

**Southwark Overview and Scrutiny  
Committee**

**“Right to Buy” for Housing Association  
Tenants and the forced sale of council  
properties**

**November 2015**

## Section 1: Introduction

Much has been said and written about the possible implications of the Government's Housing and Planning Bill published on 13<sup>th</sup> October 2015, with many commentators warning that it will significantly worsen, rather than help, the housing crisis effecting many parts of the country.

Southwark's Overview and Scrutiny have sought to assess the impact of the extension of Right to Buy and forced sale of council homes on the London Borough of Southwark. This report sets out the results of our investigation and includes a number of recommendations for consideration by Southwark's Cabinet with a view to protecting the interests of its residents who live in council and Housing Association owned homes, and the council's ambition of building 11,000 homes.

This report focuses on:

- the impact of the Housing Bill on plans to build council homes and other social rented homes;
- the impact of the forced sale of council homes;
- how Southwark's current Housing Association homes will be affected;
- implications for day-to-day management of local houses and tenants' experience;
- how Southwark should best prepare for the Housing bill; and
- Southwark's political/communications response to the Housing Bill.

### Background

The Conservative Party 2015 manifesto set out the Party's ambition to extend the "Right to Buy" scheme currently available to council home tenants to tenants of Housing Associations. The Manifesto stated "We will fund the replacement of properties sold under the extended Right to Buy by requiring local authorities to manage their housing assets more efficiently, with the most expensive properties sold off and replaced as they fall vacant".

Following the election of a majority Conservative government in the 2015 General Election the Government has begun the process of implementing this policy through the Housing and Planning Bill (the "Housing Bill"). At the time of writing the Housing Bill had just passed its second reading.

Part 4 of the Housing Bill sets out the terms on which Housing Associations will implement the government's Right to Buy policy through a voluntary scheme agreed between Government and the National Housing Federation. It also sets out how the Government will require a payment from councils with housing stock by financial year equivalent to the sale of vacant high value council homes. High value is not yet defined in the Housing Bill.

### Methodology

In order to investigate this issue the Overview and Scrutiny Committee did the following:

- Conducted a series of informal interviews with officers in Southwark's Housing Department
- Received a written report from officers giving an initial assessment of the impact on Southwark, based on available information at the time

- Attended and asked questions at a Southwark forum for Senior Housing Association Managers operating in the borough
- Informally interviewed the Chief Executives of four major, national housing associations
- Interviewed at the committee Lord Kerslake, Former head of the Civil Service and current Chair of the Peabody Trust
- Reviewed a series of external reports on the impact of extending right to buy and forced void sales
- Submitted a number of written requests for statistical and other information from Southwark Officers
- Interviewed, at the Committee, the Cabinet Member for Housing and the Strategic Director, Housing Services and Community Services

## Section 2: Impact on plans to build new homes

### Current plans to build

Southwark is at the heart of the affordable housing crisis in London: in 2013/14 the Department for Communities and Local Government reported that Southwark's had 13,436 applications on its housing waiting list, 2,883 of those being people currently occupying insanitary, overcrowded or otherwise unsatisfactory living conditions<sup>1</sup>. Southwark has predicted that its population will grow by 21% over the next 10 years.

However, the council has ambitious plans to build more council homes. Southwark has a widely publicised policy to build new 11,000 new council homes by 2043 and has committed to 1,500 of these being "underway" by 2018.

The housing challenges in Southwark, particularly for people who, as a matter of necessity, will require homes at low or "social rent"<sup>2</sup> will also, in part, rely on home building plans from third parties, especially large housing associations. The table below sets out Southwark's current plans for new social, affordable and intermediate homes. These include council homes and those expected to be part of home building projects by Housing Associations.

**Table 1 - Affordable housing completions planned as of October 2015**

Year completed	Social Rent	Affordable Rent	Intermediate	Total
2015-16	320	0	97	417
2016-17	162	51	200	575
2017-18	594	330	626	1,407
<b>Grand Total</b>	<b>1,076</b>	<b>381</b>	<b>923</b>	<b>2,380</b>

Source: Southwark Council Internal Data. Note: These are estimates based on current plans and are likely to change over time as plans are developed. The larger figures in 2017-18 are due to that year being the end of the three year funding programme.

<sup>1</sup> P.39 Shelter report – DCLG data.

<sup>2</sup> In this paper we define "Social Rent" as "social rented housing is owned by local authorities and private registered providers (as defined in section 80 of the Housing and Regeneration Act 2008), for which guideline target rents are determined through the national rent regime." See <https://www.gov.uk/guidance/definitions-of-general-housing-terms>.

