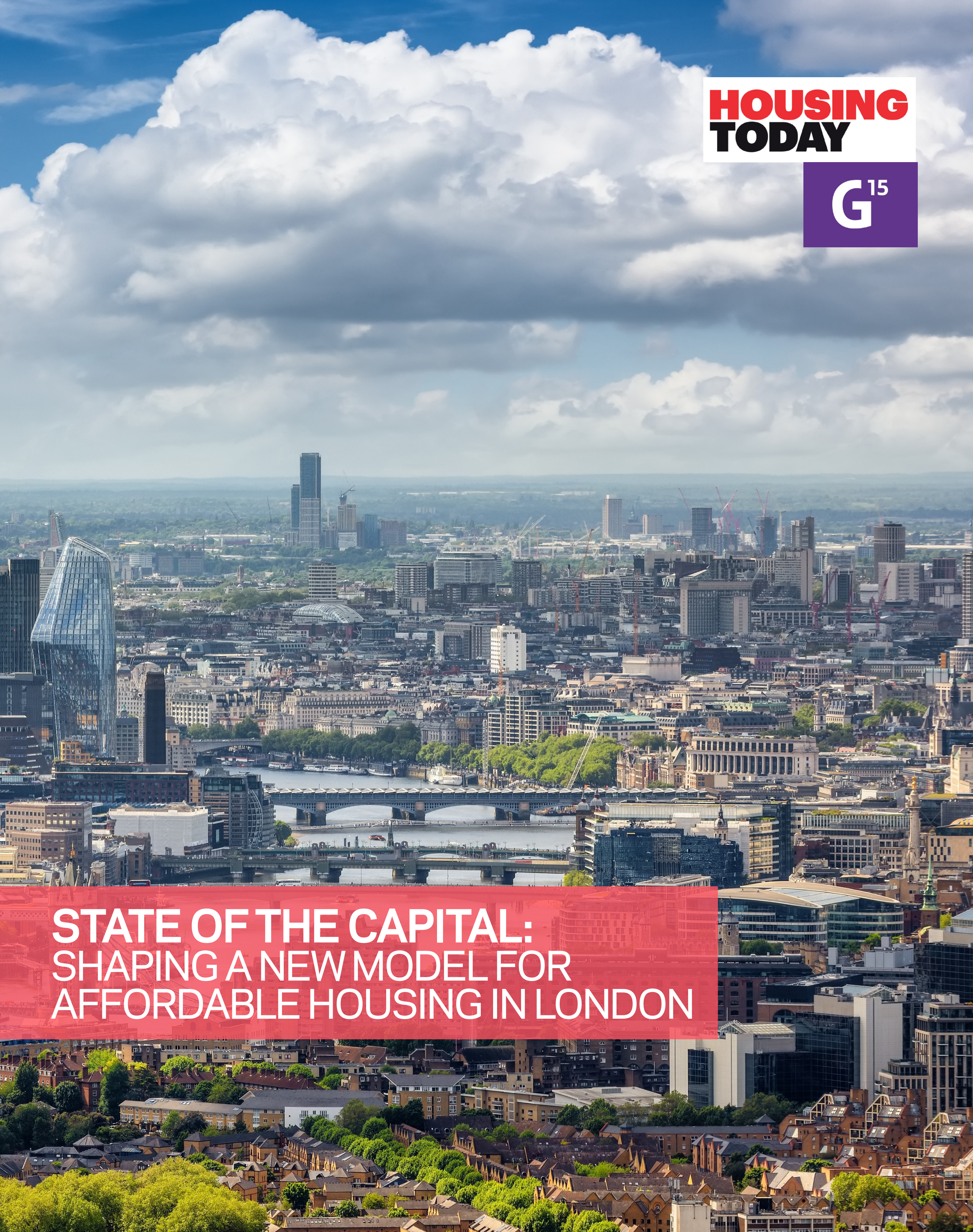
