

APPENDIX 3

SOUTHWARK HOMEOWNERS' REPORT ON THE FUTURE OF COUNCIL HOUSING IN SOUTHWARK

Executive Summary

- This report has been prepared by the Homeowners' Council, which represents Southwark Council's 14,500 leaseholders and freeholders.
- Strategic decisions on the long-term future of social renting will inevitably have a major impact on homeowners. In particular investment decisions have the potential to increase the costs charged to leaseholders significantly.
- We believe Southwark Council should provide as many social rented homes as possible over the next thirty years. These homes should be let on social rents on full secure tenancies to ensure affordable homes for local families and key workers.
- But this option may mean that more homeowners face large major works bills if their rundown blocks and estates are renovated rather than demolished.
- Alternatively, the options that reduce the amount of rented housing are likely to increase the level of annual service charges. The higher level of demolition under these scenarios will displace more homeowners, who will be unable to afford replacement homes without some support from the Council.
- Many homeowners are on low incomes and we would like to see a wider range of options to help struggling owners, including optional individualised reserve funds and discretionary caps for homeowners in exceptional hardship.
- As the Council's financial position improves we would also like to see greater use of buy-backs from households that can no longer afford home ownership.
- There is general support among homeowners for devolved management to improve efficiency and responsiveness, although we recognise the Tenant Management option will not appeal to tenants in all parts of the borough.
- Regardless of the management option chosen, homeowners need more cost-effective management of both repairs and major works.
- Disruptive sub-letting is a serious issue and we support action against homeowners that permit anti-social behaviour. However, we are opposed to the Council acting as the sole letting agent for new homeowners as this will restrict choice and flexibility.
- Homeowners' representatives would like to be fully involved in the implementation of policies and procedures that are developed as a result of the strategic review of housing.

1. Introduction

- 1.1. This report draws on the views and experiences of the members of the Homeowners' Council, who were elected at local area housing forums to represent Southwark Council's 14,500 homeowners.
- 1.2. The Homeowners' Council fully supports Southwark Council's strategic review of housing in the borough, and it would like to be fully involved in the development of the new policies and priorities that are developed as a result of its investment decisions.
- 1.3. Strategic decisions on the future of rented council housing will have significant impacts on households living in homes sold in Southwark under the Right to Buy (RTB), including the costs of major works and other service charges. Greater freedom in the housing finance regime offers Southwark an excellent opportunity to address years of underinvestment in its stock, but many leaseholders may face large increases in costs as a result of the review.
- 1.4. In addition we feel that improvements in services (such as greater transparency and involvement in decisions) can be achieved relatively quickly at little or no cost to the Council, and we would not want to see these "quick gains" lost while large strategic decisions are being considered. The Independent Commission's report summarises (especially on page 40) some important issues for homeowners, in particular our concerns about value for money, transparency and involvement in decision-making processes.
- 1.5. Although the review of housing investment will focus on the future of tenanted housing, we hope that the strategic decisions made by the Council will also provide a framework for better services and stronger working relationships with the thousands of homeowners who also rely on Southwark Council for some housing services. This report suggests some possible options for consideration.

2. *Investing in Council Housing: the investment scenarios*

- 2.1. All of the homeowners' representatives consulted for this report felt that Southwark Council should remain a large social landlord. Many leaseholders were once council tenants themselves and there is strong support for more council housing, provided the new properties are let on secure tenancies at social rents that will allow local families and keyworkers to afford decent housing in all parts of the borough.