Year completed	Social Rent	Affordable Rent	Intermediate	Total
2015-16	77%	0%	23%	100%
2016-17	28%	9%	35%	100%
2017-18	42%	23%	44%	100%
<b>Grand Total</b>	<b>45%</b>	<b>16%</b>	<b>39%</b>	<b>100%</b>

### Risk to plans to build

Southwark's plans to build council homes – in its September 2015 Paper "*the Forced Sale of Council Homes*" the housing charity Shelter identifies three key challenges to council's plans to build new council homes:

- Councils' ability to borrow to build will be eroded as potential lenders will be less confident that councils can secure revenue stream from rent or capital receipts;
- Councils' have planned current building on the assumption that this can be financed from receipts from sales of council homes currently deemed to be high value however these receipts may now have to be paid to central government to fund the discount provided to housing association tenants exercising their Right to Buy; and
- If new build homes will be required to be sold as soon as they become void then Councils will have little incentive to build.<sup>3</sup>

Are these risks applicable to Southwark? We do not yet know the possible effect on Southwark's borrowing plans and would recommend (see recommendations section below) that this is considered further. In terms of the second two risks these are both thought to be very real for our borough. Southwark's currently policy is to sell void council homes valued at over £500,000 and Southwark has sold several properties at values much higher than this. Income streams that have previously been thought to support future building may well be in jeopardy.

In terms of the risks to new homes again this is a very real risk – on the assumptions for levels of "high value" set out below many of Southwark's new planned homes may exceed this value once void (see below). There is a clear time lag in the sale of homes and the building of new homes

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<sup>3</sup> Shelter paper, page 4.

funded by income from such sale. The Government's own analysis has shown that for every 9 council homes sold under council home "Right to Buy" policy, post 2012, only one new home has been built. Whilst, both national and council policy will dictate Southwark's incentive to continue to build, there is a danger that the overall ambition of building 11,000 new council homes could be eroded by forced sale of new council homes.

Housing Association plans to build homes: Housing Associations will be susceptible to the same risks identified above. The Housing Bill does not currently require Housing Associations to use receipts from Right to Buy to build new homes in the same tenure, location or size as those that are sold.

### **Rent limits**

Whilst introduced through separate legislation, another huge risk to future house building both by councils and housing associations is the Government's proposals to limit rent increases. The Government's Welfare and Work Reform Bill proposes reducing social housing rent levels by 1% in each year for four years from 2016-17. The objective of such a rent cut is thought to be to reduce the Government's housing benefit bill.

In simple terms both councils and housing associations will not make the returns from rental income that they had anticipated. The benefits cap may also exacerbate the number of residents unable to pay their rent and further undermine the confidence of local authorities, developers and their lenders. This clearly poses an additional risk to future house building plans by both Southwark and housing associations.

### **"Like for Like"**

The Government's ambition is that both Housing Associations and Councils replace sold homes on a "like for like" basis. However, it is highly unclear what this means and if new homes will truly be the same affordable offering as current council and housing association stock.

The Housing Bill does not presently require housing associations to replace sold homes in the same area, tenure or affordability bracket. Many commentators (including the Mayor of London) have advocated for a London ring fencing and this is a policy that Southwark should support. However, such protections may be of limited value if they remain broad in terms of tenure, location and affordability: for example a one bed shared ownership or "Starter Home" in Croydon (where land costs are generally cheaper) is unlikely to be a real "like for like" replacement for the loss of a two bed lifetime tenure social rent housing association property in Southwark.

The Housing Bill will, for the first time, create a duty on councils to approve a particular kind of housing. The Government has stated an ambition to build 200,000 Starter Homes - sold at 20 per cent below the market price to first-time buyers under the age of 40 - by 2020. Councils will be under a duty to promote, through its planning system, the construction of such Starter Homes. It is as yet unclear what effect this may have on current developments – for example will Southwark come under pressure to approve projects which offer limited social rent properties but will build potentially more Starter Homes?

### Section 3: The forced sale of council homes

The plans to force Southwark to sell its “high value” homes raises two clear lines of enquiry:

- how many homes may be lost?
- what are the impacts for remaining Southwark tenants.

In the next sections we seek to answer these questions.

**How many homes might be lost?** The answer to this question depends on two key areas which are not yet clear:

What will high value be?

What is the market for such “high value” homes?

The Conservative Manifesto suggested that “high value” would be assessed by reference to a percentage of the average value across specific regions. In its assessment Shelter considered the following values for London:

1 bedroom	2 bedrooms	3 bedrooms	4 bedrooms	5 bedrooms +
£340,000				£1,205,000
	£400,000	£490,000	£790,000	

When questioned about this, Southwark housing policy officers challenged Shelter’s use of these figures pointing out that the definition of “high value” remains to be provided by the Government. The officer questioned stated: “. . . we know these values will be adjusted following a property survey. Our experience was that slight changes in the values used could have a big impact on the numbers possibly affected. While the Government still seems to be proposing regional thresholds it is possible they will adopt more local thresholds once they start to receive data from Local Authorities. The Government is about to request this data from Local Authorities by the end of December.”

This is clearly an area of potential change and should be monitored by Southwark.

However, Southwark’s estimate of the potential amount of its stock at risk of forced sale is significantly higher than Shelter’s. Southwark estimates 30% of its stock could be lost, Shelter puts this at 10% but recognises that council’s local knowledge may be better relied on. Shelter references a Savill’s report which puts Southwark 5<sup>th</sup> among the most affected areas i.e. those councils likely to lose most council homes.

