



FUTURES  
STEERING  
BOARD

THE FUTURE OF HOUSING IN SOUTHWARK  
JUNE 2013 – FINAL REPORT



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## 1. Executive Summary

- 1.1. The Futures Steering Board (FSB) was set up in February 2013 to oversee Southwark Council's borough-wide consultation about the future of housing. The FSB was made up of tenant and leaseholder representatives, and was supported throughout the review process by Solon Community Network.
- 1.2. The FSB met 12 times over four months. The original remit of the group was to act as a quality assurance panel for the council's wider consultation, but this was changed after 4 meetings, enabling the FSB to focus instead on its own conclusions and recommendations to the council.
- 1.3. The Southwark Housing Commission report, published in October 2012, outlined a huge array of challenges for the housing sector in Southwark, and formed the basis for Southwark's consultation. The FSB also used the findings and challenges presented within the report as a starting point for its own review and recommendations.
- 1.4. The FSB agrees with the council's plans to build 1,000 homes in the borough, although is concerned that proposed timeframe of building them by 2020 may result in a net loss of homes for social rent, as combined disposals and right to buy sales could outstrip the number of new homes created. The FSB therefore urges the council to complete the new homes as quickly as possible. The FSB believes that the council can completely self-finance the build using a range of income sources including community infrastructure levies, bond issuance, and receipts from sales of new and old homes. Surpluses from the first cycle of home-building could then be ploughed into a second cycle, and the process could be repeated indefinitely.
- 1.5. The FSB undertook its own research into the potential cost of building new homes, as well as the potential sale price the council could achieve for new builds. Within this report three scenarios are considered using different prices for building and selling homes. While all of the scenarios are viable, the more income the council can generate by lowering build costs/increasing sales prices/increasing the number of voids sold, the more capital it will have to build and improve homes.
- 1.6. The modelling undertaken by the FSB assumed that homes built for rent would be let at social – not affordable – rent levels. The FSB felt strongly that given the low level of median incomes in the borough for both council tenants and residents in general, and the high average market rents, affordable rents set at 65% or even 80% of market rates would be too high for those on the waiting list.

- 1.7. The FSB also considered a range of options for the council to supplement its income in order to allow it to kick-start a major house building programme. Of all the options considered, the FSB suggests bond issuance, selling off voids that meet certain criteria, and building more hidden homes are likely to be the best approach.
- 1.8. The FSB's recommendations to the council around council housing should be for and allocations include: maintaining lifetime tenancies; not introducing income or savings thresholds; considering carefully but not automatically penalising those with poor tenancy records; and some priority for ex-servicemen and women.
- 1.9. The FSB felt that the main issue in terms of housing management is recruiting and retain the right staff to run a professional and personal service for residents. In particular, the FSB recommends the council set up a specialist team to oversee its new building programme. The team would be able to pull together all of the contingent parts of the council that are needed, would have sufficient authority to "get things done", and would have the sole purpose of building homes.
- 1.10. The FSB has made a series of recommendations to the council based on their findings. Above all, the recommendation to self-finance 1,000 new homes while ensuring that the overall level of rented stock is at least maintained is the most important. The FSB is aware of the scale of the challenge, and is keen to continue working with the council to explore the detail of how this ambition can be realised.

## 2. Scope

- 2.1. In February 2013 Southwark Council residents appointed Solon Community Network to support a newly established group of Southwark's tenants and leaseholders – the Futures Steering Board (FSB) – who had been brought together to oversee Southwark's borough-wide community consultation exercise. The FSB was originally made up of five tenants from Southwark's Tenant Council, and four leaseholders from the Home Owner Council. During the course of the programme, one tenant and one leaseholder withdrew from participation. Full details of the members of the Futures Steering Board can be found at appendix 2.
- 2.2. Over the course of four months, from mid-February to mid-June 2013, the FSB met 12 times. During the course of the programme, the remit of the FSB changed.
- 2.3. The FSB's original remit in February 2013 was to:
  - act as a consultative board for residents (tenants and leaseholders in council properties);

- ensure tenants and leaseholders had a strong voice in the consultation;
  - provide a quality assurance role for the broader consultation; and,
  - ensure the consultation had a broad reach.
- 2.4. Following some discussion within the FSB about members' desired outcomes from their participation, and based on conversations held with senior Southwark officers and councillors at the end of 2012, the FSB changed its remit in April. Its new agreed remit was to submit its own response to Southwark's consultation, and make its own recommendations on how the borough should respond to its housing challenges. It was intended that the FSB's report would be considered alongside the report from the borough-wide consultation, to allow the Cabinet to consider a wide range of perspectives.
- 2.5. Under its new remit, the FSB considered a range of strategic housing areas, including:
- who council housing should be for;
  - how much council housing there should be in the borough;
  - how Southwark's housing should be managed; and
  - strategic financial options.
- 2.6. Given the relatively short timescale in which to consider such broad, strategic areas, the FSB agreed that the principle output from its programme of meetings would be a short report detailing its position and recommendations. The group agreed that if the basic premise of the report was accepted, and broadly chimed with feedback from the broader consultation, then further detailed work would be needed to work up an approach and action plan for the council, as well as further consultation.
- 2.7. The FSB decided that one of its principal objectives for the programme would be to find ways for the council to create new homes to be let at "social rent" (i.e. around 40% of market rent) levels, rather than "affordable rent". Members expressed deep concern that any move towards "affordable rent" (i.e. rents at around 65% and theoretically up to 80% of market levels) in Southwark would be unaffordable for the majority of those residents living in Southwark's council housing or on its waiting list.
- 2.8. The group also acknowledged that for Southwark to be able to build in an environment of low/no grant, it would have to become more commercially minded to raise the requisite finance.

