

## Housing, Environment, Transport and Community Safety Scrutiny Sub-Committee

Monday 17 December 2012  
7.00 pm  
160 Tooley Street, London SE1 2QH

### Membership

Councillor Gavin Edwards (Chair)  
Councillor Graham Neale (Vice-Chair)  
Councillor Chris Brown  
Councillor Michael Bukola  
Councillor Lorraine Lauder MBE  
Councillor Tim McNally  
Councillor Martin Seaton

### Reserves

Councillor James Barber  
Councillor Patrick Diamond  
Councillor Darren Merrill  
Councillor Michael Situ  
Councillor Geoffrey Thornton

### Co-opted members

Cris Claridge  
Miriam Facey  
John Nosworthy  
Jane Salmon

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### Contact

Shelley Burke on 020 7525 7344 or email: [shelley.burke@southwark.gov.uk](mailto:shelley.burke@southwark.gov.uk)

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Members of the committee are summoned to attend this meeting

### Eleanor Kelly

Acting Chief Executive

Date: 7 December 2012



# Housing, Environment, Transport and Community Safety Scrutiny Sub-Committee

Monday 17 December 2012  
7.00 pm  
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## Order of Business

Item No.	Title	Page No.
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### **PART A - OPEN BUSINESS**

**1. APOLOGIES**

**2. NOTIFICATION OF ANY ITEMS OF BUSINESS WHICH THE CHAIR  
DEEMS URGENT**

In special circumstances, an item of business may be added to an agenda within five clear working days of the meeting.

**3. DISCLOSURE OF INTERESTS AND DISPENSATIONS**

Members to declare any interests and dispensations in respect of any item of business to be considered at this meeting.

**4. MINUTES**

To approve as a correct record the Minutes of the open section of the meeting held on 11 September 2012. To follow

**5. CABINET MEMBER INTERVIEW - COUNCILLOR IAN WINGFIELD,  
DEPUTY LEADER, HOUSING MANAGEMENT**

Themes:

- Update on repairs contract
- Update on Warm, Safe and Dry investment programme
- Update on new software being used to provide information to leaseholders
- Customer Access Strategy

Item No.	Title	Page No.
	<ul style="list-style-type: none"> <li>- TRA Halls &amp; Bars</li> <li>- Antisocial behaviour</li> <li>- Parking enforcement on housing estates</li> <li>- Loss of housing stock</li> <li>- Management of major works contracts</li> <li>- Processing and monitoring members' housing enquiries</li> <li>- Housing allocation and bidding system</li> <li>- Response to housing commission</li> <li>- Safety of tenants</li> <li>- Nuisance neighbours: evictions following criminality, treatment of antisocial private tenants of leaseholder</li> </ul>	
6.	<b>HOUSING COMMISSION REPORT</b>	1 - 87
7.	<b>TENANTS HALLS SURVEY</b>	

**DISCUSSION OF ANY OTHER OPEN ITEMS AS NOTIFIED AT THE START OF THE MEETING.**

**PART B - CLOSED BUSINESS**

**DISCUSSION OF ANY CLOSED ITEMS AS NOTIFIED AT THE START OF THE MEETING AND ACCEPTED BY THE CHAIR AS URGENT.**

Date: 7 December 2012

# investing in council housing: options for the future

a report by the independent  
commission on the future of  
council housing in Southwark

presented to Southwark London  
Borough Council

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## Contents

<b>Foreword by Jan Luba QC</b>	<b>4</b>
<b>Members of the Commission</b>	<b>5</b>
<b>Terms of reference</b>	<b>6</b>
<b>Glossary</b>	<b>7</b>
<b>EXECUTIVE SUMMARY</b>	<b>10</b>
<b>SECTION 1: INTRODUCTION</b>	<b>16</b>
<b>SECTION 2: COUNCIL HOUSING IN SOUTHWARK</b>	<b>20</b>
<b>2.1 Why council housing?</b>	<b>20</b>
2.1.1 How council housing works	21
<b>2.2 Council housing in the borough</b>	<b>22</b>
2.2.1 History of council housing in the borough	22
2.2.2 The scale of council housing and the impact of the Right to Buy	25
2.2.3 The nature of the stock	26
2.2.4 Quality of the stock	27
2.2.5 Housing investment	27
2.2.6 Cost and quality of maintenance	27
2.2.7 Customer care: how Southwark compares	28
2.2.8 Tenant management organisations	30
2.2.9 Housing revenue account: a new social business	30
2.2.10 Rent restructuring	31
<b>2.3 Who lives in council housing?</b>	<b>32</b>
2.3.1 Demographics	32
2.3.2 Economy and labour market	32
2.3.3 Incomes and well-being	33
2.3.4 Housing needs	34
2.3.5 Homelessness	35
2.3.6 Overcrowding	35
2.3.7 Affordability	35
2.3.8 Leaseholders and service charges	37
<b>2.4 Tenant and leaseholder perceptions of council housing</b>	<b>38</b>
2.4.1 Southwark as a landlord	38
2.4.2 Housing service	38
2.4.3 Quality of stock	38
2.4.4 Rents	39
2.4.5 Shortages and overcrowding	39
2.4.6 Allocations	39
2.4.7 Regeneration	39
2.4.8 Tenant engagement	39
2.4.9 Subletting	39
2.4.10 Antisocial behaviour	39

2.4.11	Services for leaseholders	40
2.4.12	Leaseholder charges	40
2.4.13	Leaseholders' relationships with the council	40
<b>SECTION 3: DRIVERS OF CHANGE</b>		<b>44</b>
3.1.1	Population change	45
3.1.2	Housing market	45
3.1.3	Welfare reforms	46
3.1.4	Rental convergence	46
3.1.5	Affordable Rent	46
3.1.6	Stock levels	47
3.1.7	Right to Buy	47
3.1.8	Void sales	48
3.1.9	Maintenance costs	48
3.1.10	High-investment-needs estates	48
3.1.11	Regeneration and planning gain	49
3.1.12	Decent Homes	49
3.1.13	Eco-improvements	49
3.1.14	Operating efficiencies	50
3.1.15	Tenant empowerment	50
<b>SECTION 4: OPTIONS FOR THE FUTURE</b>		<b>52</b>
<b>4.1</b>	<b>Strategic planning</b>	<b>52</b>
4.1.1	A business plan for council housing	53
4.1.2	Debt and borrowing	54
<b>4.2</b>	<b>Investment scenarios</b>	<b>56</b>
4.2.1	30,000 homes	58
4.2.2	39,000 homes	59
4.2.3	20,000 homes	60
4.2.4	Comparing the options	61
4.2.5	Who should tomorrow's council housing be for?	62
<b>4.3</b>	<b>Housing management options</b>	<b>63</b>
4.3.1	Large-scale landlord	64
4.3.2	Partnership model	64
4.3.3	Devolved (flexible) housing management	65
<b>SECTION 5: SUPPORT FOR COUNCIL HOUSING</b>		<b>68</b>
<b>SECTION 6: CONCLUSION</b>		<b>74</b>
<b>Appendix</b>		<b>80</b>
•	Written and oral evidence	80
•	Notes	82
•	Background papers and reports	84

## Foreword

Council housing is a big issue in Southwark, and rightly so. About half the households in the borough live in a property owned by the council (as either tenants or leaseholders), and the rest of the population live in fairly close proximity to a council housing estate or development. Any inquiry into or report about the future of council housing in Southwark therefore touches on the lives of nearly all the borough's residents. This may be a report commissioned by the council but it is, on any view, *for* the people of Southwark.

Many individuals will live in their council homes for decades, and frequently the home will have passed through generations of the same family. The buildings themselves are designed to last at least a human lifetime. Yet planning and policy development in relation to council housing has all too often looked only a few years ahead, frequently only as far as the term of office of the current political administration (no matter who is in power). That short term perspective has done little good and much damage to building a brighter future for council housing, not only in Southwark but across the country.

Earlier this year, I was delighted to be invited to lead a Commission charged to look beyond the short-term horizon and ahead to the next 30 years for council housing in this borough. The challenge was daunting. We had no crystal ball. The exercise had not been attempted on such a scale before.

However, even the least well-informed observer can quickly grasp the scale of the issue. There is more council housing in Southwark than in any other London borough. The stock is not in as good a condition as everyone wants it to be. The legacy of poor design, construction and other problems can be seen in the massive regeneration now under way on the Aylesbury and Heygate estates. The finances of redevelopment on this scale mean that significantly fewer council homes for social rent are produced than the number of homes replaced. Many other council housing estates in the borough will also need major renewal programmes. Even maintaining the council's housing stock at the present number of homes, while improving quality, represents a massive challenge.

But this report comes at a time of unprecedented change. New arrangements between central and local government have left the council free to plan its own destiny for the future of council housing in the borough. In partnership with the residents, it can work out its finances and set a plan for the future of its housing just like any good landlord or property owner would do. My hope is that this report will provide the present council (and any subsequent council) with the independent information, tools and options to make well considered choices for the future.

This report contains no single blueprint, nor should it. The Commission's expectation is that delivery of this report will represent the start of an informed dialogue between the council and the people of Southwark about the realities of the future for council housing in the borough.

That it has been possible to prepare a report of this magnitude in only nine months is a tribute to the commitment of my fellow commissioners and to the help and support the Commission has gained from all quarters. We are particularly grateful to have received much lively and informed comment from tenants and leaseholders in our residents' meetings and through the written representations that we received. Our thanks are owed for that material and for all the other input we received from politicians, community organisations, housing experts, other landlords and from everyone else who responded to our calls for evidence or came to meet with us. Of course, we have relied heavily on the well-informed and well-judged support we have had from the secretariat at the Smith Institute, a team so ably led by Paul Hackett.

It is my pleasure, on behalf of all the commissioners, to present this report of our Commission to the London Borough of Southwark. We hope it will be of assistance not only to Southwark councillors and council officers, but also (and most importantly) to the tenants and leaseholders of the borough. Because so many other local authorities and their residents face similar challenges, we trust that this report may also inform debate elsewhere.

**Jan Luba QC**  
Chair of the Commission  
October 2012



## Members of the Commission

- Jan Luba QC, Garden Court Chambers (chair)
- Sarah Barrett, head of customer and community services at Mears Group
- Michael Collins, journalist\*
- Kate Henderson, chief executive of the Town & Country Planning Association
- Marianne Hood OBE, former co-chair of the Voluntary & Community Sector Partnership Board and former chief executive of the Tenant Participation Advisory Service
- Peter Marsh, former chief executive of the Tenant Services Authority
- Ben Shimshon, director of Britain Thinks
- Gavin Smart, director of policy and practice at the Chartered Institute of Housing
- David Thomas, housing solicitor
- Martin Wheatley, consultant and former programme director for housing and environment at the Local Government Association and former head of the housing and urban team at HM Treasury
- Christine Whitehead, professor of housing economics at the London School of Economics

The secretariat to the Commission was led by Paul Hackett (director of the Smith Institute and former government housing adviser) and Paul Hunter (head of research at the Smith Institute), with research by Michael Ward (research fellow at the Smith Institute and former director of the Centre for Local Economic

Strategies), Denise Chevin (research fellow at the Smith Institute and former editor of *Building* magazine) and Andy Rumfit (research fellow at the Smith Institute and the director of Innovacion).

\*Michael Collins stepped down from the Commission in July 2012

## Terms of reference

Southwark council is the largest social landlord in London and owns a third of all housing in the borough – some 39,000 council homes and 16,700 leasehold properties. Much of that housing stock was built in the post-war era and is in need of repair or will need replacing. Furthermore, the borough faces growing demand for more low-rent affordable homes.

The council is optimistic about Southwark's future and is determined to enhance the things that make Southwark special – its immense diversity and vast depths of untapped potential. The provision of affordable, quality homes in places where people are proud to live is at the heart of its vision. However, the council faces challenging years ahead and will need to develop a long-term council housing strategy that meets the aspirations of tenants and is both sustainable and financially viable.

The council has agreed a £326 million five-year housing investment programme, which is designed to ensure that all of the council's homes are made warm, dry and safe. This is part of the council's overall top 10 promises agreed within a new Council Plan to deliver a fairer future for all.

Given cuts in government funding and levels of deprivation in Southwark, the task of delivering improved housing is immense. One of the biggest challenges facing the borough is providing a fairer place to live for tomorrow's council tenants. Against a backdrop of rising demand, less public money, major housing reforms and uncertainty in the housing market, what can be done to improve the future financing, ownership and operation of the housing stock? What are the expectations of tenants, residents, funders, and other stakeholders? What might a new council housing investment strategy spanning up to 30 years look like, and what factors need to be considered to make it sustainable and affordable and in such a way that it breaks the

current cycle of an escalating demand for resources to maintain the stock?

To attempt to answer these questions, the council decided to seek expert, independent advice to evaluate the evidence on what is possible in order to develop a robust business plan for the future that delivers quality council housing, is self-financing and increases the supply of affordable homes for rent. An investigation of this kind would also prove useful to other local authorities facing similar challenges.

The Commission it set up to do this would, it was decided, be composed of experts and chaired by leading housing lawyer Jan Luba QC. Commission members were to include housing and place-making experts, senior representatives from housing, local government, tenant groups, developers, investors and opinion formers. In undertaking its work the Commission was to have open calls for evidence and information from key stakeholders, tenants, leaseholders, residents, housing associations and all those involved and interested in providing housing across the borough.

The Commission, which met and worked from January 2012 to October 2012, stated as its intentions as:

- to explore options for the future financing, ownership and operation of Southwark's housing stock beyond 2015/16 (when the current five-year investment programme comes to an end); and
- to examine proposals and make recommendations for an investment strategy, for up to 30 years, that is sustainable, affordable to the council and breaks the current cycle of escalating demand for resources to maintain the quality of the stock.

## Glossary

### Affordable Rent

Social landlords who seek grant funding from the Government's Homes & Community Agency to help develop and build new homes may be authorised to let newly built homes and a proportion of existing homes at "Affordable Rent". That rent can be up to 80% of private market rents. This does not affect the rights or rents of existing social (council) tenants.

### Arm's-length management organisation (ALMO)

An ALMO is a not-for-profit company that runs housing services for the council. The council retains ownership of the stock and the ALMO has a board, which generally includes tenants. In the past, the government gave additional resources to councils which set up ALMOs to help them meet the Decent Homes standard.

### Buy-to-let

A residential property purchased by a private investor which is rented to private tenants rather than occupied by the purchaser.

### Community infrastructure levy (CIL)

A levy the council can choose to make on commercial developments to fund the provision of infrastructure such as transport links.

### Council housing

Housing owned and let by a local authority.

### Decent Homes standard (DHS)

Government quality standard which all socially rented homes should meet. Reasons for failures include falling short of standards on health and safety, energy efficiency and modern facilities such as bathrooms and kitchens.

### Department for Communities & Local Government (DCLG)

The government department that sets policy and allocates funding for local government, housing, communities and regeneration.

### Freeholder

Where a home owner has the freehold ownership of property (a tenure by which the owner has a permanent right to the land/property) previously owned by the council. In this report the term refers to a council tenant who has bought their house and may still be liable to contribute to the cost of maintaining and repairing the estate in which it stands.

### Gearing

The proportion of (housing) debt in relation to what the housing is worth.

### General fund

The General Fund Revenue Account is the fund used by local authorities to provide services or meet expenses, but does not cover housing revenue account or capital expenditure.

### Government grant

Central government funding to be used for a particular project or purpose that does not need to be repaid.

### Greater London Authority (GLA)

The GLA is a strategic authority with a London-wide role. The GLA supports the work of the mayor of London in developing and delivering strategies for London.

### Green Book

The Green Book is Treasury guidance for the appraisal of all central government policies, programmes and projects.

### Headroom

The borrowing headroom in the housing revenue account is the difference between the current level of housing debt and the borrowing cap set by government.

### Homes & Communities Agency (HCA)

The national housing and regeneration agency for England, with a capital investment budget of nearly £7 billion.

### Housing association

Social housing landlord not run for profit.

### Housing benefit (HB)

Social security benefit to those who are unable to pay their rent because of low income.

### Housing revenue account (HRA)

Each local authority that has retained housing has a housing revenue account into which rents and service charges are paid and out of which costs of maintenance and repairs are paid. The HRA has undergone significant changes recently, with councils retaining all monies from rents and charges for their own use.

### Housing revenue account borrowing headroom

The additional amount the council can borrow under its HRA, up to a cap set by central government.

### Intermediate housing

Homes for sale and rent which are let at rents above social rents but below market levels or sold at sub-market prices. This includes shared ownership of a property.

