STRENGTH IN NUMBERS: FUNDING AND BUILDING MORE AFFORDABLE HOUSING IN LONDON

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Impact Hub
New Zealand House
80 Haymarket
London SW1Y 4TE
T: 020 3757 5555
hello@centreforlondon.org
www.centreforlondon.org
Company Number: 8414909
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ABOUT THE AUTHORS

Silviya Barrett
Silviya is a Research Manager at Centre for London and works on projects on a wide range of policy issues. Prior to joining the Centre, Silviya worked at the London Chamber of Commerce and Industry, where she managed the research and survey programme and authored reports on issues affecting London businesses, including housing and construction skill shortages, immigration and skills, and fiscal devolution. Silviya holds a Master's degree in European Studies from King's College London and a BA (Hons) degree in International Relations and Management from Regent's American College London.

Tom Dilke
Tom is a Researcher at Centre for London. His research interests including London's built environment, affordable housing and innovative approaches to city planning. Tom graduated from the London School of Economics and Political Science with a BA in International History. Since then he has explored his interest in London's built environment and development through work at a London architecture firm, post-graduate studies in City Planning and volunteering work for a number of London-based charities.

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The views in this report are nevertheless those of the authors alone and any omissions or mistakes remain our own.

EXECUTIVE SUMMARY

London is facing a severe shortage of affordable housing. An increasing number of Londoners are unable to afford to buy or rent on the open market, meaning that submarket provision now needs to cater for a much broader array of groups. At the same time, housebuilding has consistently fallen below the annual target of 50,000 new homes. Fewer than 28,000 net new homes were built in 2014/15, and less than a quarter of those were part of affordable housing schemes.

One of the fundamental issues with the London housing market is that constrained supply has driven house prices, and consequently land value, to very high levels: the cost of land accounts for more than half of the cost of building a standard flat in a central London location, as opposed to around a quarter of the cheapest suburban equivalent. For the total cost of building one home in central London, four can be constructed in cheaper areas of the capital. This is reflected in the funding required to build affordable housing in central London locations – for which the funding gap can be up to five times higher than in the suburbs.

This report argues that, to maximise the value of investment, affordable housing provision should be prioritised in Outer London areas with lower land values – in particular, those areas with lower levels of existing affordable housing – in order to provide a balanced mix of tenures and communities. But this will require more flexible funding, as well as a new approach to cross-boundary collaboration.

Housing associations and local authorities both have a part to play in delivering and funding affordable housing. With a business model enabling them to build at scale and the ability to operate across boundaries, housing associations have significant borrowing and delivery capacity, but face a number of barriers, including land availability and restrictions on rental income.

Local authorities in London have seen a revival in direct delivery in recent years. Some have the funding ability, either through borrowing headroom, unspent commuted sums or receipts from property sold through Right to Buy (RTB), but government regulations limit their ability to fully utilise the funds. To enable local authorities to build as much as possible to meet local demand, this report makes recommendations on how available funding could be made more flexible. Even with available funding, however, some boroughs may lack developable land at reasonable prices, whereas others have the land availability but no capacity to build. Collaboration between such boroughs could achieve better value for money, and enable the delivery of up to five times more affordable housing across London than current levels.

Recent years have seen formal borough collaboration in a number of service areas, and there have been many discussions between boroughs about partnering on affordable housing delivery. However, no partnerships have yet been formalised. Barriers to partnership include getting agreement on the proportion of tenants each borough can nominate for the new housing; achieving the right tenure mix; negative public perceptions associated with moving tenants across borough boundaries; and the cost of public services. To realise the potential for partnership, the Greater London Authority (GLA) and London Councils should play a role in brokering and facilitating collaborations, with the GLA using its powers, resources and expertise to support and incentivise new forms of collaborative delivery.

In the longer term, however, the GLA should take a more strategic role in enabling affordable housing delivery, partnering with local authorities, housing associations and private developers to deliver affordable homes in priority locations. This could be funded by a pooled pot of surplus public funding (such as unspent commuted sums and RTB receipts), borrowing capacity, and financing raised against guaranteed housing benefit payments or other devolved funding streams. Boroughs need to play a clear role in any governance arrangements.

To optimise public funding available for affordable housing:

1—The government should review Housing Revenue Account borrowing capacity so that it is based on local authorities' ability to service the debt (rather than historic debt levels).

2—The government should provide a stable operating environment for council housing finances, including no further major welfare reform, a return to inflation-indexed social rent increases, and the cancellation of the high-value council homes levy.

3—The government should extend the period within which local authorities are able to spend RTB receipts from three to five years, and increase the proportion of the cost of a replacement home that can be funded using these receipts. The government should also permit the spending of RTB receipts outside of borough boundaries to enable pooling with other boroughs.

4—The government should give local authorities explicit permission to spend commuted sums on affordable housing outside of borough boundaries, to enable local authorities to use the sums more strategically and efficiently, as part of cross-borough collaborative arrangements.

5—To allow a more strategic use of funds, the government should devolve housing benefit to the GLA level, and allow the Mayor to offer guarantees that housing benefit will rise in line with inflation to finance affordable house building.

To foster cross-borough collaboration in delivering affordable housing:

1—The GLA should help broker formal borough partnerships in housing delivery, and use its policies, powers and resources, including publishing a best practice guide, to facilitate and encourage collaboration.

2—The GLA should incentivise collaborative affordable housing delivery through more flexible or enhanced levels of grant for consortia of local authorities, together with housing associations and private developers. The Mayor and London boroughs should also develop a more strategic London-wide approach to building new affordable housing, embedded in the London Plan.

1
CONTEXT

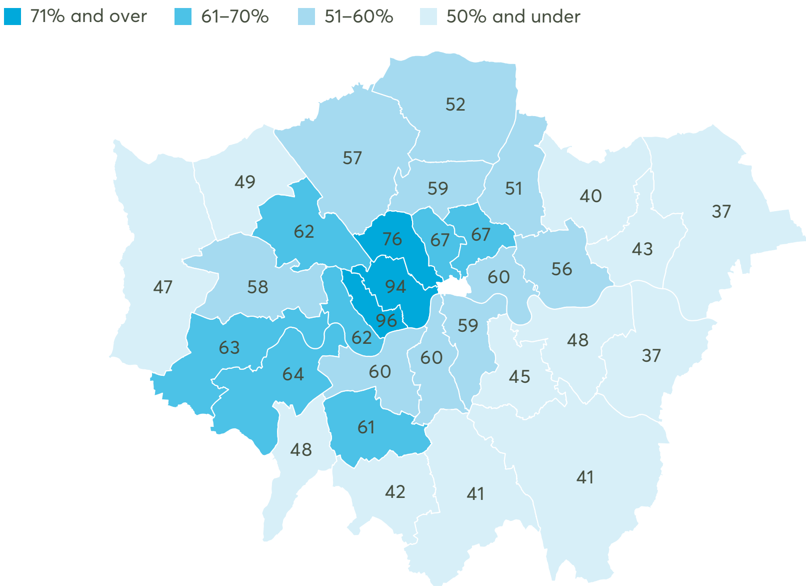
London's affordability crisis

London is facing a severe housing shortage. Between 2001 and 2011, London's population grew by 12 per cent to 8.2 million, and it is projected to reach 10 million by around 2030.[1] Yet, the output of new housing has fallen consistently short of the targets in the Mayor's London Plan. In 2015/16, 24,180 net new units were completed, when population projections suggest that a minimum of 50,000 units need to be built annually just to meet demand.[2]

At the same time, London's housing market is fast becoming unaffordable to many of its residents. The latest figures show that an income of £59,000 is needed to afford average Inner London rents.[3] Centre for London's 2014 *Hollow Promise* report highlighted the pressures facing London's 'squeezed middle', i.e. those in low- to middle-income jobs.[4] In turn, the 2015 Commission on Intermediate Housing found that even the cheapest Outer London boroughs are now close to unaffordable for first-time buyers with ordinary jobs: rising rents and stagnating wages are leaving low- to middle-earners with little or no disposable income. In response to the problem, the Commission called for an increase in affordable housing provision in London.[5] Figure 1 below shows average rental costs per borough set against average incomes. As it stands, there is no borough for which the average rental price is lower than 30 per cent of the average income – the common benchmark for 'affordability' – and most Inner London boroughs see average rents standing at 50 per cent or more of average incomes.