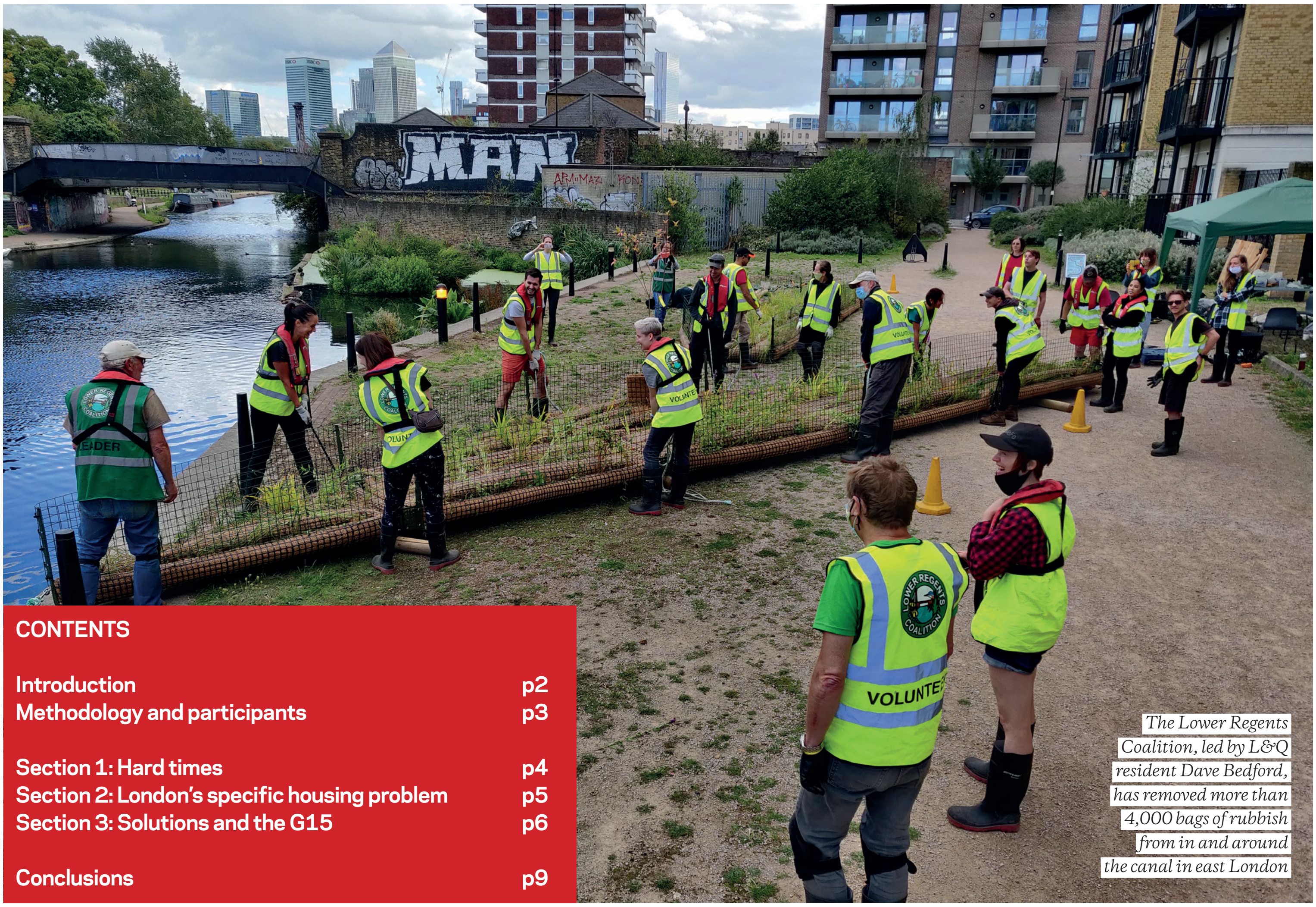