- 2.2. We believe Southwark Council should build as many new socially rented homes as possible over the next thirty years, although we recognise land and other resources may be limiting factors. At the very least the Council should maintain its rented stock at the current level of 39,000 homes by replacing any future losses from the Right to Buy, void sales and demolition.
- 2.3. The Independent Commission's report *Investing in Council Housing: options for the future* clearly demonstrated the significant financial benefits of stock reduction. But as homeowners' representatives we feel this option would not be in the best interests of local residents, because we cannot be certain that other housing providers will increase their building programmes to make up the lost social rented homes.
- 2.4. We recognise that a decision to maintain stock numbers at its current level will mean less demolition and more patching up of existing buildings, compared with the other scenarios. One of the implications will be large major works for more leaseholders under this option, and we discuss some ways in which leaseholders (who are often on relatively modest incomes) might be protected from the impact of very large major works bills later in this report.
- 2.5. Alternatively, if the Council decides to adopt the 20,000 dwellings scenario (or even the less dramatic reduction to 30,000 homes), the higher rate of demolition will mean that more homeowners are displaced through regeneration schemes. While secure tenants are invariably offered a right to return, the compensation paid to homeowners (even with the additional statutory "home loss" payment of 10%) is never enough to buy one of the new replacement homes on the scheme. If this option is chosen, we would ask the Council to adopt a boroughwide package of options that allow displaced homeowners to stay in their neighbourhoods after redevelopment.
- 2.6. Leaseholders are concerned that the improvements in the housing budgets brought about by a large drop in stock numbers could lead to demands for very high standards of services. While homeowners naturally want to see good quality housing services, we are worried that households on comparatively low incomes, including pensioners, are already struggling to pay annual service charges of up to £3,000 a year. Looking ahead, we feel it would be unjust to charge those homeowners who are on modest incomes the full costs of very expensive services that will only be possible because of large surpluses in the Housing Revenue Account. We suggest some options to control the level of service charges later in this report.
- 2.7. To sum up, it seems likely that many homeowners will face higher costs due to the investment scenario chosen by the Council. The Right to Buy encouraged working class families to enter home ownership, and many of them are now retired and living on relatively small pensions. Where RTB

homes have been sold on, the purchasers have often been households on relatively low incomes who saw buying on a council estate as the only way to get on the property ladder in Southwark. Although we do not want to claim that all homeowners are poor, most resident owners are not particularly wealthy and many are definitely struggling to cope with the costs of home ownership during the economic downturn. We support the option that the Council builds new homes to address the housing crisis in Southwark, but we would also ask that consideration is given to measures that mitigate the impacts of higher major works costs on homeowners.

3. *Investing in Council Housing: management options*

- 3.1. Regardless of the management model adopted by the Council, homeowners need to be sure that housing staff are committed to controlling costs and ensuring best value. This includes maintaining proper control over contractors.
- 3.2. There is relatively little enthusiasm among homeowners' representatives for the option that the Council directly manages most of its stock across the borough.
- 3.3. In theory the economies of scale, sound procurement and contract management should allow the council to reduce costs under this option. In this context, the reference on page 50 of the Independent Commission's report to efficiency savings of 2% may seem unambitious.
- 3.4. But many homeowners believe the Council has not been able to achieve the same scale of savings as Tenant Management Organisations, or even some private sector managing agents. If the "large landlord" option is chosen, we believe the Council should examine why these smaller organisations seem to be able to produce better value for money for tenants and homeowners, and look to adopt some of their practices in its own management. Although the Home Ownership Unit has improved leasehold management to some extent in recent years, many leaseholders still doubt whether housing staff can change their culture and working practices quickly enough to make the required gains in efficiency and to control costs over the short-to-medium term.
- 3.5. Many homeowners feel that many frontline staff still see management and maintenance issues solely in terms of tenanted homes, and there are strong suspicions that the Council considers leaseholders an easy and convenient source of funds.
- 3.6. Some leaseholder representatives have expressed interest in partnering arrangements to drive greater efficiency. But the general view is that partners are always likely to put their own interests before that of Southwark Council or its residents. The failure of two large partnering

contracts for housing work has only increased scepticism about the effectiveness of this approach.