**Table 5: Top 20 most affected areas according to Savills’ analysis<sup>28</sup>**

Area	Number of homes above the threshold	Proportion of total homes
Camden	7494	33%
Westminster	5830	48%
Kensington and Chelsea	4369	63%
Hammersmith and Fulham	3951	32%
Southwark	3755	10%
Islington	3711	18%
Wandsworth	3264	19%
Lambeth	2337	10%
Haringey	2077	13%
Leeds	2007	4%
Hackney	1949	9%
Ealing	1327	10%
Sheffield	1266	3%
Barnet	1088	10%
Hounslow	914	7%
Birmingham	769	1%
St Albans	747	15%
Newcastle upon Tyne	710	3%
Dacorum	647	6%
Epping Forest	627	10%

Shelter also observes that a significant number of larger homes (i.e. 3 bedrooms plus) may be sold as a result of the Housing Bill, as larger homes will generally attract a higher value. This poses a further challenge to overcrowding and how Southwark will cater for families raising children in unsatisfactory homes.

What is clear from both Southwark and Shelter’s analysis is that a significant number of homes may be required to be sold off. Compounded by the sale of housing association properties under Right to Buy it appears highly likely that a significant proportion of homes currently provided at social rent will no longer be available to tenant’s who cannot afford higher rents in this area of London. Such tenant’s will be required to compete for Southwark’s retained stock, try to find low rents on the private market or move to areas outside of Southwark.

### **Impacts of forced sales on Southwark council tenants**



The sources we reviewed suggested that Councils may encounter a number of perverse incentives to avoid their stock becoming void and essentially “up for sale”, these include:

- not tackling overcrowding or anti-social behaviour;
- not tackling under-occupation including facilitating mutual exchanges;
- manipulating the housing allocations process to place tenants who are most likely to have longer tenancies or not be able to finance a right to buy themselves;<sup>4</sup>
- Clearly such behaviours are not acceptable to our residents and Southwark should be required to demonstrate that its present policies and procedures are suitably robust to avoid these behaviours being adopted; and
- One area that requires detailed consideration is whether the Housing Bill will necessitate a review of Southwark’s voids policy. This is addressed later in this report

#### **Southwark’s void sales current policy**

Empty properties are assessed against the following criteria and considered for disposal if they meet one or more of these criteria:

- Bedsit, 1 & 2 bed, converted street flats above the ground floor, with a view to being able to sell the freehold interest of the house
- Void properties valued over £500,000\*
- Listed residential properties
- Properties deemed uneconomic to repair, following consideration of its value as a long term asset to the council and in parallel with available resources in the annual major voids repair budget
- Properties with inappropriate layouts e.g. where a bathroom is off a bedroom and where changes to the layout are restricted or uneconomic
- Flats in a house with an already high level of leaseholders, and where sale would potentially allow the disposal of the freehold
- Prefabricated bungalows

\* Where properties are identified for disposal under the £500,000 value criterion, at least one of the other criteria should also apply.

One argument might be that if Southwark is forced to sell more “high value” property it should limit the sale of lower value homes to the greatest extent possible. Clearly this may bring challenges around maintaining less suitable or unusual stock.

In the short term Southwark may also wish to consider if any benefits exist from accelerating the sale of existing voids already identified for sale.

#### **Meeting the cost of RTB deposits – where will the money come from?**

The current form of the Housing Bill suggests that councils will be able to meet their obligations to fund the cost of RTB Housing Association discounts by forward paying an annual amount based on an estimate of the Council’s receipts from sales of council homes. This may be an important

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<sup>4</sup> Shelter report and discussions with Housing Associations

concession, allowing councils to plan financially – perhaps funding this obligation from other capital sources in order to build new social rent homes that will replace housing association homes as they are sold under RTB and high value voids also required to be sold.

An obvious question when local government is facing unprecedented cuts is - where else will this money come from? Southwark may be able to capitalise on particularly high land values in parts of the borough to sell residential and non-residential assets which are of a particularly high value. However, it seems unlikely that such possible sales have not already been identified and the potential capital receipts identified for other requirements. Southwark will need to know how much it will need to find and where it will source such funds from.

As well as the possible sources of cash to fund this payment Southwark must also consider, if it is required to pay an estimated sum based on the project sales of council homes, the implications of a shortfall in the expected capital receipts. Will the government compensate any "out of pocket" amounts or will Southwark be required to bear this risk as well?

## **Section 4: Impact on housing associations in Southwark**

This section of the report covers several aspects of the impact on Housing Associations:

- The impact of the policy in a national context
- The impact for housing association stock in Southwark
- The impact for housing association tenants in Southwark (including those who exercise the right to buy)

The impact on housing association management will be covered in the next section, which also looks at the impact on housing management for Southwark Council.

### **National Context**

The impact on housing associations nationally has the potential to be huge. The offer from the National Housing Federation to government extends the Right to Buy to around 841,000 tenants, of which the NHF estimates that 221,000 tenants are both eligible and able to afford to purchase their homes.<sup>5</sup>

A website was set up in October allowing housing association tenants to register their interest in the scheme. This saw 5,200 tenants sign up in the first month<sup>6</sup>, which equates to 0.6% of those who will be eligible under the scheme, and 2.4% of those identified as able to afford to purchase.