HOUSING TODAY

G15

STATE OF THE CAPITAL:
SHAPING A NEW MODEL FOR AFFORDABLE HOUSING IN LONDON



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The Lower Regents Coalition, led by L&Q resident Dave Bedford, has removed more than 4,000 bags of rubbish from in and around the canal in east London

Introduction

The new Labour government led by Sir Keir Starmer is on a search for economic growth. Over the Christmas period the prime minister wrote to regulators asking for ideas to boost Britain's sluggish economy. One area that has the potential to create huge economic and social benefits is housebuilding, and the delivery of affordable housing in particular.

Building 90,000 social rented homes, the amount called for by MPs and held to be the delivery level needed annual to meet social need, would deliver £48.2bn in economic impact from construction and £31.4bn in indirect benefits to society, according to research commissioned last year by the National Housing Federation and Shelter, titled The Economic Impact of Building Social Housing.

In London, housing associations currently provide 289,000 social rented homes.

Research carried out for the G15 group of London housing associations as part of its Room to Grow campaign has found these homes each contribute an average of £23,777 or more in value annually, totalling over £6.86bn every year.

> “Providing new social tenancies for the 323,800 households on London's waiting lists would inject at least an additional £7.7bn a year into London and the UK's economy

Providing new social tenancies for the 323,800 households on London's waiting lists would inject at least an additional £7.7bn a year into London and the UK's economy.

However, while social housing providers and ministers are both aware of the need for more affordable housing, both housing associations and the government have balance sheets constraints.

This inaugural State of the Capital report, produced by Housing Today in partnership with G15, looks at several ideas that could be adopted to help the sector build much-needed affordable housing in London during these difficult times.

The report is written by Carl Brown of Housing Today, in collaboration with the G15.

Methodology and participants

The inaugural Housing Today and G15 State of the Capital report was informed by a behind-doors roundtable discussion with leaders from the largest housing associations in London, along with local authority and third sector representatives, which took place at the Housing Today Live conference in Westminster in September 2024.

The report is the first in a series of annual, exclusive pieces of research produced by G15 and Housing Today.

A huge thank you to all our participants: Mel Barrett, chief executive, Metropolitan Thames Valley Housing; Fiona Fletcher-Smith, chief executive, L&Q; Paul Hackett, chief executive, Southern; Mairi Macrae, director of campaigns, policy and communications, Shelter; Ian McDermott, chief executive, Peabody; Kathryn Pennington, director, Vistry Group; Guy Slocombe,* then chief investment officer, Hyde Group; Tom Titherington,* then chief investment and development officer, Sovereign; Jehan Weerasinghe, managing director, One Housing Group; and Grace Williams, leader, Waltham Forest council.

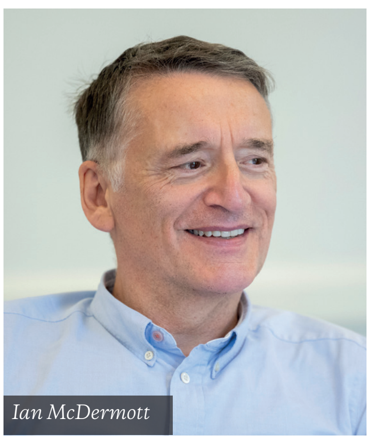
** Tom Titherington has since stepped down from his role at Sovereign and is succeeded by Guy Slocombe.*

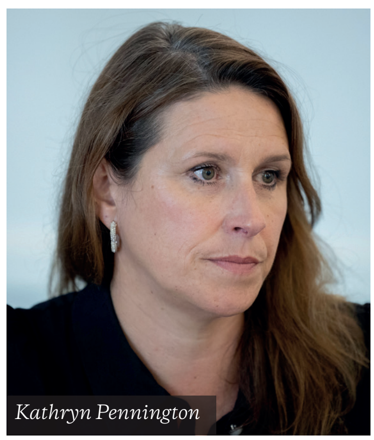

Mel Barrett


Fiona Fletcher-Smith


Paul Hackett


Mairi Macrae


Ian McDermott


Kathryn Pennington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Tom Titherington


Jehan Weerasinghe


Grace Williams

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Section 1: Hard times

While the social housing sector has at its core a commitment to provide homes to those in housing need, the ability of registered providers to allocate capital to new-build is heavily constrained.

Over the past couple of years housing association balance sheets have become squeezed, in part due to inflation and rising construction costs.

The cross-subsidy model of funding – under which providers receive lower levels of grant per unit and instead fund development through their own balance sheets – is coming under strain.

The total amount of grant per home was around £53,000 in 2008, falling to £22,000 in the austerity era of the David Cameron government, before rising again, but only to £38,500, in Homes England's 2021-26 affordable homes programme. The ability of housing associations to square this circle has decreased markedly.

> The cross-subsidy model of funding – under which providers fund development through their own balance sheets – is coming under strain

Competing priorities to improve customer service and upgrade existing homes, driven in part by new regulatory requirements, and the decarbonisation agenda, are leading many large providers to scale back new-build.

The scale of the balance sheet squeeze can be seen in the Regulator of Social Housing's (RSH) repeated warnings about declining interest cover in the sector. Interest cover compares earnings to interest payments and is used as a measure of financial capacity.

The Regulator of Social Housing's quarterly survey of large providers in November 2024 shows cash interest cover is projected to fall to a record low in 2025 due to rising interest and repair costs. Aggregated forecast sector interest cover over the next five years is just 111%, according to the RSH sector risk profile.

Community impact

Ensuring the financial capacity of housing associations in London will not only make it easier for G15 members to build and maintain much-needed affordable housing; it will also make it easier for them to continue doing community impact work across the capital.