### 3. Methodology

3.1. Over the course of the programme, the FSB met 12 times – 8 times under the “new remit” and 4 under the initial one. At each meeting the FSB looked at a number of strategic housing areas, as well as keeping abreast of Southwark’s concurrent borough-wide consultation exercise. The seven areas discussed under the new remit were:

9<sup>th</sup> April: Capital Income Generation (a report from 2009), including “Hidden Homes”

23<sup>rd</sup> April: allocations policy and “who should council housing be for?”

14<sup>th</sup> May: “how much council housing should there be?” and how should it be paid for?

21<sup>st</sup> May: “how should council housing be managed?”

4<sup>th</sup> June: an update on the broader consultation and how it relates to the FSB’s work

11<sup>th</sup> June: agreeing the outline report

18<sup>th</sup> June: agreeing the final report

25<sup>th</sup> June: final edits to report and planning for deputation to Cabinet

3.2. The meetings acted a series of workshops in which members of the FSB analysed information and formed a consensus view on key issues.

3.3. The range of documents referred due during the workshops is listed at appendix 1.

### 4. Context/background

4.1. In late 2011, Southwark Council commissioned a full independent strategic review of its housing options for the future. Southwark’s Housing Commission, chaired by housing lawyer and expert Jan Luba QC, worked from January to October 2012 to explore Southwark’s options in terms of finance, ownership, operations and investment strategy.

4.2. The review identified that Southwark faces a “worsening housing crisis, with demand for affordable homes continuing to far exceed supply”.<sup>1</sup> Future challenges facing Southwark identified within the report include: population growth; an ageing population; growth in the private rented sector; welfare reform; increases in right to buy sales; a relatively inefficient repairs service; huge costs to improve sub Decent Homes standards across one-third of the stock; and, the quality of a large percentage of the stock declining faster than it can be repaired.

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<sup>1</sup> Southwark Housing Commission, 2012, *investing in council housing: options for the future*, p11.

- 4.3. The review also identified that the recent introduction of self-finance for local authority housing presented a tremendous opportunity for the council to make “a fresh start and reset the relationship between the council and its tenants and leaseholders.”<sup>2</sup>
- 4.4. The Commission identified three potential investment scenarios for Southwark over a thirty-year period. First, a slow and steady decline from its current level of 39,000 (tenanted) homes down to 30,000, allowing the council to improve its retained stock and build up a sizeable surplus. Second, maintain the stock at around 39,000 homes, requiring significant investment to both improve existing homes as well as build new ones. Third, a managed reduction to 20,000 homes which would allow Southwark to build up a significant surplus to invest in its retained home and use to work with partners to develop housing through other channels.<sup>3</sup>
- 4.5. The FSB members felt neither of the reduction options would help alleviate Southwark’s housing crisis, unless surpluses were ploughed into the provision of social housing via other providers, such as housing associations. Even then, FSB members would wish to seek assurances that any new housing built for social rent would be let at around 40% of market rent levels, rather than the affordable rent levels of around 65% of market that have been available since 2011, given the low levels of income in the borough, especially among council tenants.

## **5. How much council housing should there be, and how should it be paid for?**

- 5.1. The Commission highlighted the extent of the housing crisis Southwark faces at present, driven by population growth of 27% from 1976 to 2011 (226,000 to 287,000),<sup>4</sup> and more than 20,000 households on the housing register. While Southwark’s waiting list is not as long as other London boroughs, it has increased by more than 40% in the last six years, and without action is likely to keep lengthening.
- 5.2. The options for those on the waiting list are limited. The average house price in Southwark during the fourth quarter of 2012/2013 was £388,714, down 0.5% on house prices in the same quarter of the preceding year.<sup>5</sup>

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<sup>2</sup> Ibid., p52.

<sup>3</sup> Ibid., pp56-61.

<sup>4</sup> Ibid., p.34

<sup>5</sup> BBC website, [http://news.bbc.co.uk/1/shared/spl/hi/in\\_depth/uk\\_house\\_prices/html/be.stm](http://news.bbc.co.uk/1/shared/spl/hi/in_depth/uk_house_prices/html/be.stm)

- 5.3. Options for living in private rented accommodation are not much better. In April 2012, the median advertised monthly rent for a two-bedroom flat in the borough was £1,826, with the lower quartile price at £1,435.<sup>6</sup>
- 5.4. Contrasted with median income levels of £9,100 for council tenants in Southwark, and £16,800 for residents overall, the prospect of either owning a property or living in the private rented sector seems poor for the majority of Southwark's residents.<sup>7</sup>
- 5.5. Given this context, the FSB felt strongly that Southwark Council should seek to retain current council stock levels, or if possible, increase them. FSB members felt that the only sure way to continue to provide housing for rent at social rent levels would be for the council to own and manage the stock itself.
- 5.6. Members acknowledged, however, that the council is likely to continue to work with housing association partners in order to meet its overall target of 8,558 net new affordable homes between 2011 and 2026 (set out in the borough's Core Strategy), and 20,050 net new homes from 2011-2021 (set out in the London Plan). FSB members felt that Southwark should use its leverage as a landholder and planning body to insist that housing associations create new homes to be let at social rent levels – not affordable rent levels – for reasons already outlined in this report.
- 5.7. The FSB supports the council's ambition to build 1,000 new homes.<sup>8</sup> However, the FSB has concerns that by 2020, the year by which the 1,000 new homes are pledged to be built by, Southwark may have sold more homes (though void sales and right to buy) than it will have built. The FSB therefore urges the council to look at reducing the timescale.
- 5.8. Following on from the initial cycle of 1,000 new homes, the FSB believes the council should be able to recycle capital receipts into a second round of home-building, and from that round a further cycle, and so on. The FSB believes that the council would be able to learn lessons from the first round and apply them to future rounds to both cut down on costs and the time taken to build new homes.

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<sup>6</sup> Southwark Council, February 2013, *Southwark key housing data 2012/2013*, p6.

<sup>7</sup> *Ibid.*, p32 & 2.