Right to Buy sales are on the increase. In 2014/15 there was an increase of 5% in the number of right to buy sales.<sup>7</sup>

### **Impact on Housing Association stock in Southwark**

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<sup>5</sup> "Right to Buy extension estimated to cost £12 billion" – NHF, 14 April 2015 - <http://www.housing.org.uk/blog/right-to-buy-extension-estimated-to-cost-12-billion/>

<sup>6</sup> "New right-to-buy boom: 1,000 people a week signing up to housing association sell-off ahead of launch of new scheme", Mail on Sunday, 15 November 2015 <http://www.dailymail.co.uk/news/article-3319804/New-right-buy-boom-1-000-people-week-signing-housing-association-sell-ahead-launch-new-scheme.html>

<sup>7</sup> "Britain building again as new homes rise by a quarter" - <https://www.gov.uk/government/news/britain-building-again-as-new-homes-rise-by-a-quarter>

There are a number of exemptions from the proposed scheme which will protect some Southwark stock from being affected:

- supported housing designed for people with specific needs
- specialist properties of historic interest (almshouses)
- properties provided through charitable or public-benefit resources or bequeathed for charitable or public-benefit purposes
- tied accommodation
- where the landlord is a co-operative
- where the landlord does not have sufficient interest to grant a lease of over 21 years
- properties held in a Community Land Trust<sup>8</sup>

Southwark's location and property prices have meant that Right to Buy for council tenants has been relatively unaffordable in recent years and these factors are likely to have a similar impact on affordability of housing association properties.

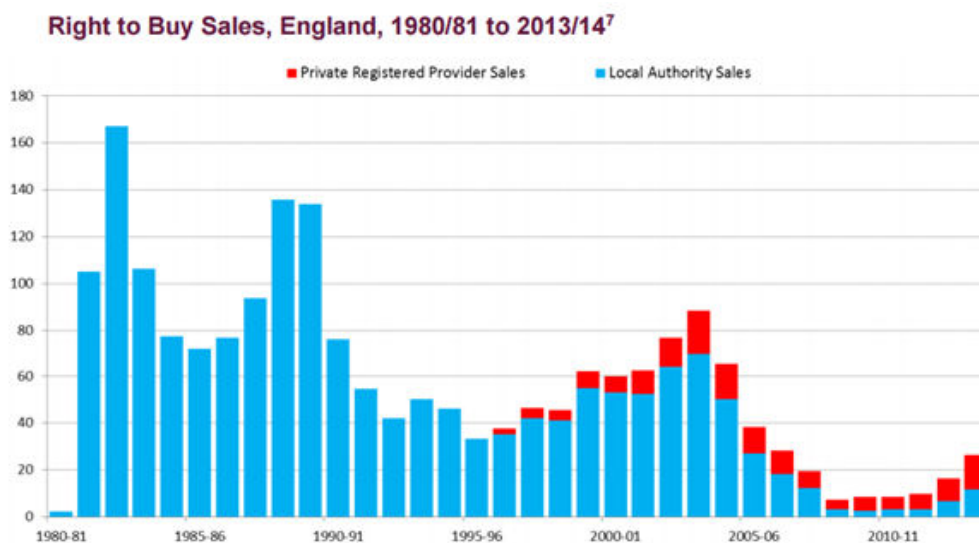
<b>London Borough</b>	<b>Number of properties 2014</b>	<b>Right to Buy Sales 2014/15</b>	<b>Percentage of properties sold in 2014/15</b>
Kensington and Chelsea	6,845	25	0.37%
Westminster	12,091	53	0.44%
Wandsworth	17,003	85	0.50%
Camden	23,508	143	0.61%
Hammersmith and Fulham	12,536	77	0.61%
Kingston upon Thames	4,790	34	0.71%
Harrow	4,915	37	0.75%
Southwark	39,029	304	0.78%
Hackney	22,382	180	0.80%
Lewisham	14,923	122	0.82%
Havering	9,992	84	0.84%
Islington	26,264	234	0.89%
Brent	8,668	78	0.90%
Croydon	13,993	135	0.96%
Lambeth	24,653	251	1.02%
Greenwich	22,832	247	1.08%
Barnet	10,978	123	1.12%
Ealing	12,567	142	1.13%
Hounslow	13,269	150	1.13%
Barking and Dagenham	18,434	220	1.19%
Sutton	6,120	75	1.23%
Redbridge	4,558	56	1.23%
Waltham Forest	9,926	130	1.31%
Haringey	15,646	218	1.39%
Newham	16,602	251	1.51%

<sup>8</sup> "Extending the Right to Buy (England)", House of Commons Briefing Paper 07224, 12 November 2015, <http://researchbriefings.files.parliament.uk/documents/CBP-7224/CBP-7224.pdf>

Enfield	10,665	179	1.68%
Hillingdon	10,243	191	1.86%
Tower Hamlets	12,424	254	2.04%
Bexley	19	..	0.00%
Bromley	62	..	0.00%
Merton	0	..	0.00%
Richmond upon Thames	0	..	0.00%

However, the original Right to Buy saw a huge number of sales in the initial phase (see table below). This pent up demand for purchase could be mirrored in the early years of this extension. A fifth of all council properties sold under right to buy were sold in the first four years. A further surge in sales was seen in the late 1980s when the government extended the discount to encourage sales of flats and other property types which had not sold in large numbers.<sup>9</sup>

Southwark Council's website<sup>10</sup> states that over 10,000 properties in Southwark are owned or managed by housing associations. If Southwark reflects the national picture of 0.6% of tenants registering interest in the scheme, then this would equate to around 60 properties being sold in the first instance. However, the original Right to Buy 'took off' in year two. If this pattern occurred in Southwark now, it would see thousands of housing association properties sold off in years 2,3 and 4.