- 3.7. Southwark has failed to impose sufficient control over its contractors in the past, and we are concerned that it might be unable to manage formal partnerships effectively. The Council needs to ensure that the partners (and contractors) do not take excessive profits from our capital budget. While there may be some benefits in partnering with high-performing local boroughs and housing associations, we think that joint ventures and significant outsourcing of housing management and repairs are simply too risky.
- 3.8. The greatest interest among homeowners has been in the Tenant Management Organisation (TMO) option. In particular we have been impressed by the improvements in resident satisfaction and the value for money achieved when tenants and leaseholders employ their own housing staff and procure their own repairs contracts. We believe that effective local management has the potential to produce useful savings on management and maintenance.
- 3.9. But we agree with the Independent Commission's assessment that TMOs will not appeal to residents in every part of the borough. One representative described them as "hothouse flowers that need to be nurtured", citing local failures alongside the success of TMOs like Leathermarket JMB. TMOs tend to be too reliant on a small group of committed activists, creating concerns about their long-term viability, and they are likely to have greatest appeal in neighbourhoods where tenants are particularly unhappy with local services. Any service improvements will be very dependent on individual TMOs' ability to recruit good managers. Although we feel TMOs are an option that should be encouraged, they are not a practical solution for all of the borough's housing stock in the foreseeable future.
- 3.10. We think that the Independent Commission's description of Neighbourhood Housing Organisations (NHOs) on page 65 of its report is interesting. But we are worried that the Commission seems to imply this model might be imposed on neighbourhoods that have rejected the TMO route. We are also concerned that these NHOs might have to be significantly larger than TMOs (a separate director and board for every few hundred homes seems impractical, and the Birmingham district housing panels mentioned by the Commission will each cover around 6,500 homes). We are not sure that this rather limited level of devolution will bring the same level of local scrutiny and savings as a TMO, and if this option is adopted any NHOs should be set up on monitorable, fixed term contracts with senior staff employed on a similar "performance related" basis. However, the general neighbourhood approach to management decisions does seem a reasonable way to involve residents in the drawing up and awarding of contracts.

- 3.11. While we support the principle of local management and the devolution of decision-making to neighbourhood level, several homeowners' representatives have concerns about devolving Southwark's leaseholder management services down to the neighbourhood level. The Home Ownership Unit does seem to have brought greater professionalism and focus to the Council's work with homeowners. Local area offices used to have responsibility for Section 20 consultations on future works and the experience was often unsatisfactory. The wider housing service does not yet have a culture that values all residents regardless of tenure, and at the moment we would be concerned that Neighbourhood Housing Organisations might marginalise homeowners' issues.

4. Affordability: the impact of major works

- 4.1. Decisions on stock numbers, investment and management models will have significant impacts on homeowners, and strategies to address historic under-investment will impose extra costs on lessees. Regardless of the decisions made by the Council, the reality is that affordability of service charges will remain an issue for many homeowners.
- 4.2. We would like to see the Council consider a wider range of options to protect homeowners from excessive increases as it develops new strategies for housing investment. Some leaseholders are already facing bills for tens of thousands of pounds for Decent Homes / Warmer Drier Safer improvements and fire risk assessment works as homeowners pay for the poor design and inadequate maintenance of their estates. While homeowners can plan for many future costs, it is impossible to make provision for the extra costs that are imposed by changes in national policies or responses to unexpected disasters. Homeowners on modest incomes with little or no equity in their homes will simply find it impossible to pay these huge bills.
- 4.3. To add to the uncertainty estimated bills sent out to leaseholders sometimes underestimate the final costs, particularly where blanket costing has estimated costs across a number of different blocks of flats. One representative recounted a case where an initial estimate of £4,000 has become a final bill for £16,000. He made two points: firstly, how could the cost have quadrupled on this piece of work, and secondly how could any leaseholder be expected to budget for the final costs in such a case? The Independent Commission found leaseholders wanted better consultation on major works, and we would draw Cabinet's attention to the Commission's comment on page 40 of its report that only 6% of leaseholders felt they were receiving value for money on their major works at the end of 2011.
- 4.4. Decisions on the refurbishment of high-investment estates will produce some extremely large charges. Homeowners on the Four Squares estate have already reported bills of more than £40,000 as the backlog of work

is addressed following many years of under-investment. Council decisions to carry out all the major works on an estate at once may be justified in terms of efficiency, but this can impose unfeasible costs on homeowners as all the costs fall within a single year's charge.

