study, again and again our evidence pointed towards a big and possibly growing problem in that alongside the social rented sector there has grown in recent years a massively expanded private rented sector.
- 9.16 The de-regulation of the private rented sector in recent years has stimulated house building and the provision of affordable housing. London's housing need is increasingly being met by the private rented sector which now provides homes to 544,000 households - some 17 per cent of stock in the capital. A large part of this sector of the private rented market is to all intents and purposes fulfilling a need traditionally (in the post-war period) met by social and council housing.
- 9.17 For high income renters this is not a problem but we heard evidence that for low-income renters, including families on housing benefit, there is emerging a major social and management problem of unsupported families being housed by poorly regulated and badly motivated landlords.
- 9.18 This problem can be exacerbated by the emerging "buy to let" market where a recent Mayoral report has estimated that up to 45 per cent of new housing is bought with the purpose of letting on the private market.⁴³ While this obviously adds to the stock of new homes in London it can cause problems where it leads to new developments with 100% of units rented to tenants in social need where there is not the infrastructure locally or the required support, which a social landlord would provide, to meet their needs.
- 9.19 The housing benefit system can further add to this problem. It has been established central government policy for many years to use the Housing Benefit system to subsidise housing costs for low-income households rather than capital investment in building new homes for people in housing need.
- 9.20 Not only can this create problems for families with social problems, often socially excluded and facing multiple deprivation left without support in private rented

⁴³ Who buys new market homes in London? December 2006
<http://www.london.gov.uk/mayor/housing/docs/who-buys-new-market-homes.rtf>

accommodation, but it can create problems for adjoining homeowners and indeed social tenants.

- 9.21 There can be the coming together of a number of forces that exacerbate this problem. Indeed one London borough has recently told a House of Commons Select Committee that this has become a major issue as at one point there were approaching 1,400 families placed in temporary accommodation in the borough—1,000 of these were out of borough placements from other London Boroughs.⁴⁴
- 9.22 While we did not investigate this issue in more detail it is not difficult to deduce the impact this may have on local politicians seeking to address housing need in their boroughs, when local regeneration policies may be compromised by the effect of more affordable homes provided by Housing Corporation grants and the sub-regional pooling arrangements for nominations.
- 9.23 Where the private rented market is housing disadvantaged tenants needing support or destabilising neighbourhoods by creating large pools of constantly shifting temporary residents, an examination is required into whether some degree of oversight and regulation will be needed. This is without a doubt a challenge for public authorities with responsibility for housing in London.

Recommendation 8

The role of the public and private rented housing sectors is becoming blurred. A further and urgent study is needed of whether this sector is storing up problems for the future in London. The London Assembly should conduct a review into the working of the private rented housing sector in London to investigate how this sector is delivering solutions to housing need.

⁴⁴ London Borough of Barking and Dagenham,
<http://www.publications.parliament.uk/pa/cm200607/cmselect/cmcomloc/47/47ii.pdf>

10 List of recommendations

- 10.1 The Mayor's Housing Strategy offers the timely opportunity to undertake this assessment, before we are faced with a situation where the current system is viewed as failing to properly serve those Londoners in housing need.
1. The Mayor and the boroughs should undertake a detailed review of the nominations reconciliation process to ensure that fears of "winners and losers" do not affect the number of schemes supported by boroughs. The review should consider the merits of a greater proportion of host borough nominations for new affordable housing. (See report after paragraph 7.22)
 2. The Three Dragons model can be distorted by land transfers prior to the submission of planning applications at values higher than originally purchased. This can make developer subsidy seem unviable or needing Housing Corporation grant above accepted thresholds. The Mayor should investigate methods of audit trailing land sales to attempt to uncover instances of disguising land costs to developers. (See report after paragraph 8.5)
 3. The Mayor and Housing Corporation should review the interplay of development costs, land values, developer contributions, infrastructure costs and infrastructure needs, other S106 priorities, other potential public sector funding contributions and Housing Corporation Grant to ensure that housing objectives are maximised. The review should consider how grant should be made available for schemes in areas of housing need and high land value locations so that simplistic value for money calculations do not preclude housing which contributes to wider mixed and sustainable community policy objectives. (See report after paragraph 8.10)
 4. Nil grant schemes should be included within sub regional housing totals in calculating nomination obligations. (See report after paragraph 8.17)
 5. The Mayor, Housing Corporation and boroughs should be required to support applications from small or specialist RSLs where they can demonstrably cater for local needs and where bidding guidance or funding rules disadvantage these types of providers. Local authorities and the Mayor should consider looking at ways of supporting appropriate RSLs for the social housing elements of private developer led schemes with adequate recognition of the important role played by locally based and specialist RSLs. (See report after paragraph 8.22)
 6. The Mayor should lobby Government to review ways in which London's housing need can be tackled by opening up opportunities for Londoners in the rest of the country – particularly in growth areas in the south east. This would better integrate the National Affordable Housing Programme with London's housing need. (See report after paragraph 9.7)
 7. To ensure that the delivery of affordable housing receives topmost priority it is of vital importance that there is closer integration at a strategic level between borough and sub regional housing and planning strategies. The Mayor and boroughs should undertake a review of how the relationships at borough and sub regional level can

