

London Housing Commission: IPPR – A Call for Evidence

London Councils is committed to fighting for more resources for the capital and getting the best possible deal for London's 33 local authorities. We lobby key stakeholders, develop policy and do all we can to help our boroughs improve the services they deliver. We also run a range of services ourselves, all designed to make life better for Londoners.

In our evidence submission we have not responded to all the questions but have focussed on the areas where London Councils is currently most actively engaged.

1. How can we double the delivery of homes in London every year, and maintain high levels of housing delivery in the long term?

a. What are the core barriers to high development rates?

It is now widely recognised that London faces a housing crisis. Shortages of all types and tenures have led to spiralling prices, increasing rents and rising homelessness. The crisis is driven in particular by a lack of new supply, which impacts on many areas of housing policy by forcing up costs across the spectrum.

There is a strong consensus that more needs to be done to tackle the crisis – in particular, by supporting new housing growth to tackle the supply problem. London's population increased by 12% between 2001 and 2011¹ and is now at its highest level ever². A recent housing market survey by the Mayor of London found that at least 49,000 new homes needed to be built every year to keep up with demand, but less than half that are being built each year.³

There are a number of factors in the slow pace of delivery:

Competition for land: Developers have reported that access to serviceable sites can be a challenge.⁴ An opaque land market and uncertain planning system, with conditions considerably subject to viability negotiation, can push up prices, and make access to sites particularly difficult for new entrants to the market.⁵ Values and development risk also mean that developers choose to deliver homes only at the right point in the market cycle when they are confident of achieving high returns.

Development risk and a concentrated industry: These risks in the system for developers mean that their business models are understandably predicated on maximising returns within the absorption limits that the market will support, keeping prices high. The pace of building on larger sites can be significantly determined by these considerations, and the house-building industry is concentrated in the hands of a small number of larger players.

¹ *Census result shows increase in population of London as it tops 8 million*, Office for National Statistics, July 2012

² *London population confirmed at record high*, Mayor of London, 2 February 2015

³ *London Housing Market Report*, Greater London Authority, March 2015

⁴ <http://www.londonchamber.co.uk/docimages/12438.pdf>

⁵ Shelter and KPMG, *Building the Homes we Need*

http://www.shelter.org.uk/_data/assets/pdf_file/0019/802270/Building_the_homes_we_need_-_a_programme_for_the_2015_government.pdf

Unimplemented planning permissions: However there are also sites that are not in the ownership of developers or builders. Nearly one third of sites with planning permission are controlled by non-developing organisations.⁶ The public sector has very few levers to speed up delivery on such sites or to ensure transfer to owners who are better prepared to and able to build.

Lack of coordination of public land: Many have looked to public land to offer a solution. Some have argued that public land in some cases is not being built out as quickly as could be desired,⁷ or coordinated effectively with other potential sites. The Land Commission may enable some movement here.

Constraints on public investment: The current constraints in public finances mean that Government investment is also limited, which reduces the capacity to deliver affordable housing – which in previous years has provided a significant part of London’s overall delivery. Pressures on public spending have significantly changed the way in which government funds the development of new affordable housing. The most significant change was delivered by the 2010 Comprehensive Spending Review, which saw a real terms cut of 63% capital investment in affordable housing, and this downward trend was continued by the 2013 Spending Round.

The gap in part has been filled by the introduction of Affordable Rent, to allow a higher revenue stream to support borrowing. This – combined with changes to the welfare system – has also introduced some new risks for housing providers, with a more market-linked income stream increasing volatility and market exposure.

Shortage of skilled labour: Skills shortages have also been identified in the construction industry, with an increase in the supply of construction workers needed to meet London’s house-building targets.⁸ Housing delivery ambitions must be matched by available labour and materials, to avoid the risk of escalating construction costs slowing delivery.

b. What are the key planning powers to ensure that targets are met? And should these instruments be held by the government, the London mayor, London boroughs or some other body?