G15 members spent £27.4m on community investment projects in 2023/24 alone, generating £52.7m in social value, as measured by the

Housing Associations Charitable Trust. Members supported 9,266 residents into employment programmes, while more than 45,000 people accessed health and wellbeing support provided by the landlords. More than 263,000 visits were paid to G15 community facilities in the year.

The images in this report feature several such projects supported by G15 housing associations.

Sonshine Smiles is community group that provides creative, physical and educational activities for children and young people living on A2 Dominion schemes in Hounslow and Ealing

Section 2: London’s specific housing problem

As the Regulator of Social Housing points out, the “strongest financial pressures are seen in London”, where large numbers of flats need costly building safety remediation work carried out.

Landlords are taking action, including deferring uncommitted development and arranging loan covenant waivers, but the RSH has warned that “reduced financial headroom reduces the capacity to manage downside risk and increases the risk that a governance failure leads to financial distress”.

The capital also has higher construction and land costs, while viability concerns dominate. Building safety requirements and remediation work are much bigger factors in London, with its higher proportion of stock comprising flats than the rest of the UK.

Indeed, a total of 2,636 out of the 4,771 buildings currently being monitored for potential building safety issues – more than half – are in London, as well as 82 out of the 161 high-rise social housing buildings with unsafe cladding (51%).

Total fire safety expenditure across the G15 in 2024 was £385m, compared with £346m the previous year, and it is forecasting a total spend of £3.6bn on building safety works between 2021 and 2036, according to a recent G15 submission to the House of Commons housing, communities and local government committee.

As one chief executive has pointed out, components of homes also wear out faster in dense, urban environments, pushing up the cost of maintenance. G15 members collectively spent £8.4bn on repairs and maintenance in 2024, an increase of 90% over the past five years.

> “ Building safety requirements and remediation work are much bigger factors in London, with its higher proportion of stock comprising flats

The average spend per unit has increased from £2,258 in 2019/20 up to £3,382 in 2023/24.

This reflects the rising cost of materials and labour, but also the additional costs of operating in London. In total, the estimated cost of repairing all hazards in London’s social rented homes is £348m, while the total for England is £842m. London therefore accounts for 42% of the total costs while only accounting for 15% of England’s population.

This is not helped by the capital having a higher proportion of older homes, with 60% of London’s homes having been built before 1944, compared with 34% nationally.

London’s overcrowding problem is also significantly worse than other areas, with 11.1% of dwellings considered overcrowded. This is much higher than the second-highest region, the West Midlands, which has a rate of 4.3%.

According to regularly published Combined Homelessness and Information Network reports, which are based on multi-agency data, cases of homelessness in London rose by 54% between 2013 and 2023.

Local authorities, meanwhile, face a funding gap of more than £700m this year, which is not helped by rising homelessness and temporary accommodation costs.

The Guinness Partnership partnered with Think Outside The Blox (TOTB), an award-winning community engagement charity, to take over the running of the Northwold Community Centre in Hackney

Section 3: Solutions and the G15

While the challenges facing the social housing sector in London are formidable, they are not insurmountable.

The members of the G15, the capital's largest housing associations, house one in 10 Londoners. They also support around 13,000 people into training and employment each year, offer specialist care and support services to vulnerable people, invest in and run community facilities, provide debt management advice, welfare benefit support and much more (see panel on community impact, page 4). Last year G15 members invested almost £30m into the communities they serve.

We have looked at several ideas that could be adopted to help London housing associations deliver the new homes that are so sorely needed, while still being able to maintain and improve existing stock and deliver the community services that are central to G15 members' social purpose.

> "Housing associations will need £54bn to deliver the number of social homes outlined in the London Plan over the next five years... simply increasing the grant pot will not by itself be sufficient

Tackling the London problem

While the £500m top-up to the 2021-26 Affordable Homes Programme announced in the autumn - £100m of which is earmarked for London - is welcome, as was the further £300m top-up confirmed in February, all eyes will be on government at the upcoming spending review to see the extent to which grant funding is increased for the next multi-year programme.

The G15 has said housing associations will need £54bn to deliver the number of social homes outlined in the London Plan over the next five years. However, given the significant capacity and viability challenges facing London's housing providers, simply increasing the grant pot will not by itself be sufficient. Other measures must also be considered.

Below are several measures ministers should take to boost the capacity of the social housing sector in London.