better integrate the need for new affordable housing with the planning system with particular emphasis on how far regeneration principles should affect the type and mix of affordable housing schemes delivered. (See report after paragraph 9.14)

8. The role of the public and private rented housing sectors is becoming blurred. A further and urgent study is needed of whether this sector is storing up problems for the future in London. The London Assembly should conduct a review into the working of the private rented housing sector in London to investigate how this sector is delivering solutions to housing need. (See report after paragraph 9.23)

Appendix 1 – Major players in London’s affordable housing

The Mayor of London

In July 2006 the Government announced that a range of new powers would be devolved to the Mayor when the GLA Bill passes into statute sometime in 2007. The Mayor is set to assume new powers that will further enhance his housing role. Specifically:

- To prepare and publish a statutory Housing Strategy for London and a Strategic Housing Investment Plan, setting out the priorities to meet the housing needs of all Londoners.
- To make decisions on the affordable housing part of the ‘Regional Housing Pot’ – the Housing Corporation’s London programme – in line with the Housing Strategy.

Previously the London Housing Board was responsible for producing the London Regional Housing Strategy “Capital Homes” and submitting funding recommendations to Ministers. However, in advance of the Mayor acquiring his new statutory powers the roles and responsibilities of the London Housing Board have already been transferred to the Mayor.

In London, the Mayor provides strategic guidance on how much of new housing is allocated as affordable housing. This is done through the London Plan, the key strategic planning document for London.

The first London Plan included housing provision targets based on the London Housing Capacity Study published in 2000. Since then the Mayor has said that the London wide target of 23,000 additional homes per year would not meet projected household and population growth or reduce the backlog of existing unmet housing need.

To address this a new housing capacity study identified capacity for 306,500 homes over the ten year period 2007 to 2017 or 30,650 homes per year.

Boroughs and the sub-regional partnerships have been set targets aimed at delivering the London wide total of 50% affordable homes. Within the London Plan target of 50% affordable housing there is a policy that 70% should be social rented and 30% should be intermediate.

The Housing Corporation

The Housing Corporation is the national Government agency that funds new affordable housing and regulates housing associations in England. It was established in 1964 to promote housing associations and co-operatives.

The Housing Corporation is the largest source of public subsidy in the provision of new affordable housing in London. Under the National Affordable Housing Programme the Housing Corporation is planning to invest, in 2006/08, some £3.9 billion nationally, including £1.7 billion in London.

The Corporation's London area covers the thirty-three local authorities in Greater London, and is the largest of the Corporation's offices in terms of investment budget. Investment in London has grown considerably in recent years:

- 2006/08 - £1.7bn (two year programme)
- 2005/06 - £803m
- 2004/05 - £780m
- 2003/04 - £581m
- 2002/03 - £423m
- 2001/02 - £342m

The Corporation's objective is to achieve the most effective use of its social housing grant across a range of schemes, including, for example, by investing grant in developments where the affordable housing target cannot be funded solely from residential development value.