Tackling London's affordability crisis requires more housebuilding across the board, so that supply can keep up with demand. But the rising cost of housing puts particular pressure on demand for affordable housing.

Figure 1: Average rent as a percentage of average income, by borough, 2014/15[6]



The government currently defines affordable housing as “social rented, affordable rented and intermediate housing, provided to eligible households whose needs are not met by the market […] determined with regard to local incomes and local house prices”.[7] Affordable housing has traditionally catered to the needs of those on the lowest incomes and the more vulnerable groups in society, but today, with house prices and rent increases outstripping wage growth, there is demand for affordable housing from key workers and young professionals too. Recent research for CBI and Peabody found that more than a third of London’s shift workers and emergency services workers live in social housing.[8]

Ways of unlocking housing supply have been extensively discussed. Some of the challenges that have been identified are low land availability, features of the planning process, and the business model adopted by volume housebuilders. This report, however, focuses on public funding for affordable housing – a less-explored area. **The report will examine the economics of delivering affordable housing, and whether adopting a more strategic pan-London set of policies would have a meaningful impact on overall supply.**

In order to understand the complexity of London's housing market, and how it has arrived at its present state, we need to better understand how affordable housing provision has evolved over the last few decades.

A brief history of affordable housing provision

Over the past century, submarket housing provision in London has ranged from small-scale philanthropic initiatives and large-scale state-funded projects to today's mixed economy of scaled-back public sector delivery, housing associations, and the private sector. Changing governmental arrangements and contrasting housing policies in Inner and Outer London have also had a strong bearing on how and where affordable housing is built today.

Submarket housing has been a prominent feature of the London housing market since the late 19th century, when philanthropists such as Peabody and Guinness started building London's first subsidised housing developments to cater for the city's workers. Until then, many workers were crammed into slum tenements dotted across the inner city. During this period, London did not have a centralised or strategic system of housing provision or planning. The Metropolitan Board of Works (MBW) was the closest thing to a dedicated agency, but its role was limited to the provision of infrastructure and slum clearance rather than the large-scale development of housing.[9]

In 1889, the MBW was superseded by the London County Council (LCC) – the first directly elected strategic local government body, covering what is today Inner London. It was equipped with compulsory purchase powers and a capacity to build new housing. The LCC experienced a considerable expansion of its operations in the interwar period – a time of sustained investment in new housing by national government, with funding available to support large-scale housebuilding for working-class families and a cap on rents for low-income tenants.[10] Boroughs had the powers to provide housing separately from the county government – most notably exercised at Woolwich, where 4,500 units were built in the inter-war period. For the most part, however, large-scale housebuilding was led by the LCC, with 76,887 dwellings constructed between 1919 and 1938, a rate which expanded further in the post-war period.[11] This led to a concentration of social housing in Inner London, which persists today (see Figure 2).

Figure 2: Social housing units as a percentage of total housing stock, by ward[12]

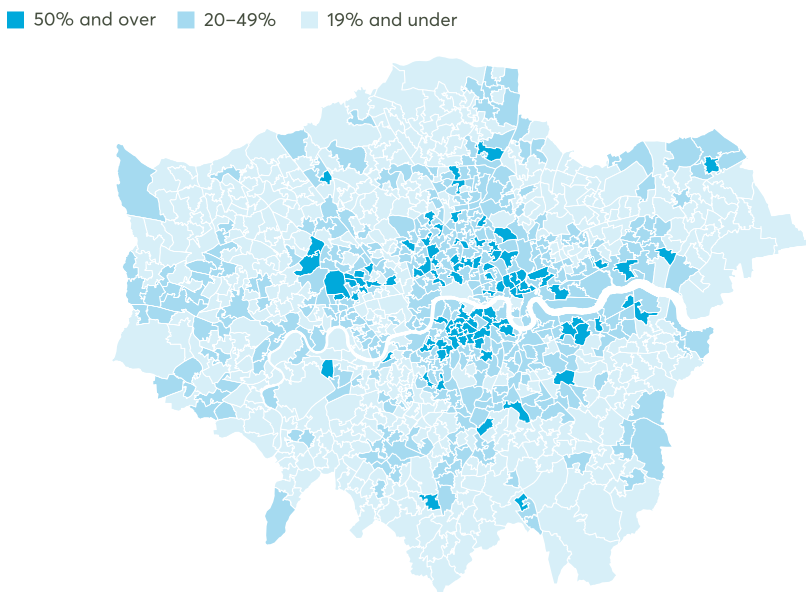
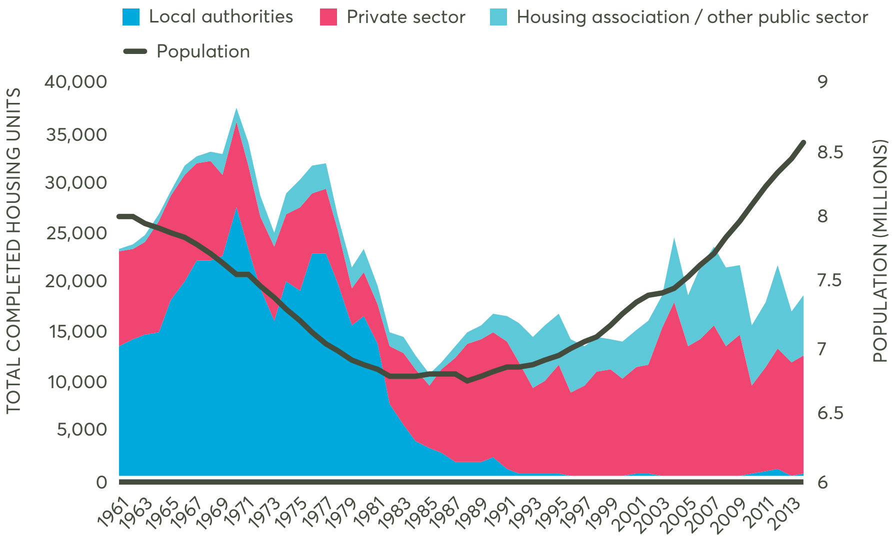


Figure 3: Gross completed units per year by tenure and the population of Greater London, 1961–2014[13]



The London Government Act 1963 saw the formation of the borough system, which we recognise today. The Greater London Council (GLC) succeeded the LCC as the body overseeing London-wide policy; however, the GLC covered the whole of Greater London and had a greater number of constraints to housing delivery than its predecessor. While the GLC could still buy and build on any patch of land in London, local authorities were given equivalent powers and inherited much of the former LCC stock, making them the primary social housing providers.[14]

The GLC was abolished in 1986, leaving local authorities as the sole state provider of social housing in London. However, council-led housebuilding saw a dramatic decline in the 1980s (see Figure 3) due to a number of factors. First, the introduction of Right to Buy (RTB) saw 113,090 units move from local authority to private ownership between 1980 and the end of the decade.[15] However, the onus on the local authority to provide a discount and restrictions on the use of sales receipts have made it difficult for boroughs to replace council units sold – a situation that persists today and which is further discussed in Chapter 3. This was also complicated by the fact that local authorities were ineligible to receive government housing grant until relatively recently.[16]

Second, housing associations and other not-for-profit registered providers started to receive central government funding to build social units from 1974, while the 1985 Housing Act enabled the transfer of social housing stock from local authorities to housing associations.[17] Housing associations consequently experienced a considerable expansion of operations during this period, with the proportion of total social housing units built or managed by housing associations increasing from 5 to 11 percent of the annual total between 1974 and 1988.[18]

The change in the primary delivery agency of affordable housing was accompanied by reducing levels of grant. From the 1970s both Labour and Conservative governments had a preference of funding "people rather than bricks", i.e. increasing investment in housing benefit while reducing investment in new housing, which led to overall spending on housing falling consistently from the mid-1970s to around 2000.[19] Nevertheless, units which received government grant were relatively generously funded: in the early 1990s grants covered about 75 per cent of the cost of submarket housing association developments. The introduction of higher affordable rent and intermediate tenures, which require less subsidy per unit, led to grants covering an average of 39 per cent of unit costs.[20]

The Greater London Authority (GLA) was created in 2000, and in 2007 took over the administration of affordable housing grant in London. The overall grant amounts declined from £3.72bn in 2008–11 to £628m in 2011–15 and, although this has increased to £3.15bn in the recently announced 2016–21 funding programme, successive funding programmes have seen reduced levels of grant per unit. The 2011–15 programme offered £22,000 per unit, whereas the preceding 2008–11 programme offered £70,000 per unit.[21] In the past ten years, housing authorities have increasingly sought out other means of financing their product, such as borrowing, cross-subsidy and planning.