<sup>8</sup> [http://www.southwark.gov.uk/news/article/762/southwark\\_announces\\_building\\_of\\_1000\\_new\\_council\\_homes](http://www.southwark.gov.uk/news/article/762/southwark_announces_building_of_1000_new_council_homes)



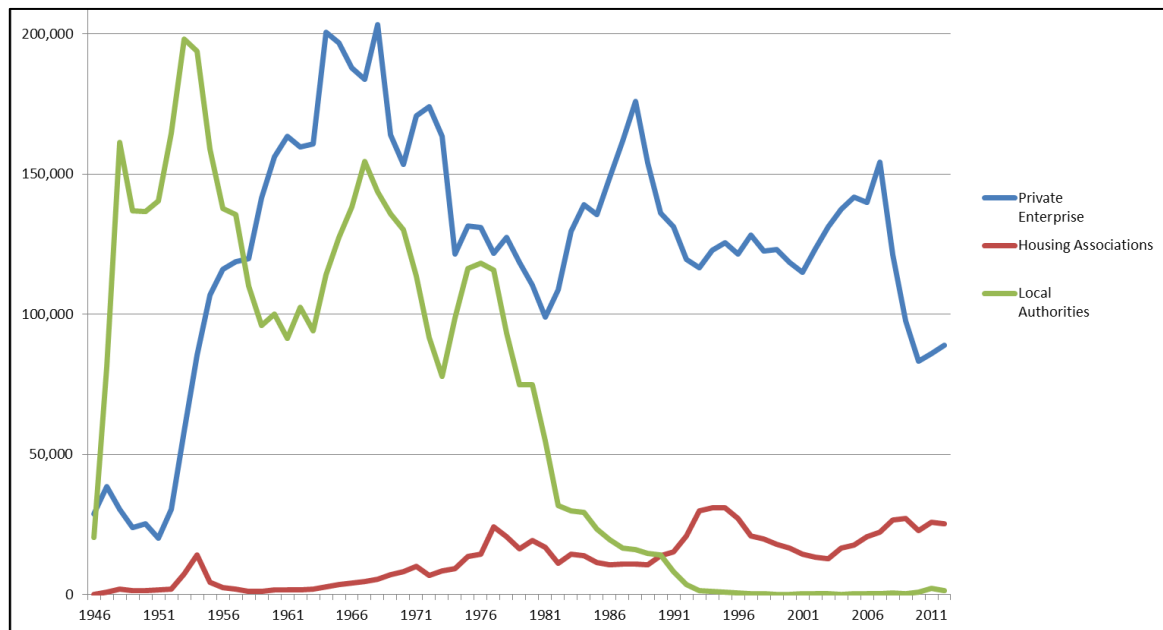
## 6. Southwark Council: developing new homes

### Background

- 6.1. Over the last 20 years, the level of council house building nationally has been very low, although the last two years have seen an increase to around 1,500 per year. As figure 1 shows, council home completions in the early 1950s were close to 200,000 per year, but since the early 1990s have been minimal.

Figure 1. Permanent dwellings completed by tenure, 1946-2012

Source: DCLG live tables 244



- 6.2. Since 2003, local authorities have had greater flexibility to borrow or raise money to access finance for development/improvement work through prudential borrowing. However, the amount they can borrow is still controlled by central government. The new self-financing scheme introduced in April 2012 allows local authorities to keep their own rents and service charges and borrow money against future rental income. However, the government still sets the limit, in the form of a cap, on the amount that can be borrowed.

### Raising finance – how much would the council need?

- 6.3. In October 2012, Southwark's Cabinet considered a paper looking at directly funded housing delivery. The paper referred to the council's stated aim of building 1,000 homes by 2020, and set out the proposed phase 1 sites for the first 286 homes. Grant Thornton advised the council that its programme of 1,000 new homes would cost

somewhere between £131 and £153 million, with an approximate build cost of £160,000 per new home, and an average sales value of £280,000 per unit.<sup>9</sup>

- 6.4. The Housing Commission estimated that the average build cost of new homes in the borough would be £168,000.<sup>10</sup> The Commission’s figures suggest the council would need £168m to build 1,000 new homes, although that figure includes a sum of £56,000 per unit for infrastructure costs, which may not be needed for units built in spaces where pre-existing infrastructure was already in place, such as some sites for hidden homes.
- 6.5. The FSB undertook research into the cost of new builds in different parts of the country to try and find some further data. The FSB found detailed costing for two sites in central London, the average unit cost of Southwark’s hidden homes programme in 2011, several sites in Scotland, and two further sites outside of London. The FSB found a wide variation in average new build costs per unit, as the table below shows.

Table 1: A spread of average new build unit costs<sup>11</sup>

Location	Average new build cost per unit
Central London 1 – Camden (Holly Lodge)	£138, 291
Central London 2 – undisclosed location	£156,000
Southwark Hidden Homes costs 2011	£102,000
Stroud District Council cost of 2-bedroom to Sustainable Code 4	£115,000
Aylesbury estate estimated cost	£160,000
Canterbury City Council	£99,510
Scotland average across five sites	£70,500
<b>Average across all sites</b>	<b>£120,200</b>

- 6.6. Within these data there are a number of variants such as the size of the schemes, the size and type of home, and of course the location.
- 6.7. FSB members decided to look at a range of different scenarios to look at the different impact different build prices would have to the overall viability or profitability of a scheme. Some of the scenarios are set out in tables 2 and 3.

<sup>9</sup> Southwark Council Cabinet report, 23<sup>rd</sup> October 2012, *Directly Funded Housing Delivery*, <http://modern.gov.southwark.gov.uk/documents/s32665/Report%20Directly%20Funded%20Housing%20Delivery.pdf>

<sup>10</sup> Southwark Housing Commission, op. cit., p58.

<sup>11</sup> Data drawn from desktop research. The data for “central London 2” were not sourced from the public domain but could be made available for viewing if required.