In London, allocations to schemes providing social rented homes form the bulk of the 2006/08 programme, reflecting both national, regional, and now Mayoral, priorities to increase the new supply of affordable rented homes. Over this period the Housing Corporation allocations should provide:

- 10,000 new homes for rent - £1 billion
- 7,700 low cost home ownership units - £323 million
- 4,000 key worker homes - £120 million

Since 1974 the Housing Corporation has been the major provider of capital finance for RSLs, using the Approved Development Programme, which is the chief mechanism for this funding.

Registered Social Landlords

RSLs are independent, not for profit private sector organisations.

Since the late 1980s almost all new social housing has been provided by RSLs. In addition, local authorities were given the option of transferring their stock to RSLs. One of the main reasons for this is that RSLs, being in the private sector, can raise private finance for new schemes and for investing in stock transferred from local authorities outside the constraints of Public Expenditure control and the Public Sector Borrowing Requirement.

RSLs submit bids to the Housing Corporation Regional Offices in a competitive bidding round. The Corporation approves schemes that meet local housing needs at affordable rents and that offer good value for money in terms of the public subsidy required and the quality of homes delivered.

According to the Housing Corporation's Register of Social Landlords there are currently 389 RSLs operating in London boroughs.

The London Housing Federation

The London Housing Federation, a regional office of the National Housing Federation, supports and promotes the work of housing associations and campaigns for better housing and neighbourhoods.

The Federation represents 470 members, 20 large, 320 small and medium (under 5,000 units) and the rest with less than 2,000 units. Some of the smallest are specialist, for example Bangla Housing Association that caters for specific needs and delivers larger homes. Overall its members provide around 500,000 affordable homes in London. Its members offer a range of housing and services to meet the needs of Londoners and play a major role in local initiatives and regenerating communities. London Housing Federation members are housing associations including Local Housing Companies, Housing Cooperatives, Trusts and Large Scale Voluntary Stock Transfers from local authorities.

The London boroughs

The thirty-three London boroughs still have statutory responsibility for key housing functions – including homelessness and lettings. For housing investment purposes, they are now organised into five sub-regions that were established in 2003 in response to changes in the Housing Corporation's investment programme. Each sub-region is a combination of inner and outer London boroughs. Housing capital is now allocated on a sub-regional basis rather than a borough basis.

The sub-regional approach developed out of the recognition that housing needs and house-building opportunities are not restricted to within borough boundaries. Each region of London has its own particular housing needs, priorities and opportunities to develop solutions. The five sub-regions have each developed a housing strategy that is aimed at playing a major role in achieving the objectives set out in the London housing strategy.

Additionally, the aim of the sub-regional structure was to establish and strengthen the links between the sub-regions and the, then, London Housing Board and Housing Forum for London and to ensure that the housing priorities identified by the five sub-regions were incorporated into the 2005 London housing strategy.

Appendix 2 – London Plan Housing Targets

	Ten year target	Annual monitoring target
Barking and Dagenham	11,900	1,190
Barnet	20,550	2,055
Bexley	3,450	345
Brent	11,200	1,120
Bromley	4,850	485
Camden	5,950	595
City	900	90
Croydon	11,000	1,100
Ealing	9,150	915
Enfield	3,950	395
Greenwich	20,100	2,010
Hackney	10,850	1,085
Hammersmith and Fulham	4,500	450
Haringey	6,800	680
Harrow	4,000	400
Havering	5,350	535
Hillingdon	3,650	365
Hounslow	4,450	445
Islington	11,600	1,160
Kensington and Chelsea	3,500	350
Kingston	3,850	385
Lambeth	11,000	1,100
Lewisham	9,750	975
Merton	3,700	370
Newham	35,100	3,510
Redbridge	9,050	905
Richmond	2,700	270
Southwark	16,300	1,630
Sutton	3,450	345
Tower Hamlets	31,500	3,150
Waltham Forest	6,650	665
Wandsworth	7,450	745
Westminster	6,800	680
London total	305,000	30,500

Source: Early Alterations to the London Plan's housing provision targets, and waste and minerals policies, December 2006

http://www.london.gov.uk/mayor/strategies/sds/lon_plan_changes/docs-final/early-alt.s.rtf