- 4.5. Southwark Council was forced to abandon its sinking fund for homeowners because it was unable to pay for matching work on tenants' homes. The strategic investment decisions taken by the Council should provide a stronger platform to tackle defects. But a boroughwide sinking fund spreading the costs and risks across all homeowners might be difficult to implement even if the legal barriers could be overcome.
- 4.6. It would be possible to introduce an opt-in scheme allowing individual homeowners to save for the cost of planned works to their own home in future years. The Council's recent proposal that homeowners could choose to go onto fixed charges calculated over a thirty-year period is an interesting one, although we cannot currently see how lessees that opt into the fixed charge regime could benefit from future efficiency savings.
- 4.7. Any assistance that the Council can give owners saving for future bills will be welcome. Given the increasing number of homeowners unable to pay large bills, we feel the Council needs to consider how it can offer more support in suitable cases.
- 4.8. The Council does offer some options for struggling homeowners, such as equity shares and loans and interest-free payment schemes. These options can help some homeowners pay large one-off bills, but they do not address the problem of owners who consistently struggle to pay their annual service charges. Some owners simply cannot afford to stay in their homes due to changing circumstances, and we would like to see more consideration given to council buy-backs from these residents as housing budgets improve. The recent proposal that the Council might buy back homes at the tenanted value, allowing the occupier to remain in the home as a secure tenant paying rent, is an interesting one that is worth further investigation.
- 4.9. The Council also has the power to limit the impact of large major works charges on poorer homeowners through a discretionary Major Works cap of £10,000 over a five year period. The Social Landlords Discretionary Reduction of Service Charges (England) Directions 1997 allows landlords to adopt such a scheme in individual cases of "exceptional hardship", and we urge the Council to consider this option.
- 4.10. As the original Right to Buy purchasers retire and new marginal buyers are attracted into the tenure with increased RTB discounts, we believe more households will struggle to pay large major works bills. Any decision to renovate rather than demolish council blocks will increase the number of low income households caught in this trap, and we would ask that the Council sets a range of measures in place to support the increasing

numbers that will be unable to pay for expensive major repairs and improvements that are chargeable under the lease.

- 4.11. We are concerned that these new marginal homeowners may fall into mortgage arrears if interest rates rise, and we feel there may also be a case for the Council exploring provision of its own mortgages as part of its long-term strategic review.

5. Affordability: annual service charges

- 5.1. While one-off major works charges of thousands of pounds can be devastating for households on modest resources, the Homeowners' Council also receives many complaints about the annual service charges. At the end of 2011 less than a third of leaseholders felt the annual service charge represented value for money.
- 5.2. A common complaint is that bills are too high for the quality of work that has been carried out, especially where work is sub-standard. The Independent Commission's bench-marking showed Southwark is performing relatively poorly in some key areas of housing management, adding to homeowners' view that we are not receiving good value for money.
- 5.3. Many leaseholders feel that the council does not monitor its contractors and craftspeople carefully enough. While we welcome the proposal that there should be more inspections of work, we need to be convinced that the recruitment of extra staff (communal repairs officers) really will reduce service charges for leaseholders.
- 5.4. A second criticism is that procedures for challenging service charges are cumbersome, and that we need an in-house mechanism to resolve disputes effectively so that homeowners do not have to keep taking the Council to the Residential Property Tribunal Service.
- 5.5. Although the Council has begun to introduce more detailed invoice billing, homeowners still need more information on the likely cost of new contracts, as well as greater input into the awarding and monitoring of these contracts.
- 5.6. To sum up, homeowners need better information and greater influence over service charges, contracts and the correcting of mistakes. When the new Homeowners' Information Centre is in operation later this year it will be able to offer independent advice to homeowners. Southwark Citizens Advice Bureau is also able to provide advice, funded by the Council. But awareness of these services is low and they will need to be promoted more effectively as strategic investment decisions impact on homeowners.

