

WESTMINSTER HOUSING COMMISSION

**MEETING 2
23rd NOVEMBER – TERRY FARRELL'S
MINUTES**

ATTENDANCE

The Commission

Richard Best	Chair	RB
Kate Barker	Member, Monetary Policy Committee, Bank of England	KB
Sarah-Jane Curtis	Retail Director, Grosvenor Estate	SC
Sir John Egan	President of CBI and Chairman of Construction Task Force	JE
Natalie Elphicke	Joint Head of Affordable Housing Group, Denton Wilde Sapte Solicitors	NE
Sir Terry Farrell	Principal, Terry Farrell and Partners architects	TF
Prof. Chris Hamnett	Professor of Human Geography, Kings College	CH
Cllr Angela Harvey	Cabinet Member for Housing, Westminster City Council	AH
Kelvin MacDonald	Director of Policy and Research, Royal Town Planning Institute	KM
John Socha	Vice Chairman, National Landlords Association	JSocha
Jeremy Swain	Chief Executive, Thames Reach Bondway	JS
Anu Vedi	Chief Executive, Genesis Housing Group	AV
Mike Youkee	Head of Housing Initiatives, Quintain Estates and Development plc	MY
Sir George Young, MP		GY

Observers

David Lunts	Head of Policy and Partnerships, GLA	DL
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Apologies

Nick Raynsford MP

Presentations

1) David Lunts, GLA	DL
2) Hugh Bullock, Gerald Eve, on behalf of WPOA	HB
3) Grahame Hindes, Octavia Housing and Care	GH
4) Fiona MacGregor, Housing Corporation	FM
5) Elizabeth Austerberry, DTZ Piedad Consulting	EA

RB welcomed JE to his first Commission meeting, then outlined the work that had undertaken since the previous meeting:

- He had met with Mark Field MP and Karen Buck MP, and along with KM and TF had been on a tour with Karen to visit families in social housing in north Westminster, viewing overcrowding first hand.
- Also, he met with Cllr Dimoldenberg, Leader of the Labour Group, who expressed concern over the sale of Housing Association properties to meet the cost of reaching the Decent Homes target.
- He had received representations from residents of Dolphin Square, but was satisfied that they were getting a fair deal in the circumstances, so did not propose that this issue be taken on board by the Commission.
- AH had been working on the “brand” for the Commission, and would present that after lunch.

RB asked for comments on the minutes from first meeting, and on matters arising.

JE raised 3 points:

- 1) Westminster is very wealthy: if people cannot adequately be housed here and good communities cannot be created, these objectives probably cannot be met anywhere else.
- 2) The construction industry is not very efficient. There is a lot to be gained by insisting on highly cost-effective construction to achieve more affordable housing.
- 3) The Commission’s main concern should be on creating high quality, sustainable communities (and retro-fitting those that are not sustainable). Every development should add to the quality of people’s lives; and increase the quality of their neighbourhoods.

GY raised the issue of the status of City West Homes (CWH) and asked whether LSVT was worth investigating again, as the last time it was considered was 2001 since which time values have increased substantially. Could this release resources for more affordable housing?

AH responded that the Council is currently reviewing the position and looking at the different options available.

Rosemary Westbrook added that a full appraisal would be done after the government review to be finalised in January 2006.

RB noted that the key question was whether the residents would encourage / accept a transfer. He referred to Birmingham, where residents voted against transfer, putting the Council in a very difficult position.

AV raised the following 3 points:

- 1) In the last 6-7 years, the stock of CWH has been managed by a variety of associations, private sector providers, and managing agents. Residents have had a substantial period to acknowledge the management of these agents, hence will be able to base their choice of whether to transfer or not, on their own experience.

- 2) The average rent which CWH charges is about £20 higher than average HA rents. In places where residents have rejected a transfer, it has often been through fear of rent increase: This would not be the case in Westminster.
- 3) There are opportunities within CWH stock for potential development if a transfer took place.

GY recommended that the Commission should return to this issue later in its deliberations.

RB referred to the paper on key points from last meeting; he picked out the Chelsea Barracks opportunity, and asked how much affordable housing could be expected there.

Steve Moore answered that it would be mixed-use development, with 2000+ dwellings, 30% of which would be affordable under the current planning policy.

