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The Rt Hon George Osborne MP
Chancellor of the Exchequer
HM Treasury
1 Horse Guards Road
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5 November 2015

Dear Chancellor,

<u>Mortgage tax relief, easing the housing crisis and investment in London</u>

I am writing ahead of the Spending Review to propose urgent action on social housing investment in London, and to urge you to support further investment and further powers for London to build a more sustainable economy.

New affordable housing and how it can be funded

I welcomed the exclusion of the higher income tax band from mortgage interest tax relief for landlords when you announced this as part of the Government's budget in July. This showed that you appreciate the extent to which subsidy of landlord and rental profits is a perverse use of public funds.

There remains some dispute as to whether mortgage interest is a genuine business expense or an investment expense – I believe it is the latter, and that it shouldn't qualify for tax relief. Private landlords hold an appreciating asset while, at the same time, charging rent that generally exceeds mortgage costs. The landlord's business is therefore based around rental income, while the mortgage and property is an investment for capital gain.

As the ONS showed last week, rents are now rising in London at a rate that far exceeds wage increases.[i] London First has also highlighted the growing lack of affordability of private rents in London, releasing figures last month that showed a care worker needs to spend 113 per cent of their income in order to rent a flat alone, while customer service workers are left spending 79 per cent of their salaries and lawyers and teachers nearly half. None of these rent:salary ratios are remotely affordable by any definition.

Research among London First's business members showed that 75 per cent were concerned about the impact of housing costs on their ability to recruit and retain staff.[ii] I fully support their call, along with London Councils,[iii] to scrap restrictions on borough Housing Revenue Accounts that prevent them borrowing within prudential limits to fund new social housing.

But further support for social housing is necessary, and closing the gap between wages and living costs for London's essential workers cannot be compatible with continuing to subsidise an inflating asset market that traps many in rented accommodation, facing rising costs that will eventually drive them out of London. I rent privately myself and each recent rent rise has prompted me to reconsider whether this city can continue to be my home.

I therefore urge you to go further to help increase the supply of social housing, by abolishing mortgage tax relief for landlords and using the savings to help increase the supply of housing for the essential but low-waged workers highlighted by London First.

Figures to support this change are given below, and show approximately how much could be made available to restore the level of GLA/Homes and Communities Agency (HCA) grant for new social rented homes.

The provision of new affordable homes, even where planning agreements have been made, is currently at risk from cuts to these grants. In my own borough of Camden, the vast Kings Cross Central development has recently been allowed to cut social housing provision in the second phase, and the developers say that this is entirely due to housing associations and other registered social housing providers being unable to meet the terms of transfer in the original Section 106 agreement because of a reduction in grants available.

This scheme is potentially a sign of much worse to come. With many other Section 106 agreements city-wide depending upon affordable housing provision being taken up by housing associations, and grants reduced from around £140,000 per dwelling to less than £40,000 on average.

Using the proceeds from the cut in tax relief for landlords to restore the level of grant available will make a real difference to the viability of new social housing in cases like Kings Cross Central and could provide 16,000 additional truly affordable homes over the period of the next Mayoralty. I urge you to consider this measure and how it could go a long way to helping ensure that the workers London depends upon can afford to stay in the city.

Investment in London transport

In brief, I urge you to support sustainable investment in London rather than schemes that will encourage and entrench car dependence and lead to increased traffic.

I am very concerned that new road capacity in the form of road crossings of the Thames and tunnels for roads across the city is the focus of too many infrastructure plans for London. New and wider roads have not achieved their goals in the London area for many years. Data since the 1960s show that where new roads are built their potential to create new demand for car and van journeys is greatest in urban areas like our city.

With the growing public health crisis of air pollution, and the emerging evidence that cars are not reducing their emissions at anything like the rates promised, any road expansion in London must be reconsidered as part of your review of spending.

The priority should be for investment in transport modes that move people (not just vehicles) around the city most efficiently and cleanly. This will also reinforce the positive long-term trend since the 1990s for Londoners to drive less per year per person. I also hope that funding for walking and cycling in London can be given additional funding through the new Cycling and Walking Investment Strategy and that an announcement on this will form part of your review.