Appendix 3 – RSL proportion of new housing completions

Outer London boroughs shaded	Pre sub-regions 1999/03			Post sub-regions 2003/06		
	Total	RSL Total	% RSL	Total	RSL Total	% RSL
North						
Barnet	3036	502	16.5	2897	846	29.2
Camden	1548	464	30.0	1061	472	44.5
Enfield	3016	1096	36.3	1646	629	38.2
Haringey	749	337	45.0	726	197	27.1
Islington	1309	144	11.0	774	136	17.6
Westminster	4664	1160	24.9	1726	193	11.2
Sub region total	14322	3703	25.9	8830	2473	28.0
East						
Barking and Dagenham	1304	170	13.0	1335	659	49.4
City of London	791	21	2.7	299	0	0.0
Hackney	2474	287	11.6	1161	339	29.2
Havering	1133	233	20.6	1232	90	7.3
Newham	2079	418	20.1	2441	315	12.9
Redbridge	1393	123	8.8	2055	178	8.7
Tower Hamlets	5543	1239	22.4	6938	1355	19.5
Waltham Forest	2746	1000	36.4	740	419	56.6
Sub region total	17461	3491	20.0	16201	3355	20.7
South East						
Bexley	1559	176	11.3	1145	254	22.2
Bromley	1118	139	12.4	1552	191	12.3
Greenwich	3734	430	11.5	3771	986	26.1
Lewisham	1355	665	49.1	1573	848	53.9
Southwark	1400	91	6.5	3575	388	10.9
Sub region total	9167	1501	16.4	11616	2667	23.0
South West						
Croydon	1541	601	39.0	1095	350	32.0
Kingston upon Thames	1141	97	8.5	1023	49	4.8
Lambeth	1070	232	21.7	1486	408	27.5
Merton	1105	353	32.0	1713	345	20.1
Richmond upon Thames	792	84	10.6	1275	290	22.7
Sutton	1709	546	32.0	1343	487	36.3
Wandsworth	1670	79	4.7	2175	608	28.0
Sub region total	9028	1992	22.1	10110	2537	25.1
West						
Brent	2367	1218	51.5	1226	499	40.7
Ealing	880	479	54.4	2052	821	40.0
Hammersmith and Fulham	340	50	14.7	547	215	39.3
Harrow	864	129	14.9	839	108	12.9
Hillingdon	2370	766	32.3	1226	425	34.7
Hounslow	1283	195	15.2	3016	1181	39.2
Kensington and Chelsea	901	114	12.7	797	213	26.7
Sub region total	9028	1992	22.1	10110	2537	25.1
London	58983	13638	23.1	56460	14494	25.7

Source: DCLG Housing Statistics

http://www.communities.gov.uk/pub/66/Table253_id1156066.xls

Appendix 4 - Summary of borough policies on seeking contributions towards affordable housing

All boroughs and the Housing Corporation use the Three Dragons toolkit to assess the amount of grant required. However the written submissions from eleven of the 33 London boroughs show some divergence across the boroughs in their approach to seeking Housing Corporation grant. These are summarised below.

Newham

Generally affordable housing is secured through s106 agreements unless Housing Corporation grant is needed to make a scheme viable. Where the percentage of affordable housing is the majority of the scheme, and it is acceptable in terms of tenure mix and unit sizes the council will support the scheme.

Greenwich

As long as the scheme meets 35% social housing (70/30 rent and intermediate) and local development standards the council will support Housing Corporation grant. The council will normally support only affordable rented units, not shared ownership. On occasions local authority land is offered at discounted value to support a business case of a particular scheme.

Barking and Dagenham

The council supports seeking the maximum Housing Corporation grant. On schemes on land the council owns the site is discounted to secure additional homes. Generally land values, which are the lowest in London, mean that it is not possible to secure affordable housing without Housing Corporation grant or another form of public subsidy.

Kensington and Chelsea

In practice there is no realistic possibility of achieving affordable housing outside of the requirements for market housing in the borough. The borough can only provide affordable housing with Housing Corporation grant in conjunction with s106 agreements to meet Housing Corporation development standards. It is estimated that developers subsidise social housing by up to one third the cost of providing it.