Source: Table from Centre for Regional Economic and Social Research at Sheffield Hallam University, Headline Findings from Evidence Review, 2015 - <http://www.parliament.uk/documents/commons-committees/communities-and-local-government/Full-Report-for-Select-Committee-141015final.pdf>

Representatives of housing associations in Southwark have met with members of Overview and Scrutiny and shared their concerns. Whilst they do not envisage large numbers of their properties being purchased (due to property prices in Southwark), they have concerns around their ability to

<sup>9</sup> "The Impact of the Existing Right to Buy and the Implications for the Proposed Extension of Right to Buy to Housing Associations", Cole, Green, McCarthy & Pattison for the CLG select committee - <http://www.parliament.uk/documents/commons-committees/communities-and-local-government/Full-Report-for-Select-Committee-141015final.pdf>

<sup>10</sup> [http://www.southwark.gov.uk/info/200052/looking\\_for\\_a\\_home/971/different\\_types\\_of\\_housing/3](http://www.southwark.gov.uk/info/200052/looking_for_a_home/971/different_types_of_housing/3)

acquire land in Southwark to build new properties. Smaller housing associations feel that the impact of any sales at all of their property will significantly affect their business models and their ability to replace stock.

**Quotes taken from Southwark Housing Association Group meeting, 9<sup>th</sup> September 2015:**

“Rotherhithe, Bermondsey, Camberwell and Peckham have high density of housing already, and very little scope to build. I think housing associations would be pushed out of these areas”.

“We have concerns about what the government will do next – after the rent reduction and Right to Buy, what is the next curveball?”.

“The worry is that we won’t be able to replace homes in Southwark”.

Much of the assessment of the impact remains speculative. Many housing associations do not know much about the income of their tenants (other than those in receipt of housing benefit), and are unable to predict the effects of tenants receiving support from family and friends to purchase their homes. Cole, Green, McCarthy & Pattison (2015) state that 13 per cent of Right to Buy sales were funded with external financial support in 2000. Anecdotal evidence from Southwark Housing staff suggests that there has been an increase since then in ‘rogue’ companies assisting with the purchase of local authority housing.

*A review by Burrows, Ford and Wilcox (2000) found that 13 per cent of RTB sales were funded with external financial support. This kind of financial assistance from families or other sources allowed some households with lower incomes (such as pensioners) to purchase their property. In some cases ‘rogue’ companies may offer special deals to sitting tenants, especially those receiving Housing Benefit, to purchase outside the formal mortgage market.<sup>11</sup>*

Green, McCarthy & Pattison (2015)

The table below sets out the current split of Housing Association properties by Housing Association in Southwark:

Table 2.04c Top 15 Housing Associations in Southwark by overall stock size 2015

Rank	PRP name	General needs, self contained and non self contained, supported and older people housing
1	London & Quadrant Housing Trust	1,866
2	Hyde Housing Association Limited	1,434
3	Peabody Trust	1,562
4	Hexagon Housing Association Limited	1,269

<sup>11</sup> “The Impact of the Existing Right to Buy and the Implications for the Proposed Extension of Right to Buy to Housing Associations”, Cole, Green, McCarthy & Pattison for the CLG select committee - <http://www.parliament.uk/documents/commons-committees/communities-and-local-government/Full-Report-for-Select-Committee-141015final.pdf>

5	Family Mosaic Housing	1,177
6	AmicusHorizon Limited	1,160
7	Wandle Housing Association Limited	998
8	Affinity Sutton Homes Limited	940
9	Notting Hill Housing Trust	966
10	Southern Housing Group Limited	601
11	The Guinness Partnership Limited	549
12	Metropolitan Housing Trust Limited	273
13	The Riverside Group Limited	188
14	Habinteg Housing Association Limited	168
15	Lambeth & Southwark Housing Association Limited	158

Source: SDR2015

<https://www.gov.uk/government/collections/statistical-data-return-statistical-releases>

### **Impact on Housing Association Tenants**

*“Our vision is to supply housing to those who need it. This puts us at a standstill, with people on low incomes holding on to properties in order to buy at a later date and people who can afford it buying our properties now. Home leavers, students etc. will be missing out because people won’t be rotating out of our properties the way they normally do”.* Member of Southwark Housing Association Group, September 2015

The quote above indicates that some in the sector anticipate a reduction in available stock, as tenants purchase their properties or seek to stay in their rented accommodation in order to qualify for Right to Buy. This will reduce the opportunities for tenants to move to more suitable accommodation as their situations change, as well as reducing the availability of properties for new tenants.