### Joint management board (JMB)

A joint management board is a tenants' management organisation, which has a board made up of residents and co-opted members with particular skills and expertise.

### Leaseholders

Home owners who do not own the freehold on their property. They are obliged to contribute to service charges for communal areas and contribute a fair share to major works needed to the structure of the property. In this report it refers to those for whom the council is the freeholder.

### Lettings policy

The name that Southwark gives to its allocation scheme: that is, the way that it selects tenants for vacant homes.

**Lifetime Homes standard**

A set of design standards to allow adaptation and accessibility of homes.

**Local Government Association (LGA)**

A membership organisation of local authorities which aims to promote and improve local councils.

**Local housing allowance (LHA)**

The local housing allowance arrangements are a way of working out housing benefit (HB) for people who rent from a private landlord. Local authorities use LHA rates, based on the size of household and the area in which a person lives, to work out the amount of rent which can be met with HB. HB paid under the LHA arrangements is normally paid to the tenant, who will then pay the landlord.

**London County Council (LCC)**

The principal local government body for London until it was disbanded in 1965.

**Net present value (NPV)**

This is the most commonly used method of assessing the financial viability of housing. It is a means of calculating cash flows over time at today's values. The NPV of net rent (rental income less expenditure) and any other net income (such as land and void sales) shows how much investment a scheme can repay. A negative NPV shows the amount of extra funding (subsidy or borrowing) that is needed to make a housing scheme financially viable. If there is an NPV surplus no additional funding is required.

**New Homes bonus**

The government provides funding for new homes by match funding additional council tax raised from new homes or by returning empty homes to use. More is provided for affordable homes.

**Office for National Statistics**

The ONS is the main independent producer of official statistics in the UK.

**Planning gain**

Refers to the increase in the value of land which results from planning permission being granted for that land. This increase in land value mainly accrues to the owner of the land, but a levy may be applied to divert some of the planning gain to the local authority for social housing or other uses. In England such arrangements are currently negotiated between the developer and the council, and take place under the terms of Section 106 agreements.

**Private rented sector (PRS)**

Homes which are provided at market levels by private landlords. Currently comprises 17% of housing stock in England.

**Private registered provider (PRP)**

Landlords registered to provide social housing, which includes housing associations and co-operative housing organisations.

**Public Works Loan Board (PWLB)**

PWLB lends money to local authorities from a national fund.

**Right to Buy**

Right to Buy allows council tenants the opportunity to purchase their home at a discounted price.

**RPI (Retail Price Index)**

Is a measure of inflation by the Office of National Statistics which calculates the change in cost of a basket of goods and services (but excludes housing costs).

**Section 106 (S106)**

A council, under Section 106 of the Town & Country Planning Act 1990, gives planning permission on the basis of an agreement that a fee is paid by a developer or a proportion of social rented properties are built on a private housing development.

**Stock transfer**

Transfer of local authority stock to a private registered provider.

**Subletting**

In this report, this term is used when a leaseholder lets their property privately.

**Tenants**

Those renting from a landlord. In this report, unless stated otherwise, it refers to renting specifically from the council.

**Tenants' management organisation (TMO)**

TMOs are organisations run by tenants that undertake housing management and maintenance services for properties that the council owns.

**Tenant and resident association (TRA)**

In Southwark, TRAs are groups of people from the same area who are consulted on matters affecting their local community and can be represented at their local area housing forum. They hold regular meetings and are funded by the council.

**Tenant Services Authority (TSA)**

The Tenant Services Authority was the regulator for social housing and its function is now undertaken by the Homes & Communities Agency.

**Unlawful subletting**

It is unlawful for council tenants to sublet their flats.

**Voids**

Council properties which are not currently being let.

**Warm, Dry, Safe**

Southwark housing investment programme target to ensure all council properties meet the government's Decent Homes standard.

# Executive summary

## Executive summary

The Commission believes that good-quality, low-rent council housing can contribute to better places and better lives. It is clear from the evidence in this report that council housing in Southwark is essential to the well-being and life chances of tens of thousands of local residents, young and old. Many of the council's tenants (and leaseholders) are on low incomes. If they did not live in council homes they would probably have to live in poor-quality private accommodation or leave the borough. If Southwark is to remain a successful borough with a mixed-income community, then the council's future plans will have to be predicated on providing significant amounts of council housing at below market rents.

Council housing is self-evidently strategically important for Southwark: it provides rented homes for a third of all the borough's residents, connects to health, education and employment, and shapes the physical landscape. Getting the strategy for council housing right is thus vital to the future prosperity of Southwark. As we make clear in the report, a 30-year plan for council housing must be at the heart of the council's over-arching vision for the borough.

An enormously important problem facing the council and its tenants and leaseholders is that the stock is ageing fast, and some of the badly designed system-built estates are simply beyond repair. Maintenance costs have for some time been much higher than for most comparable local authorities, and current strategies are expensive, time-consuming, and not always effective – for either residents or the council. Although the investments the council is making will improve the stock by 2015, continuing problems will emerge and there will be no long-term future for council housing without major investment over a 20- to 30-year period.

The council must not just maintain the improvements it has started to make to housing management, but accelerate them and make them much more ambitious, if it is to address the needs and legitimate concerns of residents. There is potential for radical improvement, but it is only achievable if there is a transformational change in the following areas:

- harnessing the interest and commitment of residents to help shape the future of the places where they live and improving the scrutiny and challenge of council officers and contractors, as is critical to the success of any council housing strategy;
- driving down the cost of recurrent repairs and maintenance by improved contract management and preventative investment in fixing underlying building problems;
- a more strategic approach to tackling the challenges of high-investment-needs estates, stepping up the pace of change and embracing new models of partnership in which the council and residents exercise greater control;
- rethinking the approach to the financial aspects of business planning and borrowing, and managing debt levels so they are appropriate for a social landlord with large property assets and a secure rental income; and

- ensuring that the council operates strategically with improved management systems and enhanced accountability.

While there are negatives to council housing in Southwark, there are also many positives. As the report shows: the majority of tenants who have expressed an opinion want the council to remain as their landlord; the current investment programme should improve the stock considerably by 2015; and the new housing revenue account (HRA) self-financing system offers a unique opportunity to do things differently.

It is against this backdrop that the Commission considered three basic investment scenarios: a steady reduction in the number of council homes over 30 years; a sharp reduction; and maintaining the stock at current levels. Reducing the number of council homes over 30 years to 20,000 low-rent homes (scenario 2) would enable the council to improve its remaining stock significantly – and make it possible to maintain it at a high standard. However, this option would mean fewer low-rent council homes. Similarly, the council could manage a reduction in its stock more slowly and seek to maintain 30,000 low-rent homes (scenario 1). Again this would release funds for repairs and redevelopment.

A different approach would be for the council to continue as London's largest landlord for the foreseeable future, providing some 39,000 low-rent council homes (scenario 3). But if the current scale is to be maintained, the council would need to increase investment in regeneration and commit to building at least 5,000 new council homes. This would require the council to up its game, both in terms of maintaining and improving the existing stock and as a partner with others in development. Under this scenario, the council would probably need to continue borrowing at roughly current levels – which we consider to be sustainable, albeit at a higher financial risk than is involved in the other two options. The council may also have to support such a level of investment with income from land sales and planning gain.

The Commission is not in a position to tell the council which option to choose. Under the new HRA system all three are possible, although none are cost- or risk-free. There is still more detailed work for the council to do on financial and asset management planning; on understanding the ways in which an investment strategy for council housing interconnects with other council services, such as adult care and children's services; and ensuring a step change in both strategic and day-to-day management.

We have offered some advice on formulating an investment strategy for council housing that can be sustainable and afforded, including suggestions on business planning and good performance management. We believe that the council should seek to empower its tenants and leaseholders and consult as widely as possible on its council housing strategy. We also suggest that the council seek a broad political consensus on the way forward.

Our report has identified the main drivers for change and the

*possible options for investing in council housing. We have shown that the council has new opportunities. But to use these opportunities effectively requires a far more business-like approach to long-term investment and managing the stock than is provided at the present time.*

*We cannot emphasise strongly enough the consequences of failing to face up to the housing challenge in Southwark. The evidence suggests the crisis in low-rented housing will get worse unless preventative action is taken in unison with other housing providers. The council cannot hope to meet all housing demand, but it can make a difference by providing better-quality council homes using its own assets more strategically and enabling more low-rent homes to be provided. However, to achieve that ambition will require a radical change of direction and a new deal for tomorrow's council housing.*

## Summary of the main report

### Introduction

- Southwark is facing a worsening housing crisis, with demand for affordable homes continuing to far exceed supply. Shortages of low-rent social (including council) homes will have adverse social and economic consequences, and could drive residents on low incomes out of the borough.
- Council housing has had a chequered history in Southwark, but the council could in future be a leader of excellence in providing good-quality, low-rent council housing. However, this would require the council to raise its game with a far more responsive approach to tenants and leaseholders and a social business attitude to the existing stock and investment decisions.
- The council is making significant investments in its council housing until 2015. It now needs to plan ahead and decide what investment strategy can best meet the needs and expectations of its tenants and leaseholders.
- To optimise return on its investments, and not repeat the mistakes of the past, Southwark needs to plan ahead and think strategically about its business model.
- To support this, the council must consider investment options for the future and fully engage tenants and leaseholders in developing a long-term strategy for council housing.

### Council housing in Southwark

- Southwark has the largest council housing stock of any borough in London and the highest proportion of council housing to homes of any council in the country. Southwark houses roughly as many tenants as there are residents of the city of Exeter.
- The stock has, however, been in decline since the 1980s, with the advent of the Right to Buy. This downward trend is likely to continue unless the council embarks on a major new-

build and renewal programme.

- The challenges Southwark faces today are a legacy of past decisions. The mistakes of building poor-quality estates ("on the cheap"), based on top-down decisions, must not be repeated.
- Equally, policies of patching up the stock have often done little either to ensure long-term viability or to improve tenant and leaseholder satisfaction. Good money is being wasted on treating the symptoms of building failure, rather than tackling the root causes.
- The impact of Right to Buy means that the council has large numbers of leaseholders. Southwark council is therefore not only managing homes for rent but also managing the buildings for home owners (some of whom are absentee owners who sublet).
- The size of the stock is also a challenge given the poor state of the housing. Investments are in place (under the Warm, Dry, Safe programme) to bring all council homes up to the government's Decent Homes standard by 2015, but some estates are beyond repair and 1,000 homes become non-decent each year. Patch and mend is not a cost-effective strategy in the longer term.
- The council's housing repairs and maintenance service is a particular concern of tenants and leaseholders. Comparisons with other social housing providers show that although progress is being made, Southwark lags behind the best in the sector on quality and cost.

### Who lives in council housing?

- Southwark is a growing borough and is forecast to have 50,000 more residents by 2030. This will increase demand for council housing and add to the already long waiting list.
- Two-thirds of current tenants are not economically active. Many are pensioners and carers.
- The incomes of council tenants are low, with 70% on incomes below £20,000. The median income is £9,100, far below the borough average and five times less than home owners.
- With many tenants on low incomes, council (or wider social) housing is the only realistic housing option. Private rents are more than double what council tenants pay, while home ownership is beyond the reach of most tenants (lower-quartile house prices are nine times lower-quartile incomes).
- Welfare reforms and falling real incomes will place added stress on low-income families and further limit their opportunities.
- There is under-occupancy in council housing across the borough, but mostly in homes where people have lived all their lives.

*Views of tenants and leaseholders*

The Commission heard from tenants and leaseholders about their concerns and what they felt could be improved.

- While tenants generally wanted Southwark to remain as their landlord, the majority of those we heard from believed they were receiving a poor service. The impression was "better the devil you know than the devil you don't".
- Tenants also felt that they should be consulted and listened to much more.
- Leaseholders, like tenants, thought that the housing service was below par and did not represent value for money.
- Leaseholders also felt that their relationship with the council could be much improved and that they should be better consulted, especially regarding major works.
- Tenants were concerned about rising rent levels.
- Tenants were particularly concerned to ensure the continuation of long-run security of tenure for both existing and new tenants.
- Some tenants were angry about unlawful subletting, which they suggested was widespread.
- They also had concerns about lawful subletting by leaseholders.
- Tenants (especially younger people) highlighted the problem of overcrowding.

*Drivers of change*

- Population growth will increase demand for council homes, and an ageing population will quicken the need to adapt properties.
- There is likely to be a continued increase in the number of private homes for sale or rent, most of which will be unaffordable to those on low incomes.
- The gap between social rents and private rents is set to widen as demands on the private sector increase.
- Welfare reforms will hit the poorest hardest and Southwark will need to focus on how it manages its future rental income. The reforms may force some prospective tenants out of the borough and could effectively require the council to provide more one-bed properties (which are cheaper to provide) and fewer (more expensive) family-sized homes.
- Council rents will continue to rise in real terms. Southwark is aiming to ensure rental convergence between housing association and council rents by 2021. Any deviation from rental convergence will adversely affect future housing

investment plans.

- The council housing stock is set to decrease if nothing is done and the possibility of more leaseholders (caused by tenants exercising their Right to Buy) presents challenges, not least for major redevelopments.
- A large and sustained increase in Right to Buy purchases could have a significant impact on council house financing and levels of stock to rent, although the impact is unlikely to be anything like it was in the 1980s. Buying back Right to Buy homes will continue to be a necessary part of redevelopment schemes, but is both problematic and costly for the council.
- 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.
- Tackling the cost of repeat repairs is a major challenge. It requires a more forward-looking approach to ensure value for money for tenants, leaseholders and the council alike. Pressures to improve maintenance for the residents and to engage with them should lead to better outcomes and reduced costs.
- High-investment-needs estates are central to wider housing-led regeneration and will continue to take a large share of future investment and of council capacity to manage that investment process.
- Large-scale redevelopments present considerable challenges in replacing like-for-like council housing. Ensuring more low-rent homes for decanted tenants on new mixed-income developments is difficult and time-consuming, and requires cross-subsidy.
- The quality of the stock is likely to decline faster than the council can repair it. There is a case for faster redevelopment and replacement, but there are financial and practical limits to large-scale demolition and regeneration.
- There is potential for significant energy efficiency improvement in the council housing stock, with some funding available from energy suppliers. Besides the benefits to the urban fabric and the environment, this would reduce fuel poverty and improve resident well-being.

*Options for the future*

- The development of a long-term (30-year) strategy for council housing under the HRA is an opportunity to demonstrate a fresh start and reset the relationship between the council and its tenants and leaseholders. It also incentivises more cost-effective approaches to decision making so that the value of the assets can be maximised.



- HRA reform enables the council to manage its housing stock as a social business, including new freedoms to borrow. The council can now choose, within its own financial and management constraints, how many council homes it wants to provide over a longer time frame.
- The council has £126 million of headroom borrowing for investment in existing stock and new homes. This places Southwark in an extremely favourable position compared with other landlord authorities.
- The level of the council's housing debt (and gearing) is much lower than for comparable housing associations.
- There is a case for refinancing historic housing debts (which will anyway start to decline sharply in 2020), all of which have interest rates above current public-sector borrowing rates.
- Extra income from planning gain and from void and land sales could complement borrowing to invest. There is also potential to release funds from further operating efficiencies. But a large proportion of any new investment may need to go into expensive and difficult-to-manage regeneration.
- The council will need to co-ordinate its plans and policies with the GLA and neighbouring boroughs, not least because the welfare reforms are set to cause more cross-borough movement of low-income households.
- to cover the funding gap. It also requires a step change in the quality of strategic and project management.
- A carefully managed reduction to 20,000 homes should cut management and maintenance costs and release more resources for improving the existing stock. Fewer council homes would mean more pressure on other social and private housing providers, as well as probably many more leaseholders as a result of tenants exercising their Right to Buy. But this option would also generate a larger financial surplus for reinvestment, which could be used in partnership with other providers.