## How many to rent, how many to sell?

- 6.8. The FSB's principle goal, agreed by its members from the outset, was for the council to embark on a programme of home building that would at very least maintain, and ideally increase the overall supply of homes for social rent in the borough, as well as increasing the overall supply of all types of housing.
- 6.9. Southwark's Core strategy policy 6 outlines that any new development in the borough with ten or more units must have a minimum of 35% affordable housing. Within that 35%, different areas in the borough have different targets for social and intermediate products.
- 6.10. The FSB decided to explore the idea of building new developments with a higher percentage of homes for social rent: i.e. around 65%, with the remaining 35% sold outright to provide capital receipts to cross-subsidise social rented units. However, the scenarios looked at are also presented here with ratios of (rent/sale) 60%/40% and 70%/30% in order to illustrate that there are options to raise more or less capital.
- 6.11. Tables 2 and 3 show three different scenarios – A, B and C. All of the scenarios follow certain assumptions:
- Building the first 1,000 homes will take until 2020, as set out by the council.
  - An average sale price for new units of £280,000, based on advice given to Cabinet in October 2012. Compared with an average sale price across the borough for flats of £320,869 and £388,714 for all homes in Q4 of 2012/2013<sup>12</sup>, this price seems achievable.
  - Income from community infrastructure levies of £44,500,000 is included in the models as it is assumed this money would be used up-front.
  - Income from voids based on an assumption of generating an income of around £250,000 per void, based on data supplied by Southwark Council to the FSB (see 7.16.).
  - An assumption that over the course of the programme the council sells around 480 homes<sup>13</sup> through right to buy (around 80 per year), and that this generates around £21,000,000 in receipts.<sup>14</sup>
  - Only known income is included within the calculations – any additional income raised through bonds, loans or via any other means is omitted.

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<sup>12</sup> [http://news.bbc.co.uk/1/shared/spl/hi/in\\_depth/uk\\_house\\_prices/html/be.stm](http://news.bbc.co.uk/1/shared/spl/hi/in_depth/uk_house_prices/html/be.stm)

<sup>13</sup> This figure is based on data drawn from DCLG live table 691, showing the following figures for RTB sales in 2012/2013; Q1 – 7, Q2 – 15, Q3 – 23, which totals 45 for the first 3 quarters of the year. The FSB has therefore assumed 35 sales for the final quarter, totalling 80 for the year, and 480 over 6 years.

<sup>14</sup> *Directly Funded Housing Delivery*, op cit., p15.

- Each scenario is presented within three potential options – the sale ratio at 35%, 40% and 30%.
- Models are based on current prices, and are not adjusted for inflation.

### **Scenario A**

6.12. This scenario simply uses average build (£160,000 per unit) and sales (£280,000 per unit) figures set out in the October 2012 paper to Cabinet.

### **Scenario B**

6.13. This scenario assumes that of 1,000 new homes built, 700 are built at a cost of £160,000 per unit, as per scenario A, but the remaining 300 homes are built as “hidden homes” at an average cost of £102,000 per unit, bringing the average build cost per unit down to £142,000.

### **Scenario C**

6.14. This scenario is the “challenge” scenario considered to see what could happen if build costs were reduced to a low figure of £120,000 per unit. The data looked at by the FSB suggest £120,000 might be achievable, as outlined in Table 1. It is noted, however, that the lower build cost figures are generally taken from sites outside London, where build costs tend to be cheaper.

6.15. In table 2, the models are all set to show no net loss or gain in social rented homes. In order to achieve that, the number of void sales would have to be restricted to a fairly low rate to allow for around 80 right to buy sales per year. All scenarios within each ratio option show a profit ranging from around £45m to £85m to re-invest.

6.16. In table 3, the models are based on making each scenario, A, B and C, regardless of the rent/sale ratio “zero-cost” – where the overall receipts through sales of new homes and sales of old homes equal the build cost of the new homes. Each scenario generates a profit of £65.5m to re-invest, but scenario A in each ratio option would lead to a small net loss in the number of homes available for social rent, whereas scenario C in each option shows a net gain.

6.17. The FSB presents these indicative figures knowing that they are subject to a number of variables, including the health of the housing market. If right to buy figures returned to those seen in Southwark from 2003-5, for example, when more than 3,000 homes were sold in two years, the council would have to build far more extensively to retain current social rented stock levels.

Table 2: no net gain/loss in social rented homes – build programme 2014-2020

	65%/35%			60%/40%			70%/30%		
	A	B	C	A	B	C	A	B	C
Av. build cost per unit	£160,000	£142,000	£120,000	£160,000	£142,000	£120,000	£160,000	£142,000	£120,000
Av. sale price per new unit	£280,000	£280,000	£280,000	£280,000	£280,000	£280,000	£280,000	£280,000	£280,000
Av. sale price per void unit	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000
No. of homes	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
% homes sold	35%	35%	35%	40%	40%	40%	30%	30%	30%
Build cost	-£160,000,000	-£142,000,000	-£120,000,000	-£160,000,000	-£142,000,000	-£120,000,000	-£160,000,000	-£142,000,000	-£120,000,000
Sales receipts	£98,000,000	£98,000,000	£98,000,000	£112,000,000	£112,000,000	£112,000,000	£84,000,000	£84,000,000	£84,000,000
Surplus/loss on build	-£62,000,000	-£44,000,000	-£22,000,000	-£48,000,000	-£30,000,000	-£8,000,000	-£76,000,000	-£58,000,000	-£36,000,000
CIL income	£44,500,000	£44,500,000	£44,500,000	£44,500,000	£44,500,000	£44,500,000	£44,500,000	£44,500,000	£44,500,000
Sale of voids	£42,500,000	£42,500,000	£42,500,000	£30,000,000	£30,000,000	£30,000,000	£55,000,000	£55,000,000	£55,000,000
Receipts from RTB	£21,000,000	£21,000,000	£21,000,000	£21,000,000	£21,000,000	£21,000,000	£21,000,000	£21,000,000	£21,000,000
Balance	<b>£46,000,000</b>	<b>£64,000,000</b>	<b>£86,000,000</b>	<b>£47,500,000</b>	<b>£65,500,000</b>	<b>£87,500,000</b>	<b>£44,500,000</b>	<b>£62,500,000</b>	<b>£84,500,000</b>
Total homes built	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
New homes sold	350	350	350	400	400	400	300	300	300
Homes for rent built	650	650	650	600	600	600	700	700	700
Void homes sold	170	170	170	120	120	120	220	220	220
Homes sold through RTB	480	480	480	480	480	480	480	480	480
Total new homes for social rent	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**Table 3: three scenarios adjusted to be “zero cost” developments (including void sales receipts) – variable void income – build programme 2014-2020**