Despite the relative increase in housebuilding by housing associations, the substantial decline in local authority building has left the private sector responsible for the bulk of new homes provision in London (see Figure 3). As a result, planning gain has become an increasingly important mechanism for the delivery of new submarket units. Forty years ago, developers had a statutory obligation to introduce measures to offset the negative impact of new development on the local area; but this applied to a relatively small zone surrounding the site, and tended to pertain more to infrastructural improvements than housing. Incremental policy measures from the late 1970s – which culminated in Section 106 of the 1990 Town and Country Planning Act – gradually reworked both the definition of the area surrounding the site (to encompass a much larger radius) and the form of contribution (to encourage affordable housing above other commitments).[22] By 2011/12, £2.3bn of the total £3.7bn secured through planning obligations at a national level was for affordable housing.[23]

Affordable housing provision today

As explained above, the role of local authorities has diminished, from being the primary agencies for housebuilding in London to directly delivering negligible amounts over the last two decades. Nevertheless, they still hold a range of housing powers and duties, including planning for local housing delivery, regulating the quality of housing, facilitating the delivery of new housing (including for vulnerable groups), and providing accommodation for local homeless people with priority needs. With availability of social housing limited, many local authorities have had to meet this duty through renting temporary accommodation, often outside their boundaries and even outside London. The number of households in temporary accommodation in London rose by one-third between 2013 and 2015,[24] with London boroughs spending an estimated £663m in 2014/15.[25] While it would be extremely difficult to reduce that spending in the short term, a much more effective long-term solution would be to invest more in new affordable housing.

There has been a slight increase in local authority housing delivery in recent years, from 10 completed units in 2008/9 to 320 units in 2015/16.[26] A number of the local authorities interviewed expressed interest in expanding their direct delivery, and a resurgence in local authority housebuilding would have a significant impact on overall provision. However, some are restricted by high land values within their borough boundaries (discussed in Chapter 2) and there are many constraints on the sources of funding available to them (discussed in Chapter 3).

Despite a historic increase in housing associations' output across London, the sector believes it has the capacity to considerably expand output. It has a business model suited to the large-scale and cost-effective delivery of affordable housing, as its product is in very high demand and in many cases will see rents paid directly by housing benefit. Therefore, the sector is less susceptible to market cycles than the private sector and does not need to be as mindful of saturating the market. Unlike local authorities, housing associations are able to operate across boundaries, as well as having in-house development expertise and financial resources in terms of proceeds from existing stock and borrowing capacity. However, housing associations also face a number of barriers to development, including land availability and restrictions on rental income (discussed in Chapter 3).

Alongside the shift in the agencies that are building new housing, the types of affordable housing provided have also changed considerably over time. In addition to traditional social-rented housing with controlled rents, there are a number of other submarket tenures which broadly fall under the definition of affordable housing.[27] Affordable rented housing was introduced as a tenure in 2010 – defined as property let at no more than 80 per cent of the local market rent. There are also a range of intermediate tenures, including intermediate rent, shared ownership and equity loan products. In addition, the Mayor of London has recently proposed two new London-specific tenures – London Affordable Rent and London Living Rent (detailed in Chapter 2 of this report) – while the government's housing white paper proposed to amend the definition of affordable housing to introduce new affordable private-rented and starter homes tenures.[28] Depending on the relevant level of affordability of these tenures, they would require different levels of public subsidy to be delivered.

Figure 4: Net completed units by tenure, 2004/5–2014/15[29]

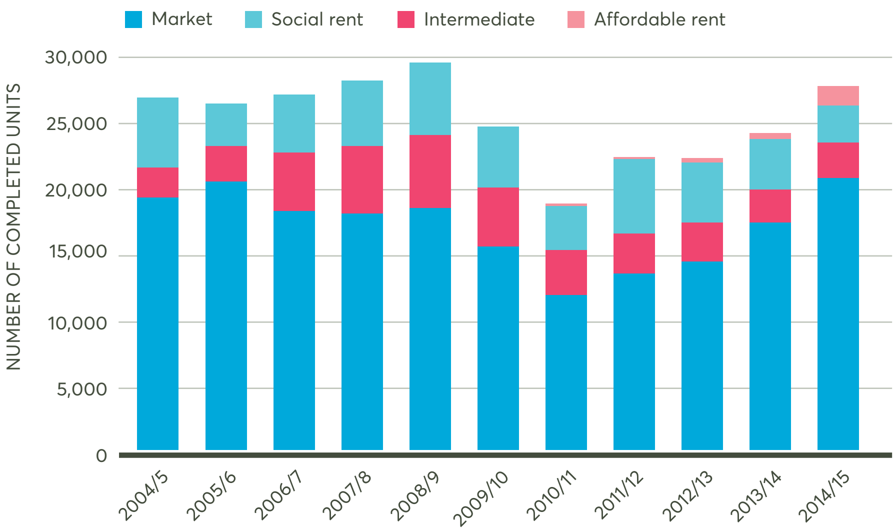


Figure 5: Median quarterly house prices for Inner and Outer London[30]

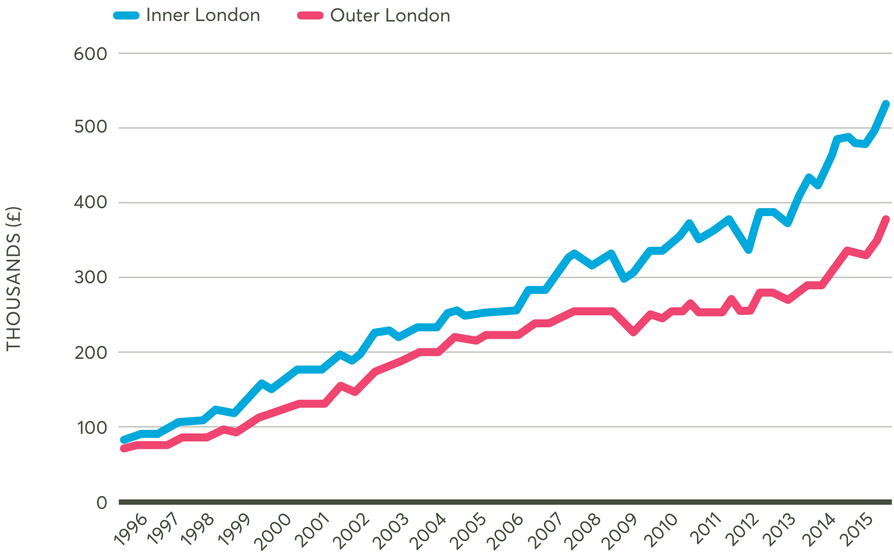


Figure 6: Total additional affordable dwelling completions in London, 2001/2–2015/16[31]

Despite a broadening of its definition, affordable housing has consistently formed only a small proportion of London's total new housing supply, and there is a noticeable downward trend. Affordable housing as a proportion of all new completions has declined from 39 per cent in 2004/5 to 35 per cent in 2009/10 and 25 per cent in 2014/15 (See Figure 4).

Furthermore, the level of affordable housing delivered varies considerably from borough to borough (See Appendix 1). Historically, affordable housing provision was concentrated in Inner London. However, particularly since the mid-2000s, house prices have risen faster in Inner London than Outer (see Figure 5). This inflates land values, restricting both public and private sectors' ability to deliver high levels of affordable housing. As a result, affordable housing provision has become more balanced between Inner and Outer London, with the majority of affordable units built in Outer London boroughs in 2014/15 (see Figure 6).