#### *Housing management options*

- Aspects of the housing service (repairs and maintenance) are unsatisfactory and suffer from underinvestment, short-termism and a rather paternalistic culture. Improvements are being made to the service, but radical steps must be taken to achieve a structural improvement in customer care.
  - HRA offers opportunities for more tenant involvement (especially more self-financing by tenant management organisations), although the appetite for local control over all housing services seems low.
  - The council could, as part of its future strategy, bring more landlord functions in-house and provide a wider range of homes to rent or part-own.
  - Another management model would be to devolve more housing services to TMOs and neighbourhood housing organisations, which would run on a self-financing basis to performance standards set by the council (which would remain as the landlord).
  - Running housing services more along the lines of a social business will require more flexibility, expert financial advice and investment in staff training.
  - The council could also seek to work in closer partnership with other social and private housing providers, playing more of a steering role and perhaps taking equity stakes in new housing developments.
- Investment scenarios*
- There is no financial "clean sheet" for council housing. Southwark will be paying for the legacy of its past investment mistakes for years to come. Any future investment strategy will therefore need to take on board current commitments as well as future needs. Extreme investment scenarios (such as doubling the stock or transferring the stock) are unlikely.
  - The Commission examined three indicative scenarios for rented council homes for the period from 2045: 30,000 homes; 39,000 homes; and 20,000 homes. All three options are possible, and at least in principle financially sustainable. Each has its advantages and disadvantages.
  - The council could manage a slow but steady decline in its stock to around 30,000 homes. This would release extra funds to improve the retained stock and enable major restructuring of estates but do nothing to address the shortage of affordable low-rent housing. Over time the council would gain a relatively large financial surplus from its rents, which it could reinvest.
  - Maintaining the stock at around the current level of 39,000 homes over 30 years would necessitate a substantial and sustained refurbishment and new-build programme. This more ambitious scenario would help ease the borough's housing problems, but it requires the council to undertake a higher level of borrowing against the value of its larger stock
- Support for council housing*
- *Tenant engagement and improving services:* The council should involve tenants and leaseholders much more in assessing the performance of the services they receive as part of an approach that involves rigorous performance monitoring.
  - *Tenant and leaseholder compacts:* As Southwark draws up a longer-term action plan for its housing, it will be essential for this to be communicated to tenants and residents. One approach it could consider would be to draw up a compact centred on local housing standards and performance.

- *Self-financing tenant management organisations:* Customer service could be improved by more support for TMOs, especially those which choose to become self-financing.
- *Reward and loyalty schemes for tenants:* Many types of incentives and reward schemes are being offered by social housing providers to encourage tenant engagement and help them keep service provision on track. One such scheme, which works on the loyalty card principle, provides financial bonuses to good "customers".
- *New funding tools:* There are numerous new financial mechanisms coming to the fore, which Southwark might consider in order to bring equity into the borough (such as partnership-funded development, local asset-based vehicles, bond financing and a revolving fund). The Commission recommends that the council undertakes a full assessment of funding tools for housing and regeneration and the potential for partnership.
- *Using existing spaces:* Maximising the use of existing space is one route towards creating more affordable homes. An audit of potential spaces may be useful.
- *Housing and employment:* Creating opportunities for work or training for its residents is an area we would also encourage Southwark to develop. Requiring maintenance contractors to train local residents where possible is one way forward.
- *Resident caretakers and concierge schemes:* Caretakers can provide the human presence on estates. The council could consider piloting caretaker and concierge schemes.
- *Free up more family homes:* One way of providing more family-sized accommodation is to encourage those tenants that are under-occupying to downsize. The council needs to know more about the costs and benefits of incentives to downsize.
- *Lettings policy:* The council could continue to give priority to those most in need. However, some reassessment of the council's allocations/letting scheme may be justified, with possible new criteria such as allocating more homes to those in low-paid employment locally and some restrictions on newcomers to the borough.
- *Provide security of tenure:* The Commission is concerned about the social effects of short-term tenancies and sceptical about the benefits.
- *Reduce disruptive subletting by leaseholders:* It is not feasible to change leases retrospectively. However, that does not stop Southwark introducing detailed covenants as to the behaviour of leaseholders (and their subtenants) in future leases.
- *Leaseholder management:* The council needs to develop a long-term strategy for its leaseholders, who will increase in number. As a prelude to this, the council needs to better understand leaseholder concerns over the cost of repairs, problems of leaseholder debts, and the extent of subletting.
- *Community land trusts:* Southwark may wish to consider other routes to new homes for prospective council tenants, such as community land trusts (CLTs), which could be piloted in the borough.

### Conclusion

- Much of the housing stock in Southwark is of poor quality and is ageing fast. There are no quick fixes, and sustained levels of investment will be needed to bring and keep council housing up to acceptable standards.
- The council has a chance to break from the past and under the new HRA system can do things differently. It has the opportunity to become a beacon of excellence.
- But to do this the council will need to change the way it invests in and manages its council housing. It will need to run council housing more as a social business. That in turn will require a different and more business-orientated mindset.
- More refurbishment and more demolition and redevelopment are options for the future, but the council has to decide how many low-rent homes it wants to provide and for whom. Those decisions will shape the investment strategy for council housing over the next 30 years.
- Whichever investment option the council chooses, it must improve its housing repairs and maintenance service, strengthen tenant and leaseholder engagement, increase its strategic and project management capacity and manage its housing finances (and borrowing) in a manner appropriate to a landlord with significant housing assets and rental income.
- The council cannot possibly meet all housing demand in the borough, but could take the lead on developing a new agenda for council housing in London and, with the GLA and other boroughs, explore proposals to pool land and housing assets and create common housing investment funds.
- The council's decisions on the future of council housing will have a major influence on the well-being of all Southwark's residents. It is therefore vital that its investment plans are not only affordable and sustainable, but deliverable and effective.

# 1. Introduction

## 1. Introduction

- Southwark is facing a worsening housing crisis, with demand for affordable homes continuing to far exceed supply. Shortages of low-rent social (including council) homes will have adverse social and economic consequences, and could drive residents on low incomes out of the borough.
- Council housing has had a chequered history in Southwark, but the council could in future be a leader of excellence in providing good-quality, low-rent council housing. However, this would require the council to raise its game with a far more responsive approach to tenants and leaseholders and a social business attitude to the existing stock and investment decisions.
- The council is making significant investments in its council housing until 2015. It now needs to plan ahead and decide what investment strategy can best meet the needs and expectations of its tenants and leaseholders.
- To optimise return on its investments, and not repeat the mistakes of the past, Southwark needs to plan ahead and think strategically about its business model.
- To support this, the council must consider investment options for the future and fully engage tenants and leaseholders in developing a long-term strategy for council housing.

In December 2011 Councillor Peter John, leader of the London Borough of Southwark, stated that, despite planned large-scale investment in the borough's council housing over the next few years: "there will be a continuing and pressing need for further investment in our properties, as some buildings reach the end of their lifespan and others continue to require significant capital investment".<sup>1</sup>

Against the backdrop of ever-increasing waiting lists, high levels of deprivation in parts of the borough, continuing fiscal austerity and limits on future income from the sales of land and assets, he went on to tell Southwark councillors "it is vital that we carefully consider how we can respond to the twin challenges we face – of ensuring that we have a robust business plan which demonstrates that our housing can be high-quality and self-financing into the future, while exploring ways in which we can increase the supply of affordable council housing stock available for rent".<sup>2</sup>

To undertake that task the council agreed to establish an expert-led housing commission – which would be wholly independent of the council and empowered to manage and direct its own work. The Commission would be tasked to consider all options and possibilities for maintaining and improving Southwark's housing stock.

The council wished to assemble a group of people with specialist knowledge and expertise; not to instruct or determine its policies for council housing, but rather to advise the council on what can be done over the longer term, what choices it can make, and at what cost.

With the support of the council, the Independent Commission on the Future of Council Housing in Southwark was established in January 2012. The council asked the Commission to prepare a report which could be read by everyone concerned – from residents, housing officers, politicians, tenants, advisers and potential investors – and to present its findings and recommendations by October 2012.

Jan Luba QC, a leading housing lawyer, agreed to chair the Commission, and recruited 10 other commissioners – each

offering specialist knowledge and expertise on issues concerning housing and council housing. In order to ensure an independent voice and prepare an unbiased report on the long-term strategic approach to council housing, the commission deliberately excluded people who were directly involved in council housing (or related housing matters) in the borough. Resident groups and other stakeholders were therefore encouraged to submit evidence to the Commission and attend meetings with commissioners, rather than be represented on the Commission itself.

The Commission's task was not to campaign or negotiate with local partners, but to gather relevant evidence and consult as widely as possible on the options for change. In particular, the Commission was asked to consider how council housing in the borough could best serve the needs of tenants, leaseholders and residents over a 30-year period from 2015 when the current investment strategy comes to an end.

The Commission's terms of reference were to:

- explore options for the future financing, ownership and operation of Southwark's housing stock beyond 2015/16 (when the council's current five-year investment programme comes to an end); and
- examine proposals and make recommendations for an investment strategy, for up to 30 years, that is sustainable, affordable and breaks the current cycle of an escalating demand for diminishing resources.

This report seeks to fulfil these terms of reference. In doing so it also provides a short history of council housing in the borough. Such scene-setting is necessary because so much of the current housing stock was built in the 1960s and 1970s and will be in need of repair or will need replacing. Moreover, many tenants have lived in council housing (often in the same home) all their lives. That legacy and continuity of tenancies will continue to influence future decisions.

In addition, the Commission makes reference to how council

housing connects to other related issues and policy drivers. It would, for example, be meaningless to evaluate future options for council housing in the borough without considering wider trends in the local and regional (London) housing market or the possible impact of welfare or other government housing reforms.

The Commission also draws attention to how the management and funding of council housing in Southwark is changing under the reformed housing revenue account (HRA). This new system of self-financing affords the framework for a different and more strategic approach to council housing. Indeed, it is through the HRA business plan that the council can invest in its housing for the long term.

This report draws on the knowledge and experience of the commissioners, who met eight times to discuss the issues and findings and held oral evidence sessions with some of the key players – including Southwark residents, political representatives and private developers. The commissioners held open sessions with tenants and leaseholders in Southwark and inspected some of the main housing blocks and estates. In order to get an idea of how things are and what the future options might be, several meetings were held with a wide range of local housing and community groups, including the Southwark Group of Tenants Organisation and the Leaseholders Association of Southwark 2000. Two specially convened focus group sessions with young adults were also held in the borough. In total the Commission received written evidence from over 30 organisations and conducted over 20 interviews with experts and stakeholders. Details of all these are included in the appendix to this report.

The Commission predicates its work on the assumption that Southwark will remain the landlord for the foreseeable future. Given the history of votes against stock transfer in the borough, the Commission has not looked at the drivers for change or the options for a long-term strategy based on any transfer of council homes to another social housing provider.

The report is divided into four main sections, with an executive summary and conclusion. The text is also laced with quotes from people the Commission has spoken to or received evidence from, and where appropriate includes case studies or examples of best practice or innovative working.

Section 2 begins by addressing the benefits of council housing and explaining how it works. This section covers the history of housing and council housing in the borough. The purpose here is to understand how the historical context and today's challenges influence options for the future. It includes background information on the cost and quality of repairs and maintenance, the impact of Right to Buy, the new HRA regime, and how Southwark compares with other social housing providers.

The report then turns to the most important aspect of council housing, the people. Section 2.3, on "Who lives in council housing?", offers information on population, economy, incomes and the age and employment of tenants. It also touches on issues discussed in more detail throughout the report, such as housing

need, affordability, overcrowding and under-occupancy. These snapshots of the "here and now" are supplemented by feedback from the Commission's consultation with tenants and leaseholders, including their views on Southwark as a landlord, on customer service, rents and charges, tenant and leaseholder engagement, lettings policy and subletting.

In Section 3 the report examines what is driving change in the borough's provision of council housing, from welfare reform and demographic trends to the impact of the Right to Buy, tenant empowerment, the quality of the stock, regeneration and wider changes in the housing market. These overlapping drivers are subject to change and may have different effects at different times. However, the intention is to highlight the main factors and trends which are likely to have the most significant impact on the formulation of a long-term strategy for council housing.

Having set the context for a long-term strategy and discussed the main policy drivers, Section 4 discusses the "Options for change". It begins with a short review of what a strategy for council housing is seeking to achieve: what the objectives and core components might be and how the strategy should be measured and managed. Critically, in terms of an investment strategy, this section also includes a commentary on debt and borrowing, highlighting the potential for extra resources for council housing under the new HRA regime.

The report then presents three possible (30-year) investment scenarios: for 30,000 council homes; 39,000 council homes; and 20,000 council homes (all in 2045). The three scenarios are offered as an indicative guide to what the Commission thinks is achievable based on historic data and assumptions in current housing and investment plans. The Commission comments upon the different options, and discusses how they come about and how financially sustainable they are.

This section of the report also looks at housing management options and tenant and leaseholder participation, and how they might feature in a new strategy for council housing. This includes an assessment of Southwark as a large-scale landlord and major developer in the future; a partnership model, with the council working much more with housing associations and private developers; and a more devolved housing management structure, based in part on the new self-financing tenant management organisations (TMO) model. These options are not mutually exclusive.

The final part of the report, section 5, "Support for council housing", makes suggestions and recommendations that could underpin any long-term strategy. These range from ideas on improving customer services, strengthening tenant engagement and developing new funding mechanisms for repairs, to making the most of eco-housing and the "hidden homes" programmes.

This section ends with a conclusion outlining what the Commission, in light of its discussions and findings, thinks the way forward might be. The Commission offers its view on the future of council housing in the borough and the choices and

investment options available to the council.

The report makes no claims to be a definitive guide to council housing in Southwark. Other organisations, notably the council itself and the Department for Communities & Local Government (DCLG), have detailed statistical information on housing in Southwark. The Commission's task was to look to the future and offer insights and advice on what may be possible given what we know.

The council clearly faces a huge challenge planning ahead for tomorrow's council housing. As this report shows, the funding and management of housing is a complex task involving a myriad of policies and functions which interlink and overlap. The actions of the council are also affected by events beyond its control, not least changes in public policy such as welfare caps and changes to the Right to Buy and new funding opportunities.

The Commission is mindful of the chequered history of council housing in the borough. However, it recognises that the council wishes to break from the past and has adopted an ambitious five-year housing investment programme. But the Commission's remit is to look at the investment options over a 30-year period from 2015. As such, our starting point is where the current investment programme ends – with the assumption that it has been successfully concluded. Our expectation is that by then council housing services will have improved and the stock will be in much better condition and will meet the government's Decent Homes standard. If that has not been achieved, then the task facing the council will be even more costly and difficult.

Any major reforms will of course take time to bed in and will need to be part of a wider housing (and corporate) strategy to improve the living standards of everyone in the borough. Council housing does not sit in isolation, and big strategic decisions about how many council homes, for whom, where, and at what quality and cost, will have lasting consequences for the well-being of all Southwark's residents, as will the way the council interacts with other providers. As much as the legacy of poorly built council housing in the past affects the decisions of today, so the strategic decisions the council makes about council housing for the next 30 years will create costs or opportunities for future generations.

Of course, getting the investment "right" can ultimately only be judged retrospectively. The Southwark councillors (and architects, builders and planners) of the 1960s and 1970s who dreamed of "walkways in the sky" believed history would judge them well. There was little appetite then for engagement and consultation with residents. The Commission would hope that whatever strategic decisions the council makes this time round, it will make sure that it fully engages and consults with all those affected. We hope that this report is seen as the start of a process and not the end.

### Council housing in Southwark: key facts

Total number of council properties for rent	39,000
Total number of leasehold properties	16,700
Total number of residential properties in the borough	119,050
Percentage of council-rented homes to properties in the borough	33%
Number of council-rented properties in high-rise blocks	10,646
Population	287,000
Median annual income of council tenants	£9,100
Median annual income of all Southwark residents	£16,800
Housing waiting list	18,724
Percentage of council properties that are overcrowded	15%
Ratio of lower-quartile house price to lower-quartile income	9 to 1
Average council rent per month	£374
Lower-quartile rent for one-bedroom property per month in the private rented sector	£850
Average service charge to leaseholders per year	£1,085
Right to Buy sales 2011	23

NB The above table is intended as a snapshot – figures are the latest available and are not all for 2012.

## 2. Council housing in Southwark

## 2. Council housing in Southwark

With 39,000 council tenanted and 16,700 leasehold properties, Southwark is the largest social landlord in London and one of the largest in the UK. Although the rented stock has fallen sharply since its peak in the early 1980s it still accounts for a third of all housing in the borough.

This section of the report provides some history and basic information on council housing in the borough. Our intention at this stage is not to provide a detailed assessment or judgment on past and present performance, but to offer a backdrop to later sections which discuss the drivers and options for change.

We start by setting out why we think council housing matters and then briefly review the history of council housing in the borough – good and bad. At the end of the section (based on open stakeholder events with commissioners) we discuss who wants to live in council housing and how tenants and leaseholders perceive council housing.

