

**London Housing Bank**

**London Councils’ response**

**General Comments**

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.

London Councils welcomes the opportunity to respond to the discussion paper, which sets out proposals to deliver a London Housing Bank (LHB). In our response to the Mayor’s draft Housing Strategy, we expressed our support to work with partners to explore the concept of the Housing Bank model. As a result we are pleased to be able to contribute to a discussion on how this may be achieved.

It is now well established that 30 years of under investment in house building is prompting the need for a radical range of measures to accelerate the speed and overall quantum of housing delivery. London Councils welcomes the availability of £200million of internal funding derived from government through the 2012 Spending Round for Affordable Rent to Buy, to increase housing supply in London.

We continue to maintain that there needs to be a drastic step change in our efforts to accelerate house building, if we are to deliver the number of new homes required to keep pace with both population and household growth and to address the huge backlog of people seeking housing in the capital. London Councils’ research[[1]](#footnote-1) undertaken in 2013 found that London needs an additional annual 526,000 homes required by 2021, with a further 283,000 homes required to meet the unmet backlog of need.

London Councils is of the view that local authorities are key stakeholders in the successful delivery of the London Housing Bank. We believe that boroughs should be given greater prominence, and we would encourage registered providers wishing to submit bids to the GLA, to work with boroughs at an early stage to secure planning permission and to forge good relationships when discussions take place later on.

**London Councils response - A summary of key points**

* We believe that there should be a clear distinction between homes funded via the LHA and homes funded through the Affordable Rent Programme. We believe it is important to easily identify how many additional homes were delivered with LHB funding.
* It is essential that the GLA satisfies itself that there is additionality, and that this is clearly demonstrated, to ensure that schemes offer value for money and make the best use of public funds. A failure to prove the case on additionality raises fundamental questions about the desirability of the LHB.
* We express our disappointment that boroughs will not be receiving nomination rights from registered providers who access funding from the LHB. We believe that as boroughs have an obligation to secure properties for all their tenants, including those from their waiting list. Properties should be available to a wider cohort of tenants, and not restricted to those who meet the First Steps income threshold.
* We would like to see a set proportion of properties allocated as a percentage, and given to boroughs as part of their nomination rights. This will enable boroughs to nominate tenants direct from their own waiting lists.
* We believe that funds/equity investment offered through the LHB already provide developers with an attractive financial incentive. We would agree that it should be conditional in all circumstances that were there to be a change in tenure, it should result in CIL being applied in the normal way.
* We understand that the intention of the LHB is to accelerate the delivery, with a requirement that starts on site will begin by March 2016. We appreciate that schemes take time to deliver, but the timescale does not reflect the urgency of the task and should be far more ambitious. Starts on site should therefore be required to be brought forward where possible.
* We would welcome the use of LHB funding to accelerate delivery of S106 development so long as assurances are received that the terms of such delivery continue to be as agreed by the developer on the granting of planning permission.
* As LHB funding for S106 schemes represents a public subsidy which may not otherwise be granted, there may be a case for reassessment of viability, with extra S106 obligations being placed on developers in return for acceleration of existing commitments where such obligations are found viable.
* The final proposals should include a narrative that sanctions will be applied should registered providers fail to deliver homes or meet their loan commitments, under the agreed terms. These should be included to ensure that public funds remain protected.
* The financial opportunities of both the fixed interest rate and equity loan options provide adequate incentives and each option will be subject to the individual providers based on the economic viability of individual development schemes. In order to provide flexibility, it would be advantageous to offer both products to maximise outcomes.
* **While we recognise that identifying additionality is complex, targeting investment on large sites based on a criterion of market absorption constraints is too restrictive and ignore opportunities to invest in sites where other constraints may be slowing development, including in areas where housing need may be greater, and on smaller sites.**
* **We believe that the GLA with its strategic role would be able to identify potential schemes that could be brought forward. It is essential that schemes should be identified in cooperation with the boroughs and with reference to the greatest immediate need.**

**Specific Questions**

**Section 3**

**How well does this concept incentivise the acceleration of the delivery of homes in London?**

We welcome the Mayor’s ambition to focus on ways to incentivise the delivery of homes within the private rented sector, which has seen a massive expansion in recent years.

We anticipate that the funding available will succeed in generating a greater appetite from registered providers, who may have schemes in the pipeline that require a kick-start of funding. However, there appears no evidence to that financial incentives will attract providers not already in the market.