### **Impact on Housing Association Tenants who exercise the Right to Buy**

Shelter (2011) found that their mortgage debt advice case workers reported “an unusually large number of clients who purchased under Right to Buy and are now in arrears or facing repossession. These clients are often older people or people with long term health issues, those who have

overcommitted to debt and had not realised or planned for the additional costs of repair and maintenance on their homes”.<sup>12</sup>

There will also be issues around adjustment for those used to being tenants, such as housing repairs: The quote below from the Chief Executive of a Housing Association in October 2015, makes this clear.

*“We are going to make it crystal clear to our tenants who are going to buy, the minute they buy they are on their own. There has to be a very visible move by them from being a tenant to being a leaseholder. They will no longer have a housing officer. We are no longer interested in repairs in their home. I’m only interested about communal areas. Don’t come to me complaining about your neighbours or anything like that. Don’t come to me saying what about this what about that. I’m not interested.”*

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<sup>12</sup> “Department for Communities and Local Government consultation: Reinvigorating the Right to Buy and one for one replacement”, Shelter, February 2012 - [http://england.shelter.org.uk/data/assets/pdf\\_file/0006/419316/Shelter\\_Response\\_to\\_DCLG\\_consultation\\_-\\_Reinvigorating\\_Right\\_to\\_Buy\\_-\\_February\\_2012.pdf](http://england.shelter.org.uk/data/assets/pdf_file/0006/419316/Shelter_Response_to_DCLG_consultation_-_Reinvigorating_Right_to_Buy_-_February_2012.pdf)

## Section 5: Impact on Housing Management

### Implications for allocation of tenancies

Housing Association Manager, October 2015 *“To an extent, any new arrangement around allocations from new properties and particularly around section 106, we would be looking to you for people who would not be able to afford Right to Buy.”*

Some housing associations may seek to limit the impact by changing their allocations policies to exclude tenants who are more likely to afford Right to Buy. There is a serious risk that this would translate into a reduction in nomination rights for the council. The above quote, from a senior manager of a housing association, suggests that some housing associations would be looking to take only those tenants from the council waiting list who would not be able to afford Right to Buy. This is not something that Southwark can (or should) agree to.

### Impact on housing mix and TRAs

*“This will take millions of pounds out of our surplus, which ultimately means fewer units and a changed profile of these units”* Member of Southwark Housing Association Group, September 2015

*“We still want to provide affordable rented housing. We will use our own resources to do it, which will mean we will build fewer.”*<sup>13</sup> Ian Munro, chief executive of New Charter

As housing associations look to replace properties sold under the Right to Buy, they will be placed in direct competition with the Government’s Starter Homes plans, resulting in new developments that have a smaller percentage of affordable homes, with more houses being offered for sale. This will shift the balance of priorities in these areas to the needs of leaseholders and freeholders and affect the balance of tenants and residents associations (TRAs).

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<sup>13</sup> Starter Homes plan 'will hit association development' – Inside Housing, 8 October 2015 - <http://m.insidehousing.co.uk/starter-homes-plan-will-hit-association-development/7012160.article>



## Section 6: Southwark Council's internal preparation for the implementation of this policy

This section of the report look at steps the council's internal preparations for the implementation of these policies, both with regard to its response to introducing right to buy for Housing Association Tenants and the forced sale of void council properties in 'high value' areas. There is also some reference to associated Government policies of limiting rent increases to 1% per annum and "pay to stay" for council tenants, although that is not the Committee's focus.

In order to properly ascertain if the council is as prepared as it can be, given the available detail from the government, the committee has identified a number of areas of risk. Here we break them down into four broad categories:

- a) home building and provision
- b) financial impact on the Housing Revenue Account (HRA)
- c) wider social impacts
- d) A new relationship with housing associations

Below we go into more detail regarding these risks.

### Home building and provision

- **'One for one' replacement of affordable homes.** There is a high risk that we will not see a one for one replacement of void sales or Housing Association homes sold under Right to Buy. It is unlikely Housing Associations will build enough replacement homes in our borough and probably not in our city. The Housing Bill does not currently detail any requirement for ring-fencing of receipts by housing associations or replacement homes to particular areas by region, city or local authority area.
- **Land availability:** Local authorities in dense urban areas such as Southwark, already engaged in large scale home building programmes, will clearly have difficulty obtaining land for replacement homes. For example, some London councils are already talking about home building outside of the capital in order to deliver on the 'one-for-one' replacement policy. OSC is not in favour of such a move, but this does indicate how radically the council will need to think in order to adapt to this policy.