JE argued that from his work on skills needed to create sustainable communities, too much (ie, 50% level) affordable housing on a site would not work. It can mean the 50% private housing has to be very expensive to make the scheme stack up, cutting out middle-income housing. He felt that 25-30% is the maximum on a site without the developer having to get large amounts for the other half.

SC explained that Grosvenor are adjoining owners, and felt the site will go for a massive premium, requiring very high value housing to make it stack up. The planning brief needs to be very clear about the uses expected on-site so realistic bids can be made.

NE sought clarification on whether this would be a Government-led development given that it is a surplus government site.

DL explained that English Partnerships have exclusive bidding rights on surplus govt land prior to it going on the market, but still have to pay market value.

NE felt that Chelsea Barracks was in a perfect place in terms of infrastructure and the government is in a unique position to contribute some of the site value to affordable housing objectives: should a higher than normal requirement for affordable housing be considered?

MY reiterated that 50% affordable housing is problematic and stressed two important issues:

- 1) 50% does not work when the developer is also asked to pay for other infrastructure such as school places.
- 2) Mixed, balanced communities are crucial to make mixed-use sites work. There should be a good measure of affordable housing but it should be targeted at people who are economically active, i.e. people who are working and living in the same area.

KM, referring to the issues raised by MY and JE, pointed out that resources were often focused on creating mix on individual sites: Government was against

commuted sums, but the challenge for the Commission was to make Westminster housing generally more mixed and sustainable.

RB thought there might be lessons to be learned from Imperial Wharf and **JE** pointed out that this had ended up being a development of extremes.

Referring to DTZ's previous paper, which seemed to suggest that student housing could be provided in different ways, **GY** asked for information as to how London universities are currently accommodating their students.

AH responded that most universities only accommodate students in their 1st year. If, however, students were encouraged to stay longer in specialist housing, it would free up private sector accommodation: this was something that the Commission should be address in more detail.

MY suggested that student accommodation should be high density and planners should treat it as affordable housing. It helps create jobs and wealth, while helping to ease housing shortages.

RB questioned whether students should be prioritised at the expense of others' housing needs (e.g. families); tough choices needed to be made in terms of who is helped to live in Westminster.

JE argued that students could and should be accommodated in Westminster. They can easily be put in very high-density accommodation, and the buildings can be used for other purposes in the summer (e.g. tourist industry). High quality universities also do great things for the economy.

DL pointed out a distinction between students who provide services in the local area, e.g. student nurses, in relation to definitions of affordable housing.

AV noted that public institutions (eg NHS, universities) are strapped of cash and housing is not their core business; but they do have assets and partnerships could generate better utilisation of these assets.

RB asked for an additional paper on housing for students.

JS underlined the need to decide the role of Westminster within London in terms of which groups should be prioritised and he asked about the arrangements Westminster has with the sub-region and neighbouring boroughs.

NE asked for additional data on migration generally, and social housing migration more specifically, as well as an update on housing for older people.

JE: stressed the importance of Westminster as a wealth generator for the country: wealth generation is key to creating sustainable communities.

GY brought up the issue of defining a "local connection" to the borough.

Rosemary Westbrook agreed to provide further information on:

- Joint arrangements within the north sub-region where the 6 local authorities have reached an agreement on nomination rights to new units. But a problem is slowness of nominations coming through due to development delays; it was now more difficult to predict future supply because of working with planners in other boroughs.
- Migration flows, where evidence from the private sector shows movement in different direction to our sub-region – people move west and south rather than north within the sub-region. Westminster now operates Choice-based lettings so people can participate in selecting a property: this will make more of a difference in the future.

Item 1. “A Pan-London Perspective” – David Lunts, GLA
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David Lunts presented a GLA perspective.