Chapter 2 examines in more detail the impact of land values on the finances of affordable housing delivery, and the different levels of funding required to build in different parts of London. Chapter 3 examines the range of funding sources available to local authorities and other registered providers, as well as the barriers to utilising these efficiently at the local level. The final chapter argues that enhanced cross-borough collaboration is required to maximise affordable housing delivery across London, and looks at the role that London governance could play in facilitating a more strategic approach to affordable housing delivery.

2

THE FINANCING OF AFFORDABLE HOUSING IN LONDON

Affordable housing is an expensive product to provide, given that it is being let or sold below market prices. Within London, the interaction of land values and house prices – and the gap between supply and demand in recent years – has led to stark differences in the costs of building new affordable housing in different neighbourhoods. This chapter provides an indicative illustration of the cost of development in central and suburban locations, and the corresponding funding that needs to be raised to build in them.

Land values and cost of development

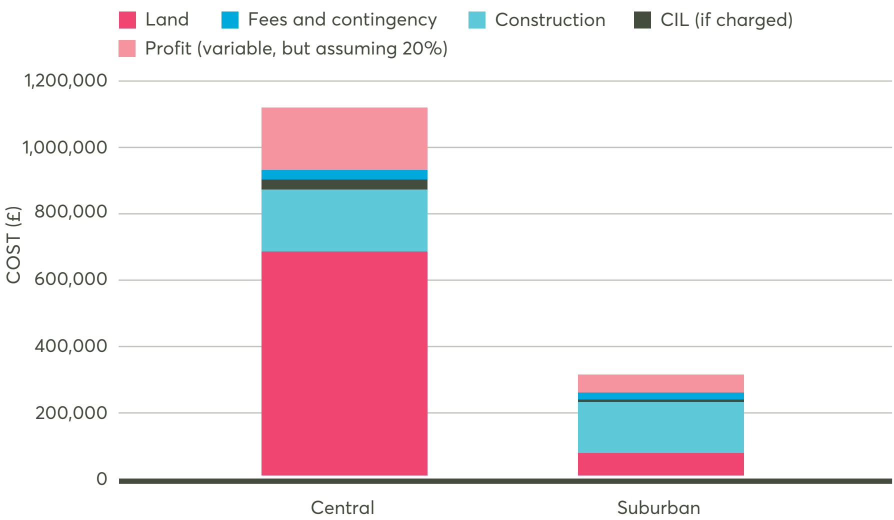
Part of the reason for the cross-borough discrepancies in housing delivery is that sustained demand for housing has consistently and significantly raised land values, particularly in prime Inner London locations.

Reflecting London's booming housing market, residential land values have increased in both Inner and Outer London in recent years, with seven boroughs (5 Inner, 2 Outer) seeing increases of more than 60 per cent between 2010 and 2015. Absolute land value disparities between boroughs are striking. For example, as of June 2015, the estimated average price for a hectare of residential land in the Borough of Bexley (£7.5m) was eight per cent of a similarly sized plot in Westminster (£93.3m).[32] Although these two boroughs represent the extreme ends of the scale, there are also equally stark differences in land price between bordering boroughs with similar characteristics, such as Southwark and Lambeth, as well as across areas within the same borough (for example, Lisson Grove and Belgravia within Westminster).

Construction costs vary only marginally across different parts of London, so land value tends to represent the main variable in overall build costs. The rapid increase in land values has therefore significantly increased the overall cost of development, which adds to the cost of delivering each unit of subsidised housing, particularly in areas of higher land value.

To illustrate this point, we have modelled build costs for two generic examples of housing developments in a 'Central' and a 'Suburban' area of London, based on data for the most and least expensive property markets in London (the 'Central' case study uses data for Westminster and Kensington and Chelsea as benchmarks, while the 'Suburban' case study uses data for Bexley and Havering). Figure 7 below shows estimates of the principal costs involved in building a private two-bedroom flat in these two generic locations (for details on the calculations see Appendix 2).

Figure 7: Costs for building an average housing unit in a Central and Suburban location (based on Centre for London calculations)



Some important caveats apply. We have used the benchmark residential land values published by the Department for Communities and Local Government.[33] In practice, however, these values will vary significantly within and between boroughs, depending on site structure and characteristics. Some of the most complex and challenging sites in London will have low or even negative land values because of their need for remediation or infrastructure. For the purpose of these case studies, we have assumed these are 'standard' windfall sites that are ready for construction, in existing built-up areas with no special conditions, remediation or additional infrastructure needs. Build costs and fees similarly operate on a site-by-site basis and are heavily influenced by the type of building techniques used, site conditions, economies of scale, the need to fund additional infrastructure (beyond standardised CIL levies), and build and finish specifications.

Furthermore, land values are not set in stone. Developers will bid against each other for land by taking the anticipated sale value of a property and deducting anticipated costs, including build costs, Community Infrastructure Levy (CIL), costs of affordable housing provision, and other costs and obligations. What is left is the 'residual value' of the land. The levels of affordable housing provision have been subject to negotiation on the basis of 'viability' in recent years, but the Mayor of London's recent Supplementary Planning Guidance announced a new viability threshold whereby a streamlined planning process applies if developers can commit to providing 35 per cent affordable housing on site. This aims to make developers take this fixed proportion of affordable housing into account when bidding for sites, and to reduce land speculation.[34]

Our indicative estimates outlined in Figure 7 (which are a little below mid-market values shown on rightmove.co.uk for new build two-bedroom flats in London's most and least expensive areas) show that the cost of land accounts for more than half of the cost of building a standard flat in a central location – as opposed to around 25 per cent of the suburban equivalent. Therefore, **the cost of building similar apartments is more than three and a half times higher in the central location compared to the suburban location.**

Separate research has found that if the five most expensive London boroughs (Islington, Hammersmith and Fulham, Kensington and Chelsea, Camden and Westminster) together invested £500m of developer contributions for off-site affordable housing, they would deliver 650 affordable units within their borough boundaries. But if those boroughs invested the money in the five lowest-value Outer London boroughs (Bexley, Barking and Dagenham, Newham, Sutton, and Havering), then 2,600 homes could be built.[35] This shows that for the price of one home in central London, four can be constructed in cheaper areas of London. Another recent report examined the differences between London boroughs by looking at the gap between market prices and how much different households could afford: it found that 12 times more funding would be required to fill the gap between market prices and affordable housing in Westminster than in Barking and Dagenham.[36]

These findings call into question the relative value for money obtained by building affordable housing in expensive areas, as opposed to maximising the total number of units that can be delivered in cheaper areas. Taken to an extreme, this might suggest we should be building not only in Outer London but also outside London. However, that extreme position ignores issues of mixed communities and social cohesion. Even though some London boroughs have been accommodating their homeless residents outside the capital, Londoners would prefer to be based within London – not only to be closer to existing family and wider support networks, but also to be within commuting distance to their current workplace or future job opportunities. This paper therefore argues that **affordable housing provision should be prioritised in Outer London areas with lower land values, and in particular those with lower levels of existing affordable housing** (see Figure 2 in Chapter 1), which would provide a balanced mix of tenures and communities. London boroughs should be encouraged to deliver as much affordable housing for local people as possible, and Chapter 3 examines how funding available to them can be maximised to achieve this goal. However, Inner London boroughs in particular are restricted in the amount of affordable housing they can deliver, due to high land values and a shortage of available sites. Chapter 4 therefore examines ways to facilitate cross-borough collaboration and enable a more efficient use of funds.

Financing development

The differences in the overall cost of development across London invite the question of how the construction of such affordable housing units could be funded. This could include a mixture of borrowing, public grant and other sources, which are illustrated in the examples below.

A housing association, local authority or private developer could secure some funding through a loan, bond or other means, often secured against rental income. In the examples below, the capital that can be raised in this way is estimated on the basis of deducting 35 per cent of rental income to cover management expenses, and securing loans against the remaining sum, using a rate of 4.5 per cent per annum (although the rate would vary considerably, depending on the security against which any loan or bond is secured and the location, size, terms and track record of the developer involved).