	65%/35%			60%/40%			70%/30%		
	A	B	C	A	B	C	A	B	C
<b>Av. build cost per unit</b>	£160,000	£142,000	£120,000	£160,000	£142,000	£120,000	£160,000	£142,000	£120,000
<b>Av. sale price per new unit</b>	£280,000	£280,000	£280,000	£280,000	£280,000	£280,000	£280,000	£280,000	£280,000
<b>Av. sale price per void unit</b>	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000	£250,000
<b>No. of homes</b>	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
<b>% homes sold</b>	35%	35%	35%	40%	40%	40%	30%	30%	30%
<b>Build cost</b>	-£160,000,000	-£142,000,000	-£120,000,000	-£160,000,000	-£142,000,000	-£120,000,000	-£160,000,000	-£142,000,000	-£120,000,000
<b>Sales receipts</b>	£98,000,000	£98,000,000	£98,000,000	£112,000,000	£112,000,000	£112,000,000	£84,000,000	£84,000,000	£84,000,000
<b>Void sales receipts</b>	£62,000,000	£44,000,000	£22,000,000	£48,000,000	£30,000,000	£8,000,000	£76,000,000	£58,000,000	£36,000,000
<b>Surplus/loss on build + void sales</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>
<b>CIL income</b>	£44,500,000	£44,500,000	£44,500,000	£44,500,000	£44,500,000	£44,500,000	£44,500,000	£44,500,000	£44,500,000
<b>Receipts from RTB</b>	£21,000,000	£21,000,000	£21,000,000	£21,000,000	£21,000,000	£21,000,000	£21,000,000	£21,000,000	£21,000,000
<b>Balance</b>	<b>£65,500,000</b>	<b>£65,500,000</b>	<b>£65,500,000</b>	<b>£65,500,000</b>	<b>£65,500,000</b>	<b>£65,500,000</b>	<b>£65,500,000</b>	<b>£65,500,000</b>	<b>£65,500,000</b>
<b>Total homes built</b>	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
<b>New homes sold</b>	350	350	350	400	400	400	300	300	300
<b>Homes for rent built</b>	650	650	650	600	600	600	700	700	700
<b>Void homes sold</b>	<b>248</b>	<b>176</b>	<b>88</b>	<b>192</b>	<b>120</b>	<b>32</b>	<b>304</b>	<b>232</b>	<b>144</b>
<b>Homes sold through RTB</b>	480	480	480	480	480	480	480	480	480
<b>Total new homes for social rent</b>	<b>-78</b>	<b>-6</b>	<b>82</b>	<b>-72</b>	<b>0</b>	<b>88</b>	<b>-84</b>	<b>-12</b>	<b>76</b>

## 7. Options for the council to raise finance for new builds

- 7.1. In an era of low/no grant for building council/social homes, the FSB believes the council should aim to completely self-finance its programme of 1,000 homes, and generate sufficient income from the sale of both new and old homes and the end of the cycle to be able to start immediately on a further cycle of 1,000 homes.
- 7.2. Even if the council is able to build 1,000 new homes at a net “zero cost”, a substantial amount of up-front funding to kickstart the programme is needed. The FSB therefore looked at a range of fundraising options that the council could explore.

### Community Infrastructure Levies

- 7.3. In the October 2012 paper presented to Cabinet, the council outlined its plans for its own Affordable Housing Fund (AHF) to build new homes with. The paper outlines that the fund is already worth £44.5m thanks to the generation of receipts through community infrastructure levies (although some of this income is pending at the time of this report).<sup>15</sup>

### Bond issuance

- 7.4. Local authority bonds are a historically common way for councils to raise money. However, no council bonds were issued from 1994 to 2011, as any attempt to do so would require central government approval.
- 7.5. Local authorities are now looking at issuing municipal bonds again – a number of authorities have applied for credit ratings and have come out looking really strong. Birmingham City Council has a AA+ rating, and Wandsworth a AAA rating (better than the UK government).
- 7.6. Two recent examples of bond issuances illustrate their potential for Southwark. In 2011, the Greater London Authority (GLA) issued £600 million in bonds, with the yield 0.17 per cent cheaper than the rate of interest the GLA could have obtained had it borrowed the money from the Public Works Loan Board. In May this year, Peabody announced it had raised £60m through a bond issuance at the lowest yield rate (3.9%) ever achieved by a housing association.<sup>16</sup>

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<sup>15</sup> Southwark Council October 2012 Cabinet report, op. cit.

<sup>16</sup> <http://www.24dash.com/news/housing/2013-05-08-peabody-secures-60-million-bond-placement-at-lowest-ever-borrowing-rate>

- 7.7. In early June 2013, the Homes and Communities Agency quarterly survey of registered providers showed that housing associations had raised £3.8bn through public bonds and private placements in 2012/2013 – an increase of 153% on 2011/2012 (when £1.5bn was raised). Overall, bond activity accounted for 70% of new finance in the sector, compared with 28% for “traditional” bank funding.<sup>17</sup>
- 7.8. As a very large landlord and landowner, Southwark could make a bond issuance work, and may be able to access finance more cheaply than by borrowing money through the prudential system.