The rent levels under these proposals are deemed to be ‘sub market’, that is 80 per cent or less than market rent levels. We believe it is necessary to be clear about who the product is aimed at and the rent levels that these properties will attract. There are a number of products already identified as being at ‘discounted’ and ‘capped’ rent levels (as part of the Affordable Rent Programme 2015-2018) and other terms which include products at intermediate rents levels. Registered providers must provide clarity on the nature of the product in order to develop their decisions around viability and risk against their business plans.

We do not support the suggestion contained in the discussion paper that the additional homes will form part of the GLA’s affordable housing delivery programme during the period when the homes are available at sub-market rent. We believe that there should be a clear distinction between homes funded via the LHA and homes funded through the Affordable Rent Programme. We believe it is important to easily identify, how many additional homes were delivered with LHB funding. Clarity is needed about homes will be identified, when they are sold on and cease to remain as sub-market.

**How well could this concept contribute to additional housing supply in London?**

We accept that the LHB will financially incentivise registered providers to access public funding at favourable loan rates or as an equity investment, which they may not otherwise have access to. It is essential that the GLA satisfies itself that there is additionality, and that this is clearly demonstrated, to ensure that schemes offer value for money and make the best use of public funds. A failure to prove the case on additionality raises fundamental questions about the desirability of the LHB.

The current housing market is buoyant, with financial yields making the capital city an attractive place to invest. We must appreciate that when making choices, registered providers will need to make financial decisions about whether to accept the financial support towards development costs at the expense of fully funding a development themselves and then being able to charge rents at full market value. Offering rents at 80 per cent of market level may not always be financially viable, in some cases and registered providers will make decision to meet their business needs.

We express our disappointment that boroughs will not be receiving nomination rights from registered providers who access funding from the LHB. We believe that boroughs have an obligation to secure properties for all their tenants, including those from their waiting list. Properties should be available to a wider cohort of tenants, and not restricted to those who meet the First Steps income threshold.

We would like to see a set proportion of properties allocated as a percentage, and given to boroughs as part of their nomination rights. This will enable boroughs to nominate tenants direct from their own waiting lists.

We believe that funds/equity investment offered through the LHB already provide developers with an attractive financial incentive. We would agree that should conditional in all circumstances, that should there be a change in tenure, should result in CIL being applied in the normal way.

**How does this concept offer the opportunity to deliver on other Mayoral and local housing priorities?**

The LHB should be considered in the wider context of the Mayor’s Housing Strategy. The degree to which the LHB can secure developer commitment to increasing Private Rented Sector (PRS) homes will be partially dependent on London’s ability to meet its longer term housing targets and provide a PRS environment which is attractive to investors. It is important that the proposals are complementary and link into the other Mayoral priorities including the Housing Zones initiative.

**How else could this concept be structured to accelerate housing supply?**

We understand that the intention of the LHB is to accelerate the delivery, with a requirement that starts on site will begin by March 2016. We appreciate that schemes take time to deliver, but the timescale does not reflect the urgency of the task and should be far more ambitious. Starts on site should therefore be required to be brought forward where possible.

We support flexibility around repayment methods. However, there must be fairness and transparency across the board to ensure that as far as possible a consistent approach is achieved and value to the public purse is maximised.

**What are your views on using this funding for S106 requirements where delivery could be accelerated and there is a strong local driver?**

We would welcome the use of LHB funding to accelerate delivery of S106 development so long as assurances are received that the terms of such delivery continue to be as agreed by the developer on the granting of planning permission. This would mean that, for example, LHB funded developments should not replace any agreed developer obligation to deliver homes at social rather than ‘affordable’ or intermediate rents, and the requirement for perpetuity must be maintained.

It is important that boroughs are consulted in identifying S106 schemes which may be suitable for funding, with reference to those areas where there is the greatest urgency for accelerated delivery of new sub-market homes. We reiterate that boroughs should be given nomination rights in accordance with established local planning policies regarding S106 agreements.

As LHB funding for S106 schemes represents a public subsidy which may not otherwise be granted, there may be a case for reassessment of viability, with extra S106 obligations being placed on developers in return for acceleration of existing commitments where such obligations are found viable.

**Section 4**

**Which approach do you think the GLA should adopt for calculating the level of the loan? Bespoke or fixed? If fixed, would the level of 30 per cent be sufficient incentive?**

In assessing the best approach it is important to recognise that the choices made should provide the best use of public funds. It is critical that the GLA seeks assurance and is able to satisfy itself that the funds will be repaid over the loan period. It is essential that the financial model developed by the GLA is an attractive offer and at the 30 per cent level should be market tested to ensure that the LHB had the best chance of achieving tis objectives.