### 2.1 Why council housing?

The Commission's starting point is that good-quality, low-rent council housing can contribute to better places and better lives. As Professor Hills concluded in his landmark report, social housing can have significant benefits, such as "its affordability; its quality compared to the private sector (including the role of social landlords in promoting good neighbourhood conditions); its potential for supporting the existence of mixed-income communities; and in giving a base on which people can build the rest of their lives (through the security it gives and the better incentives facing those paying sub-market rents)".<sup>3</sup>

There is plenty of evidence to show that poor housing has a detrimental impact on people's well-being: on employment, education and health, for example. Furthermore, decent private housing is often beyond the means of those on lower incomes, something particularly true in Southwark, where house prices exceed those in most parts of the country. The objective of council (and social) housing has therefore been to provide decent homes at rents that people on modest incomes can afford.

As the largest stock-retaining council landlord in London, Southwark provides thousands of council homes for people who work in lower-paid jobs across the city. Without these low-rent homes many of these workers would be forced to move out of the borough. Such displacement would have social and economic consequences for Southwark as well as other London boroughs.

Some argue that high-quality housing that meets people's needs could be provided by the market alone, through a system of housing vouchers, for example. However, council housing provides wider benefits, many of which were raised in the evidence that the Commission received.

- Council housing is not run for profit and can be more cost-effective (councils, for instance, can borrow more cheaply). Rather than offering substandard housing to maximise profit, housing is run for the benefit of tenants and the

wider community. Surpluses are put back into building new homes or making improvements to existing ones.

- Council housing allows additional support for those who might otherwise struggle to navigate the private housing market or cope with managing the upkeep of their homes. It also offers housing to those who might face discrimination in the private sector.
- Many people on lower incomes seek to live in council housing because of lower (subsidised) rents. This alongside tight control of allocations means that resources are targeted. It also helps to ensure that those most in need receive help, given that housing benefit does not have universal take-up.
- Council housing in some cases can help stop disincentives to work. Housing benefit is withdrawn steeply as a household's income rises. If rents are set too high, the net gain of work to a household can be marginal and the incentive to seek employment or better pay may be minimal.
- Council housing can provide greater security of tenure. Council housing offers tenants longer (lifetime) tenancies than can be found in the housing association or private sector. Council housing therefore provides homes for those who want to stay within their community and contribute to it. Without that security, tenants may find it difficult to maintain employment (if they are asked to move at short notice) and there is little incentive for tenants to invest time and other resources in their community. Security also extends to rent levels (which in the private sector could rise rapidly), with tenants cushioned from substantial rises caused by a change in ownership or market conditions.
- Councils can provide new homes. With population growth, an ageing society and smaller household sizes, there is an urgent need for new housing – especially in high-demand areas such as Southwark. Investing in new homes also helps to ensure rents do not escalate.
- Being a large landlord with strategic powers, the council can act to create mixed-income/mixed-tenure communities. If housing were run exclusively through the private sector, it would be unaffordable in large areas (and most parts of inner London).
- By providing housing the council can play a more strategic role in delivering its vision for the borough (including complementing other council services such as social care).
- Lastly, council housing is democratically controlled. Councillors can scrutinise the housing service, and tenants and leaseholders who are dissatisfied can have their say through the ballot box.

Council housing is not without its disadvantages. Besides issues



around the poor quality of the stock, high demand for council housing in areas like Southwark can leave tenants with little choice. The shortage of suitable homes for council tenants makes moving and switching landlords difficult. Furthermore, the culture within council housing services can be overly paternalistic, and as the Commission heard firsthand from tenants, there is sometimes little incentive to improve things.

Since the late 1970s, council housing has also been stigmatised and downgraded in policy terms by successive governments. Social attitude surveys on council housing (such as the *Public Attitudes to Housing in England*, 2011 CLG/British Social Attitudes survey) also suggest that tenants see overcrowding and antisocial behaviour as major disadvantages to living on council estates.

### 2.1.1 How council housing works in Southwark

Southwark council is a major landlord, providing a wide range of housing services – from repairs and maintenance to legal action on rent arrears.

The council's housing budget is £256.74 million<sup>4</sup> (17% of the council's total budget), with around £60 million–£70 million a year spent on improving the stock. Tenants pay rent, which funds the maintenance and management of their properties. Because not all tenants are in work, some of this is paid through housing benefit. Rents also go to cover the debt associated with the cost of building properties. Leaseholders meanwhile contribute to the cost of the upkeep of communal areas and charges associated with major works, such as a new lift.

The council's corporate management team is headed by the chief executive, with the housing services department operating through the following teams:

#### 1. Home ownership and tenant management initiatives

This team deals with service charges, sales and acquisitions of properties, including conveyancing, and tenant management initiatives (such as tenant management organisations).

#### 2. Community housing services

This team works on housing advice and options, homelessness assessments, temporary accommodation, older people's housing, housing renewal and adaptation services.

#### 3. Customer experience

This team looks after the corporate customer service, complaints, concessions schemes, coroner's and registrar's services.

#### 4. Major works

The major works team looks after investment and asset management.

#### 5. Area management

This team looks after area management and has three divisions (North, South and Aylesbury).

#### 6. Maintenance and compliance

This team looks after repairs and maintenance, engineering services and compliance.

#### 7. Community engagement division

This team provides the neighbourhood teams, the community participation team, housing resident involvement and commissioning and voluntary sector support.

Related departments (under the corporate management team) include regeneration and planning, under the chief executive's department, and finance and corporate services, which is responsible for the housing revenue account. New housing regeneration schemes also come under the chief executive function.

The tenants, leaseholders and other residents have various forums that are consulted before decisions are taken on housing. There are currently around 115 tenant and residents associations (TRAs), which represent different communities. They represent their members' interests, are entitled to receive funding, are consulted on matters affecting their local community and each have a representative at their local area housing forum.

There are a number of local area housing forums. These are made up of TRA representatives and other groups, such as those with caring responsibilities and those with disabilities. They act as the main advisory groups on housing-related issues in the area. The council consults on a range of issues before the cabinet takes decisions.

The Tenant Council acts as a link between area forums and the council executive, and advises the council on issues affecting tenants. The Tenant Council is made up of two representatives from each local area housing forum, one representative from each under-represented section of the community and any councillor with an interest in housing (but councillors cannot vote).

Similarly, the Home Owners' Council acts as a link between the executive and the local area forums. The council is made up of elected delegates from the area housing forums.

The Cabinet is made up of senior councillors from the majority political party (or coalition of parties). These include the leader, the councillor with responsibility for housing, and Cabinet members with responsibilities for various council services, including housing. They take decisions on policy which are then implemented by the council's officers. A subcommittee, made up of councillors, scrutinises the council's housing services.

## 2.2 Council housing in the borough

- Southwark has the largest council housing stock of any borough in London and the highest proportion of council housing to homes of any council in the country. Southwark houses roughly as many tenants as there are residents of the city of Exeter.
- The stock has, however, been in decline since the 1980s, with the advent of the Right to Buy. This downward trend is likely to continue unless the council embarks on a major new-build and renewal programme.
- The challenges Southwark faces today are a legacy of past decisions. The mistakes of building poor-quality estates ("on the cheap") based on top-down decisions must not be repeated.
- Equally, policies of patching up the stock have often done little either to ensure long-term viability or to improve tenant and leaseholder satisfaction. Good money is being wasted on treating the symptoms of building failure, rather than tackling the root causes.
- The impact of Right to Buy means that the council has large numbers of leaseholders. Southwark council is therefore not only managing homes for rent but also managing the buildings for home owners (some of whom are absentee owners who sublet).
- The size of the stock is also a challenge given the poor state of the housing. Investments are in place (under the Warm, Dry, Safe programme) to bring all council homes up to the government's Decent Homes standard by 2015, but some estates are beyond repair and 1,000 homes become non-decent each year. Patch and mend is not a cost-effective strategy in the longer term.
- The council's housing repairs and maintenance service is a particular concern of tenants and leaseholders. Comparisons with other social housing providers show that although progress is being made, Southwark lags behind the best in the sector in quality and cost.

Southwark's council housing today is largely a legacy of past decisions. New-build, for example, comprises only a small proportion of the stock. Housing in the borough evolved from being largely private-rented to mainly council-owned in the period after the Second World War. With the emphasis on modernism and system-built housing (with subsidies to build high), the council's huge house-building programme of the past still shapes the borough's topography today.

Under the post-war commitment to replacing slums with council homes, Southwark became a major landlord. Although the Right to Buy and increased private house building reduced both the percentage and absolute numbers of council stock from the 1980s onwards, the level of council housing in the borough has remained well above the London and national averages. In more recent times, and in contrast with other London boroughs, this was substantially due to the fact that tenants have consistently chosen to retain Southwark as their landlord and not to transfer ownership to a housing association (or other social housing provider). However, the legacy of the way some flats were built and years of underinvestment has meant council housing in Southwark has often not met the needs (and expectations) of tenants and leaseholders. Quality was consistently compromised by quantity, despite the warnings from the past. As Aneurin Bevan, Labour's minister of health, warned in 1946: "While we shall be judged for a year or two by the number of houses we build, we shall be judged in 10 years' time by the type of houses we build."<sup>5</sup>

### 2.2.1 History of council housing in the borough

#### *Origins and development*

The first social housing in what is now the London Borough of Southwark was provided by Victorian philanthropic housing associations, including Peabody and Guinness. Before 1939, of

the three metropolitan boroughs which today make up the London Borough of Southwark, only Bermondsey was building on a large scale; in the other two, most of the council housing was built by the London County Council (LCC).

Many of these homes were built on the sites of cleared slums, to very tight cost standards. The LCC built tall, walk-up blocks, without lifts, with elegant, austere Queen Anne facades facing onto the street, and cramped courtyards within.

The council, in its 1982 submission to government for housing investment funds, stated: "In Southwark, there are old flatted estates which were built at a time when industry required the labour force nearby and are, therefore, located on dirty, cramped, decaying areas close to overused roads and railways. Many of these estates were built between 1919 and 1945 and are to be found in the north of the borough."<sup>6</sup> Inter-war properties remain a significant component of Southwark's council housing stock.

House building resumed after the war; for the first few years, the supply of building materials was tightly controlled, and construction was largely restricted to new council housing and factories. By 1959, across the country, more private homes than council homes were being built. But in the 1950s very little of the private building was in inner London.

The three metropolitan boroughs which now make up Southwark built more homes after 1945 than in the inter-war period, but the LCC was still the major player, as illustrated in the table below.

In the early post-war period, the majority of council housing being built in Southwark was in the form of houses with gardens or low-rise flats. Writing 40 years later, two housing academics

commented: "In the 1990s, the houses built in the Bevan era remain considerably more popular with tenants, and less trouble to local authorities, than a lot of the dwellings built later when central government pursued cost savings through reduced standards."<sup>7</sup>

### London Borough of Southwark, new dwellings completed, 1945-65

LCC	11,006	50%
Three boroughs	9,362	42%
Private sector	1,901	8%
TOTAL	22,269	100%

Source: *Whose Home? Southwark Local Housing Strategy 1988* (London Borough of Southwark, 1988)

Housing held by the Greater London Council (which included that built by the LCC) was transferred to Southwark in 1980, bringing the total stock managed by the council at that time to 62,000 units.

#### *The resistible rise of high-rise and system building*

From the 1950s, the balance of council housing programmes began to move away from low-rise houses and flats, built by traditional construction methods, towards high-rise and industrialised building. At the peak of the system building boom, in 1970, over 40% of all new public-sector homes were built by industrialised methods.

The advocates of high-rise believed that "it would cut completion times, increase productivity, lower costs and so offer hope of easing the burgeoning housing waiting lists and other problems"<sup>8</sup>. In fact the anticipated economies of scale were never achieved: "In the 1960s, all forms of high-rise were more than twice as expensive per square foot as the three-bedroom houses preferred by the general public."<sup>9</sup>

The boom was particularly marked in London. In 1967, 60% of all the new dwelling starts approved in London were for high-rise; by 1971, 67% of all high-rise approvals in England and Wales were in London.

The new London Borough of Southwark created in 1965 embraced the boom with particular enthusiasm, leaving an enduring concrete legacy for the next century in the form of the borough's stock of council housing.

*London's multi-storey boom reached a tremendous climax in the housing drive of the capital's most forceful new borough: Southwark LBC. In both design and production, Southwark pursued a breadth of scale unique in Greater London. In architectural style, this took the form of an uncompromising monumentality, decried by others as "gigantomania", which emphasised massive, horizontally accentuated groups. In output, the borough's push for numbers was tackled through the letting of enormous contracts with outside contractors and with its own Direct Labour Organisation.<sup>10</sup>*

The drive was led by the architects' department of the former Camberwell Metropolitan Borough, which dominated the department of the new borough council. The level of activity rose quickly, from 62 dwellings started in 1966 to 3,573 in 1967. Next door, Lambeth council set itself a target of 800 new homes each year. Southwark aimed for 2,000, and achieved this level of completions up to 1972. Even in the second half of the 1970s, the council was completing over a thousand a year.

In the 1970s, more than half the new homes built by Southwark council went to people displaced by the demolition of their existing homes to provide cleared sites for the construction programme.

Two developments from the period of the system building boom are central to Southwark's reputation, both at the time of construction and subsequently. In the 1960s and 1970s, the Aylesbury and Heygate estates lay at the heart of the new borough's housing ambitions.

The Aylesbury scheme was inherited by the new London borough from the former Metropolitan Borough of Southwark. The new architects' department abandoned a modest scheme for point-blocks of flats, replacing it with an estate of 2,127 dwellings, grouped in slab blocks, up to 14 storeys in height, but of immense length. "On a strung-together hotchpotch of bomb sites and small clearance areas, a colossal monument to the aspirations of the new borough now began to rise."<sup>11</sup> The estate was built by Laings, at a cost of £12 million, using the Danish Jespersen prefabrication system.

The 1,194-home Heygate Estate followed on from the Aylesbury, and was also built by Laings. The original vision, never realised, was that the two estates, stretching from Elephant & Castle to Walworth, would be linked throughout by pedestrian walkways, and that the whole distance could be covered above ground level.

#### *The declining condition of the stock*

*I remember going round the Heygate Estate in Southwark on the opening day. I went to the highest flat in the highest block, and there was this old lady there, who had ribbon all over her kitchen taps. I asked her why, and she said, "It's the first tap I've ever had in my life!" Previously, in Queen's Buildings, she'd had to share one with five other families! It gave her a great deal of happiness – a lovely flat with its own toilet, bathroom, it all looked fine on paper. A year later, she came to me and begged me to get her rehoused – vandalism had broken the lifts, muggings had started, she was virtually a prisoner in her own flat!*

Lord Mellish<sup>12</sup>

Up to the 1960s, council housing was generally seen as good housing, especially when compared with the old private rented sector. Southwark recognised the need to invest in its inter-war estates as early as 1977, making a commitment in that year's housing strategy "to make every effort to maintain and improve the facilities and environment of the council's older estates to ensure that they are attractive to present and future tenants".<sup>13</sup> However, it concluded that, because of financial restrictions, it

could only undertake "reduced scale modernisation" rather than "full improvement".<sup>14</sup> This meant only undertaking work on major problems, such as rain penetration and structural defects.

The works undertaken under these programmes were limited. Rotherhithe's Downtown Estate, for example, had what was described as "superficial renovation", intended to give it a 10-year life. By 1981, works had only been carried out on seven of 59 inter-war estates.

It was not long after this that the issue of structural problems in the newly built homes of the industrialised building boom began to emerge. Nationally, it was clear by the mid-1970s that a host of serious structural problems was emerging: "...differential movement, inadequate bearing/jointing, panels inadequately fixed, water penetration around panels and in many other locations, flat roof failure, asbestos, poor thermal insulation and cold-bridging, inadequate sound insulation and spalling concrete..."<sup>15</sup>

The same writer estimates that more than 1.5 million homes nationally were built "using untried construction methods and [requiring] excessive and untimely expenditure on their repair and maintenance".<sup>16</sup>

Within a few years of the end of the system-building boom, it became clear that Southwark had major repair and structural problems with its industrialised building stock. Within four years of the completion of the Aylesbury Estate, repairs costing £2.3 million were necessary, mainly because of vandalism.

In 1991/92, the council estimated that at least 75% of its stock was in a serious state of disrepair. That legacy of building faults carried a huge cost, which probably could not have been foreseen.

A 1994/95 submission by the council identified what was described as the "structural trap":

*This is where all available resources must be used for the most urgent repairs, leaving little or no money to undertake the superficial repairs that so often prevent structural problems from developing. It is a good deal less expensive to maintain the fabric of a building than to allow its condition to deteriorate to the extent that structural repairs are necessary.*<sup>17</sup>

In that year, 89.2% of Southwark's capital resources available for housing were committed to work on the existing council housing stock.