- **Borrowing 'headroom' to build new council homes reduced:** The policy change creates uncertainty with regard to Southwark's 30 year home building programme. Southwark is, in part, using equity from existing housing stock to fund building and refurbishment. How would the reduction of that stock reduce our home building potential?
- **Excluding certain types of property from forced sales:** The Bill, as currently drafted, gives virtually no detail with regard to properties which might be excluded from forced void sales. We need to make absolutely clear to government that, for certain types of properties, it makes no sense whatsoever to force councils to sell them when they are vacant. The most obvious category is newly built council homes. Council's would have little incentive to build new homes that were simply then sold on the open market. Other categories would include decanted housing during regeneration, sheltered housing (because of the cost and need to replace them) and properties within TMO and other co-operative arrangements. For example, continued viability of the highly successful Leathermarket JMB whose 30-year business plan to develop new homes would be under serious threat if the council were forced to sell off their properties.
- **When is a void a void?** Without careful management, the council might be forced to sell more properties than is strictly necessary. As noted above, we do not yet know the precise criteria which will be used to define vacant properties which the council will need to sell. However, this should not stop Southwark Council from doing some early thinking about how we define a void to ensure that we only sell off those properties which fall under the strict definition of the legislation and guidance.

### **Financial impact on the Housing Revenue Account (HRA)**

- **Rent and capital receipts for the HRA:** If council homes are not replaced in our borough, this reduces the rental stream and availability of capital receipts to be re-invested in the HRA. This would be a matter of serious concern and a risk that Southwark's Cabinet would need to manage very carefully. OSC understands that it is difficult to carry out detailed financial modelling at this stage because of the continuing uncertainty regarding the implementation of this policy. However, the longer-term issue is addressed in our recommendations.
- **Valuation of properties:** The way in which the Secretary of State eventually defines "expensive" or "high value" properties is incredibly important for a borough such as Southwark. Like most local authorities the Council does not hold an up-to-date list of the market value of every property within its stock. Southwark's data is based on work completed by Savills in 2000. This was produced on a 'beacon' basis and updated on a borough level utilising the Land Registry index for March 2015. The difference between an open market valuation or a 'book' valuation is potentially huge. If the former is pursued, this could be disastrous for the HRA financial position because a market valuation may vastly increase the number of properties scooped up by the process.

### **Social impact**

- **Reduction in Lettings.** The effect of the implementation of this policy will be, for the first two years, a reduction in available lettings in our borough, leading to a range of households not being able to obtain a council tenancy who might otherwise have done so. Clearly the council needs to be in a position to respond to this.
- **Homelessness:** Research commissioned by London Councils, which has been seen by Overview and Scrutiny, shows that in the first two years of this policy being implemented, there would be a significant rise across London in the number of homeless families who may otherwise have been housed in council housing. A high proportion will be families with children. There will also be a significant number of London households, currently in local authority general needs housing, who will not be able to move as a result of this policy. This is in addition to those households who could not be nominated to housing association tenancies due to right-to-buy sales.
- **Overcrowded housing:** These tenants are likely to face the choice of retaining support networks but remaining overcrowded, moving to a new tenancy in another borough, looking for a private rented sector tenancy or, if homeless, entering or remaining in temporary accommodation.
- **Tenure polarisation:** Another significant impact of the proposals, combined with changes to the welfare benefit cap, is increasing social and tenure polarisation in London. With the risk of less than one for one replacement, and many of the homes replaced being on up to 80% of market rents, there is a risk that parts of Southwark will become increasingly a place where only the well-off can live.

#### **A new relationship with housing associations**

- **Some Housing Associations as “Private Developers”:** In her evidence to the committee, the Strategic Director, Housing Services and Community Services stated: “They have very different positions. Peabody are most affronted. Some are positively cock-a-hoop with the opportunity . . . In terms of our relationship. We’ve already had the issue of affordable housing and the definition of that. There is a real concern if Housing Associations just become private developers, which I think some of them will become. So that’s a problem.” Clearly, the council will need to develop new policies regarding our relationships with Housing Associations which fall into these different categories. The Committee suggests that we may wish to form stronger ties with those Housing Associations who have a stronger sense of their social and moral mission.

## Section 7: External Communications

The evidence set out in this report demonstrates that proposals to introduce right to buy for housing association tenants and, in particular the proposal to force Councils to sell off vacant properties in “high value” areas, would have a devastating impact on our borough. It has the potential to significantly reduce our housing stock, damage our ability to build much needed new homes and could indirectly lead to an increase in homelessness and overcrowding.

Unlike so many other ill-thought through and damaging policies proposed by the Conservative Government, there appears to be a growing recognition among journalists, some legislators and the wider public of the unjustifiable harm which could be inflicted by these policies.

Consequently, the Overview and Scrutiny Committee believes it is important that the Cabinet undertakes work to communicate how Southwark would be effected, in effect, offering the borough as a case study. We believe that carrying out such work could help convince key individuals to take a firmer stance on the proposed arrangements.