Recommendation 1:
Rethink grant by exploring an amortising grant model

While a substantial Affordable Homes Programme allocation is a must, simply tweaking grant levels is not sufficient by itself to help London's housing associations to kick-start housing development in the current constrained environment. Reductions in grant rates over the years have meant housing associations having to borrow more to cross-subsidise build costs.

The need for borrowing requirements and the inflationary period of the last few years has meant a short-term reduction in interest cover in the sector. Simply put, while the sector has high levels of liquidity overall, housing associations are not generating enough cash to sufficiently cover their interest bills in the short term.

It is therefore difficult for many providers to take on more debt, and therefore even more interest costs, to fund development right now.

Meanwhile, one of the problems for the government is that it is difficult to increase capital funding due to the state of the public balance sheet.

One potential solution to both these problems is a new, amortising grant funding model.

If housing associations could be confident that the net rent (rent minus operating costs) covers the interest costs associated with the property, then they could commit to building more homes knowing that it is not going to make their interest cover metric worse.

Under the amortising grant model, associations would receive a higher amount of grant upfront. This would mean the housing association initially needs to borrow much less money privately, meaning net rent could more easily cover the interest costs without worsening interest cover metrics.

Over time, the association would pay back some or all of the grant to government. The advantage of this for government is that the grant paid back can be classified as an investment instead of as straightforward debt or expense to the taxpayer.

For example, if government can account for half of the grant as asset investment rather than revenue spend, in theory it could spend twice as much in grant for the same amount under this model.

The money that is paid back to government, could, if the government of the day were so minded, go back into a fund to build more affordable housing.

The model would address the problem that sub-market rental housing makes losses for years but comes good in the long term. It is therefore a mechanism for overcoming lack of capacity in the current parliament.

Ministers should consider the case for exploring the viability of an amortising grant funding model, or equivalent interest-free loan structure.

Recommendation 2:
Reclassify affordable housing as critical national infrastructure

While an amortising grant structure could allow ministers to do more with constrained public finances, due to it being classified as investment, another wider solution could be simply to reclassify social housing grant more broadly.

Currently the government's fiscal rules mean that housing benefit expenditure is considered in the same way as expenditure through grant funding. However, this should not be the case. Grant funding should not be classified as borrowing or grant, because it provides a significant return to the government.

Grant funding enables housing associations to lever in private finance, producing a multiplier effect, while also reducing the strain on the benefits bill.

Research from the National Housing Federation demonstrates the vast socioeconomic benefits of building social homes. If 90,000 social homes were built in a single year, the net positive economic and social impacts are estimated to be £51.2bn, with a significant proportion of these benefits realised in the short term.

Therefore, affordable housing should be reclassified as critical national infrastructure. If housing were to be reclassified in this way, it would provide long-term certainty over funding, unlock substantial investment and could better integrate housing with essential services.

Recommendation 3:
Take a holistic view of London's financing and rent policies alongside devolved funding

The government is currently consulting on a new rent settlement under which social housing providers can increase their rents in line with the Consumer Price Index measure of inflation plus

Sovereign Network Group's Natural Neighbours project has created an app where local community members can observe their outdoor spaces and assess (using guidance from the app) what wildlife they have and could create

1% for a period of five years. It is also consulting on alternative time periods, including settlements of seven or 10 years, or a rolling five-year settlement.

The G15 has called for a 10-year rent settlement with iron-clad guarantees, along with the reintroduction of rent convergence (see recommendation 4, below) as a way of providing funding certainty for the sector.

However, it is important to recognise that rental income alone cannot take the strain of funding stock improvements, building safety, decarbonisation and new supply. It is important that the capital receives a substantial capital grant funding programme, but it is unlikely that this would be sufficient either.

Therefore, as providers in London need rental income and grant funding to deliver affordable homes, it is essential that ministers look at the issue holistically. A more flexible approach that balances rental income and grant funding levels should be considered.

Ministers should also consider a new separate, devolved funding settlement for housing providers in London. This should be flexible enough to be used for multiple priorities, given the multifaceted nature of the housing crisis in the capital.

> “ Under the amortising grant model, the housing association initially needs to borrow much less money privately, meaning net rent could more easily cover the interest costs

The City Hall Developer Fund proposed by London mayor Sadiq Khan could, alongside the Affordable Homes Programme, help to unlock the pace and scale of delivery needed in London. An interventionist City Hall developer would unlock stalled sites in the short term while also taking innovative steps to bring forward strategic sites.

In order to be effective, this funding would have to be flexible enough to address a range of pipeline challenges, recoverable by the Greater London Authority to maximise long-term housing delivery.

