The Rt Hon Rachel Reeves MP, Chancellor of the Exchequer
HM Treasury

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Dear Chancellor,

As you may know, BusinessLDN speaks for over 170 leading businesses in London, spanning a wide range of economic sectors. The G15 is the collective voice for the capital's largest not-for-profit housing associations, providing an affordable home for one in 10 Londoners.

Together, we fully support the Government's ambitions to increase growth the length and breadth of the UK. Backing London as an engine of the UK economy is critical to achieving this growth mission. London is responsible for almost a quarter of the UK's GDP and over a fifth of the UK's total tax revenues. It acts as the gateway for investment to the UK and its supply chains support jobs and growth throughout the country.

But despite its many successes, a quarter of Londoners live in poverty driven by high private housing costs. Housing costs have consistently outpaced wages, with private renters in London now spending between 40 and 50 per cent of their income on rent. This makes London fundamentally unaffordable for many individuals and families who would otherwise choose to stay, work, and contribute to the city and the nation.

At the other end of the market, the average social rent for a two-bedroom home in London is £147 per week (£637 per month) providing a safety net for individuals and families who cannot afford market rents in the capital. However, this is significantly below the Government's target social rent level which is set by the Regulator of Social Housing.

Target social rents offer a substantial discount to market rents and significant savings for the taxpayer. In London last year, the monthly target social rent for a two-bedroom home was £676 per month, and for a three-bedroom it was just under £760 a month. The social sector is underfunded to the extent that fewer than 10% of London's social homes collect rent at these target levels, with the shortfall hitting housing investment and new supply.

As social housing providers, G15 members are ambitious to deliver and strongly welcome the Government's commitment to tackling the housing supply crisis in London. But to achieve this, and to ensure the Government's affordable homes funding is successful, action is needed to bring rents up to the target social rent level over time. Without fair, affordable rents and an appropriate level of income to invest, not for profit landlords will not be able to deliver additional new homes quickly.

Rent convergence – an often overlooked but vital intervention in the context of our housing crisis – was introduced by the Labour Government in 2002 to ensure that those living in different types of social housing in the same area paid similar rents. The policy meant fairness for both tenants and providers, enabling significant reinvestment by social landlords. It's withdrawal in 2015 removed £16,6bn in rental income from the social sector at a time when costs were rising significantly year on year. The subsequent four years of 1% rent reductions fundamentally weakened the sector's financial capacity, which has contributed to the housing challenges we see in London today.

A modest rent increase of £3 a week in the social sector would enable G15 members and other not-for-profit housing associations to work with the Mayor of London and the private sector to accelerate the delivery of new affordable homes in this parliament. It would keep rents extremely affordable whilst creating a foundation for national growth though housebuilding in the capital.

As in the private rented sector, some people in social housing rely on benefits to pay their rent, so the reintroduction of convergence does come at a cost to the exchequer. However, the additional social homes built from £3 a week convergence will offset welfare spending over the 10-year settlement, as more residents move from more expensive private rented housing into lower rent social homes. The impact of convergence on welfare spending will be limited to increasing costs by 0.4% on average by 2029/30 whilst unlocking billions of pounds for building.

This necessary change would underpin and support the opportunities that London provides to the government's policy agenda, including the two potential new towns identified in the city. We recognise the upcoming Budget will involve tough choices given the challenging economic outlook. But through reasonable, cost-effective action to support London's social sector rents, the Government can help the public, private and social sectors accelerate much needed housebuilding in the capital together.

Please let us know if there is any further information we can provide, and we would welcome the opportunity to discuss this further with officials ahead of the Budget.

Yours sincerely

John Dickie,
CEO Business LDN

Ian McDermott
Chair of G15 and CEO Peabody