In testing the market, the GLA should explore the best approach to calculating the loan level to make the scheme attractive but ensure best value for public money. It is likely that this consideration will be contingent on a range of other factors which may mean a bespoke approach is the most workable option.

The final proposals should include a narrative about how sanctions will be applied should registered providers fail to deliver homes or meet their loan commitments under the agreed terms. These should be included to ensure that public funds remain protected.

**Should the GLA offer both a fixed interest rate and an equity loan option?**

As a market intervention, the provision of low cost loans is a recognised tool and has proved to be successful in other arenas. However, it is important to test the market to be certain that developers identify with this as a solution to the current challenges in increasing the pace and level of housing supply.

The financial opportunities of both the fixed interest rate and equity loan options provide adequate incentives and each option will be subject to the individual providers based on the economic viability of individual development schemes. In order to provide flexibility, it would be advantageous to offer both products to maximise outcomes.

Options for increasing the supply of PRS homes as part of the conditions of the scheme merit consideration, both to provide a healthy PRS for London and ensure longer term secure tenancy.

The GLA should seek to optimize the return on public investment through the LHB. The impact on investment flows and recycling of funds should be better understood by modeling different repayment options, including:

* + a low interest rate repayment only
  + a mixture of low interest rates and equity repayment
  + equity repayment only.

**For the fixed rate would an interest rate of 3.5% make this product attractive? Should this be through annual interest payments or a bullet or with an option to elect for either?**

Further financial modelling should be undertaken to assess the most favourable interest rate based on making the use of public money and to provide greater confidence that the loan repayments are met. However, this must be seen in the context of rates available through private or institutional finance services and the wider conditions which might be attached to through each.

We wish to see the best use of public funds, alongside securing an accelerated supply of housing and additionality. This will be a fine balance to strike and modelling and testing will be necessary at the early stages.

Throughout the whole process, robust monitoring arrangements should be implemented to ensure that the schemes are delivered and the loan repayments are made.

**Does paying the full loan upfront offer a sufficient incentive to develop?**

London Councils believes that the main attraction to accessing funds via the Housing Bank is the access to funding upfront. The provision of the full loan amount upfront, depending on the loan to cost ratio, would appear to offer sufficient incentive to developers to accelerate at pace the delivery of new homes. Public interest in the Housing Bank should, however, be protected in particular where the full loan is provided up front to ensure developers meet their commitments and undue delays are minimised. Sanctions should be explored and clearly articulated in agreements so that London sees the full benefit of a LHB.

**Are there additional exit routes that this document has not considered that may be**

**preferable?**

It is important to explore how a significant proportion of properties built with loans from the London Housing Bank can remain in the within the private rented sector and not lost through market sale. Competition from the Government’s Help to Buy Scheme has made some registered providers nervous about investing in the PRS as the returns are less favourable. We should be doing more to support keeping properties for rent in the longer term.

**Does Housing Bank funding offer providers an opportunity to build up a portfolio of private rented homes?**

Yes the Housing Bank does offer provides an opportunity to build a portfolio of private rented homes and this should be encouraged at they have existing skills and expertise. However, it is important to attract smaller registered providers and new investors who may not otherwise enter into the PRS market.

**Section 5**

**Do you agree that the GLA should commission a certain number of sites to encourage the London Housing Bank’s application in those areas? If so are there sites/areas you would suggest?**

**We believe that the GLA with its strategic role would be able to identify potential schemes that could be brought forward. It is essential that schemes should be identified in cooperation with the boroughs and with reference to the greatest immediate need**

**Care should be taken that such site commissioning acts in accordance with other emerging GLA policies e.g. housing zones and Opportunity Areas that already exist.**

**Consideration should also be given to any supporting infrastructure and of mechanisms for funding this.**

**Do you agree that the GLA should specify the site size? If so what should the limit be? What alternative mechanisms could be used to ensure development enabled by the London Housing Bank is additional?**

**While we recognise that identifying additionality is complex, targeting investment on large sites based on a criterion of market absorption constraints is too restrictive and ignore opportunities to invest in sites where other constraints may be slowing development, including in areas where housing need may be greater, and on smaller sites. We also believe that assessments of additionality should take into account a broader range of factors than those identified by large developers. In this context, market absorption is too narrow a criterion for identifying sites.**

**To this end, we believe that discussions should take place between the GLA and boroughs concerning which sites or areas may require support for accelerated development. Consideration should be given to defining additionality on a holistic basis, for example by studying which parts of the capital suffer the greatest disparity between assessed housing need and housing supply. Sites can then be identified which help to relieve this need.**

1. London Housing Challenge, London Councils discussion paper, September 2013 [↑](#footnote-ref-1)