Housing associations and private registered providers also have access to GLA affordable housing grants, with set grant rates for defined affordable housing tenures each addressing different levels of affordability. These are specified in the Mayor of London's new funding guidance and outlined below.[37] Local authorities also have access to GLA affordable housing grants, but they tend to negotiate bespoke rates for large-scale Housing Zones and regeneration development.

- London Affordable Rent is targeted at low-income households nominated by London boroughs, and is provided by housing associations and other registered providers. For these properties, the Mayor has proposed benchmark rents slightly higher than social rents. The benchmark rent for a two-bedroom flat is £152.73, and grants of £60,000 per unit are available.

• London Living Rent is targeted at households with average income levels, and is intended to help tenants save towards home ownership. The rent is set with regard to average incomes locally, and grants of £28,000 per unit are available. Using the GLA's formula, the London Living Rents for our generic examples would be capped at £215 per week (suburban) and £300 per week (central).

Tables 1 and 2 illustrate the amount of funding left to be secured for building flats under these tenures, after borrowing and grants.

Table 1: Net funding gap for building a London Affordable Rent flat in central and suburban locations (Centre for London calculations)

	Central	**Suburban**
Total market value (£)	1,122,107	319,650
CIL not payable on affordable housing (£)	-28,000	-5,250
Borrowing against rental income (£)	-115,000	-115,000
GLA grant (£)	-60,000	-60,000
Net funding gap (£)	**919,107**	**139,400**

Table 2: Net funding gap for building a London Living Rent flat in central and suburban locations (Centre for London calculations)

	Central	**Suburban**
Total market value (£)	1,122,107	319,650
CIL not payable on affordable housing (£)	-28,000	-5,250
Borrowing against rental income* (£)	-225,000	-160,000
GLA grant (£)	-28,000	-28,000
Net funding gap (£)	**841,107**	**126,400**

*For London Living Rent, additional borrowing could be secured against the eventual sale or conversion to shared ownership.

This shows that **the additional funding required for one home in the generic central location would support five or more in the suburban location** – illustrating both the difference between the funding required to build affordable homes in cheaper or more expensive areas, and the insufficient levels of overall public funding to build affordable housing in London.

The funding gap can be filled in a number of ways. Most commonly, housing associations and private developers will fund developments through reinvesting profits and surpluses from existing stock. In mixed-tenure developments, affordable housing is also 'cross-subsidised' from the sale of the market-rate homes, which will be significantly higher in high-value areas. As explained above, the developer would submit a viability assessment, presenting a calculation of the percentage of affordable housing they can profitably provide based on the market value of the homes and deducting land and build costs. In this way, higher-value market sales would 'subsidise' the affordable units.

Local authorities and housing associations may also deliver affordable housing more cheaply by taking a lower profit margin, while local authorities and other public sector bodies may subsidise affordable housing through not realising the full land value, i.e. disposing of public land at a cheaper price in exchange for an increased affordable housing contribution. Whether involved in affordable housing development via direct commissioning or joint ventures, local authorities have access to a number of additional funding streams, including borrowing from the Housing Revenue Account, receipts from right-to-buy sales, and developer contributions in lieu of affordable housing. The latter are more common in central locations, as developers may argue that it is not viable to deliver affordable and market housing in the same building, due to complexities of management and design. However, all these sources of local authority funding are subject to restrictions on their use, which are discussed in Chapter 3 of this report.

3

MAKING BETTER USE OF FUNDING FOR AFFORDABLE HOUSING

Although the role of local authorities in the direct delivery of new homes has declined considerably since their post-war heyday, there has been a recent resurgence in their housebuilding efforts. A significant number of the London boroughs we interviewed expressed a desire to expand their operations, with many creating housing delivery vehicles and joint ventures. Local authorities should be encouraged to build as much affordable housing locally as possible. However, existing legislation constrains how they can deploy and mix funding. This section examines the available funding streams and makes recommendations for the maximisation of existing resources.

Local authority borrowing

A primary means of funding local authority housebuilding programmes is borrowing on the Housing Revenue Account (HRA). HRAs hold the income generated from council-owned housing assets, and this income is ring-fenced so that it can only be spent on local affordable housing provision. It is not uncommon for the revenue in the HRA to be insufficient to cover local authority housing costs: prior to 2012, the Treasury would offer funding to fill the gap. However, 2012 saw the introduction of the self-financing regime, which meant that any gap between income and projected spending would now be covered by borrowing rather than national government subsidy. And the amount that local authorities can borrow is capped by local finance regulations.

On day one of self-financing in 2012, London's share of the national housing debt was apportioned to the boroughs. A council's capacity to borrow through the HRA is thus dependent on there being a gap, or 'headroom', between debt and borrowing capacity. The settlement left London boroughs with a total HRA debt of £6.4bn and a borrowing cap of £7.8bn, leaving borrowing headroom of £1.4bn, almost half of the total for England.[38] The headroom figure today is probably higher, as some boroughs have paid down debt using reserves or other finance. All the same, there is a large variation in the amount of headroom between boroughs, which ranges from almost zero in Harrow and Greenwich to £148m in Lambeth.[39] Limited headroom is also affected by the fact that local authority borrowing capacity is calculated as a reflection of historic debt levels, rather than using more conventional criteria such as the authority's ability to service the debt (which applies to prudential borrowing).[40]

This meant that only around seven London boroughs had the combination of regular revenue from council-owned housing stock, which could be borrowed against, and the headroom required to take advantage of HRA borrowing. These seven boroughs (all in Inner London) shared 50 per cent of London's borrowing headroom,[41] but are now increasingly encountering barriers to affordable housing delivery such as a scarcity of brownfield sites and escalating land values.

Local authorities have lobbied the government to raise the borrowing caps for some time. However, DCLG officials have indicated that the government does not see a need to do so while there is still headroom available in London. As the figures above demonstrate, however, **the borrowing headroom of London as a whole is not necessarily available to boroughs that have the capacity to build**. Several local authorities with ambitious building projects that we interviewed had already reached the borrowing cap midway through their annual building program; whereas others expressed no real intention to build housing on a significant scale, but still had significant headroom. It has been estimated that the collective borrowing headroom of £1.4bn would be sufficient to build around 4,500 homes across London at the average market rate.[42] This compares with the 1,500 or so homes delivered by local authorities over the course of the 2012–2016 funding cycle – which were funded via multiple different sources, including HRA borrowing.[43] Facilitating partnerships between boroughs with land but minimal headroom and boroughs with borrowing capacity but a shortage of land would enable a more efficient use of resources.

Recommendation: The government should review Housing Revenue Account borrowing capacity so that it is based on local authorities' ability to service the debt rather than on historic debt levels.

Recent government policies also have a significant impact on local authorities' ability to borrow. For example, the 2016 Welfare Reform and Work Act requires registered providers of social housing in England to reduce social housing rents by one per cent a year for four years from a frozen 2015–16 baseline, and to comply with maximum rent requirements for new tenancies.[44] This will undermine the ability of local authorities and other registered providers to borrow money against rental income. The Office for Budget Responsibility has estimated that the annual one per cent rent reductions over the four years to 2020–21 will result in 14,000 fewer social sector properties being constructed in the UK during this period.[45]

In addition, the 2016 Housing and Planning Act proposed a high-value asset levy, which would be paid through the sell-off of high-value council housing when vacancies arose, and used to fund Right to Buy for housing association tenants. This policy would significantly erode London councils' social rent income and housing stock, which in turn will diminish borrowing capacity due to the reduced value of assets and the risk associated with an uncertain future stock, thus incentivising boroughs to increase reserves.[46]

Recommendation: The government should provide a stable operating environment for council housing finances, including no further major welfare reform, a return to inflation-indexed social rent increases, and the cancellation of the high-value council homes levy.