6. Estate regeneration and the displacement of homeowners

- 6.1. Southwark Council is already committed to the demolition and rebuilding of several estates, and a decision to reduce stock numbers would increase the number of homeowners losing their homes. Estate redevelopment always creates a major issue of affordability for homeowners, because the market value of the existing home (even with the additional 10% home loss payment for resident owners) never covers the costs of an equivalent new home in the regenerated neighbourhood.
- 6.2. Individual redevelopment schemes are currently carried out by different developers, so the options for displaced home owners can vary from estate to estate. To ensure equal treatment across the borough, we believe the Council should develop a standard set of rehousing options offered to all displaced homeowners anywhere in the borough. This should include a clear commitment to "equity share" schemes (where the council or developer owns part of the new home and recovers their investment when the property is sold on) and a "home swap" option to available council properties. If the Council decides to carry out the redevelopment work itself or through long-term partnerships with specific developers, this would make a "Southwark offer" for displaced homeowners easier to implement.
- 6.3. The process of buying back owner-occupied homes on redevelopment schemes can be long and stressful, and owners often complain that they are trapped in their property for years while they wait for their phase of the redevelopment to come around. Greater use of council buybacks at the beginning of regeneration schemes would be a real benefit to families trapped for years by development blight, and other boroughs have been able to offer this option on some projects. Scenarios that improve the Council's capital budgets would allow more early buyouts.

7. Sub-letting

- 7.1. The Independent Commission highlighted some of the management issues around letting by non-resident landlords, in particular anti-social behaviour and access for emergency repairs.
- 7.2. The Council (and other agencies such as the police) already have a range of powers to tackle anti-social behaviour regardless of tenure, and we believe these should be used wherever possible. As well as anti-social injunctions and ASBOs, this might include closure orders where premises are being used for serious and persistent anti-social behaviour. The Council can also force landlords to address anti-social behaviour in their property under the lease, including possible forfeiture. We believe the Council would be justified in tackling a pro-active approach where disruptive sub-letting is causing problems for other residents. In addition,

we believe that homeowners should have a duty to provide the Council with up-to-date contact details.

- 7.3. The Independent Commission suggested that the lease could be changed to compel new owners to let their properties through the Council. We are dubious about the practicality of this proposal. Firstly, we are concerned that it would create two distinct classes of homeowners with different rights to let their properties. Secondly, it would limit choice and competition for owners, who may have particular requirements that could not be met by a single "one size fits all" service. Lastly, we have some doubts about the Council's capacity to take on a large new area of work and deliver it in an efficient and cost-effective way.
- 7.4. Overall, we support greater action against homeowners that allow their tenants or anyone else to annoy neighbours. But a major restriction on the choice of letting agents would remove choice and flexibility for the majority of landlords who do take responsibility for their properties, and it is not clear that it would actually reduce levels of nuisance behaviour.

8. Involving homeowners in strategic decisions

- 8.1. Over the next few months Southwark will be developing its long-term vision for council housing in the borough, and the choices made will have significant impacts for homeowners. Developing and implementing the changes that will be needed to achieve the new vision will take rather longer.
- 8.2. The Homeowners Council is an effective forum to discuss day-to-day issues around leasehold management and service delivery. But the current emphasis on long-term planning means homeowners also need to feed their views into the strategic process so that the impact on the thousands of homeowners in the borough can be fully understood.
- 8.3. One solution might be regular meetings between Homeowners' Council representatives and senior housing staff to review strategic issues and their impact on services for homeowners. We would urge the Council to ensure that homeowners' issues are given appropriate weight in strategic investment decisions.

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