The council's housing strategy for the years 1996-99 pointed out that, with one exception, all the priority estates for investment were "system-built, high-density estates, built in the 1960s and 1970s, and requiring extensive and comprehensive rehabilitation".<sup>18</sup>

In 2000, the Labour government introduced the Decent Homes standard and the Decent Homes programme, with the intention of solving the problem of the physical deterioration of the public-sector housing stock. Southwark was a major beneficiary of the programme, but funding was insufficient to deal with the

scale of the problem. Much of the housing was in a very poor state of repair and the extra funding failed to keep up with the continuous slide into disrepair. More resources were made available to councils prepared to transfer their housing stock to arm's-length management organisations (ALMOs) or to housing associations – both of which options were regularly rejected in Southwark by successive council administrations, and by tenants.

So, by 2009, with substantial, government-funded investment programmes having been realised in Southwark, the council nevertheless had over 18,000 homes still regarded as not meeting the Decent Homes standard – and an estimated requirement of a further £156 million to bring them up to standard.

Reviewing Southwark as part of the (now terminated) Comprehensive Area Assessment (CCA), the Audit Commission in 2009 found:

*Nearly half the population of Southwark lives in social housing. Over 45% of houses owned by the council – more than 18,000 homes – still do not meet the modern standards set out in the Decent Homes standard. Too many tenants are living in poor-quality housing and it is not likely that this will get better in the next two years. Despite significant investment in recent years, the funding needed to improve all the housing has not yet been secured. There is not yet an up-to-date picture of the condition of housing, so improvement plans are not robust.*

*Many of the homes are in high-rise blocks built in the 1960s and are expensive to maintain. In recent years, the council and its partners have made significant investment in improving the condition of homes but this has not been sufficient to deliver the scale of improvement required. For example, in 2008/9, they invested £73 million in works to achieve decent homes whereas double this figure was required to meet their targets. They aim to increase investment further by better contracting arrangements and the sale of buildings. Redevelopment of some estates will also help to tackle some areas of poor housing, leading to better-quality homes for residents. But not enough has been done so far.*

*There remains a significant funding gap to bridge, and over 18,000 homes are still likely to be non-decent in 2013. This is partly because Southwark has decided, in line with the wishes of residents, to improve homes to a higher standard. This will give more tenants new kitchens and bathrooms. However, it also means that more tenants will continue to live in poor-quality housing for longer. The lack of an up-to-date picture of the condition of council housing means that it is uncertain how much more investment may be needed and therefore how soon the improvements can be made.*<sup>19</sup>

After false starts, both the Aylesbury and the Heygate are now scheduled for demolition. The council has opted for a clean sheet and as a consequence is having to buy back the leases of some Right to Buy flats within the developments in order to carry out the new scheme. The council has also recently made efforts to improve some of its key service areas in its worst estates. The TSA, for example, stated in 2010 that although much work remains to be done, "improvement plans are in place".<sup>20</sup>

Just as a substantial proportion of the vacancies arising from the new-build programme of the 1960s and 1970s went to rehouse people whose homes were being cleared to make way for the construction of schemes like the Aylesbury and the Heygate, so today many vacancies go to rehouse the tenants of the two estates.

The council has become more adept at using the planning process to achieve mixed-use (higher-density) developments, usually reinstating around 30-40% of affordable housing on major sites (and 50% for Aylesbury – equivalent to more than 2,000 homes). This process, of course, reduces the number of council homes and effectively transfers the tenure to housing associations, with many of the new homes offered at higher social rents.

The council has limited ability to rehouse people who would need to be decanted. The process takes time and the clearing and demolishing of estates has to be carefully phased and managed. The focus has more recently been on selling off the "worst estates" and those with the most development potential (using a "best value" model, which calculates the net present value of selling versus retaining the stock).

### 2.2.2 The scale of council housing and impact of the Right to Buy

The percentage of households living in council-rented properties rose steadily through the years of clearance and redevelopment, when the council believed that it would continue upwards almost indefinitely. It peaked in the 1980s, and then began to decline – slowly at first, more steeply after 1991. The numbers were driven by national policy change – the swing away from redevelopment to rehabilitation of social housing, the end of large-scale council house-building programmes, and the growth of the Right to Buy. At its peak, Southwark council provided homes for six out of 10 households in the borough. Today (with the growth of private house-building), council-rented housing provides a home for a third of households in the borough, which still makes it one of the largest council landlords in London, with the highest proportion of council housing to total stock of any local authority in England.

### London Borough of Southwark dwellings by tenure (%)

	1971	1975	1991	1997	2009
Owner-occupied	13	14	25	27	28
Council	51	61	60	49	33
Private rented	36	23	7	13	27
Housing associations			8	10	12
Other	1	2	1		

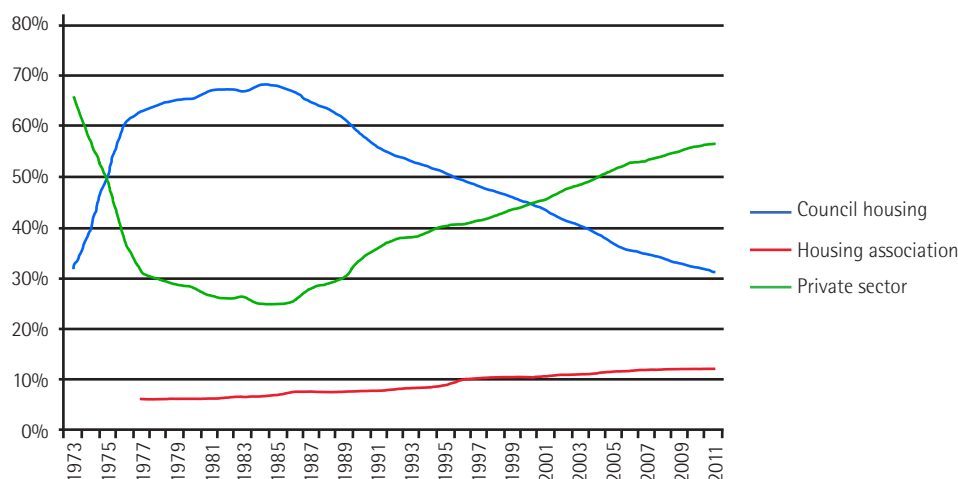
NB Council homes include those owned by the GLC before 1980, but not leasehold properties Source: London Borough of Southwark  
Source: London Borough of Southwark

### Top 10 local authorities in England by proportion of council properties to all stock, 2011

Local authority	Local authority (incl owned by other LAs)	Total	Local authority properties as percentage of all housing in area
Southwark	39,845	119,050	33.47%
Harlow	9,888	35,360	27.96%
Islington	26,328	96,280	27.35%
Barking & Dagenham	19,173	72,070	26.60%
South Tyneside	18,163	69,730	26.05%
Norwich	15,766	63,220	24.94%
Newcastle upon Tyne	28,764	119,400	24.09%
Sandwell	30,096	125,220	24.03%
Camden	23,596	98,350	23.99%
Stevenage	8,286	35,490	23.35%

Source: DCLG live tables 100 and 116

### London Borough of Southwark dwellings (percentages)



Source: London Borough of Southwark

Note: Council housing includes all local authority housing within the borough (including around 800 City of London properties). At the start of the 1980s all the GLC's stock in Southwark was transferred to the borough.

The plain figures for the rise of owner-occupation and private renting and the decline of council housing give a somewhat simplistic picture. Although the number of council homes has fallen by over a third since the early 1980s, many of the sold properties are now the subject of council leases. In many cases, the former tenants or their successors still depend on the council for major structural repairs, paying a regular service charge to the council.

### London Borough of Southwark, Right to Buy sales

	Right to Buy sales	Total sales
1979/80 to 1997/98	7,763	9,527
1998/99	418	471
1999/00	643	687
2000/01	809	850
2001/02	956	989
2002/03	975	1,028
2003/04	1,458	1,488
2004/05	1,742	1,767
2005/06	733	742
2006/07	207	225
2007/08	180	218
2008/09	45	89
2009/10	23	99
2010/11	23	133

NB: Total sales include voluntary and other non-Right to Buy sales  
Source: London Borough of Southwark

Between 1998 and 2010, the stock of Southwark council-rented properties fell by 12,228 units. Right to Buy sales accounted for 8,173 of these homes. In the latter part of that period Right to Buy sales dropped in significance, with fewer than 100 council homes sold over a three-year period (following the recession and lower discount levels). In April 2012 the Coalition government increased the discounts, which will almost inevitably lead to higher rates of sales, something we look at in greater detail later.

One other change in the pattern of tenure in the borough is significant. While council housing remains the largest single tenure group, despite having peaked and then declined, and while owner-occupation has shown a steady increase, the private rented sector, having declined steadily from the 1970s, had by 2009 climbed back to account for 27% of dwellings. Many homes in the old private rented sector were demolished in the 1960s and 1970s, the last period of large-scale council house building. The new private rented sector includes many "buy-to-let" properties – the authors of the 2008 Southwark Housing Requirements study comment that the increase in the proportion renting privately "is likely to reflect buy-to-let landlords purchasing many of the properties which have come on the market. At a time when house prices have been rising rapidly it is often the case that buy-to-let investors can compete more effectively than individual householders for available properties."<sup>21</sup>

While the absolute *number* of council homes in the borough has been falling, mainly because of tenants exercising their Right to Buy, the *proportion* of council housing in the total stock in the borough has been decreasing more rapidly as a result of the increased private sector and housing association build rate. While the council has been constrained by central government, the private sector in particular has been building apace. The latest available data shows that in 2004/05 the private sector started 1,190 homes, housing associations 290 and the council none.<sup>22</sup> Under the reformed HRA regime the council can and is starting to build again. Indeed, the council recently announced it was planning to build 1,000 new homes over the next 10 years.<sup>23</sup>

### 2.2.3 The nature of the stock

While the numbers are important to future plans for council housing, so too is the design and build quality. As described earlier, system-built housing has often not stayed the course and even when it is structurally sound, it is more expensive to repair and maintain because of its height. The new urban topography that emerged in the 1960s and 1970s was overwhelmingly a landscape of medium- to high-rise flats. By 1996, Southwark had 81 blocks of between 10 and 20 storeys. In 2001, it was estimated that 91% of the remaining council housing was flats. Of the council's stock in 2008, the majority (53%) were medium-rise properties, while high-rise properties accounted for 26% of properties – that is, 79% of Southwark council's stock was in buildings of three storeys or more. Today, Southwark has the highest number of dwellings in high blocks of any London borough (10,646).

### Southwark's council housing dwellings by type, 1 April 2008

	Number of dwellings	Percentage
Pre-1945 small terraced houses	324	1%
Pre-1945 semi-detached	240	1%
All other pre-1945 houses	940	2%
1945-64 small terraced	239	1%
1945-64 large terraced/semi-detached/detached	260	1%
1965-74 houses	319	1%
Post-1974 houses	1,809	4%
Pre-1945 low-rise (1-2 storeys)	1,754	4%
Post-1945 low-rise (1-2 storeys)	2,394	6%
Medium-rise (3-5 storeys)	21,362	53%
High-rise (6 or more storeys) flats	10,646	26%
Bungalows	209	1%
Total council-rented dwellings	40,496	

Excludes leaseholds.  
Source: 2008 Business Plan Statistical Appendix, DCLG

### 2.2.4 The quality of the stock

The switch to modernist design and the use of untried systems for industrialised building (and incentives built into the subsidy system to encourage this), coupled with years of underinvestment, have their legacy in the number of homes in Southwark that fail to meet the Decent Homes standard. In 2009, Savills was commissioned to conduct a stock condition survey. The survey found that of those that failed the Decent Homes standard, most were due to "kitchen, wiring, and window related failures" – key components which are not cheap to fix.<sup>24</sup>

In April 2011, of Southwark's then 39,056 rented dwellings, 11,961 were non-decent (31%). This compares with around 13% of local authority housing in England overall, although the average is much higher in London (23%).<sup>25</sup> Provisional data suggests this figure had risen to 44% in April 2012.

#### Decency levels, 2008–2011

Year to 1 April	Non-decency tackled	Non-decent as of 1 April	Total no of rented dwellings	% of stock non-decent
2008	2,161	18,320	40,496	45%
2009	1,977	18,662	39,827	47%
2010	1,866	14,715	39,331	37%
2011	1,927	11,961	39,056	31%

Source: Business Plan Statistical Appendices, 2008–11, DCLG

### 2.2.5 Housing investment

To tackle the problem of homes below the Decent Homes standard, the council announced in May 2010 that it would make all homes "warm, dry and safe", meeting the Decent Homes standard by 2015. To meet that commitment, Southwark has allocated £326.5 million under its five-year (2011/12–2015/16) housing investment programme – partly funded through void sales, efficiency savings and receipts from redevelopments. A further £75.7 million of investment under the programme is dedicated towards existing regeneration schemes, with a further £11 million for adaptations.

*The ultimate priority for housing in this borough is that all homes are warm, dry and safe. We do not have the money to do everything so it makes absolute sense to ask tenants how they feel, and to look at where priorities lie. There's little point in paying for a new kitchen or bathroom when a property has persistent problems with damp, or needs improved fire safety. The shell of the homes needs to be sound before we spend money on improving what is already fit for purpose.<sup>26</sup>*

Councillor Ian Wingfield, Deputy Leader of the Council and Cabinet Member for Housing Management

Part of the current strategy is also to ensure that investment is targeted at those estates most in need. As a result of the 2010 stock condition survey, Southwark identified 15 estates in significant need of repair to bring the stock up to the Decent Homes standard (DHS) and maintain it over a five-year period. Across the 8,541 units on these 15 high-investment-needs

estates (HINEs), representing 22% of total rented stock in 2010 (39,331), some 57% of all units were found to be non-decent (4,888). However, there were wide variations in non-decency by estate, ranging from 31% to 98%. Furthermore, it was estimated that 4,873 units would fail the DHS over the next five years, with particular issues on the Aylesbury estate, where nearly 1,100 units would move into non-decency.<sup>27</sup>

To address these issues the council estimated that £22.7 million would be required for immediate work to meet the current Decent Homes standard, with cost per estate ranging from £800,000 to £3.5 million (Brandon Estate), at an average of £1.51 million. The average cost per unit was £4,645, ranging from £3,200 to £8,800.<sup>28</sup>

The council estimated that £24.3 million would be required to address units that would fail the current Decent Homes standard over the next five years, ranging by estate from £210,000 to £6.8 million (Aylesbury Estate) at an average cost per estate of £1.62 million. The average cost per unit was £5,000, ranging from £2,600 to £6,600.<sup>29</sup>

The total cost to achieve and maintain Decent Homes standards across these 15 estates with 22% of Southwark's stock was estimated at £47 million over a five-year period at an average cost per estate of £3.14 million, ranging from £1.6 million to £8.6 million (Aylesbury Estate). The average cost per unit on the estates was £5,500, ranging from £2,500 to £10,700.<sup>30</sup>

The HINEs investments do not cover all the estates. Excluded are the Heygate Estate, for example, where work began in 2008 and covers 10 sites in partnership with five housing associations: L&Q, Wandle, Guinness Trust, Affinity Sutton, Family Mosaic. The project aims to deliver around 500 new affordable homes (around 25% of the total), which will be offered to former residents under the council's "right to return" scheme. As with most of the major redevelopments, the Heygate is funded by a combination of central government grants, RSL funding and the recycling of value generated from private house sales.

Southwark has a reputation as one of London's most dynamic boroughs in respect of regeneration and renewal. According to the council, regeneration and housing developments across the borough are worth £4 billion, including (and in addition to the Heygate and the HINEs list above) major schemes such as Elephant & Castle, Camberwell town centre, Canada Water, Borough, Bankside & London Bridge and Bermondsey Spa. Many of these developments provide significant Section 106 housing contributions and/or requirements for affordable homes – albeit almost entirely provided by housing associations. Bermondsey Spa, for example, will provide over 2,000 new homes, with more than 40% affordable housing. The extent to which the council will be able to continue to use planning policies to provide for social/affordable housing in private developments is unclear. Much will depend on the availability of sites and the financial viability of schemes, as well as national planning and welfare policies (discussed in section 3).