### **Prudential borrowing**

- 7.9. Prudential borrowing is the set of rules that govern local authority borrowing in the UK. Local authorities were granted the power to borrow money to invest in capital works and assets under the Local Government Act 2003. Under the prudential system, local authorities can raise finance without central government consent as long as they can afford to pay the debt back from their own income streams (such as rents and service charges).
- 7.10. In April 2012, the UK government established a new system of self-financing for council housing. Under the system, councils retain rents and service charges from their tenants and leaseholders, but they must use that income to service their debt obligations and pay for the management and maintenance of their housing stock.
- 7.11. As part of the reforms, local authorities were asked to take on a share of the national housing debt. Southwark’s inherited debt is £451 million.
- 7.12. However, under the reforms local authorities are entitled to borrow money up to a limit set by the Treasury. Southwark has the potential to borrow a further £126 million before it reaches its limit.
- 7.13. Southwark’s borrowing headroom is substantial and higher than many of its local authority counterparts, and Southwark’s gearing ratio is much lower than for large housing associations. A 2011 report showed that the average gearing ratio for the top 60 registered providers of social housing was 78%, with average debt per unit £18,738.<sup>18</sup> Southwark’s average debt per unit is currently £11,600, putting it well below the housing association average.

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<sup>17</sup> Inside Housing, *Capital market funding raises £3.8 billion*, 14<sup>th</sup> June 2013.

<sup>18</sup> Beaver and Struthers, *2011 Annual Review of Social Housing*.



7.14. Southwark's debt is currently being serviced at a rate of 6.8%.<sup>19</sup> The FSB is concerned about Southwark's ability to service even higher levels of debt without bringing down the rate of interest currently paid. While the FSB recognises the opportunity a potential £126m represents, further prudential borrowing is not the preferred option of the group.

### **Receipts from voids**

7.15. The Commission highlighted that "void sales can make a modest contribution to council income and over time could be used to address issues with blocks that have very high levels of leaseholders. They could also release money for new-build properties, which are cheaper to maintain."<sup>20</sup>

7.16. Data supplied by Southwark Council to the FSB show that in the years 2011/2012 and 2012/2013, Southwark raised nearly £22m from the sale of 86 properties – an average sale price per unit of £254,000.

7.17. The voids were sold off for a number of reasons including the property being: uneconomical to repair; worth more than £400,000; difficult to let; a listed building; and a range of other factors.

7.18. Southwark currently caps the number of void sales per year to a maximum of 140, although around 2,000 to 2,500 homes per year become void, so there is scope to sell far more. The FSB would support the sale of more homes, as long as receipts are ringfenced and ploughed into building new homes, with a view to maintaining or increasing overall stock levels.

### **Hidden Homes**

7.19. In March 2009, Southwark tenants and officers presented a report to the erstwhile Cabinet on generating capital to invest in building new homes. At the time, the report sought to set out how the council could raise income through: selling off voids meeting agreed criteria; and, selling off under-used land and non-residential buildings.

7.20. The report recommended a number of actions, including:

- Setting a target to generate £20m per year through void sales;
- Identifying under-used land to develop either private or public sector housing;

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<sup>19</sup> Southwark Housing Commission, op. cit. p54.

<sup>20</sup> Ibid., p44.

- Converting existing dwellings or spaces into new homes through a Hidden Homes programme based on the successful model deployed in the London Borough of Wandsworth (Wandsworth has now created 238 hidden homes over 10 years);<sup>21</sup>
- Setting up a small, dedicated staff team to oversee the programme.

7.21. The report emphasised that the programme of building hidden homes by recycling receipts from the sale of voids would be self-sustaining. If an element of the council's ongoing new build programme in the future was made of up hidden homes, it could help to bring down overall build costs, as set out in scenario B above.

### **Right to buy receipts**

7.22. Southwark's estimated right to buy sales are 40 per year,<sup>22</sup> although this estimate was made before the maximum discount in London was increased to £100,000.<sup>23</sup> Guidance from the Department for Communities and Local Government states that RTB receipts can be used to provide new builds, but only up to a limit of 30% of the cost of providing each new unit.

### **Partnership working**

7.23. The FSB also looked at a range of partnership working options to either raise additional finance or use Southwark council's potential access to finance to enable partners to build more homes. Options considered included: partnering with a housing association and building homes to let at market rents and ploughing surpluses into new building; public/private partnerships in which Southwark provided land and private sector companies the finance for developments (reference LBBB); leaseback schemes; and, Southwark council using its borrowing headroom to lend out to partners and generate income through interest repayments.

7.24. However, FSB members felt that all of the partnership options exposed to the council to the risk of losing control of the type of housing being produced, meaning ultimately not enough new homes being built for social rent.

### **Southwark council as mortgage lender**

<sup>21</sup> [http://www.wandsworth.gov.uk/info/200027/council\\_housing/247/hidden\\_homes](http://www.wandsworth.gov.uk/info/200027/council_housing/247/hidden_homes)

<sup>22</sup> Southwark Council Cabinet report, 23<sup>rd</sup> October 2012, *Directly Funded Housing Delivery*, p15.