New housing developments can have significant impacts on existing communities and it is therefore important that the right planning powers are retained at a local level to ensure a proper process of local engagement to win consent. Local councils are best-placed to interact with communities, ensure the development contributes to local needs, secure the best mix of delivery and answer to residents. This is critical to building support for and understanding of the value of new development and maintaining a long-term and sustainable consensus on the need for housing growth.

However, there are a number of changes that are still needed to ensure a more effective planning system:

Properly resourced planning departments: An efficient planning system is critical to maintaining an effective pipeline of new housing. The current planning system suffers from lack of resource in London, however, as nationally-set planning fees are not sufficient to cover the actual costs of running an effective and efficient planning service.

⁶ Moliar, Barriers to Housing Delivery: update report, 2014

⁷ <http://www.londonchamber.co.uk/docimages/12438.pdf>

⁸ For example Skills to Build, LLCI and KPMG 2014 <http://www.londonchamber.co.uk/DocImages/12960.pdf>

London Councils' analysis indicates that development control in London has seen a projected net shortfall in funding of around £37-£45 million annually between 2012-13 and 2014-15.

This shortfall is driven by a fee structure set nationally that has failed to keep pace with rising costs or provide the flexibility for local authorities to properly account for an application's complexity. Under-resourcing impacts on the ability of borough planning departments to deliver a service that meets the expectations of developers. Improving borough planning services by covering shortfalls in fees would improve decision-making times and save developers money.

Stronger levers to ensure permissions are implemented swiftly: The planning system can grant permissions to developers but does not have the levers to ensure that permitted homes are delivered swiftly. Research for the Mayor of London by Molior highlights that 32% of sites with planning permission in London are held by non-developing firms.⁹ These sites are therefore unlikely to be built out swiftly and these permissions often remain unimplemented. Local authorities have few effective levers over these sites in order to translate permissions into supply.

As proposed by the London Finance Commission, a tax on undeveloped land could be explored to establish whether this could help incentivise landowners to work with a developer willing and able to build or sell homes swiftly. Research for Shelter by Europe Economics has shown that taxing permissioned sites could help increase the speed of delivery.

Local control of permitted development rights: Permitted development rights should also be controlled locally to ensure boroughs can manage the right mix of developments to support thriving local economies and neighbourhoods with sufficient affordable housing and supporting infrastructure.

c. How can the land market be reformed to increase output?

Public land: Public land can support a substantial increment to new development but needs more effective coordination and more efficient processes for bringing it forward. The London Development Panel is a land procurement panel which has helped save time and money by enabling public landowners to award contracts more swiftly. Transferring surplus public sector land to London government and brokering development through such panels would maximise delivery and reduce overheads. There is scope for an equivalent process to help speed up the delivery of homes on smaller sites by SMEs.

Many boroughs are already taking active steps to utilise their land to deliver new homes. The London Borough of Greenwich, for example, has offered a council-owned site on a deferred payment basis, which is helping to maximise the numbers of affordable units delivered in Woolwich. This arrangement has reduced the need to call on government grant for the scheme to be viable.

Another model is to use a leasing arrangement to retain the ownership of public land while ensuring developers deliver the housing that is needed for the community: in RBKC for example borough land has been released on a leasehold basis, selecting a private

⁹ Molior, Barriers to Housing Delivery, update report for GLA, July 2014
<https://www.london.gov.uk/sites/default/files/Barriers%20to%20Housing%20Delivery%20Update%20Report%20-%20July%202014.pdf>

developer to develop and manage two housing schemes. RBKC have retained the freehold ownership and are taking a share in the long-term rental income with the developer.

In Hounslow, more efficient use of council-owned land is facilitating additional housing supply. By relocating their civic centre the council plans to free up land for up to 750 new homes, and by redeveloping their town school another 200 new homes will come forward.

