

Cabinet 17 October 2022

Cabinet Report: Truly Affordable Housing

Comment from Future of Westminster Commission Housing Review

First step: the Council's own development programme

The context for the Housing Review's approach to housing supply is the Council's commitment to delivering a Fairer Westminster and in particular the pledge by the new administration to *"make building new council, social, and lower rent homes the Council's top policy priority"*.

Immediately after the Future of Westminster Commission was appointed we initiated and supported a review of the council's own development programme so that it could better reflect the needs of the city by maximising the number of additional 'truly affordable' homes that could be produced within the resources available. This intensive review has been carried out with great diligence by the Council's officers and Cabinet Members. Westminster's programme has been reviewed carefully and pragmatically scheme by scheme to determine the best approach to each project within the available resources.

The Cabinet report proposes the provision of an extra 133 family homes and 10 one bedroom homes at social rents as a result of this exercise. This number will rise when the reviews of the major regeneration schemes at Ebury Bridge and Church Street are complete. This is a significant first step towards meeting the council's intention to obtain as many extra homes for social rent as possible at the earliest time. Each home that is let as a result of this and future initiatives means a secure, stable, and affordable solution for a Westminster family in housing need, providing them with a foundation for a successful life in the city.

As the report shows, significant additional GLA support has been or is being secured. The GLA is also supporting an increased number of acquisitions from its right to buy back fund. This additional support is very welcome.

The report identifies the costs to the Council of switching these homes to social rent. It is harder to identify the savings and benefits these homes will bring, but they are real. They will bring in rental income throughout their existence and add to the Council's assets; people moving into them from temporary accommodation or private renting will require less housing support; and there are wider societal benefits in terms of improvements to health and well-being and school performance.

In the current climate only a small amount of grant is normally available from the GLA within a tight London-wide budget compared with the costs of delivering each affordable home that a council or registered provider builds. To enable them to build new council homes, boroughs have to use other resources such as their Affordable Housing Fund or generate cross-subsidy from sales. Even when land is scarce as in Westminster resources do not allow only council homes to be built. The report therefore recommends that in future new schemes in Westminster should achieve at least 50% 'affordable', with 70% of the affordable homes being social rent. This is a useful yardstick for the future but should be reviewed from time to time in light of experience and evidence from elsewhere.

Growing uncertainty

The prospects for truly affordable housing are determined only partly by the Council's own activities: external forces and the economic context are just as important. The Council is trying to increase the supply of affordable housing at a time of growing uncertainty with many factors moving in an unhelpful direction:

- After many years in the doldrums the bi-partisan localisation of council housing finance in 2011 opened the possibility of the Housing Revenue Account having sufficient headroom to support borrowing for new council homes. The removal of the cap on borrowing in 2018 made it a real

possibility that councils might build at scale for the first time in many years. It is encouraging that many councils are now building council houses again, although overall numbers remain small.

- Yet council housing, like social housing more generally, is often not viable without grant from central government via the GLA. The GLA's next 2021 – 2026 programme is already substantially committed with a more restrictive approach from Government and the Mayor having to manage the difficult trade-off between wanting to increase the amount of grant per unit of housing and meeting the government's numerical targets for affordable housing. It will be important for the Council to build on the new and successful partnership with the GLA to secure as much resource for Westminster as possible.
- The social housing model requires the balance of funding after grant or cross-subsidy to be met by borrowing, with the loans repaid from rents over many years. Rising interest rates mean the council can borrow less, and so build less, with the resources it has and the rents it charges. Interest rates are likely to remain high for some time to come, and stress testing projects against volatility will be even more important.
- High interest rates also affect the private housing market with fewer people able to afford their mortgages and pressure on private rents from landlords with mortgages too. A volatile housing market often leads to increased homelessness and additional demand for social housing. Tax changes, like the change in Stamp Duty Land Tax, add to fluctuations in the market. The Government has also announced that planning policy will change again to reduce restrictions but exactly how remains unclear. One suggestion has been that the rules around planning gain might be made less onerous on developers.
- Inflation will generally impact the Council's costs. Construction costs are already rising rapidly and present a risk to the current and future programmes.
- The Government is undertaking a consultation on social rent increases because the current formula (CPI+1%) would produce an unacceptably high rent increase. The most likely outcome will be a 5% increase which may not entirely cover general inflation in the Council's housing revenue account, which in turn could leave the council with reduced funding to support borrowing.
- Other inflationary pressures, and especially energy, impact households severely and may reduce tenants' ability to pay rent, creating an additional challenge for the Council's fairness and anti-poverty strategies. The Government has not yet committed to increasing benefits in line with inflation in April 2023.
- Finally, the increasingly evident climate crisis means that carbon emissions from the Council's homes must be tackled effectively as a key part of its commitment to net zero. This impacts every policy area, including standards in new building and retrofitting existing dwellings often carrying an initial capital cost.

Key areas for further review

Faced with this uncertainty the Council needs to build on the positive progress so far to develop **a comprehensive, council-wide strategy to deliver as many genuinely affordable homes as is possible**. There is no 'silver bullet': we need to look at all options to see how many additional affordable homes can be squeezed out of each.

Areas for further review in developing this strategy include:

- A longer-term look at the opportunities available to the Council to develop more homes on its own land and through acquisitions to get maximum benefit from all the available resources (Housing Revenue Account, General Fund, Affordable Housing Fund, and other sources) and setting the financial strategy to support housing investment. Across London the General Fund is an increasingly important funding source, especially to meet the need for better quality temporary accommodation.

- A review of delivery mechanisms, staffing resources, the roles of Westminster Builds and Westminster Community Homes to ensure delivery is not held back by capacity issues. Most councils in London have wholly-owned companies but their roles vary widely.
- A review of the housing elements of the City Plan and related documents to try to secure more social housing from planning gain arising from private development in the city. This will bring Westminster more into line with practice elsewhere in London. Homes delivered via Section 106 can be an important element in supply, although the scale of private development is highly unpredictable at present.
- A review of the contribution that can be made by registered providers, predominantly housing associations, who have had a strong track record of providing affordable homes in the city but have been less engaged in recent years as they have chosen to develop in areas of London with lower costs.
- Assisting the Council in its proposed review of allocations policy to ensure that the best possible use is made of the available housing stock. We also want to see a review of the lettings policy for intermediate rent homes to make it an effective key worker housing scheme.
- Looking long term and in more detail at the likely availability of land in the City, the appetite for private investment in new housebuilding which in turn will create opportunities for the Council and how the council can take opportunities to buy land to create a pipeline.
- Identifying opportunities to accelerate delivery through smart approaches to procurement and taking advantage of developments in modular construction.

Conclusion

Delivering the Council's aim to expand the delivery of 'truly affordable' homes has made a strong start. Many more areas of policy need to be reviewed with the Housing Review's assistance. The context in which the Council is operating, however, is highly volatile, with inflation and interest rate rises and increased instability in the economy directly affecting its ability to provide desperately needed homes.

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