<sup>23</sup> <https://www.gov.uk/government/news/mark-prisk-offers-100k-right-to-buy-discount-to-the-capital-s-social-tenants>

- 7.25. In addition to supply-side policies, FSB members also felt that the council could act to stimulate local demand for some of the new homes it will build and sell. The FSB understands that the council still has a handful of mortgages in place that were started in the 1980s.
- 7.26. In 2011, fifteen local authorities agreed to join forces and put money into a Lloyds TSB scheme to top up deposits of first-time buyers. The scheme is called Local Lend a Hand and allows buyers to purchase a home with a deposit of 5%. As of April 2013 there are 53 schemes nationally.
- 7.27. The council would typically then offer a further 20% of the equity to buy a home, and would receive the interest payments on this amount. The council would need to agree its own borrowing cap with its partner bank.
- 7.28. Generally, mortgages available through Local Lend a Hand are cheaper than commercial mortgages, although the full amount still needs to be repaid. The local authority receives interest payments on the amount it lends (the typical interest rate in 2011 was 4.25%), but they carry most of the risk (i.e. negative equity or default).
- 7.29. The FSB recommends that Southwark re-establishes its mortgage lending facility, to enable local residents to access mortgage finance at a very competitive rate, ideally lower than they would be able to get through the open market. The council would also benefit from receiving interest repayments on its loans, and it could plough that income into building or improving homes.

## **Risk**

- 7.30. There are a number of risks for Southwark to be aware of, should it decide to increase its debt levels or raise finances through bond issuances. In 2012 the National Audit Office published a report looking into the financial viability of the social housing sector. Some of the risks highlighted in the report for providers of social housing operating in a low grant environment include:
- increased borrowing could result in a higher gearing ratio and a lower credit rating;
  - increased reliance on property sales could increase the council's exposure to housing market volatility and leave potential shortfalls in funding for future development/improvement;
  - lower cash reserves as cash would be used up funding capital projects up front
  - Higher rents for tenants to make up any funding shortfalls which tenants may not be able to pay leading to higher levels of arrears; and,

- an overall negative impact on overall financial viability.<sup>24</sup>

7.31. While these risks would be a real possibility, they are faced by all providers of social housing, especially those seeking to build.

## **8. Who should council housing be for?**

8.1. The FSB discussed the question of who council housing should be for after considering findings from Southwark's own consultation, as well as looking at what other local authority areas were doing.

8.2. The FSB agreed on a number of key areas, underpinned by the principle that council housing should be for those people that need it.

### **No fixed-term tenancies**

8.3. FSB members felt that any introduction of fixed-term tenancies would have a destabilising effect on existing communities within the borough and would create even more population "churn".

### **No income limit/threshold**

8.4. FSB members argued against any introduction an income threshold for people applying to be on the housing waiting list. Members felt such a policy could have a residualising effect within social housing, and could also act as a disincentive to earn above a certain level.

### **No upper limit on savings/equity**

8.5. The FSB's reasons for ruling this out were similar to those put forward for rejecting an upper income limit.

### **No place for those who already have a property they can live in**

8.6. The FSB felt that if applicants for housing already owned a property in which they could live, they should not be able to access council housing.

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<sup>24</sup> National Audit Office, 2012, *Financial Viability of the Social Housing Sector: introducing the Affordable Homes Programme*.

**Additional points should be given to people who can demonstrate a local connection for the last two years, whether it's through living or working in the borough**

8.7. FSB members felt that the general consensus across Southwark, and in many other boroughs – that there should be a greater emphasis on local connection – is right. Members felt a two-year connection was about right, as long as other boroughs had broadly similar criteria; a significant variance would mean encouraging large-scale movements of people across boroughs to find the borough with the most suitable criteria.

**Notice should be taken of those applicants with poor tenancy records.**

8.8. Members did not want to unduly “punish” those with poor tenancy records who may have extenuating circumstances. As such, the group felt paying attention to such records, and assessing each case on its own merits, would be the best approach.

**Those who are under-occupying but want to move should be provided with financial support but also, critically, “soft” support to help them settle into a new area.**

8.9. Members were concerned about the emotional and psychological impact of moving home, and so felt that in addition to a monetary payment, the council should maximise efforts to help people settle into new homes through home visits, early signposting to relevant services and regular contact.

**Extra priority for ex-servicemen and women**

8.10. Members felt priority should be given for ex-servicemen and women with a local connection, and also for a time-limited period to be agreed.

**Continue with CBL system, but perhaps review aspects such as the number of times someone can view properties before accepting**

8.11. Members supported the Choice-Based Lettings system, but felt a revision could be made to place a lower cap on the number of times an applicant can view properties before accepting

**9. How should council housing be managed?**

- 9.1. The FSB felt that the overarching point to be made in relation to this question was that whatever structure the council adopts in future, there are a number of fundamental points that are essential to a successful future for council housing in the borough.

### **The council retains its large landlord status**

- 9.2. In order to continue to be able to provide low-cost housing at social rent levels, the FSB felt the council needed to retain high levels of stock for social rent, for reasons already outlined in this report related to housing need.
- 9.3. In addition, the FSB members wanted to stress that in an ongoing era of low/no grant for social housing providers, Southwark's large-landlord status puts it in a strong position to be able to access finance for development and improvement, and to continue to generate and recycle capital receipts for future investment.

### **Staff**

- 9.4. Any future structure for housing management needs to be able to retain, attract and develop high-quality staff with the right balance of skills, knowledge and experience. FSB members urged that innovation from staff, councillors and residents is needed to explore new ways to deliver housing services that are right for residents.
- 9.5. The FSB felt that in order to manage a development process successfully, a specialist, dedicated team is needed to oversee all aspects of work connected to delivering new homes. Specifically, the team would need to coordinate Hidden Homes, the new build programme, income from sales of voids and right to buy properties, and community infrastructure levies. The programme is dependent on one team being able to pull together all the contingent parts required to make it a success.

### **Contract management**

- 9.6. FSB members noted that Southwark council formerly had a Contract Compliance Unit (CCU) that appears to have been discontinued. FSB members felt that successful contract management would be essential for the success of a new build programme, and procedures and people need to be in place to make sure that contracts are closely monitored and remedial action, where required, taken swiftly.