This locally-driven work could be increased with a coordinated approach with the cooperation of other public landowners. The London Land Commission is taking steps forward to coordinate the mapping and use of public land for housing. To support this, local authorities should have stronger powers to direct the disposal of public land where appropriate, to ensure a coordinated approach that delivers best value for local communities.

The London Land Commission must work closely with boroughs to develop a strategy for the release of public land in their area to make sure it helps deliver local priorities around housing and supporting infrastructure. The Mayor's Housing Zones initiative has demonstrated the value of London boroughs playing a more active role in promoting, assembling and coordinating sites to support a delivery strategy for their area.

Compulsory Purchase Orders: More streamlined compulsory purchase orders could also help improve land assembly. While the government's recent consultation on reforming Compulsory Purchase Orders contained helpful proposals, more could be done to facilitate land acquisition on major sites.

Government should commit to joint development of an improved Compulsory Purchase Orders system for London that accelerates the speed of decision making while protecting the rights of private land owners.

Estate regeneration can also provide significant additional new homes and there are many examples across London of ambitious regeneration plans. However regeneration is complex and requires a wide range of skills and expertise, often making it a slow and resource-intensive process. Furthermore, the leaseholder buy-back process can be expensive and bureaucratic, sometimes to the point of threatening viability. New policies such as the extension of the Right to Buy to housing associations and requiring the sale of higher value council homes will introduce more leaseholders onto existing estates, fragmenting ownership and risking potentially making some schemes unviable. It is critical that the Government works with local authorities to ensure that areas with potential for regeneration are protected from some of the unintended consequences of impacts of these new policies.

d. What changes to the development and construction industries are needed to increase the speed and scale of supply

In recent years London home building has been dominated by a small number of major firms that deliver the majority of private sector starts. For example, research has found that between June 2011-June 2012 just over 11,000 homes consented for private sale commenced construction in London on sites of 20+ private sale homes, 70% of which were by just 23 firms.¹⁰

Larger firms in some cases may not be willing or able to speed up their delivery because of capacity constraints and absorption considerations, but more diversity in the industry is needed if the market is to increase supply significantly. Bringing small and medium sized

¹⁰ Moliar, Barriers to Housing Delivery, 2012

firms back into the London market is an important part of this ambition, while innovation in build techniques could potentially speed up delivery.

There are significant barriers to entry for smaller developers, particularly around access to land. Costs can be prohibitive for some.¹¹ Public landowners can potentially help by supporting smaller firms to access suitable small sites that can be built out quickly. Boroughs are also looking at ways to support a more diverse industry and encourage innovative development models on small sites – the London Borough of Lewisham, for example, has allocated a site for custom-build for up to thirty new homes.

f. How are the current range of supply-side policies performing in the capital? What changes need to be made in order to build the required number of homes?

Policies of successive governments have clearly failed to ensure sufficient numbers of homes are built. While efforts have been made to speed up delivery by deregulating planning and improving access to brownfield land, these have not had the intended impact as yet at the scale required. Furthermore, changes to the planning system have often come at the expense of councils' ability to secure planning conditions and obligations such as space standards and affordable housing.

Recent planning reforms, for example, have weakened the ability of local authorities to secure the provision of affordable housing for which there is a significant need in the capital. The extension of permitted development rights in particular has also in some cases undermined the quality and space standards of housing being delivered by allowing developers to bypass the planning system.

London Councils research evidences the impact of prior approvals for office to residential conversions across London and demonstrates the consequences for housing standards and affordability as a result.¹² For example, one borough reports that the vast majority of the prior approval schemes they have had to approve do not meet the floorspace requirements set out in the London Plan and almost none have any provision for private or communal amenity space. In another instance, a conversion to 118 private rented units described by the council as "sub-standard bedsits" with no outside accommodation has been approved, with no levers for the council to ensure it met local plan policies. The council was therefore not able to negotiate with the developer in relation to its 50 per cent target for affordable housing on new developments, forgoing much-needed contributions to affordable housing.