Right to Buy receipts

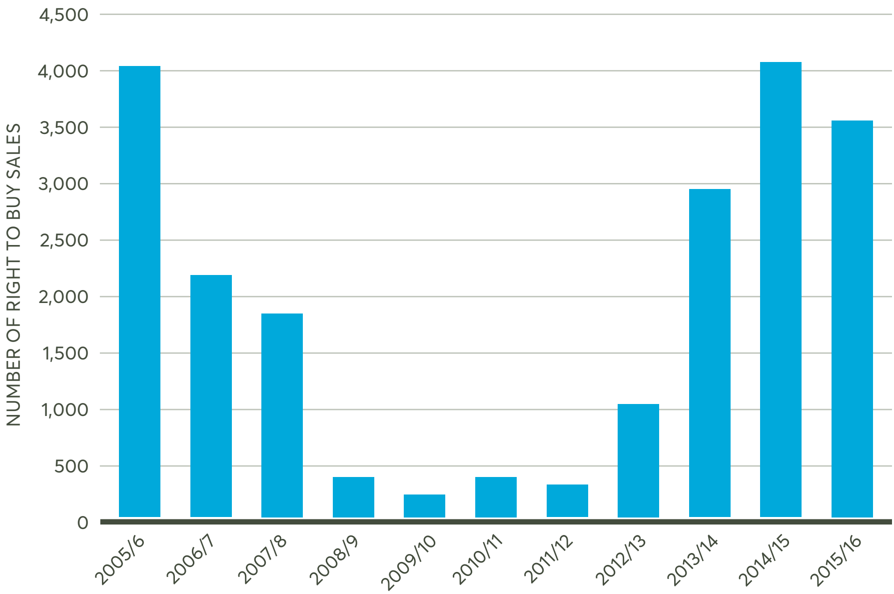
Right to Buy (RTB) receipts have the potential to be a considerable source of investment for affordable housing, but restrictions on their use mean that they are not being maximised.

The total value of London RTB receipts between 2012 and 2015 was £450m, and 2014/15 saw more than 4,000 sales – the highest in London since 2004/5 and a recovery from the 2008–2012 slump in which annual sales fell below 1,000 (see Figure 8).[47] Upon sale, tenants receive a 35 per cent discount (up to £102,700 in London) and about half of the remainder is passed back to the Treasury. Effectively, only around one-third of the total market value of the property is retained by the local authority.

The government expects local authorities to replace homes sold via RTB one-for-one. However, a number of restrictions make this very difficult. First, the retained RTB amount can only be used to fund up to 30 per cent of the capital cost of a replacement home, but the subsidy required to make affordable housing viable in London is almost always more than 30 per cent of the capital cost of that home – so the remainder needs to be funded by other means. However, the rules also prevent RTB receipts being mixed with grant funding, capital receipts or public land, so the remaining 70 per cent of the value of the new property has to be funded by a partner Registered Provider or HRA borrowing – but, as discussed above, local borrowing is an already highly restricted source of funding.

Finally, the receipts must be spent within three years and, if left unspent, the funds are returned with interest to the Treasury. In the case of London receipts, these are then passed on to the GLA and allocated to affordable housing grant programs. The difficulty in raising the remaining funding for replacement homes means that, according to the local authorities interviewed, only about one in six local authority RTB sell-offs is replaced with a new unit.[49, 50]

Figure 8: Number of Right to Buy sales in London[48]



As a result, local authorities are increasingly forced to return unspent RTB funds to the GLA. For example, one London borough is reported to have returned £14.8m of retained receipts between 2012 and 2015, due to the council's inability to match the remaining 70 per cent through HRA borrowing.[51]

Local authorities we interviewed expressed frustration at the limited scope for RTB receipt usage and that, if it were not for the restrictions, RTB receipts could be a considerable source of funding for land purchases and housebuilding.

Right to Buy has enabled thousands of Londoners to own their properties. Even accounting for the generous discount, RTB receipts represent a large sum of money that could be constructively employed to increase London's affordable housing stock. Relaxing the restrictions on the amount that can be spent on replacement units, and the limited time-frame for doing so, would enable more local authorities to build more affordable units. Finally, if local authorities were able to pool unspent RTB receipts, it would provide scope for partnerships with like-minded boroughs to develop cheaper sites and spend these funds much more efficiently. However, there is insufficient clarity about the legality of spending RTB receipts outside of borough boundaries.

> Recommendation: The government should extend the period in which local authorities are able to spend RTB receipts from three to five years, and increase the proportion of the cost of a replacement home that can be funded using the receipts. The government should also permit the spending of RTB receipts outside of borough boundaries to enable pooling with other boroughs.

Commuted sums

Commuted sums are payments offered by developers to local authorities in lieu of the on-site delivery of affordable housing. Commuted sums are ordinarily agreed upon as an alternative to on-site delivery when it has been demonstrated as commercially unviable to build the required proportion of affordable units on the same site. This tends to be more common in the more expensive parts of London, where providing affordable and market homes in the same building may be complicated for reasons of sharing the same access point and servicing arrangements.[52]

As it stands, there is a general presumption in favour of on-site delivery within the National Planning Policy Framework. Equally, at a London level, the Mayor's November 2016 Supplementary Planning Guidance aims to discourage off-site or cash-in-lieu contributions. Even in the absence of such measures, commuted sums are not always considered an attractive form of S106 commitment by London boroughs. Several borough representatives that we interviewed suggested that their departments lacked either the planning and development expertise or the administrative machinery to spend these funds effectively on affordable housing, and thus a standard on-site contribution proved the favoured option, even if this meant fewer overall affordable units.

However, for the boroughs that have accepted – or even actively encouraged – payments in-lieu, the volume and cash value of contributions has increased year-on-year since 2011: in 2014 there were 88 payments offered on developments in London, compared to 79 from 2012 to 2013 and 70 in the previous seven years.[53] The total amount paid between 2010–2015 to Inner London boroughs in lieu of affordable housing came to more than £800m, and five boroughs received over £1m in total commuted sums in 2015.[54] Of the boroughs we interviewed, the majority said they expected the amount of commuted sums negotiated to increase in the foreseeable future, despite the presumption in favour of on-site delivery. Added to other local authority sources of funding, commuted sums could represent a significant resource for investment in affordable housebuilding.

However, because of the general barriers to affordable housebuilding in more expensive areas – namely scarcity of available land and high land values – Inner London local authorities find it difficult to invest these sums in-borough: of the £800m collected by Inner London boroughs, only eight per cent had been spent, although much of the remainder had been committed to specific projects.[55]

In theory, Section 106 contributions are meant to meet local needs. In practice, however, boroughs are able to spend commuted sums anywhere within the local authority boundaries and, given the size and socio-demographic differences within most London boroughs, this could mean that the money could easily be spent in a community which shares little in common with the community of the origin site. Spending commuted sums in areas with lower land values – with the principle of mixed communities factored in – could enable the delivery of a higher total number of affordable homes.

However, there is no clarity on the legality of spending outside of borough boundaries, with different sources we interviewed receiving conflicting legal advice. Given the likelihood of the total values increasing in coming years, developing appropriate structures and mechanisms to get these funds reinvested effectively and quickly into affordable housing should be explored.

Recommendation: The government should give local authorities explicit permission to spend commuted sums on affordable housing outside of borough boundaries, to enable local authorities to use these sums more strategically and efficiently, as part of cross-borough collaborative arrangements.

Public sector grant

In November 2016, the GLA announced the 2016–2021 Affordable Homes Programme. It made available a £3.15bn grant package (although £979m has already been allocated, so there is only £2.17bn available). A proportion has been allocated towards the Mayor's Innovation Fund, Housing Zones and land assembly, with the remainder expected to support 90,000 new affordable homes.[56]

The new grant programme introduces welcome flexibilities, such as higher levels of investment and support for 'strategic partners' who are able to achieve 60 per cent affordable units.[57] The introduction of set grant rates provides welcome certainty and allows housing associations (who are able to operate across borough boundaries, and are currently the recipients of approximately 95 per cent of affordable housing grant) to plan for the long term. The set grant rates and the inability to mix grant with RTB receipts make it harder for local authorities to utilise affordable housing grant, though those with Housing Zones and large-scale regeneration development ambitions are able to negotiate bespoke packages of support from the GLA. The analysis in Chapter 2 illustrates the much greater funding gap facing central London boroughs. While this report argues that building units in areas with lower land values represents a more efficient usage of subsidy overall, grant regimes and other subsides should be sensitive to the need to enhance mix.