GLA’s 5 key priorities:

- Increase supply (emphasis on new supply and not subsidising demand). Less interested than government in open market Homebuy options
- Link regeneration and strategic interventions with the need to drive up supply
- Need for more large units and family housing
- Mobility and cross-borough working –how do we operate more effectively across boroughs at sub-regional and pan-London level?
- What can be done to streamline the whole planning process, and increase levels of certainty and creativity

Key issues raised:

- London’s population is growing and expected to rise (main factor being international migration).
- Affordability gap, homelessness and overcrowding levels are very high

Implications / opportunities for Westminster:

- Housing need will not be met in the borough
- Westminster has a unique opportunity through its charitable fund
- Westminster’s private rented sector has a significant role, important to maximise its use
- Need to think about capacity/potential of off-site provision to deal with underlying housing need – requires new generation of strategic, cross borough planning agreements, and better working across London.
- Pan-London choice and mobility to be encouraged
- Should we reconfigure sub-regional arrangements?
- Replacement for Local Authority Social Housing Grant (LASHG) – Dolphin Square Trust is an opportunity to think more flexibly, target smaller developments, look at out of borough opportunities, strategic land purchases etc
- Opportunities to densify existing estates?
- Think about what types of households need to be located in Westminster.

Summary of Commission discussion

GY: Mayor's emphasis on increasing supply. Managing demand also part of the solution. Seeks clarification on how private rented sector could be better utilised.

DL – are REITS, SIPPs relevant or not to Westminster? Buy-to-let has done significant amount to revive rented sector in London. Are there ways we can look at affordability and choice in the sector like we do in the social sector? Could more work be done with landlords to address long housing waiting lists?

J. Socha: outlined range of leasing schemes boroughs and landlords are currently operating; key point is guaranteed rent. Different models for sharing risk, and who pays for damage to property.

NE: legal tenancy framework would be an interesting area on which to think more creatively. There is currently nothing between assured shorthold tenancies (in private rented sector) and the virtual freehold held by social tenants on secure/assured tenancies. Focus on ownership is about security.

KB: One vision this commission could take forward is of Westminster being a place for rich people, and poor people. If we don't want that, will need to make substantial interventions to create an intermediate market. This will be really expensive. Key question is do we see Westminster fitting into London if the first depiction, or are we prepared to use a lot of money to provide intermediate housing?

RB: asked DL—what does the GLA think Westminster is for?

DL responded by raising the following points.

- Westminster should not abandon the poor. However, all proven housing need cannot be met inside the borough
- What is the sensible amount in the borough –what households are we going to target? Where should the leverage be exercised outside the borough?
- Are the sub-regional arrangements configured as optimally as they can?

AH stressed that Westminster is very concerned about polarisation between richer and poorer.

AV raised the following issues:

- Government target to reduce Temporary Accommodation by 50% by 2010 and the poverty / employment and affordability trap (offered to bring a paper back on issues around private rented sector, temporary accommodation and affordability);
- Referring to the supply/capacity/planning link mentioned in DL's presentation, asked how the 3 things could come together –as this is very difficult in delivery and planning / practical terms.

DL responded by saying that a lot of the problems may not be solved. In terms of increasing supply of housing, 2 things can help:

- Land availability – throughput and certainty, good examples exist;
- Ease/certainty of planning - the transfer of planning powers to the GLA may enable the Mayor to make positive decisions on major strategic applications.

MY asked for clarification on the following:

- There is an emphasis on larger family dwellings, despite the fact that average household size is falling – is it part of affordable housing demand (social rented especially), or across the market?
- Increasing supply is crucial. However, densification is not what communities want.

DL responded by arguing that there is an under-supply for those in greatest need. Additionally, families on middle incomes are leaving London and whilst this loss is balanced by the influx of international in-migration, in the long term this was a real worry.

Emphasising family units is thus a way to stop families leaving London. DL also mentioned the fact that GCSE secondary schools' results in London are outperforming the national average, implying that "aspirational" parents do not have to leave London. This should help the case for more family housing.

Item 2. Hugh Bullock, on behalf of Westminster Property Owners Association

Challenges:

- Within the Central Activity Zone (CAZ), there is a significant tension between economic growth and housing provision.
- High land/property values create a high entry price to development. Need substantial incentive to redevelop at all.
- Capacity: there is a perception that Westminster is fully developed. Increases are at the margins, and on relatively small sites. Applying mixed use policies on a site by site basis will lead to inefficiencies
- High opportunity cost for affordable housing.

What might be done to increase the housing supply?