More effective supply-side interventions are therefore needed, that still allow effective local place-shaping and the right tenure mix to meet a range of housing needs in London. A range of new measures could help increase supply, including:

- more effective coordination of public land
- extra resources for planning departments to speed up the planning process
- stronger policies to ensure affordable housing need is met, including reforms to the viability assessment process
- streamlined CPO powers to increase the speed and efficiency of land assembly and
- stronger levers to tackle unimplemented planning permissions

¹¹ NHBC, Improving the prospects for small house builders and developers, 2014

¹² London Councils, The Impact of Permitted Development Rights for Office to Residential Conversions, 2015
file:///docserver/UsersFlderRedirect/lizzieclifford/Downloads/The%20Impact%20of%20Permitted%20Development%20Rights_web.pdf

h. What policy changes would drive greater social sector housebuilding?

Housing associations are key partners in delivering social and affordable housing and it will be critical that, notwithstanding their recent offer to extend the Right to Buy to their tenants voluntarily, they continue to deliver new homes to replace those sold locally, which are at genuinely affordable rent levels.

Furthermore, councils can become greater players in the delivery of new homes, with sufficient flexibility and the right incentive structure. The recent self-financing reforms have led to a renewal of local authority direct development, and 15 boroughs have also been awarded grant through the mayor's 2015-18 investment programme: a big increase from previous years showing the extent of appetite amongst local authorities to scale up their offer.

However councils could potentially do more, with sufficient flexibility and a framework that focusses on delivering outcomes. The HRA cap remains an unnecessary impediment to investing in new homes. Councils could also use their Right to Buy receipts far more efficiently if they were able to keep 100% of receipts and if the current restrictions were removed in favour of greater flexibility, including:

- Potential for use of receipts for home building outside the Housing Revenue Account
- Potential for use of receipts in combination with any other grant funding
- Potential for use of receipts for related work leading to housing delivery
- Removal of the 30 per cent rule so that councils might have full flexibility of receipt use
- Removal of the three year time limit to ensure supply pipelines can be constructed

In addition, the current context of restrained public finances has created additional pressures which have further impacts on the delivery of affordable housing. The recent Budget announcement of a 1% annual cut in rents each year for four years in particular will have consequences for the capacity of stock-owning London boroughs, as well as housing associations, to invest in new housing supply.

Government needs to look carefully at this policy in light of the impact it will have on housing delivery in London. London Councils has estimated that the cut could amount to around £800m lost income over four years to boroughs collectively. This significant change to the terms of the self-financing settlement will make it harder for councils to invest in new homes, and boroughs are already reporting that they are having to revise investment plans. It will be critical that the Government commits at the very least to exemptions for new build and supported housing properties. London Councils is also calling for Government to return to a CPI+1% annual rise within three years in order to ensure continued investment planning is possible.

Finally, the proposed sale of high value council homes in London is likely to lead to a further erosion of social housing in the capital. Government must work closely with London government to ensure their policy does not undermine the social mix upon which London's economy depends, and retains funds within London for councils and our social sector partners to deliver an increase in housing supply including affordable housing.

2. How can we reconnect the costs of home ownership and renting to incomes in London?

a. What are the key factors driving up house prices in the capital, and what measures are needed to counter them?

The shortage of supply is a primary driver in high housing costs in the capital. London Councils' analysis of government figures shows that we would need to be building 56,000 new homes a year just to be keeping pace with new household growth, and yet we are currently building less than half that amount each year. Prices are escalating, with average house prices now over 14 times average Londoners' salaries.¹³

b. Are there new models of affordable housing that could work in London?

In addition to building through the HRA, many boroughs in London are already delivering homes in a mix of tenures in innovative ways:

LB Lambeth

Somerleyton Road, Brixton, has plans for new housing and associated development which incorporates 300 new homes, as many as possible rented at council rent levels. There will also be a new theatre and provision for training and job opportunities. To support a community solution for Somerleyton Road, the Brixton Green community benefit society was set up and has worked closely with the council to develop proposals for the redevelopment of the site.