Furthermore, as outlined in Chapter 2, major brownfield developments require upfront infrastructure investment. In addition to the Mayor's Affordable Homes Programme, there is a £2.3bn government Housing Infrastructure Fund, which will support up to 100,000 new homes.[58] However, it is as yet unclear what types of development it might be able to support, and whether the level of grant would be sufficient to kickstart large-scale developments in London.

Although recent grant announcements by the GLA and the government are welcome, grants for new affordable housing provision are dwarfed by the public subsidy of private rents. Housing benefit in London came to £6.25bn in 2014/15 – more than ten times the annual total of GLA funding towards affordable housing for the same year.[59] The first London Finance Commission recommended in 2013 that this money could be more strategically used if controlled at borough or GLA level.[60] Similarly, the devolution of property taxes to London could augment the amount of money available for affordable homes programmes. Centre for London's recent report, *In No Uncertain Terms*, proposed that if the Mayor was able to issue guarantees that housing benefit would rise in line with inflation, this could support the construction of 250,000 affordable homes to rent over ten years.[61] Other public subsidies for housing, including Help to Buy and the New Homes Bonus, could be combined into a single pot and devolved to the regional level to promote efficiencies and boost investment in new housing.

Recommendation: To allow a more strategic use of funds, the government should devolve housing benefit to the GLA level, and allow the Mayor to offer guarantees that housing benefit will rise in line with inflation to finance affordable housebuilding.

4

LONDON-WIDE APPROACHES TO AFFORDABLE HOUSING DELIVERY

Chapter 3 outlined the sources of public funding available for affordable housing and recommended ways of enabling boroughs to invest these more effectively at the local level. However, given the variations between land values and boroughs' capacity to build, resources could be more effectively used on a London-wide (or at least sub-regional) basis. This chapter examines the case for enhancing cross-borough collaboration, the barriers and challenges involved, and the potential for new approaches.

The potential for borough collaboration

As Chapter 3 set out, some London local authorities have the funding (either through borrowing headroom or unspent commuted sums and RTB receipts) and the delivery capacity to build new homes but lack developable land at reasonable prices – whereas others have the land availability but no capacity to build. Collaboration between such boroughs could achieve better value for money and enable the delivery of more affordable housing – up to five times as many homes, according to our analysis in Chapter 2.

Cross-borough collaborations could take many forms, including:

- Boroughs pooling money together and buying up large sites for mixed-use schemes
- Joint ventures between boroughs and private developers
- Boroughs co-commissioning a single developer
- Transferring unspent RTB receipts between boroughs
- Boroughs with development expertise and funds partnering with those with developable land
- Boroughs buying flats in developments in another borough in exchange for housing nominations, etc.

However, despite discussions, cross-borough collaborations on funding and constructing affordable housing have not come to fruition, in contrast to growing collaboration in other service areas. There are formal partnerships, such as the tri-borough partnership between Hammersmith and Fulham, Westminster, and Kensington and Chelsea, who have shared some local authority services (library, adult social care and children's services) and some back-office functions (treasury, pension, audit and anti-fraud) since 2012.[62]

London boroughs also collaborate in the area of homelessness provision, such as through the Inter Borough Temporary Accommodation Agreement (IBTAA), which seeks to manage costs of temporary accommodation.[63] There are also sub-regional arrangements, such as the WREN Group (Waltham Forest, Redbridge, Enfield, Newham), which ensures that boroughs are not bidding to purchase the same sites and pushing up the price.[64] Other partnerships include the West London Alliance between seven west London boroughs (Barnet, Brent, Ealing, Hammersmith & Fulham, Harrow, Hillingdon and Hounslow), which tries to improve understanding of the regional housing market, to pool expertise and resources, and to create efficiencies through joint working.

These types of arrangements acknowledge the importance of a joined-up approach across borough boundaries, and recognise that housing markets often function in a regional rather than localised fashion. But they have stopped short of collaboration in directly delivering new affordable housing.

Barriers to collaboration

In discussion with boroughs and other practitioners, a number of challenges and barriers have been identified:

- Nominations and allocations

A borough seeking to invest in new housing beyond its boundaries will most likely want a significant proportion of the rights to nominate tenants for the new affordable housing to justify their investment in the project. But at the same time, the borough in which the new units are being built is unlikely to permit development of affordable units that do not contribute to alleviating local housing need. Bilateral deals need to reach an agreement on allocations that makes a development beneficial to both sides.

- Mixed communities

While it may make financial sense to build more affordable housing in cheaper areas, there is concern that this approach would undermine the principle of mixed communities, even – at the limit – leading to a dispersal of poorer Londoners to the outer fringes of the city. The concept of 'mixed communities' has been central to planning policy since the mid-1990s, seeking to integrate submarket with market-rate units. The underlying idea is that developments with a mixture of tenures cater for residents on a range of incomes, and create better places than people of different socio-demographic groups living in spatially separated districts and units.[65]

The benefits of mixed communities are by no means uncontested, with some studies pointing to the fact that there is minimal evidence for 'mix' having any positive effect on individual outcomes.[66] In addition, minority groups within a mixed development may lack access to essential resources such as affordable food shops within these communities.[67] Nevertheless, a significant body of academic literature supports the idea that districts with some degree of tenure or income mix support more resilient communities than homogeneously low-income areas.[68] Centre for London's 2015 *Fair to Middling* report called on the government and the GLA to ensure that the promotion of mixed-income neighbourhoods is given explicit priority within national and planning policies.[69]

Some areas of London with lower land values already have higher concentrations of social housing, so introducing more into these areas would have a tendency to increase rather than reduce segregation.

But many areas of Outer London have both low land values and historically low levels of affordable housing: on average, Outer London boroughs have around 18 per cent of households living in social housing, half the average rate for Inner London boroughs.[70] So cross-borough agreements must strike the right balance between making the most of lower land values and preserving and enhancing mix. In some cases the two objectives may work together, enriching the mix and taking advantage of relatively low land values.

- Public perceptions

Another barrier boroughs encounter is the negative public perception attached to even minor agreements which see social tenants from one borough housed into another. These are often framed in the media using terms such as "social cleansing" or "dumping", with talk of sending residents "miles away" from established social structures, including family, schools and workplaces.[71] In reality, however, many priority homeless people are having to be housed in temporary accommodation beyond London's boundaries. While nobody wants to be uprooted, increasing affordable housing in cheaper areas of London would surely provide better access to job opportunities and social networks than the present situation. A more open discussion about how boroughs are working together to solve London's housing needs in a strategic way could provide a more positive context for individual investment and development decisions.

- Cost of public services

There are also practical issues relating to the impact on public services from inter-borough arrangements. While people in out-of-borough temporary accommodation are still the responsibility of the borough of origin in terms of providing rent support, other public services such as social and healthcare and education provision are the responsibility of the host borough, to whom they would pay Council Tax if applicable. Boroughs whose public service provision and budgets are already under strain may prefer not to accept an influx of vulnerable people, which again suggests that solutions focused on the creation of mixed communities are more likely to receive a balanced response.

Unlocking the potential

This report cannot recommend a one-size-fits-all solution, as borough partnerships need to be bespoke to each borough's circumstances in order to benefit all sides. Nevertheless, there are some common principles that could help underpin successful deals, including:

- Maintaining and enhancing London's character as a mixed city, including through rebalancing the provision of affordable housing between Inner and Outer London.

- Partnering to provide new affordable housing as an element in larger mixed-use and mixed-tenure schemes, rather than as standalone provision.

- Sharing allocations proportionately to the boroughs' respective funding and land contributions. The partnership could be modelled on existing special-purpose vehicle arrangements between local authorities and private developers.

Most local authority housing officers we spoke to expressed enthusiasm for greater collaboration between boroughs – adding that commencing negotiations was relatively straightforward, but that politics often stood in the way of sealing bilateral deals.