### 2.2.6 Cost and quality of maintenance

The quality and type of Southwark's stock has a major impact

## High-investment-needs estates (HINEs), 2010

	Assets	Current failing Decent Homes standard (DHS)	Failing DHS (%)	Meeting DHS	Current costs	Future fails DHS	Future costs	Total costs to achieve and maintain DHS over 5 years	Current DHS costs per unit	Future DHS costs per unit	Total cost per failing unit	Cost per total number of dwelling
Aylesbury	1,284	563	43.8%	56.2%	£1,788,097	1,091	£6,768,689	£8,556,786	£3,176	£6,204	£5,173	£6,664
Brandon	1,354	874	64.5%	35.5%	£3,491,196	455	£1,291,754	£4,782,950	£3,955	£2,839	£3,599	£3,532
Elmington	659	408	61.9%	38.1%	£2,211,192	470	£2,337,596	£4,548,788	£5,420	£4,974	£5,181	£6,903
New Place	487	475	97.5%	2.5%	£2,339,618	315	£1,509,342	£3,848,960	£4,926	£4,792	£4,872	£7,903
Lettsom	335	314	93.7%	6.3%	£1,518,707	312	£2,073,756	£3,592,463	£4,837	£6,647	£5,739	£10,724
Rouel Road	574	256	44.6%	55.4%	£1,284,278	404	£2,139,784	£3,424,062	£5,017	£5,296	£5,188	£5,965
Rockingham	660	206	31.2%	68.8%	£1,298,312	312	£1,415,482	£2,713,794	£6,302	£4,537	£5,239	£4,112
Tabarb Gardens	940	323	34.4%	65.6%	£1,026,514	327	£1,401,960	£2,428,474	£3,178	£4,287	£3,736	£2,583
Sceaux Gardens	349	210	60.2%	39.8%	£1,843,489	169	£531,378	£2,374,867	£8,779	£3,144	£6,266	£6,805
Consort	367	147	40.1%	59.9%	£796,602	251	£1,389,679	£2,186,281	£5,419	£5,537	£5,493	£5,957
Newington	290	198	68.3%	31.7%	£974,688	172	£986,300	£1,960,988	£4,923	£5,734	£5,300	£6,762
Wyndham	421	316	75.1%	24.9%	£1,537,627	44	£214,173	£1,751,800	£4,866	£4,868	£4,866	£4,161
Deysford	262	194	74.0%	26.0%	£962,110	158	£754,637	£1,716,747	£4,959	£4,776	£4,877	£6,552
Bells Gardens	329	230	69.9%	30.1%	£841,296	222	£734,422	£1,575,718	£3,658	£3,308	£3,486	£4,789
Southampton Way	230	174	75.7%	24.3%	£790,995	171	£778,401	£1,569,396	£4,546	£4,552	£4,549	£6,823
	<b>8,541</b>	<b>4,888</b>	<b>57.2%</b>	<b>42.8%</b>	<b>£22,704,721</b>	<b>4,873</b>	<b>£24,327,353</b>	<b>£47,032,074</b>	<b>£4,645</b>	<b>£4,992</b>	<b>£4,818</b>	<b>£5,507</b>

Source: London Borough of Southwark *Housing Investment Programme Revised Strategy* Appendix 6: High Investment Needs Estates (2011)

## Housing revenue account expenditure, 2012/13

Expenditure	£m	
Capital charges	76.5	29.8%
Responsive repairs and heating repairs	46.8	18.2%
Employees	27.3	10.6%
Running costs	21.8	8.5%
Support costs relocations	14.8	5.8%
Ground maintenance and estate cleaning	14.3	5.6%
Heating account	12.2	4.8%
Thames Water charges	10.9	4.2%
Planned maintenance (external decorations)	7.8	3.0%
Regeneration landlord commitments	7.4	2.9%
Service level agreements	5.5	2.1%
Revenue contribution to capital programme	5.3	2.1%
Co-ops, TMOs	2.6	1.0%
Contribution to reserves	2.0	0.8%
Contingency	1.5	0.6%

Source: London Borough of Southwark: (<http://modern.gov.southwark.gov.uk/mgConvert2PDF.aspx?ID=25573>)

on the level of maintenance required and the costs attached to it. As is described in Section 2.4, the quality of the stock is a particular grievance of both tenants and leaseholders. The poor quality of service provided was also highlighted in almost all the evidence we received from tenants and leaseholders.

At present the council is spending significant amounts on carrying out responsive repairs, which in some instances is a symptom of failing to fix the underlying problem. For 2012/13 Southwark is forecasting housing revenue account expenditure of £256.7 million. Expenditure covering the costs of capital charges (debt servicing) makes up 30% of annual expenditure (£76.5 million), followed by responsive repairs and heating repairs (£46.8 million), employee costs (£27.3 million) and running costs (£21.8 million). The table below shows where the council currently spends its resources.

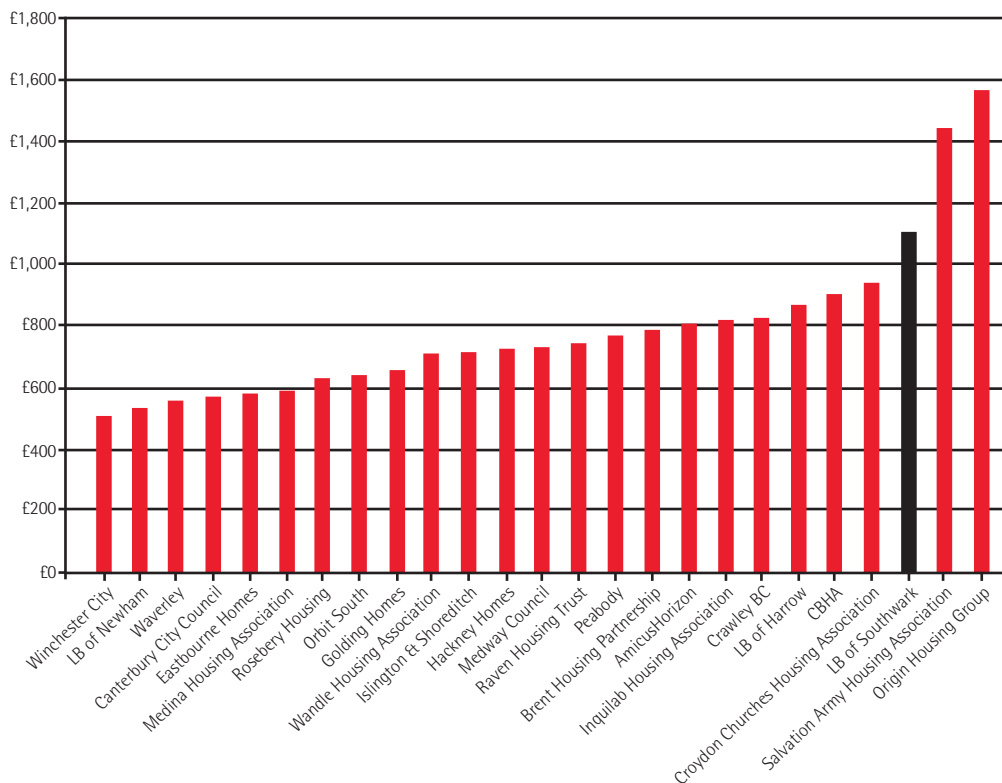
## 2.2.7 Customer care: how Southwark compares

Analysis of HouseMark benchmarking allows for a comparison between other social housing providers (in what follows the comparison is with a sample group of around 30). While comparisons with other providers can be like comparing apples with pears, the data tends to support the tenant and leaseholder evidence to the Commission that a better service and more value for money could be achieved by the council.

Southwark performs well in the amount it spends on its back office, reflecting in part the volume of stock and that it largely

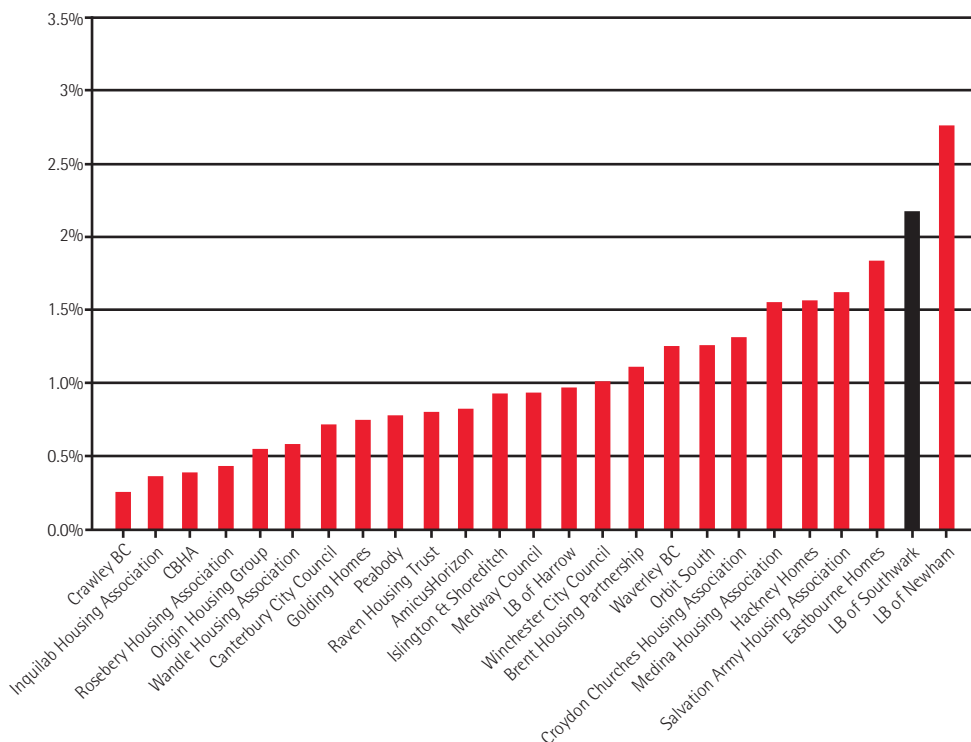


Cost of responsive repairs and voids works, per property 2009/10



Source: HouseMark Benchmark Report, 2009/10 and 2010/11

Rent lost due to empty properties as percentage of rent due, 2009/10



Source: HouseMark Benchmark Report, 2009/10 and 2010/11

provides "general needs housing" rather than supported housing. However, Southwark is currently one of the highest spenders on direct responsive repairs and voids costs, which in 2009/10 totalled around £1,200 per property, with comparatively large amounts being spent on staff and contractors (the largest within the sample group). Although the cost per property on responsive repairs and voids was reduced in 2010/11, by comparison the council is still spending large sums.<sup>31</sup>

Southwark performed poorly in getting repairs right first time, fixing eight out of 10, whereas the best (Southampton City Council) achieved almost 10 out of 10. While Southwark made repairs comparatively quickly, almost two-thirds were emergency and urgent repairs, which are more expensive than treating repairs as routine.<sup>32</sup>

Southwark spent more per property than most on major works, and within that most on contractors. In 2009/10 it spent more than any of the sample group on direct costs of staff managing and administering the major works service. While Southwark is not the worst at turning round void properties, it is losing more than most in rents due to properties being empty – at over 2% of rent due (see previous page).

Southwark is also spending more than most on rent arrears and recovery (including staff time), around £130 per property per year. This compares with the best performers, which average around £50. With a housing stock the size of Southwark's there are potentially large savings to be made in this regard.<sup>33</sup>

### 2.2.8 Tenant management organisations

While most maintenance is directly in the council's control, the borough does have a number of tenant management organisations. Under the TMO model, tenants plan, manage and deliver maintenance services. The borough has 14 TMOs, which look after 3,500 properties. The largest of these is Leathermarket Joint Management Board, which is set to become "self-financed". The advantages cited for TMOs include benefits of understanding tenant needs and having an interest in delivering a high-quality service. The box below gives more detail on Leathermarket JMB (from its submission to the Commission) and how it is performing, as well as the potential benefits of TMOs. It is worth noting that TMOs have historically received generous allowances from the council and not all have been successful.

#### Leathermarket Joint Management Board

In 1994 tenants from the Leathermarket Neighbourhood Forum wanted to act upon the new "right to manage" regulations. Tenants felt that the service they were receiving from the council, in particular in repairs and cleaning, could be much improved. Following an agreement with the council and a ballot of residents, Leathermarket JMB was established in 1996.

Today, Leathermarket is the largest of Southwark's tenant management organisations. It has 1,100 tenants and 400 leaseholders. It performs a wide range of tasks including responsive repairs, cleaning, gardening and major repairs. It also provides support for vulnerable residents and tenants struggling with meeting rent payments, as well as combating antisocial behaviour.

Leathermarket's board is made up of five tenant and resident associations (TRAs). Once a year the TRAs nominate two directors each. These 10 directors are complemented by three co-opted directors with specialist expertise. The board decides on how work should be undertaken and the priorities. Sub-committees meet to look at issues such as finance, repairs and staffing.

The JMB has high levels of satisfaction. In October 2011, in a ballot of tenants to decide whether to continue with the JMB, 78% of households voted, with 93% of those expressing their support for Leathermarket. Lost revenue due to arrears or empty properties is now just 2% of collectable rent. The average void turnaround is 35 days.

Leathermarket JMB cites the fact that it is enormously motivating when tenants "see that they have been listened to and paid attention to, and that their involvement makes a tangible improvement to their environment and their lives".

Leathermarket has low levels of staff churn, with the majority of directors involved for over six years, and staff also working with the JMB for a long time. This extends the corporate memory, including on the quality and issues around the stock, as well as building relationships between the JMB and residents. The JMB believes that secure employment will result in greater commitment than casual work for a contractor, with sick days almost non-existent. The close ties and levels of trust with tenants have ensured that rent collection rates are extremely high as support is offered:

"While some tenants still need to be chased, the JMB has found – increasingly – that tenants proactively contact us to ask for help and some will just phone us and apologise if they have had a 'bad week' and can't pay their rent".

At present it provides: rent collection and advice; weekday repairs for tenants and 24-hour, seven-day-a-week, emergency repairs service; estate maintenance, gardening and cleaning; empty property repairs; advice on housing; checks on antisocial behaviour; a visible presence on the estates; tenancy checks to ensure all residents are authorised residents; help to resolve neighbour disputes; taking prospective tenants to view properties and signing up new tenants; and managing major improvement works within the budget given by Southwark council.

The council has agreed that Leathermarket should become partially "self-financed", allowing it to keep its rental income and paying the council the debt owed on the homes. The change is being implemented in shadow form until April 2013, after which it will become a permanent arrangement.

### 2.2.9 Housing revenue account: a new social business

In April 2012, the government abolished the housing revenue account subsidy system (whereby central government allocated funds to each local authority for council housing) and established a new system of self-financing for council housing. Under the new HRA self-financing system, councils retain rents and charges they receive from tenants and leaseholders. Out of this money the council will have to meet the debt obligations on its housing

and pay for the management and maintenance of its stock. The council is granted new freedoms to run its council housing as it sees fit, albeit still subject to central government controls over rents, welfare payments and levels of debt. All HRA funding is also ring-fenced and therefore cannot be spent on other services.

Part of the policy shift was an agreement by central government to reduce the level of debt. In Southwark's case this was not as large as was previously indicated, which left the borough with a much higher housing debt than anticipated (currently inherited debt is around £451 million).

The HRA reforms, however, allow councils to borrow within a certain limit. At present Southwark has the freedom to borrow some £126 million (its borrowing "headroom" before it reaches the limit – cap – the government has imposed).<sup>34</sup> The council can use this borrowing headroom to either invest in existing stock or build new homes. However, it can only do so if it believes investment makes financial sense and that income (from rents etc) will meet the debt charges. As we discuss in more detail later, it is not so much the total debt, but the debt per household and the ratio of housing debt to the value of net housing assets, which needs to be considered, alongside the cost of debt servicing. Even taking into account that housing associations' stock is newer and therefore less expensive to run, the land values alone in Southwark would reinforce the point that the housing stock is under-leveraged (has unwarranted low levels of debt).

Unlike housing associations, councils' HRA borrowing is subject to fixed limits set by the DCLG. This is because borrowing by the council for council housing is included as part of the public-sector borrowing requirement and therefore treated as national debt. Borrowing for council housing under the government's prudential rules means that the borrowing must be affordable both locally and nationally. The Treasury has consistently resisted calls to change the situation so that councils have

more freedom to borrow for council housing. According to the House of Commons Communities and Local Government Committee, local authority borrowing to support council housing "should be outside of the national debt. We are not convinced that the existing accounting treatment, or the cap, is justified. A change of rules would bring the UK in line with other European countries and enable councils to borrow on the same terms as housing associations. The provisions of the Prudential Code should be a sufficient control upon council borrowing."<sup>35</sup>

The reform of the HRA means that councils will be able to make local decisions on how to manage or improve their existing stock, pay back debt owed or, in the future, build new homes. As a consequence, Southwark is required to come up with a credible business plan to manage and sustain its stock over 20-30 years in a self-funding way. It also places greater emphasis on asset management – ensuring that decisions make long-term financial sense rather than being driven by short-term expediency.