- Make better use of the scarce land resources
- Positively encourage residential land use and an "affordable housing credits" strategy
- Convert land uses through planning permissions into tradable planning benefits, move away from site by site approach
- Review the 70:30 ratio of social rent to intermediate housing in Central London
- Certain locations in the City are not suitable for family housing. Mix should be aligned accordingly.
- More emphasis needed on accommodation for low paid private sector workers who support the London economy
- If student accommodation were to be defined as part of the affordable housing stock, purpose built accommodation would be stimulated, releasing general needs housing.

Item 3. Grahame Hines, Octavia Housing and Care

Issues raised in the presentation:

- Supply falls short of demand – stock is overcrowded and fully used.
- No grants for improving ageing stock
- Land is unaffordable –the only way housing associations can develop is via links through planning gains arrangements.

Five proposals were made for the Government to:

1. Fund the acquisition of ex RTBs and street properties with Social Housing Grant.
2. Provide funds for better use of the existing stock:
 - ⇒ Conversions / extensions
 - ⇒ Incentives for under-occupiers to move
3. Allow greater flexibility on allowing rent increases to fund repairs
4. Address issues of affordability:
 - ⇒ by removing the penalties that working tenants face in temporary accommodation
 - ⇒ by ensuring lower service charges on high density S106 schemes
5. Support a comprehensive review of hidden opportunities and redevelopment potential

Item 4. Fiona MacGregor, Housing Corporation

Role of the Housing Corporation – a national agency sponsored by the ODPM, therefore has targets that are a blend of national priorities; regional priorities set by the London Housing Strategy and London Plan; and incorporating sub-regional and local strategic priorities wherever possible. Resources of £2 billion across London over 2006-08.

Targets for the 2006-08 programme:

- There is a clear focus on increasing net new supply of housing, particularly affordable housing. This has led to some hard choices and there are extremely limited funds available for works to existing stock and regeneration.
- With the increase in overcrowding evident from the 2001 Census, there is a target of 35% for 3+ bedroom dwellings for affordable rent. Recognised that this is lower than the London Housing Strategy target (42% 4+ beds), but it signals an intent; it will take some time for production to shift in favour of larger dwellings.
- Increase access to home ownership, particularly for key workers (national priority); prioritise new-build wherever possible, as there are issues with open market homebuy stoking demand rather than increasing supply of new homes.

Westminster:

- The borough does a good job of maximising affordable housing through s106 schemes; and a very good job on larger units – one of the few London boroughs where bids for 2006-08 exceed the 35% target for 3+bed dwellings.
- High value area, so issues with regard to low cost home ownership programmes. This will be a key area for the Commission to focus on.

Summary of Commission discussion

GY picked up on an apparent contradiction between the Housing Corporation and Housing Associations, regarding larger units. Housing Associations argue that there is a disincentive to producing larger units while the Housing Corporation argues to be seeking to remove the funding barriers (grant per person basis). Who's right?

FM responded saying that for some time the HC had used grant/unit as a headline efficiency measure, but had realised that this was too crude. They do in fact use grant/person. There is still a real issue with larger over 3 bedrooms, as rent caps mean there is effectively no rent differential between 3, 4 or 5 bedroom dwellings so exponentially higher grant is needed for these larger dwellings.

GY raised the issue of Homebuy, and the apparent contradiction between the GLA and HC views of the scheme. Situation was clarified, as there are now different types of Homebuy in operation. Neither organisation is in favour of open market Homebuy which simply stokes demand for existing dwellings. New-build Homebuy is, however, ok as it encourages new supply.

KM mentioned the Decent Homes standards and the consequent disposal of properties that HAs are undertaking in order to raise the funding to reach these standards. Seeing that HAs are selling properties at the moment **KM** asked whether there was any chance of a breakthrough either in terms of funding regimes or longer term (tail end of Decent Homes standard) and the effect that it is having on the availability of properties in London. Should we change the system? Easing off in trying to convert buildings.

GH: number of sales is small over the last few years. The issue is that RSLs have limited funds. Rents are fixed and repairing stock is very expensive. RSLs would prefer to see funding available for decent homes works, then they wouldn't have to sell stock.

RB referred to the meeting with Cllr Dimoldenberg and argued that the Decent Homes standard may not be the highest priority among residents, who are in effect more interested in safety, crime, lifts, environment etc.