The outcomes of cross-borough negotiations could be improved if the GLA and London Councils, the umbrella body for London local authorities, were to play a role in brokering and facilitating collaborations. The GLA can act as an 'honest relationship broker', helping boroughs to find suitable partners, and steering negotiating boroughs towards agreement, particularly in terms of nominations and allocations. This can be enhanced by a London best practice guide to establish a protocol for such agreements. The GLA can also bring various powers, resources and expertise to the process, where an individual project needs them. For example, the GLA could help to unlock development though utilising its land assembly capabilities and Compulsory Purchase Order powers where necessary, as well as leveraging Transport for London support with transport planning where additional infrastructure is required.

> Recommendation: The GLA should help broker formal borough partnerships in housing delivery and use its policies, powers and resources, including publishing a best practice guide, to facilitate and encourage collaboration.

London-wide arrangements
Enhancing cross-borough collaboration – with GLA support, on the basis of bespoke deals that would benefit the residents of all boroughs involved – has the potential to significantly increase the overall supply of affordable housing in London. However, the persistent challenges encountered in establishing collaborative arrangements suggest that more fundamental change may be needed in the long term, with the GLA taking a more strategic role in planning for affordable housing delivery.

The GLA has already indicated a willingness to provide more flexible terms or enhanced levels of grant and land acquisition support for strategic partners.[72] The GLA could target a certain proportion of affordable housing grant to areas that present the greatest opportunity to optimise affordable housing numbers, mixed communities and neighbourhood vitality. It could also use housing grant to incentivise new forms of collaborative delivery, with a significant portion of the Innovation Fund allocated to collaborative bids for consortia of two or more local authorities, together with housing associations and other registered providers, to bid for enhanced levels of grant support or equity investment. Boroughs could contribute land and funding through borrowing, RTB receipts and commuted sums, while housing associations could provide expertise and additional financing. The GLA could also support large projects with infrastructure funding, CPO powers, and release of GLA- or Transport for London-held land where necessary.

The Mayor and GLA could take a more direct role in affordable housing delivery, with a direct say in where affordable housing should be built, and partnering with housing associations, local authorities, private developers or joint ventures to deliver housing in priority locations. Direct delivery could be funded by a pooled pot of surplus local authority funding, such as unspent commuted sums and RTB receipts, as well as pooled borrowing capacity, and financing raised against guaranteed housing benefit payments. Boroughs should play a clear role in decision-making and should be incentivised to pool funding through generous allocations.

There will be a number of significant issues to be considered, including the nature of delivery and governance vehicles, management regimes, and how London-wide provision sits alongside responsibilities for meeting the needs of priority homeless people. But the options should be explored. London Councils is currently developing a pan-London delivery vehicle to administer available land and share development expertise. Although negotiations are at an early stage, conversations currently taking place can build the foundations for a longer-term London-wide delivery system. This should lead to a clear framework, embedded in the London Plan, to facilitate a pan-London delivery of affordable housing.

Recommendation: The GLA should incentivise collaborative affordable housing delivery through more flexible or enhanced levels of grant for consortia of local authorities, together with housing associations and private developers. The Mayor and the London boroughs should develop a more strategic London-wide approach to building new affordable housing, embedded in the London Plan.

5

SUMMARY AND CONCLUDING REMARKS

Many London local authorities are increasingly looking to deliver new housing through a number of innovative approaches. We believe that local authorities with the will, resources and expertise to build housing that meets local demand should be encouraged and enabled to do so. However, a number of constraints on the funding streams at their disposal make this difficult. If, as noted in the housing white paper, the government is serious about supporting councils that have a genuine ambition to build with all the levers at its disposal, it must relax the conditions attached to various funding streams to allow additional affordable housing to be delivered.

However, many central London boroughs in particular are also constrained by lack of available land at reasonable prices. Our analysis found that, after available grants and borrowing against future rent, five times more funding is required to deliver an affordable home in central London than in the suburbs. More affordable housing could be built in a way that enriches the mix of tenures across the city in a planned and sustainable way, if local authorities with unspent resources could partner with those that have developable sites at lower land values and low levels of existing social housing stock.

Yet, the bulk of local authority funding is restricted to being spent within borough boundaries or cannot be mixed with other sources. Borough boundaries are rarely a consideration for people when commuting to work or when looking for a new home and, as costs rise, it makes increasingly less sense for housing delivery to be restricted in this way.

Although it would not be a quick-fix or universally-applicable solution, given the political and administrative barriers, enabling cross-borough collaboration on affordable housing delivery would optimise local authorities' capacity.

With increasing partnerships between boroughs to foster efficiencies across many other areas, the time is ripe for local authorities and the GLA to consider new ways of working together to build the homes desperately needed for people across the capital.

APPENDIX 1

Additional new units by borough, 2012–2015[73]

Tenure[74]	Social	Affordable	Intermediate	Market	Proportion of submarket
Outer London	*4,910*	*8,240*	*5,970*	*29,760*	*39%*
Barking and Dagenham	550	1,050	180	1,690	51%
Barnet	570	340	310	3,220	27%
Bexley	60	230	360	1,530	30%
Brent	600	650	890	2,600	45%
Bromley	200	200	220	1,050	37%
Croydon	210	1,060	420	3,170	35%
Ealing	330	610	340	2,630	33%
Enfield	120	370	310	1,400	36%
Greenwich	780	450	630	1,490	56%
Harrow	160	210	290	1,160	36%
Havering	420	630	460	370	80%
Hillingdon	60	370	190	2,300	21%
Hounslow	230	440	410	1,200	47%
Kingston upon Thames	40	210	70	940	25%
Merton	180	90	200	1,140	29%
Redbridge	90	60	90	650	27%
Richmond upon Thames	10	120	10	1,100	11%
Sutton	120	290	90	800	38%
Waltham Forest	180	860	500	1,320	54%
Inner London	*6,970*	*3,930*	*6,310*	*29,400*	*37%*
Camden	550	250	210	960	51%

Tenure[74]	Social	Affordable	Intermediate	Market	Proportion of submarket
City of London	70	-	-	690	9%
Hackney	1,060	410	560	2,510	45%
Hammersmith and Fulham	80	70	310	2,140	18%
Haringey	230	250	470	690	58%
Islington	470	20	350	2,050	29%
Kensington and Chelsea	330	-	80	1,480	22%
Lambeth	510	270	640	2,810	34%
Lewisham	610	480	560	3,330	33%
Newham	910	300	930	3,070	41%
Southwark	880	440	880	3,510	39%
Tower Hamlets	980	820	760	1,270	67%
Wandsworth	110	420	470	2,970	25%
Westminster	180	200	90	1,920	20%
LONDON	**11,880**	**12,170**	**12,280**	**59,160**	**38%**

APPENDIX 2

Breakdown of costs for building an average housing unit in a Central and Suburban location (Centre for London Calculations)

	Central	Suburban	Notes
Land	685,714	80,000	Based on DCLG land price benchmarks, at density of 175 dph (central) and 100 dph (suburban). Dwellings per hectare rates are based on the average density of completions in the London Plan Annual Monitoring Report 12 (2015) and are upwardly adjusted to reflect a focus on apartment-oriented development.
Construction	192,500	157,500	Based on a 70 sq m flat, with build costs of £2,750 psm (central) and £2,250 psm (suburban). This is reflective of the London Plan Minimum space standards for new dwellings and based on build costs reported for a two-bedroom flat at 70 sq m at low-to-medium specification.[75]
CIL	28,000	5,250	Based on combined Mayoral and borough CIL charge of £400 psm (central) and £75 psm (suburban). CIL charges vary across boroughs – in this instance we have used average CIL rates for the City of Westminster, Royal Borough of Kensington and Chelsea, and the London Boroughs of Bexley and Havering. Social or certain types of affordable housing may be exempt or entitled to reliefs.
Fees and contingency	28,875	23,625	15 per cent on construction costs.
Profit	187,018	53,275	20 per cent on costs above (a local authority or housing association may take as low a profit as 10 per cent).
Total cost	**£1,122,107**	**£319,650**	

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