The local economy and devolution

London has a mature structure of regional governance in the Mayor and the London Assembly. We are a good example of success and a model for recent Government initiatives including new city mayors, combined authorities and the Northern Powerhouse and Midlands Engine investment plans. Successfully managed projects such as Crossrail and the London Overground show the effectiveness of running transport in an accountable democratic way at a regional level, and we are now seeking control of further rail services.

We are unfortunately much less of a model of success in our support for small businesses, with many small and medium enterprises now facing as much of a squeeze in London accommodation costs as their workers do in housing. This was already a problem under an overheated housing market, and has been made worse by permitted development rights introduced recently.

Both these issues could be addressed if the Government were to place more trust and responsibility in London's governance when devolving spending and decision-making powers.

Specifically, I urge you and other ministers to consider devolving the following to the Mayor and City Hall:

- Retention of a much higher proportion of business rates by London – ideally 100 per cent - to be used to support the SME business sector and new green industries and jobs
- Control regionally and locally over local business rate and council tax reliefs and premiums, including for empty residential and business properties
- The power to make any Article 4 directions on permitted development to protect office and industrial workspace capacity in line with the policies in the London Plan
- Allowing local councils to opt in or out of permitted development rights for conversion of office to residential space, according to local circumstances and needs
- All suburban rail services to be devolved to Transport for London, as recently recommended by the London Assembly. A survey conducted by the Assembly found 68 per cent of residents support this proposal[iv]
- The power to define a legal minimum wage within the city at the true living wage rate for London
- The power to regulate landlords and cap private sector rent rises within and between tenancies
- For any money raised in London from Right to Buy and its extension to housing associations, and from the sale of high value council homes, to be retained for reinvestment in new homes

I would be happy to discuss any of these issues further with your officials, either before the Spending Review or before the elections in May.

Yours sincerely,

Sian Berry
Green Party candidate for Mayor of London

Notes on mortgage interest tax relief and the potential to help relieve the housing crisis in London:

Landlords can claim tax relief against a range of allowances. One of them is mortgage interest relief. In the summer budget the Chancellor took the positive move of restricting tax relief to the basic rate of income tax, phased in over 4 years, so higher rate taxpayers can only claim 20 per cent rather than 40 per cent of the expenses.

In a recent Freedom of Information response from HMRC,[v] we obtained figures that show landlords claimed £6.555 billion of mortgage interest expenses out of a total of £15.745 billion in expenses in 2013/14.

If landlords claim tax relief against this mortgage interest, and assuming they would all have paid 20 per cent tax at the new rate (for a conservative estimate), this represents a loss to the exchequer of £1.311 billion in that year, which could be recouped by removing the tax relief on mortgage interest.

To calculate how much of the national total of recouped funds should be devolved to London for use in housing grants, we can look at figures from the English Housing Survey [vi] and see that 30 per cent of private renters are in London.

We therefore argue that 30 per cent of the recovered tax relief should come to London, boosting the affordable housing budget by £0.393 billion a year, or £1.58 billion from 2016/17 to 2019/20 – enough to restore the grant level for an extra 16,000 social rented homes.

This would be an 82 per cent increase on the 2015-18 GLA/HCA budget for supporting affordable housing in London (there is not yet an agreed budget after 2018).[vii]

References:

[i] ONS Index of Private Housing Rental Prices, July to September 2015 resultshttp://www.ons.gov.uk/ons/rel/hpi/index-of-private-housing-rental-prices/july-to-september-2015-results/index.html

[ii] http://londonfirst.co.uk/our-focus/londons-housing/london-first-members-housing-survey/

[iii] London Councils Spending Review 2015 Submission to HM Treasury http://www.londoncouncils.gov.uk/our-key-themes/local-government-finance/government-spending-plans/spending-review-2015

[iv] London Assembly report http://london.gov.uk/media/assembly-press-releases/2015/10/should-tfl-run-our-rails

[v] https://www.whatdotheyknow.com/request/274997/response/723016/attach/3/2593%20TChance.pdf

[vi] English Housing Survey, Annex Table 1.2 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/469214/2013-14_Section_1_Households_tables_and_figures_FINAL.xlsx

[vii] http://questions.london.gov.uk/QuestionSearch/searchclient/questions/question_273470