### **Local offices/presence**

- 9.7. FSB members felt that the closure of local offices has left Southwark without a local connection with many of its residents/estates. The example of the Aylesbury estate, where there is still a local presence, was given to show why having staff who are accessible locally is important; it allows residents to have face-to-face contact with the people managing their homes which in itself builds relationships and trust.
- 9.8. The FSB understands that the council wants to make efficiency savings and seek value for money – but wonders if the withdrawal of local services will have a detrimental impact on resident satisfaction and thereby drive up costs in the shape of increased complaints or failure to diagnose repairs correctly when they are reported through a call/contact centre.
- 9.9. The FSB supports Tenant Management Organisations where effective management and monitoring is in place. The FSB’s principle concern about TMOs was support to ensure a successful transition when the original tenants and leaseholders who set the TMO up are ready to move on.

#### **Co-regulation: resident scrutiny**

- 9.10. While not directly connected to this piece of work, FSB members feel that there is a role in Southwark’s future housing management model for greater co-regulation of its housing services, notable through the establishment of a resident scrutiny panel/committee that would work alongside existing structures. The scrutiny function would give residents the chance to work closely with staff to look at how services can be improved.

## **10. Recommendations**

This section brings together all of the key recommendations made in this report.

**Recommendation 1:** the council self-finances 1,000 new homes with 65% for social – not affordable – rent and 35% sold outright.

**Recommendation 2:** the council should aim to at least maintain, and if possible increase, its current number of homes available for social rent

**Recommendation 3:** the council should raise income through a variety of methods but should strongly consider bond issuance and increasing capital receipts through void sales and a hidden homes programme. The council should aim to generate sufficient capital on

the first round of building 1,000 homes to be able to plough straight into the next round and beyond.

**Recommendation 4:** Southwark should set up a dedicated team to manage all aspects of the new build process, which would include: co-ordinating hidden homes, the new build programme, income from sales of voids and right to buy properties, and community infrastructure levies. The programme is dependent on one team being able to pull together all the contingent parts required to make it a success. The team could be a specialist unit within the council, or alternatively a subsidiary model might be explored.

**Recommendation 5:** the council should consider re-establishing its own mortgage product for local residents to help them into home ownership as well as help to ensure it can sell new properties built to cross-subsidise building new homes for social rent.

**Recommendation 6:** the council should take advantage of the opportunity presented by the Localism Act to build in some priority for local people into its allocations system, the FSB believes a two-year connection to the borough (either through living or working) would be a fair balance.

**Recommendation 7:** the council should ensure that in bringing in a new development focus, it does not in any way jeopardise its relationship with existing tenants and leaseholders. Community is important too, and current residents should have the opportunity to participate fully in shaping, designing, and delivering services.

**Recommendation 8:** this is the start, not the end. The FSB is extremely keen that this report, and the wider consultation, marks the start of a conversation about the future of housing in the borough. Beyond its July meeting, Cabinet should set out a clear roadmap for the next few months and beyond showing how residents will continue to be involved in mapping out the future of housing in the borough, working alongside officers and councillors.

**Recommendation 9:** while not directly connected to this piece of work, FSB members feel that there is a role in Southwark's future housing management model for greater co-regulation of its housing services, notably through the establishment of a resident scrutiny panel/committee that would work alongside existing structures. The scrutiny function would give residents the chance to work closely with staff to look at how services can be improved.



## Appendix 1: Background papers

*2011-15 Affordable Homes Programme – Schemes Confirmed by the HCA: April 2011 – December 2012*, Homes and Communities Agency (2013)

([http://www.homesandcommunities.co.uk/sites/default/files/our-work/2011-15\\_ahp\\_-\\_schemes\\_confirmed\\_by\\_the\\_hca\\_end\\_of\\_dec\\_2012.xlsx](http://www.homesandcommunities.co.uk/sites/default/files/our-work/2011-15_ahp_-_schemes_confirmed_by_the_hca_end_of_dec_2012.xlsx))

B. Thompson, *Local Asset Backed Vehicles: A success story or unproven concept?*, RICS (2012)

Barratt Development plc, *Annual Results Announcement for the year ended 30 June 2012* (2012)

Beever and Struthers, *2011 Annual Review of Social Housing* (2011)

Building and Social Housing Foundation, *Building New Homes for Rent: Briefing for Local Authorities* (2012)

*Capital Income Generation for the Housing Investment Programme*, Cabinet Report (17 March 2009, London Borough of Southwark)

D. Chevin, *Social Hearted, Commercially Minded: a report on tomorrow's housing associations*, The Smith Institute (2013)

*Directly Funded Housing Delivery*, Cabinet Report (23 October 2012, London Borough of Southwark)

E. Cox and K. Schmuecker, *Beyond Banks and Big Government: Strategies for Local Authorities to Promote Investment*, IPPR North (2013)

*Investing in Council Housing: Options for the Future*, Independent Commission on the Future of Council Housing in Southwark (2012)

National Audit Office, *Financial viability of the social housing sector: introducing the Affordable Homes Programme*, (2012) (HC 465, Session 2012-13, 4 July 2012)

Price Waterhouse Coopers, *Making the most of HRA Reform* (2011)

Savills, *A Spotlight on the National Planning Policy Framework (NPPF) One Year On* (2013)

Savills, *Report to G15 - Additionality of Social Housing* (2013)

Southwark Council, *Affordable Housing: Draft supplementary planning document* (2011)

Southwark key housing data, 2012/13 (London Borough of Southwark, 2012)

*Stroud District Council New Homes Development Strategy*, Housing Advisory Panel Report (17 October 2012, Stroud District Council)

## Appendix 2: membership of the Futures Steering Board (FSB)

Name	Organisation
Jeff Barnett	Home Owners Council
Cris Claridge	Southwark Group of Tenants Organisations
Steve Hedger	Tenants Council
John Nosworthy	Home Owners Council
Ian Ritchie	Tenants Council
Sandy Stewart	Home Owners Council
Carol Vincent	Tenants Council
Alistair Smyth	Solon Community Network
Susy Lloyd	Solon Community Network