*Self-financing of the HRA provides an opportunity to develop a long-term asset management plan with more financial certainty.*  
Housing provider

### 2.2.10 Rent restructuring

The reforms of the HRA come alongside major rent restructuring, which has been on-going for the past decade and will continue to at least 2015/2016. Under this regime, set by central government, target rents are set for areas with the intention that social rents (council and housing associations) converge over time. Council rents have traditionally been lower than those of housing associations, so for rents to converge, councils rents are increased by RPI + 0.5% (and in the short term to around £2 above this, subject to affordability caps). As we discuss later in the report, Southwark is starting from rents which are low, and given the limits on how much they can be increased, they are not expected to reach 50% convergence by 2015.

## 2.3 Who lives in council housing?

- Southwark is a growing borough and is forecast to have 50,000 more residents by 2030. This will increase demand for council housing and add to the already long waiting list.
- Two-thirds of current tenants are not economically active. Many are pensioners and carers.
- The incomes of council tenants are low, with 70% on incomes below £20,000. The median income is £9,100, far below the borough average and five times less than that of home owners.
- With many tenants on low incomes, council (or wider social) housing is the only realistic housing option. Private rents are over double what council tenants pay, while home ownership is beyond the reach of most tenants (lower-quartile house prices are nine times lower-quartile incomes).
- Welfare reforms and falling real incomes will place added stress on low-income families and further limit their opportunities.
- There is under-occupancy in council housing across the borough, but mostly in homes where people have lived all their lives.

While the previous section focused on the housing stock in Southwark, this sub-section examines who lives in council housing and some of the main issues they face. The information we have presented is based on the most up-to-date statistics from the council, the ONS and other official sources.

Southwark is a major landlord by any measure and in 2001 it provided homes for over 103,000 people or 43% of all the borough's residents. This compares with a London average of 17% of people living in council housing and an England-wide average of 12%. In fact, the council houses as many people as live in the city of Exeter.<sup>36</sup>

Its location in central London makes Southwark a popular and populous borough. The social composition of the borough is the result of a complex mixture of geography and past patterns of transport, residential development and housing tenure. As a result, Southwark is a place where both rich and poor live. On the one hand it is the 25th-most deprived council in the country,<sup>37</sup> and on the other home owners with a mortgage have a mean household income of over £64,000. Many of those with low incomes are housed by the council.

With much lower rents than the private sector, council housing is still highly attractive, with long waiting lists for homes. Although council housing remains popular, the Commission heard evidence from tenants and leaseholders, detailed at the end of the section, about what could be a much better service. While rents that are affordable and full security of tenure were being provided, many tenants thought the quality of the housing could be improved and overcrowding tackled. They also felt that the council could do more to engage better with them and to understand their needs and priorities so as to improve the overall service.

### 2.3.1 Demographics

The population of Southwark, like that of inner London, peaked in 1901, when over 600,000 people lived in the area now covered by the London borough. By 1971, this total had fallen to 260,000. Between 1966 and 1971 alone, the borough lost 11.4% of its population. This was the third-highest rate of population loss in London. Southwark was losing its younger, employed people.<sup>38</sup>

But this long-term trend was reversed from the mid 1980s. The curve bottomed out at 215,000 in 1982, and Southwark's population began to grow. By 2010, there had been a net increase in population of 70,000; between 1982 and 2006 the borough's population grew by 24.6%.<sup>39</sup>

The increase in the population is forecast to continue: during the course of 2012, Southwark is set to pass its 1961 population level of over 300,000, and to overtake the 1951 figure sometime in the middle of the decade. Current predictions suggest that by 2031, the population will be 351,655. If it is to increase as predicted, then these extra people will need to be adequately housed.<sup>40</sup>

The main reason for the projected population growth is an increase in the birth rate, which is predicted to grow from 4,000 births in Southwark in 2012, to just under 6,000 in 2031. A slight decline in the death rate is forecast, and more people will be moving into the borough than leaving until 2019.

Southwark has a young population, with far more people in their 20s and 30s than England as a whole. Southwark is also a borough of great ethnic diversity. Two-thirds of the population is estimated to be white. Of the rest, 70% are black/black British and 20% Asian/Asian British. These borough-wide figures, however, do not give the whole picture. In Peckham (43.5%) and Camberwell (31.9%), for example, black people form a more substantial proportion of the population.

### 2.3.2 Economy and labour market

Southwark is home to some very affluent people, and to many poor people as well. Its divided job market reflects this. In 2010/11, 57.8% of the local population in employment were in managerial or professional jobs. Nearly half the population of working age (49.6%) had NVQ level 4 (degree-level) qualifications – as opposed to only 41.9% in London as a whole, and 31.3% in Great Britain. Earnings for those in work are above both the London and UK averages.<sup>41</sup>

But in April 2012, nearly 11,000 Southwark residents were claiming job seeker's allowance (JSA) – 5.2%, compared with 4.3% for London as a whole, and 4% for Great Britain. Figures

for 2011 show that a further 20,000 Southwark residents were claiming other key out-of-work benefits. The proportion of the working-age population on all such benefits (including JSA) – 14.4% – is higher for Southwark than for London or the UK. Compared with the rest of London, Southwark has both more managers and graduates, and more claimants and people without formal qualifications.<sup>42</sup>

### 2.3.3 Incomes and well-being

It is to be expected that, given the historic purpose of council housing, Southwark's tenants tend largely to be those with lower incomes, less likely to be working and more likely to have serious health problems and/or be older.

A recent survey in 2008 showed that median household income for those renting from the council stood at £9,100 a year (including non-housing benefits). This is £5,200 less than housing association households; well below the borough average and that of the private rented sector; and over five times less than owner-occupiers with mortgages. Only around 9% of households renting from the council have an income in excess of £30,000, while 60% have a combined household income below £15,000 and over half have household incomes below £10,000.<sup>43</sup>

A majority of those renting from the council are not in paid employment, with a two-thirds/one-third split in favour of those not currently in work. However, a large proportion of those not in work are pensioners. With low incomes and a large number of tenants economically inactive, a majority of households renting from the council are in receipt of housing benefit. The proportion of households renting from the council and not in receipt of housing benefit in council housing (39%) is similar to those in employment (36%).<sup>44</sup>

For those in work the council does provide affordable housing to those people who make the borough (and inner London) tick – the council and housing associations together provide housing for a third of key workers in the borough. Council housing also provides accommodation for many low-paid workers in the private sector, who are needed for the local economy to function.

*A housing strategy that does not meet the needs of low-income workers is, therefore, likely to undermine the economy of the borough as high-street businesses, new start-ups and private enterprise will not be able to recruit committed people who are able to work at a low wage.*

Tenant

### Household income by tenure, 2008

	Own out-right	Own with a mortgage	Rent from council	Rent from RSL	Private rent	Total
0-£10k	26.80%	3.20%	53.80%	44.60%	24.60%	34.30%
£10k-15k	14.10%	5.30%	17.10%	11.70%	9.50%	12.30%
£15k-£20k	13.20%	6.70%	9.00%	10.70%	8.60%	9.00%
£20k-£30k	17.80%	11.20%	11.20%	14.40%	19.10%	14.00%
£30k-£40k	3.30%	14.10%	3.40%	7.20%	11.10%	7.60%
£40k-£60k	11.30%	22.10%	2.70%	7.10%	13.40%	10.00%
£60k+	13.50%	37.40%	2.90%	4.20%	13.70%	12.80%

Source: Southwark Household Survey 2009

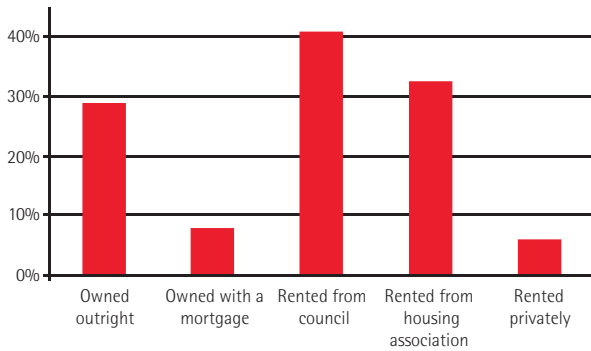
### Employment status by tenure, 2008

	Own out-right	Own with a mortgage	Rent from council	Rent from RSL	Private rent	Total
In full-time employed paid work	4,050	23,490	13,020	5,030	47,680	93,250
In part-time employed paid work	1,320	2,720	6,400	1,430	5,630	17,500
Self-employed	1,330	5,300	1,720	610	6,890	15,850
Not currently in paid work	7,750	4,470	39,260	7,250	24,930	83,670
	14,440	35,980	60,400	14,320	85,130	210,270

Source: Southwark Housing Requirement Study 2009

Inequalities extend beyond income, with those renting from the council far more likely to have some sort of health problem – 40% of households renting from the council self-define as having one or more persons experiencing a health problem.<sup>45</sup>

### Percentage of households with 1+ members experiencing health problems by tenure



Source: Southwark Household Survey 2009

At the 2001 census, 11,386 out of 44,795 households then renting from the council were in retirement (around 25%).<sup>46</sup> Council housing still provides an affordable home for two-thirds of the borough's older population. With an ageing population this is set to increase, especially as those in council housing are less likely to move than some in other forms of housing. Although these figures are for all tenures in the borough, the number of those over 65 is expected to grow by 10,000, from 25,100 in 2011 to 35,100 by 2031 (40%). This group currently accounts for 9% of the total population in Southwark. The 90-plus age group is expected to grow by 125% or 1,800 people by 2031.<sup>47</sup>

### Older people by tenure, 2008



Source: Southwark Household Survey 2009

At the other end of the age spectrum, 38% of households renting from the council contain at least one child, similar levels to those who rent from a housing association or own with a mortgage.<sup>48</sup>

### 2.3.4 Housing needs

Despite overall growth in the number of homes within Southwark, the borough is running hard to keep pace with the growth in population (outlined earlier). The total number of dwellings in

Southwark in 2011 was 127,000. This has increased from 88,000 in 1976. In the same period, the population has grown from 226,000 to 287,000.<sup>49</sup>

In 2008, the number of households in Southwark was greater than the number of all properties (council, private and housing association) – a shortfall of almost 9,000 homes:

### Households and homes in Southwark, 2008

	Households	Dwelling stock	Balance	
Southwark	124,000	115,240	-8,760	-7.60%
Inner London	1,343,000	1,344,280	-8,720	-0.65%
London	3,244,000	3,248,000	4,000	0.12%
England	21,731,000	22,398,000	667,000	3.07%

Source: DCLG live tables 406 and 125

The need for housing is also clear from the scale of the borough's waiting list. In 2011, there were over 18,724 households on the housing register, an increase of over 5,500 in six years.<sup>50</sup> In particular, waiting times for larger properties, which are fewer in number, are longer than the average.

This rise has been mainly caused by applications from those currently without council tenancies, while a steady increase in applications for transfers (6,000 who are already tenants) on the register has been recorded over the past six years. New applicants requiring a one-bedroom home far exceed all other categories. The biggest demand is for one-bedroom properties (52%), then two beds (29%), then three beds (14%) and lastly, more than four beds (6%).

In 2011 those needing three or more bedrooms, be they new applicants or transfers, made up just 3,629 of 18,724 households on the waiting list (although by its nature this underplays the number of *people* requiring a larger property).

*Families don't want to be overcrowded and want to stay together but a shortage of affordable family homes in Southwark means many people are living in overcrowded homes.*

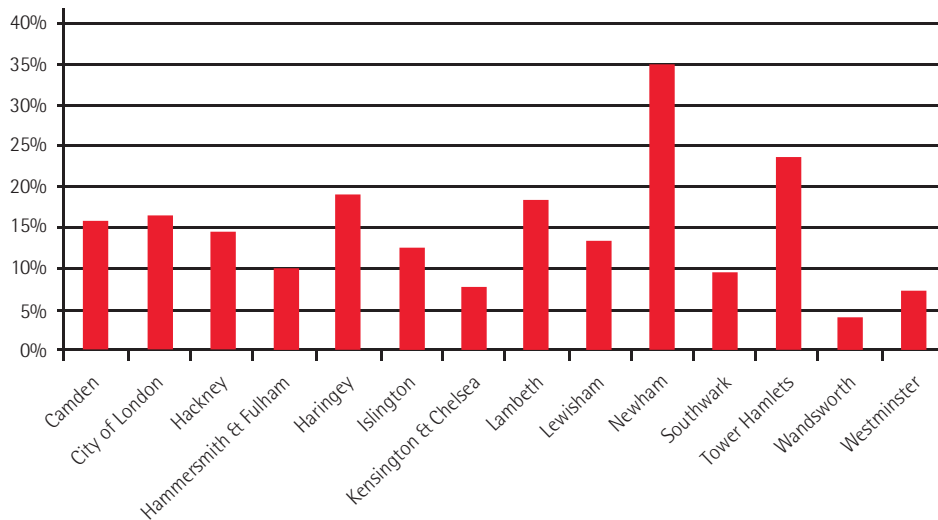
Local MP

Applications from those who are not currently council tenants represent two-thirds of total applications. Meanwhile, those transferring tend to require a wider range of property types, while new applicants are heavily skewed towards one-bedroom properties.

Over a six-year period, housing need has increased across all property sizes. The biggest rise has been those requiring three bedrooms, albeit from a much lower base than those requiring one or two bedrooms.

The waiting list compares favourably with other inner London boroughs, notably Newham, Tower Hamlets, Lambeth and Camden. This also holds true when looking at the waiting list as a proportion of households.

Waiting list as percentage of households by inner London borough, 2011



Source: GLA

### 2.3.5 Homelessness

Since the 1970s housing authorities (councils) have had a statutory responsibility to provide accommodation for the most vulnerable. The council's "duty to house" is, however, limited to those who are eligible for housing, have a connection to the borough, are not homeless intentionally and are in "priority need" (someone with a child or who is vulnerable because of old age, illness, disability, domestic violence etc). The number of those qualifying gives an indication of acute need but not the whole picture; for example, it does not cover the overwhelming number of single homeless people.

Official numbers show that 510 households were accepted as unintentionally homeless and in priority need, a fall from a recent peak of 1,857 in 2004. This reduction is in no small part due to the success of the innovative and award-winning "housing options" approach from the community housing service. However, while the council may have a duty to provide accommodation, it may be some time before a person or household is found permanent accommodation. In 2010, the number of households in priority need in temporary accommodation, for example, was 1,022.

In 2010/11, in addition to the 510 households that were unintentionally homeless and in priority need, 334 were also homeless and eligible but not in priority need.<sup>51</sup> However, the figures for those applying as homeless are projected to rise, owing to the lack of affordable homes in the borough and the impact of the government's welfare reforms.

### 2.3.6 Overcrowding

Another indicator of the lack of supply of low-cost housing is the level of overcrowding. Levels of overcrowding are particularly high in social housing and it was an issue raised by many tenants the Commission heard from. While it is an indicator of high demand, overcrowding has also been shown to have a negative impact on educational attainment and health.

The government's guidelines use the bedroom standard to assess

whether a household is living in overcrowded conditions. A simple way to do this is to assess whether each of the following groups have a bedroom (of a certain size) to themselves: adult couple, remaining adult (aged 21 or over); each pair of children of the same gender; each pair of children aged under 10; each remaining child that has not been paired.

In the council's survey of housing, 15% of households renting from the council live in overcrowded conditions; this is more than those renting from registered social landlords (RSLs) (9.5%) or from the private sector (12.4%), owner-occupiers with a mortgage (7.7%) or those who own their homes outright (2.6%).<sup>52</sup> This is not an issue facing only Southwark, as many other inner London boroughs have high levels of overcrowding. The council also recognises that households from ethnic-minority communities are more likely to be over-represented among those living in overcrowded conditions.<sup>53</sup>

The survey also showed that around half of all households renting from the council had the appropriate numbers of rooms. Around a third of council housing tenants were in under-occupied properties – having more bedrooms than required (as set out above). This was more than RSL (24.7%) and privately rented properties (26.9%), but far short of those who owned their home outright (80%).<sup>54</sup> This may, however, be a rather narrow definition, with many people either needing a spare room for a carer or wanting space for family to stay.