On completion, the development will be owned and managed by a community body in which the residents, community and business occupiers and the wider community have their say. If the scheme at Somerleyton Road is a success, Lambeth intends to repeat the model on other sites in the borough.

LB Sutton

LB Sutton's new housing company intends to work with developers to de-risk private sites by buying homes off-plan. The company is financed through prudential borrowing to deliver new housing in a range of tenures, with a particular focus on market rented accommodation. The company is also intended to help unlock development through its connection with Sutton's bid for Housing Zone status.

LB Westminster

Westminster City Council has used innovative methods to support the delivery of additional affordable homes with little grant funding, while simultaneously attracting further investment. The borough acts as both developer and development partner, with its part-owned subsidiary Westminster Community Homes (WCH) undertaking new-build schemes, infill development and residential conversions. WCH began trading in 2009 and now has a portfolio of more than 400 affordable homes.

The borough also established an Affordable Housing Fund in 2009 – drawing on housing receipts and planning obligation contributions where it is not practical to deliver new housing onsite – which has created 1,400 new affordable homes and committed a total of £87.6 million. The borough is also using the Affordable Housing Fund for estate regeneration.

¹³ National Housing Federation, Broken Market, Broken Dreams, 2014/15

More examples are available here: <http://www.londoncouncils.gov.uk/our-key-themes/housing-and-planning/housing-investment/affordable-housing-policies-london>

e. How can the boroughs maximise affordable housing supply under s106 planning obligation agreements?

Recent changes to planning policy have made S106 the only negotiable element of planning obligations, increasing the pressure on affordable housing contributions by prioritising developer profit margins and increasing the complexity of planning negotiations. As a consequence, significant developments are being agreed based on a site-by-site assessment of viability that fails to meet wider planning objectives around sustainability and affordability.

This has weakened the ability of local authorities to negotiate robustly with applicants and adds delays to the planning process. Viability assessments can be extremely complex, and recent research has identified that the lack of transparency and agreed criteria in viability assessments sometimes made it more difficult to secure affordable housing.¹⁴

The government should review current guidance on viability and explore ways to simplify the system. In the first instance, Government should support the introduction of a transparent and rigorous approach to viability assessments in the capital by London boroughs, to ensure boroughs can secure suitable obligations from developers to help deliver much-needed affordable housing.

g. What can be done to ensure that housing benefit continues to support people to live in every borough of London?

The shortage of affordable homes in London combined with high house prices means that increasingly households unable to afford to buy are housed in the private rented sector, with over 229,000 now dependent on some level of housing benefit to help pay their rent.

Local Housing Allowance rates, which determine the maximum amounts of housing benefit that can be paid to private renters – have failed to keep track with private rent levels in recent years. Having been reset in 2011 so that a notional cheapest 30% of rents in an area should be affordable, they have since seen annual rises capped at first CPI and then 1% and annual, absolute caps for each property size applied.

Already, private rents in central London are significantly higher than LHA rates for all property sizes, rendering this part of London unaffordable for many – LHA rates will currently secure just 5% of flat shares and even smaller proportions of all other property types in central London. London Councils' projections of the effect of the planned freeze in LHA rates for the next four years suggest this unaffordability could become common across the majority of London by 2019-20.

London Councils is calling for a targeted exemption for London from the four-year LHA freeze so that the setting of rates can be informed by levels of affordability. However, for housing benefit to truly support people to live in all parts of London is likely to involve a widespread and significant increase in the provision of affordable rented housing.

¹⁴ <https://www.jrf.org.uk/report/rethinking-planning-obligations-balancing-housing-numbers-and-affordability>

Lizzie Clifford

Head of Housing and Planning

Lizzie.clifford@londoncouncils.gov.uk

0207 934 9813

London Councils

October 2015