JS asked about the proportion of RSLs lettings that go to local authorities to tackle homelessness.

GH responded that there is an agreement in place to provide 75% of 2+ bedroom dwellings, and 50% of smaller units, and there has been discussion with Westminster about more of the smaller units being available for nomination. But, this

causes problems as RSLs need some proportion of lettings to deal with overcrowding problems.

MY asked a question regarding the affordability of service charges and whether the solution was to load the cost back to the developer. Service charges were rising because, for example, on large schemes local authorities often do not adopt roads etc, so maintenance costs become part of estate service charges.

GH replied that a way to avoid service charges was to design costs out where possible. Joint working between planners, RSLs and developers needs to get a lot better, so these issues can be taken into account early in the planning/design process.

MY highlighted that it is very difficult to increase densities without incurring significant service charges. But developers should aim for developments to be indistinguishable by tenure.

AV commented that service charges are excluded from grant calculations, when in effect they are part of the rents charged.

FM responded that this was an issue that the Housing Corporation had looked into, but all the solutions had some downside. "Designing out" was seen as the best option.

DL felt that creating an internal market for affordable housing credits was a very interesting idea, and could be used to plug gaps when extra funding was needed, eg for service charges. He asked **HB** if he had calculated the efficiency gain/extra value that could be achieved through trading affordable housing credits.

HB replied that this idea was in its early stages. Looking at this from the economic point of view – there is an enormous cost of creating "sustainable communities" in a place like Westminster. As a society we are not using land and capital very efficiently and we need to consider opportunity costs.

He pointed out that the proposal for credits does not necessarily mean supply is delivered outside the borough. There could be potential to pre-provide extra affordable housing on one site within a borough, with the aim of developing another site to achieve its full economic value.

RB asked whether using commuted sums would not be an easier and simpler way of doing this.

HB said that commuted sums were not a favoured policy. He also stressed that he was not advocating "dumping" affordable housing elsewhere and creating ghettos, merely pointing out an economic argument about extracting value from assets.

TF noted the hidden service charge of building housing in outer areas, because transport and other infrastructure needs to be provided. Global costs of development need to be taken into account.

KB confirmed that the real costs of different types of development are not well known.

FM mentioned that a key issue with regard to service charges is the poverty trap – when people get into work the strict HB taper means they are suddenly exposed to very high living costs.

KM questioned DL about the possibility that certain types of households shouldn't be housed in Westminster.

DL queried the opportunity cost (real or hidden) in trying to provide housing for certain types of housing need that could be met elsewhere e.g. Westminster may not be a prime location for intermediate housing.

KB responded that if we take that view, then we are going down the road of advocating polarisation. There is a need for the “middle” housing market, but we need to know how much it will cost to provide it. Then we can make a decision about whether it represents value for money. We need to prioritise who lives here: if we think that's the middle market, then that means we will be squeezing out those in need of social housing; a difficult message to sell, since it will be seen as social engineering.

DL responded that since we cannot meet all the need in borough, we need to explicitly say what balance we want. This does not mean we do not have an obligation to look after those who are not prioritised and are squeezed out of Westminster.

FM: Giving people choice will make this a lot more palatable; given other opportunities, people may well choose to move to other boroughs.

CH said that the Commission should be aware of the danger in thinking that housing needs for low income households may only be met outside Westminster's boundaries. Whilst the affordability problem is likely to intensify, the implication of more affordable housing provision outside borough boundaries is that Westminster could be seen to be saying that its future is as a high income residential area, and that, consequently, low income groups will need to look elsewhere. This may not be a positive political message.

KB felt that the question was: given the resources we have, how should funding be split between social housing and intermediate market? Part of the solution needs to be found elsewhere, but who are those people going to be?

RB: The GLA favours a split of 70:30 social:intermediate housing. Is this right?

GH: In Westminster, split is more in favour of social rented. Intermediate market products do not work in the City: they are at the very margins of affordability at present. To make them work, they require more subsidy.

AV: What will the impact of SIPPs be?

KB thought there would be a relatively small impact.

JSocha: the average SIPP currently costs £150k, which will not buy you much in Westminster. Also, there is a loss of control over the asset if it is managed by the SIPP manager. Doubtful this will be used as a route to fund buy-to-lets.