### Five absurdities of the right to buy/forced void sales policy

Even for those people who support extending right to buy to housing associations tenants, the current plan makes no sense. Here are five weird implications of the current plan:

1. **The Minister will be right, even when they're wrong:** The Bill, as currently drafted, enables the Secretary of State to get the valuation of homes right, even when they're wrong. It states: “A determination may provide for assumptions to be made in making a calculation, whether or not those assumptions are, or are likely to be borne out by events.”
2. **It is completely arbitrary:** Local authorities who have, for a variety of random political, economic and historical reasons, transferred their housing stock to another organisation (such as an ALMO) will not be billed by the Secretary of State for high value voids.
3. **Tory policy on the HRA is turned on its head:** Previous Conservative and Conservative led governments have made it clear that council Housing Revenue Accounts (HRA) must be ring-fenced, in part to stop cross-subsidy. Now a Conservative Government is raiding council HRAs to pay for their right to buy policy.
4. **It will discourage philanthropy:** 150 years ago a philanthropist such as George Peabody willingly put huge amounts of his own money into building homes specifically for the poor and needy. Would he have ever done this had he known a future government would turn his investment into individually owned assets, up for sale and rent on the open market?
5. **Possible decrease in home ownership:** As Lord Kerslake stated in his evidence to the committee: “It won't deliver on the Government's objectives. The Government have set a

policy of increasing home ownership, in fact, home ownership has fallen over the last decade. The reason it's fallen is because of lack of supply. This policy will undermine the things which support greater supply."

## Section 8: Recommendations

### Plans to build new homes

1. That the Cabinet Member orders an urgent review of the financial modelling underpinning the 30 year housing investment programme as soon as sufficient data is available from Government to do so. This should explain:
  - a) The impact on Southwark's borrowing plans
  - b) any re-allocation of currently anticipated capital receipts to fund the Housing Association RTB discount especially funds planned to support building new council homes.
  - c) An answer to the "like for like" question: how will the council's own new homes be comparable to existing social rents? How will Southwark meet its "duty to promote" Starter Homes without compromising or giving up plans originally earmarked for lower, social rents.

### The forced sale of council homes

2. Southwark reviews its voids policy and implementation to ensure that no council home is sold that could be legally retained without genuinely significant cost.
3. That, subject to the details of legislation and guidance, the Cabinet Member instructs officers to compile a detailed list of properties which are excluded from forced void sales. This list should be as extensive and wide-ranging as is legally permissible. OSC would expect this list to include newly built properties, sheltered housing, and properties within TMO and other co-operative arrangements.
4. That the Cabinet Member should instruct officers to develop new policies which reduce the number of void properties, consequently reducing the number of properties which the council is then forced to sell. This might include doing more to encourage mutual exchanges and voluntary downsizing to smaller properties. Clearly this is a piece of work in which the expertise of Southwark's Housing Solutions Team would be crucial.
5. That the Cabinet member instructs officers to develop new policies to tighten the definition of a void property and ensure that no properties are forced into sale unless it is strictly, legally necessary. Again, this work should take advantage of the expertise in Southwark's Housing Solutions Team.

### Housing associations in Southwark

6. Southwark should proactively address the risk posed by this legislation to planned housing association projects by instigating discussions (perhaps at leader and/or cabinet member

level) with housing associations who are currently planning future homes in Southwark. This should include both plans which are in progression, such as Notting Hills development at the Aylesbury Estate and new plans such Peabody Housing Association “Newington Triangle” development. Southwark and the Housing Association L&Q have been designated as a pilot by DCLG for the Housing Association Right to Buy scheme<sup>14</sup>, this might allow Southwark to test some of the risks and possible mitigates identified in this report.

7. That Southwark council seeks clarification from Housing Associations on changes to the profile of future development, and seeks to work with those committed to the continuation of providing homes at social rents.
8. That Southwark council should share its experience of the impact of Right to Buy with senior managers at Housing Associations to make them more aware of the potential impact on housing stock, including its relationships with leaseholders.

#### **Southwark Council’s internal preparation for the implementation of this policy**

9. That Southwark council undertakes preliminary work to determine the potential impact of mortgage defaults on the borough’s temporary housing and homelessness services.
10. That the council, in collaboration with housing associations, works with local financial inclusion and debt charities to educate those considering the Right to Buy on the impact of moving into home ownership – interest rate fluctuations, cost of major works, responsibility for repairs etc.

#### **External Communications**

11. The Cabinet Member should instruct officers in the Communications Department to develop an external communications plan which highlights the hugely negative impact that these proposals would have on residents of our borough if they are enacted in their current form. OSC would expect that such a plan to include articles, letters and press releases aimed at the national, city-wide and local government sector press.
12. If Southwark is forced to ‘forward pay’ an amount to meet its obligations to the government it publishes a detailed model showing where such receipts have come from and the impact on future building plans.
13. Southwark vociferously campaigns for the Government to issue further information on the Housing Bill and define “high value”.
14. That the Cabinet Member initiates the drafting of a joint letter from the Leaders of all three political groups on Southwark Council to the Local Government and Housing Ministers

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<sup>14</sup> Southwark Council Leader Peter John, announced in Council assembly 25 November 2015.

highlighting the absurdities and negative impact of these proposals, with particular regard to the impact on home building and the availability of affordable homes.

15. That the Leader of the Council and the Cabinet Member for Housing write to the Chair of the Communities and Local Government Select Committee offering to give oral evidence to the Committee. (The Committee is currently looking at the impact of these proposals Housing Associations, but it is widely expected that it will follow this up with a further enquiry into the impact on housing and Local Authority provision).
16. Continue to contribute to lobby efforts through our membership of London Councils and Central London Forward.