

London Assembly Call for Evidence on the Mayor's Affordable Homes Programmes [2016-23 and 2021-26]

1. What are the key challenges you have faced delivering affordable housing over the course of the AHP 2021-26, and do you think you will be able to meet your delivery agreement?

The last five years have proved especially challenging for delivering affordable housing. Our financial capacity has been suppressed by a number of factors including sub-inflation rent rises and delays to income from sales and rent as schemes have completed slower than forecast. Grant rates remain low by historic standards and have not always been sufficient to make schemes viable, especially in London where build costs are highest. Borrowing rates have been high, not helped by the Truss/Kwarteng mini-budget in September 2022. Build-cost inflation was especially high over the period and has been compounded by the need to meet increasingly exacting design standards, which have increased build costs per home.

Our expenditure on existing homes also increased significantly between 2021 and 2026, meaning less financial capacity for development. For example, our spending on routine and planned maintenance increased from £173m in 2023/24 to £211m in 2024/25. This increase, which will continue for the foreseeable future as government introduces further quality and sustainability standards, has been driven by an increase in the volume and the complexity of routine repairs, high rates of inflation and increased compliance costs, especially related to building safety and decarbonisation.

As a reflection of these various challenges, our EBITDA MRI cash interest cover fell to 27% in 2024/25 severely limiting our ability to take on additional borrowing for new development. That deterioration in our financial performance led us to pause all new development in 2023/24 meaning that, while we'll build out our 3,700-home committed newbuild programme, we won't start any new homes in London or elsewhere until our financial performance has recovered.

Operationally, both of our legacy organisations (Optivo and Southern Housing Group merged to form Southern Housing in December 2022) also faced challenges with contractors falling into administration, which has necessitated costly re-procurement exercises and delays to progress on site. In some cases, we've financially supported contractors to avoid this scenario, which has pushed our costs up significantly. Progress has also been slowed by delays securing sign-off for high-rise schemes under the transitional Building Safety registration process. Delays have meant schemes ready for occupation have been left unoccupied.

The effect of these financial and operational challenges has been especially profound in London. Our original submission to the 2021-26 AHP was to secure GLA grant funding for

1,500 homes, but we downscaled this to 900 when delivery barriers started to mount. We now estimate we'll deliver just 88 affordable homes under the programme, only a fraction of those we had originally intended to deliver.

2. *Where you have delivered affordable housing to target, what went well?*

We've been pleased to resume building homes for social rent in London using the Mayor's funding for this tenure. Although it poses viability challenges, social rent is included as part of s106 agreements with some local authorities.

3. *How could the GLA better support you to meet your delivery targets?*

Extra flexibility over the use of Recycled Capital Grand Fund (RCGF) would be helpful, specifically permitting use of RCGF alongside:

- AHP grant subsidy to improve scheme viability. This could also play an important role in unlocking sites that have stalled due to contractor insolvency
- Building safety funding to help accelerate remediation funded through government's building safety fund and cladding safety schemes
- Grant allocated through the Social Housing Decarbonisation Fund and Warm Homes: Social Housing Fund to accelerate decarbonisation works.

Although the latter two applications concern works to existing homes, greater flexibility over the deployment of RCGF would help free up balance sheet capacity for new development

4. *[To councils only] Does the design of the AHP allow you to build the kind of homes that meet local need [i.e. family-sized homes, accessible homes, etc]?*

Not applicable.

5. *Which affordable housing tenures have you sought to deliver, what has been your experience with these, and how should this be reflected in future programmes?*

We've sought to deliver all three of the primary affordable housing products funded through the 2021-26 programme; social rent, the new model of shared ownership and London Living Rent. It would also be useful if grant was available, on a limited basis, for intermediate rented products.

6. *What worked well about the design and administration of the AHP 2021-26, and what didn't?*

The GLA has taken a collaborative approach to solving problems, more so than Homes England, which has helped during a challenging economic and operational environment.

However, we found the bidding process onerous. Several elements required a disproportionate amount of information or were not reflective of registered providers' development models.

As a not-for-profit organisation, the requirement to provide full viability information on schemes felt unnecessary and disproportionate.

The concept of 'provider contributions' used as part of the bids assessment is ill-suited to registered providers (RPs) as we'll cover any costs not covered by grant or sales income through rental income (forecast over the next 30 years) or loans. We'd like to see the GLA adopt a different value for money assessment process that aligns more closely with how we assess the viability of our own schemes.

Having to profile allocations over the course of a year by June can be tricky as we may not have started the procurement process by this point so may not have an accurate estimate of costs. We'd like to see the GLA permit provisional allocations with firmer details to follow once costs are better known closer to starting work on site.

The concept of grant caps was also quite challenging as, when gaining approval for schemes, we had to assume the maximum permitted grant, but then this would still be subject to approval based on financial information provided.

7. Is the Mayor's AHP delivering homes for the Londoners who need them most?

We welcome the Mayor's continued focus on delivering homes for social rent, which remain the most effective way to meet the needs of Londoners in the greatest housing need.

8. What would you prioritise for the design of the upcoming AHP?

Bid assessments should be simplified to focus on maximising affordable housing supply rather than on applying different forms of conditionality. Specifically, grant funding should not be contingent on adherence to design standards, which should instead be enforced through the planning process and reported on where necessary.

Some flexibility should be incorporated to ensure the AHP can accommodate and flex to changing market conditions and regulatory requirements. For instance, it would be helpful to know from the outset what flexibilities the GLA will offer in the event of cost increases on individual schemes.

Consideration should also be given to increasing grant rates over the duration of the programme if increases in build costs or deteriorations in market conditions mean providers are more reliant on grant subsidy to achieve viability. The move to a ten-year programme is very welcome as it offers much greater certainty over the future availability of grant income, which is especially important for complex, multiphase schemes or regeneration projects. But it also brings a greater risk that the value of tariff rates is eroded over time by inflation. A greater degree of flexibility is especially important as housing associations' development

capacity is likely to be impacted by various regulatory requirements (including Minimum Energy Efficiency Standards and an updated Decent Homes Standard) over the duration of the next AHP.

Grant rates should be exclusive of RCGF and the GLA should permit RCGF to be used as additional income on schemes to help meet viability. As per our answer to Q3, it would be helpful if the GLA also permitted use of RCGF alongside building safety and decarbonisation funding to free up RP balance sheet capacity for new development. Balance sheet capacity would also be increased if the GLA were to cease reclaiming RCGF.

It would also be helpful if the upcoming AHP offered grant funding for replacement as well as additional homes delivered through regeneration projects. This will be especially important if the next edition of the London Plan incorporates a requirement for regeneration schemes to replace social rent floorspace irrespective of residents' individual right to return – as proposed through a recent GLA consultation. Full replacement of social rent homes is likely to exacerbate viability issues, particularly for high density schemes where there is little or no opportunity to generate cross-subsidy by incorporating homes for market sale. Even where homes for market sale can be provided, housing associations face a revenue loss during the decant, demolition and rebuild stage. Therefore, sufficient grant levels will be required for any scheme requiring 100% social rent replacement.

9. Is the AHP 2021-26 meeting the needs of Deaf and Disabled Londoners, and others who require accessible housing?

10. Is there anything else you would like the GLA to do differently when it comes to delivering the AHP?

More understanding of scheme slippage. Completing schemes on time is in our interest as it means sales and rental income is received as forecast. We'd appreciate a greater focus on support and collaborative working to deliver schemes on time rather than intense challenge on slipping dates, which interactions can occasionally lapse into.