AV noted the link between employers and housing. He quoted the example of Cisco Systems, who moved from Hammersmith & Fulham to the Thames Valley due to recruitment difficulties. Could there be an obligation on employers to contribute to housing costs?

JSocha: In recent years there has been a divestment of company-owned rented property, so probably swimming against the tide.

RB noted the leasing arrangements for temporary accommodation – paying £400/week did not seem like a great deal, plus there are complex management arrangements as part of these agreements. Would it not be better for HAs to acquire these properties instead?

GH: This is happening on a small scale, but the economics are not great. HAs need to be confident about the on-going demand for the dwellings, and they are still let at unaffordable rents.

AV: acquiring properties outright has an impact on Housing Associations' borrowing capacity, which impacts ability to develop new dwellings.

Item 5. DTZ- Elizabeth Austerberry

EA gave an overview of existing initiatives and funding mechanisms and the potential role that these may have in delivering Westminster's affordable housing needs. Some recommendations were also made on the options that the Commission may wish to pursue.

EA illustrated the following options for the Commission to consider:

- Indirect Investment Vehicles
- Intermediate housing tenures
- Engagement with private sector developers/direct investors
- PFI structures
- Joint ventures

EA suggested that, given the wide brief, it would be beneficial to select two to three options for further investigation.

Summary of Commission discussion

NE clarified some points about FAHB – the Finance for Affordable Housing Bond described in the DTZ report. It is a vehicle designed to make more efficient use of a government funding stream (HB) that has nothing real to show for it in terms of

supply of permanent affordable housing. Was designed for Growth Areas where large scale residential development is occurring.

EA: Investors would be attracted if Westminster was part of a larger portfolio.

MY: problem with section 106 obligations is their perpetuity. Model schemes can provide over 15-20 years with purely private finance, but with a bonus at the end of the term. The housing problem we have today is not necessarily one we will have in the future, yet we are seeking solutions in perpetuity and as a result developing fewer homes.

NE: confirmed that this was a problem for landholders who are seeking to retain an interest in the land.

MY felt a 15-20 year model would work for intermediate tenures, but probably not for social housing, whereas Westminster will need a stock of social housing.

KB: uneasy about too much perpetuity, but if we start from this point then can always compromise if we find it is not needed, whereas it is not possible to move the other way.

AH: raised the issue of “tenancies for life” in the social sector and whether people needed this lifetime support.

NE: would welcome a session on this.

MY: interested in the first base model which has a “flawed lease”. There are many open market homes that are sold with conditions attached, and as a result sell for a discount on market value. This should be looked at as a way into the intermediate market.

EA: advantage of this is that rent is not charged on the discounted portion, so it's truly affordable in comparison with traditional shared ownership schemes.

NE: problem with many shared ownership models is that they don't work in private finance terms if rent isn't paid on the unowned portion

RB: asked for suggestions for what DTZ could focus on to complete their work.

MY suggested DTZ should look further at the English Partnerships first time buyer scheme. A worry for many is that in large, dense developments there are no owner-occupiers; just social renters and properties bought for investment and let on private market. Nobody takes ownership of the public realm, and there are serious social and service charge issues arising from high density developments.

NE raised a point about whether this wasn't a housing management issue rather than one of property ownership. With responsible landlords, problems like this should not arise.

Jsocha: Landlords need to take responsibility and select suitable tenants for properties, not just focus on getting their rental income. Problems really do arise where there are very few owner-occupiers in a development.

NE asked how this can be controlled. Do we say who can buy a particular property?

MY: Can control by not selling off-plan to overseas investors for example. First time buyers initiative levels the playing field by giving them a shout at these properties. If EP can say they will promote a number of units to first time buyers, that's a forward sale and cash flow. Owner-occupiers won't put money up front.

AH covered branding issues for the Commission's identity.

Item 6. Consultation strands

Commissioners offered to lead the following consultation strands:

1. Employers' needs (Sarah-Jane Curtis / Kate Barker)
2. Consumer perspective (Chris Hamnett / Jeremy Swain)
3. Sustainability agenda (Sir Terry Farrell / Kelvin MacDonald)

Next Meeting:

Monday, 27th February 2006
Quintain, 16 Grosvenor Street, W1K 4QF