Recommendation 4: Reintroduce rent convergence

The ending of rent convergence – a policy that had allowed lower rents to rise more quickly to ensure alignment between rents on the same types of properties – has had a severe impact on the financial capacity of the sector.

The G15 estimates that £2bn in rental income – money that could have been used to build or improve homes – has been lost due to the ending of the policy, which sought to bring rents that are artificially low due to rent policy changes into line with formula rents, which are set at a robust level.

The Ministry of Housing, Communities and Local Government has appeared, at least publicly, to be lukewarm about reintroducing the policy. In its consultation paper last year, it raised concerns about the impact on the benefits bill.

However, some in the sector are quietly confident that minsters are coming around to the idea.

The National Housing Federation has published analysis suggesting that a £3 per week convergence would raise the total housing support paid for by the Department for Work and Pensions by no more than 0.6%. Yet this extra income could support the delivery of 92,000 homes nationally. This is a price that, surely, is worth paying.

Recommendation 5:
Ensure access to the Building Safety Fund

The new Labour government has pledged to speed up remediation of buildings with unsafe cladding. Yet the £5.1bn Building Safety Fund, which provides grants for remediation work on buildings over 18 metres tall, is not in most circumstances open to social landlords. Social landlords are eligible only if costs would otherwise be passed on to leaseholders or they threaten the landlord's financial viability.

> “By introducing a warm and decent homes fund, we can improve co-ordination of decarbonisation efforts across repairs and planned maintenance programmes

This means that valuable funds which could have been used for development are diverted to remediating existing buildings.

The G15 is forecasting a spend of £3.6bn on building safety works between 2021 and 2036. Some members have estimated that as much as 55% of remediation costs are for works other than those relating to cladding or the external wall systems. None of these costs are currently covered by the Building Safety Fund.

Housing associations and local authorities must be supported by central government to make residential buildings safe, and the easiest way to do this is to open up this existing funding stream to the sector.

Recommendation 6:
National policy to take into account regional costs and skills shortages

Construction and maintenance workers are harder to find and more expensive to employ in London than outside the capital, which makes providing timely and high-quality repairs more difficult to provide.

Modelling from the Regulator of Social Housing assumes that the additional cost of paying competitive wages in London leads to an additional £1,900 in housing costs per unit per year, which far exceeds the extra rental income received through higher rents.

National policy, including decisions about funding levels, should take into account these extra regional costs and skills challenges in the nation's capital.

Recommendation 7:
Introduce a long-term joint funding pot for investment in existing homes

The current mechanisms for accessing funding for retrofit are not fit for purpose. Competitive rounds of bidding results in wasted bid costs, an unpredictable pipeline, and a pepperpot of uncoordinated (often competing) projects. In turn, this is holding back supply chain growth and the speed of delivery.

By introducing a warm and decent homes fund, we can improve co-ordination of decarbonisation efforts across repairs and planned maintenance programmes to invest more efficiently and improve outcomes for residents.

A joint 10-year funding pot would enable G15 members to invest in their workforce, undertake large-scale home improvement projects and more easily collaborate with other organisations. This would speed up the route to net zero, while saving money that can be put into new supply. It will also help landlords meet the challenges of a new decent homes standard and Awaab's law.

Peabody has partnered with the Westminster Bangladeshi Association (WBA) to support community initiatives. Activities include mother tongue language classes, homework support, youth activities, carrom board sessions, a monthly get-together and celebration of cultural events

Back to School Cuts is a partnership between Clarion Futures' south London communities team and non-profit organisation Saving Souls, which offers free hair care and wellbeing sessions to Clarion residents aged eight to 14 in Lewisham

Conclusions

A new government coming to power provides an opportunity for the sector and policy-makers to reconsider how they do things.

A healthy grant programme, allied with a 10-year rent settlement and the reintroduction of rent convergence, would be welcomed. But ministers should not also shy away from looking at newer solutions, beyond tweaking existing mechanisms.

Rethinking the model through which social landlords receive funding, by introducing an amortising model or a combined warm and decent homes fund, would help generate much-needed capacity for affordable housing. Reclassifying affordable housing as critical national infrastructure could be a game-changer.

We cannot carry on with the same model. G15 landlords have cut their development pipelines from 14,658 starts in 2022/23 to 6,387 in 2023/24, and this cannot continue. After all, if London – which generates around 25% of the UK's income tax – starts to fail, Keir Starmer's plans for growth will be in tatters.

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