Brent

The council's policy is to seek to maximise the value of investment into affordable housing through HC grant and private investment. Housing Corporation funding is sought for all sites and mainly secured through s106 negotiations with the additional Housing Corporation grant secured to allow property to be delivered. The council's 11 RSL partners have not been able to secure new affordable housing without grant or public subsidy.

Islington

The council does not support the application for grant for intermediate housing with s106 agreements, only rented housing. If a scheme is 100% affordable housing then higher grant applications are supported.

Harrow

Most affordable housing is secured through s106 agreements since the high cost of land means it is difficult for RSLs to complete equally with private developers to secure sites. Where schemes include a range of tenures Housing Corporation grant will be supported including for intermediate tenures. On occasions the council will dispose of land directly for social housing but rarely on the basis of nil value or heavily discounted land without Housing Corporation grant. The council does not support grant for intermediate schemes where there is no rented element.

Hillingdon

The council does not have a policy of setting out which affordable housing proposals should be eligible for Housing Corporation grant since it is the council's belief that boroughs do not have powers to support such proposals. The council will however normally support RSLs seeking grant for affordable housing schemes. On schemes led by the council it seeks innovative ways of funding them such as transferring land at discount or nil value as part of the public subsidy contribution.

It is assumed that affordable housing provided through s106 will require Housing Corporation grant and particularly where an application proposes to deliver less than the 50% affordable housing target.

Lewisham

The borough is receptive to schemes that comply with Housing Corporation grant priorities and particularly new supply of affordable housing. In relation to s106 obligations the borough's starting position is nil grant however experience shows that rented housing will require grant. Any bids in the borough compete with others in the sub region.

Sutton

The borough seeks Housing Corporation grant where a scheme meets the need for social rented housing and in private developments of 20 units or more.

Westminster

The Housing Corporation specifies an indicative grant rate for the sub region of approximately £24,000 per person. The borough argues that Housing Corporation grants need to reflect the particular cost characteristics of individual boroughs as in previous funding regimes. Currently the delivery of new affordable housing has been the result, almost exclusively, from s106 agreements on private sector led developments where affordable housing requirements apply. High land costs mean RSLs cannot compete with private developers. In private schemes the affordable housing requirement may render the scheme unviable which conflicts with borough policies of maximising residential developments. Developer contributions are sought for the land cost and RSL bids are supported for Housing Corporation grant not related to land costs.

Appendix 5 – List of organisations contributing views and information

City of Westminster

GLA Housing and Homelessness

Housing Corporation, London region

London borough of Barking and Dagenham

London borough of Brent

London borough of Greenwich

London borough of Hammersmith and Fulham

London borough of Harrow

London borough of Hillingdon

London borough of Islington

London borough of Sutton

London Councils

Royal borough of Kensington and Chelsea

West London Housing Partnership

Appendix 6 – Principles of London Assembly scrutiny

An aim for action

An Assembly scrutiny is not an end in itself. It aims for action to achieve improvement.

Independence

An Assembly scrutiny is conducted with objectivity; nothing should be done that could impair the independence of the process.

Holding the Mayor to account

The Assembly rigorously examines all aspects of the Mayor's strategies.

Inclusiveness

An Assembly scrutiny consults widely, having regard to issues of timeliness and cost.

Constructiveness

The Assembly conducts its scrutinies and investigations in a positive manner, recognising the need to work with stakeholders and the Mayor to achieve improvement.

Value for money

When conducting a scrutiny the Assembly is conscious of the need to spend public money effectively.

Appendix 7 – Orders and translations

How to Order

For further information on this report or to order a copy, please contact Paul Watling, Scrutiny Manager, on 020 7983 4393 or email paul.watling@london.gov.uk

See it for Free on our Website

You can also view a copy of the report on the GLA website:

<http://www.london.gov.uk/assembly/reports>

Large Print, Braille or Translations

If you, or someone you know, needs a copy of this report in large print or Braille, or a copy of the summary and main findings in another language, then please call us on 020 7983 4100 or email to assembly.translations@london.gov.uk.

Greater London Authority

City Hall

The Queen's Walk

More London

London SE1 2AA

www.london.gov.uk

Enquiries **020 7983 4100**

Minicom **020 7983 4458**