*The failure to supply levels of social rented housing to meet local need has created high levels of overcrowding and transience.*

Tenant

### 2.3.7 Affordability

One of the most important issues that both tenants and leaseholders raised was the level of rent or charges. The low rent makes council housing very attractive to tenants, who are aware of higher private rents. Leaseholders meanwhile were concerned that they were paying too much on service charges, particularly

one-off charges for major repairs.

Between 1998/99 and 2011/12, the average Southwark rent for a council property rose from £49.70 per week to £86.31.<sup>55</sup> However a comparison of the rents for council housing and the private sector shows the marked difference in price. In the private rented sector, lower-quartile rent for a one-bedroom property is £196 (or £850 per month) – an amount beyond the means of those on lower incomes.<sup>56</sup>

*With many flat shares in the private rented sector costing over £500 per room per month, and with council tax, food, and fuel bills being payable on top of this, it's obvious that anyone wanting to live and work in Southwark at minimum wage will be facing a life of hardship if they are expected to house themselves in the private rented sector.*

Tenant

The same is true for those who see council housing as a stepping stone to home ownership. Although the figures are not adjusted for inflation, lower-quartile house prices have risen from £44,000 in 1996 to £247,500 today, a fivefold increase.<sup>57</sup> At the same time earnings have failed to keep pace with rising house prices. For example, in 1997 in Southwark the ratio of low incomes (lower-quartile) to low-end house prices (lower-quartile) was three to one; by 2010 it had risen to nine to one. While a similar increase in the ratio has occurred for median earners to median house prices, they at least have the opportunity to buy a property at the lower end of the market. Those on lower incomes must increasingly look to the rental market to meet their housing needs.

This pushes up demand for council housing, especially given the changes to local housing allowance (LHA). Under the current plans those claiming housing benefit in the private sector have this year seen the amount they can claim reduced from median rents to the 30th percentile. Further changes also include applying a cap and increasing the amount that can be received in line with the Consumer Price Index rather than the cost of housing in an area. With such changes it has been calculated that only 36% of neighbourhoods in Southwark will be affordable for those in receipt of LHA, rather than 65% in 2010.<sup>58</sup> This is likely to increase the demand for social housing. As other inner London boroughs are even more affected, many more people from surrounding areas could be looking to move into the borough. Conversely, changes to LHA could force people out of the borough.

While changes in house prices and in the level of LHA only affect those in the private sector, the government's other welfare reforms and rental convergence have a more direct impact on council tenants.

The government is continuing with the previous administration's aim of converging all rents within an area, to ensure fairness between tenants of all providers. This means that council housing tenants in Southwark, who have benefited from lower rents than housing associations, will see their rents rise further. Rents in Southwark are forecast to rise by 8% in 2012/13 (though much in line with the average London increase of 7.5%), representing an

average weekly increase of £6.78. The average rent per dwelling will reach £91.94 per week in 2012/13. Increases of 4.7% are proposed for both 2013/14 and 2014/15.<sup>59</sup> Once convergence is reached rises will not be as steep, but tenants will be paying relatively more than they do today.

In addition to the rent rises, the government is introducing a raft of welfare reforms. The main housing-related measures include:

- **Under-occupation.** Southwark estimates that 3,060 households with working-age populations (19% of the total of 16,103) and in receipt of housing benefit will be affected by cuts owing to the under-occupation provisions coming into force in 2013: some 2,387 are estimated to under-occupy by one bed and 673 to under-occupy by two or more beds. The impacts of under-occupation on longer-term social rental housing development could be considerable, and include households with registered disabilities. It is estimated that nationally around two-thirds of under-occupied dwellings are occupied by registered disabled people, which would equate to 2,400 disabled residents in Southwark. The council is concerned that this may result in people moving out of homes that have been adapted to their needs.<sup>60</sup>
- **Benefit cap.** The benefit cap particularly affects lone parents and couples with larger numbers of children and larger properties. The effect is expected to be disproportionately worse for those in the private rented sector, although Southwark is warning that the benefit cap will affect council tenants who have four children or more and are living in three-bedroom properties or larger. A couple with four children renting a three-bedroom property from Southwark council are estimated to have a likely weekly shortfall of £42. This rises to £129 for five children in a four-bedroom property.<sup>61</sup> While modelling by the Consortium of Associations in the South East (CASE) suggests that the social rent model can work within the £26,000 cap (£500/week), the government's Affordable Rent model does not appear to work for larger homes. CASE suggests this will lead to housing associations ceasing to build four-bedroom properties in the future as well as a general reduction in their ability to house larger families. This will place extra pressure on the waiting list for council homes. Unless the cap is indexed to inflation, CASE suggest that rent levels on smaller properties "will also become increasingly unworkable".
- **Direct payments.** The introduction of direct payments of housing benefit to tenants (from 2013) has the potential to increase rental arrears for Southwark. Some 70% of Southwark's housing income is from rent and 95% of this is paid directly to the council. CASE has highlighted that a pilot Tenant Direct project run by the housing association L&Q found that arrears increased substantially as direct payments were introduced.<sup>62</sup> Arrears are socially undesirable, put an increased focus on "risky" tenants and increase administrative and borrowing costs for housing providers. According to a survey by HouseMark "poor rental income performance could become a barrier to accessing funding for development programmes, both in terms of public and private funding".<sup>63</sup>



*We are concerned about the future effect of universal benefits and the possible increase of tenant arrears to the HRA.*

Tenant organisation

*Welfare reforms will pose a significant financial risk to Southwark's housing stock, as they will do to all social housing providers.*

Housing provider

It is difficult to forecast how these measures will play out (even up to 2015, let alone beyond that date). But they will mean that tenants who are working will be paying higher rents and those in receipt of benefits will have more stringent rules applied.

### 2.3.8 Leaseholders and service charges

Home ownership became a realistic possibility for many tenants after the introduction of the Right to Buy in 1980. Exercising the Right to Buy, however, did not necessarily bring to an end the relationship between a (former) tenant and the local authority. As the Commission witnessed, many leaseholders are active members of the community and resident forums.

There are around 16,700 leaseholders and freeholders. As shown earlier in this section, this has risen steadily since the 1980s – although new sales have fallen off more recently. Most Right to Buy properties, especially flats, have been sold on a leasehold basis. These are scattered across the borough, including in high-investment-needs-estates, which require major investment.

Leaseholders have an obligation to pay a service charge to cover the costs of the upkeep of properties. Leaseholders (and some freeholders) also have an obligation to pay their fair share of the cost of any major works. This is often a source of tension (see sections 2.4.11–2.4.13) between leaseholders and the council.

When the council embarks on major refurbishment or structural repair of a block, or demolition for redevelopment, it is necessary for Southwark to buy back any leasehold interests. This of course can prove costly in large-scale redevelopments, like the Heygate. Growing numbers of leaseholders in blocks of flats will obviously have an impact on the viability of future redevelopments and how the council will need to consult and liaise with residents of blocks. The problem of Right to Buy purchases on estates scheduled for demolition has been curtailed by new government

controls allowing councils to prevent prior purchases for up to seven years.<sup>64</sup> Council tenants and leaseholders who remain residents also often complain that those leaseholders who let their homes have little commitment to improving the estate or local area.

The presence of so many leaseholders has changed the way the council provides its housing services. However, the council has not always delivered the service leaseholders want. In 2009, an independent audit of leasehold service charges by Grant Thornton LLP found that average service charges differed widely, with leaseholders in high-rise flats with associated cleaning required facing high charges.<sup>65</sup> The report found, among other things, that insufficient information (and clarity of information) was provided to leaseholders about the charges levied, that the council could have been reclaiming money from its insurance policies, and that there were not adequate checks to identify works which should have been classified as major works (which would have meant greater consultation). The report's recommendations included a new accountancy policy to make charges clearer, an improved audit trail and better monitoring of overcharging from contractors.

While improvements by the council have been made since, a recent review of leaseholder charging in Southwark by the housing and community safety scrutiny subcommittee noted "that there was a genuine and continuing concern among leaseholders that the charging process could and should be improved". For the period 2010/11, the average service charge in the borough was £1,085, which was around the inner London average.<sup>66</sup> Despite this, many of the leaseholders the Commission spoke to still felt they were being overcharged. This sentiment is even more strongly held in respect of major works.

High service and major works charges can cause real hardship. Although leaseholders have bought their homes, they are not necessarily wealthy and some struggle to meet the charges (in 2003, a report for the Joseph Rowntree Foundation estimated that around half of all households in poverty were home owners).<sup>67</sup> Although the council offers a variety of schemes to help leaseholders meet their repair bills, ensuring accuracy, value for money, transparency and trust in the system continues to prove very challenging for the council's housing service.

## 2.4 Tenant and leaseholder perceptions of council housing in Southwark

- While tenants generally wanted Southwark to remain as their landlord, the majority of those we heard from believed they were receiving a poor service. The impression was "better the devil you know than the devil you don't".
- Tenants also felt that they should be consulted and listened to much more.
- Leaseholders, like tenants, thought that the housing service was below par and did not represent value for money.
- Leaseholders also felt that their relationship with the council could be much improved and that they should be better consulted, especially regarding major works.
- Tenants were concerned about rising rent levels.
- Tenants were particularly concerned to ensure the continuation of long-run security of tenure for both existing and new tenants.
- Some tenants were angry about unlawful subletting, which they suggested was widespread.
- They also had concerns about lawful subletting by leaseholders.
- Tenants (especially younger people) highlighted the problem of overcrowding.

The Commission heard from a number of tenants and leaseholders (and their representatives) about their concerns and feelings over the service the council provided and what they wanted for the future. This section of the report aims to crystallise the views of tenants and leaseholders.

### 2.4.1 Southwark as a landlord

What was clear from tenant representatives was that they wanted the council to remain as the landlord. This view is crystallised in three separate ballots on stock transfer held in the borough. The result of all three was to retain the council as the landlord (some 73% of residents on a 76% response rate voted against transfer of the Aylesbury estate in 2001).<sup>68</sup>

The council was seen as providing a more secure tenancy and lower rents than housing associations. It was also believed that council housing offered tenants the chance to vote out their landlord if they felt services were failing or rents were too high.

*I very much hope that it [council housing] will not be sold off or reduced in any way.*

Tenant

*Most tenants want council housing and choose to stay with the council.*

Tenant

### 2.4.2 Housing service

The majority of tenants we heard from seemed to want Southwark to remain as their landlord, but were often unhappy with aspects of the quality of the housing services. Tenants felt that repairs were often not made promptly or to a suitable standard. Tenants also had concerns with contractors, which they felt offered poor value for money and worked the system to maximise profits. Low levels of satisfaction are also seen in the HouseMark benchmarking data: less than three-quarters of tenants surveyed

were satisfied with services – the lowest among comparable housing providers.<sup>69</sup> Tenants were also very dissatisfied with the call centre for reporting repairs; the Commission notes that the contract for this service has now been terminated. It was felt that there could be more face-to-face relationships between maintenance staff and tenants, which could perhaps be achieved by employing caretakers. The gradual withdrawal of residential caretaking staff was widely believed to have had a negative effect on service standards.

*I don't feel the work is value for money; look at the rust on the frames, the paint's coming off, look at the workmanship.*

Tenant

### Southwark council tenant survey 2006-11

	2011	2008	2006
Overall satisfaction with landlord services	73%	62%	57%
Satisfaction with repairs and maintenance	68%	62%	60%
Satisfaction with neighbourhood as a place to live	~	64%	60%
Value for money for rent	70%	62%	61%
Keeping tenants informed	74%	63%	69%

Source: London Borough of Southwark

### 2.4.3 Quality of stock

Tenants felt that their homes failed to meet basic housing standards. The Commission heard from tenants whose lives were

blighted by damp, infestations of pests such as rats, poor-quality kitchens and bathrooms and badly insulated properties. This is something which the council says it hopes to address urgently with its five-year investment plan to make all council homes "warm, dry and safe".

*It's not fair. It's not like we can sleep properly because we've got ants, cockroaches, mice running around. It's not right. Why should our kids have to live with that?*

Tenant

#### 2.4.4 Rents

A major concern of tenants was rising rent levels. One of the reasons why council housing was attractive was because rents remained within tenants' means. There were concerns that the government's "affordable rent" model would be far from affordable for tenants. This especially raised anxieties among families and young mothers.

*In the long term it must be our general aspiration that affordable housing will continue to be provided at an affordable level of rent.*

Tenant

#### 2.4.5 Shortages, overcrowding and right types of homes

There were concerns from tenants of all ages about the shortage of housing in the borough to meet people's needs. The Commission heard time and again of the need to build more housing to meet demand. It was felt that younger people in the borough would find it incredibly difficult to find local housing that was affordable (with renting privately out of the question). In part as a result of the lack of supply, there were high levels of overcrowding. In the focus group, one tenant was living in a one-bedroom house with a partner and three children. Tenants also felt that homes should be appropriate to people's needs, particularly the needs of the sick and older people.

*I live in a one-bedroom place with a big family.*

Tenant

#### 2.4.6 Allocations

Tenants believed that homes should be available to those most in need, such as those with a disability, those with children and victims of abuse. However, it was also thought that those with a local connection should have some priority. There was also a feeling that those who contributed to the community or who were working should be able to be housed within the borough.

*If someone is actually working in the community, paying tax and contributing to the community why wouldn't they be given a priority?*

Tenant

*If you can pay your rent just the same as the next person it shouldn't matter whether you are working or not.*

Tenant

#### 2.4.7 Regeneration

The Commission heard concerns about major regeneration sch-

emes and the "right to return" to new developments built in the Elephant & Castle area (council tenants have a priority to apply and a guaranteed right to return within seven years, although the council cannot guarantee that every household will get their first choice for accommodation). Tenants were worried that the number of homes being built for social housing was lower than the number being replaced. Tenants believed that regeneration schemes should be altered to maximise the number of council homes available on completion. There were also concerns about the number of homes that were due to be rented at "affordable rent" levels, which would be unaffordable for many.

#### 2.4.8 Tenant engagement

It was felt by many of the tenants to whom the Commission spoke that the council often only paid lip service to tenants and resident associations. Tenants believed the council could do a lot more to engage and consult them in the decision-making process. More could be done to improve the dialogue, provide information, consult and listen to tenants. These views were reflected in tenant surveys. Only around half of tenants in Southwark surveyed in 2009/10 were satisfied that their views were being taken into account – around 20 points below the most successful social housing providers.

*As the council is presently structured it ill serves the stated need for open and transparent government. It is not clearly stated who or what the reference points are to enable and facilitate resident involvement and participation. This is a particular problem in housing, where there is a structure in place to facilitate tenant and resident involvement and empowerment. However, the terms of reference of this service are obscure, contact with appropriate persons difficult and more emphasis placed on regulation and control than support and development. The service needs to be reviewed with a reporting structure through tenants councils, neighbourhood forums and tenants and residents associations to ensure a proper two-way flow of information and participation.*

Tenant organisation

#### 2.4.9 Subletting and leasehold subletting

Tenants were concerned about the level of subletting. It was felt that those tenants unlawfully subletting were denying someone on the waiting list a home. There was also a wider concern about leaseholder homes that were being sublet. While such sublets are lawful they often resulted in overcrowding, and their subtenants were said often to behave in an antisocial fashion. Tenants (and those leaseholders who are residents) felt there was little they could do as Southwark was not the direct landlord of those subtenants.

*There urgently need to be some new tighter controls brought in with leaseholders who rent out their properties at present. The question of the damage that short-term lets allow that affects other tenants needs to be addressed.*

Tenant

#### 2.4.10 Antisocial behaviour

Tenants understandably wanted to see antisocial behaviour tackled more effectively. There were some complaints about estates being dirty and a feeling that neighbourliness and

community spirit was on the decline.

*There's a community, especially when you know everyone, but it gets late, it gets dark and people you don't know are hanging out on the streets.*

Tenant

### Leaseholders

Leaseholders had similar complaints to tenants, but given their different relationship with the council, had different priorities, which the following paragraphs highlight.

#### 2.4.11 Services for leaseholders

Leaseholders had similar views to tenants on the level of service provided. Those the Commission spoke to complained of works either not being started or not being completed, and said work that was finished was often done to a low standard.

In a survey of leaseholders carried out at the end of 2011, just over half were satisfied with the overall service provided – although this was significantly up from five years ago, when just 33% felt satisfied. A quarter were satisfied with the quality of repairs carried out and a half with communal areas. They were more positive about the general upkeep of their blocks, with 62% saying they were satisfied.<sup>70</sup>

*We pay for repairs but nothing is done.*

Leaseholder

#### 2.4.12 Leaseholder charges

Leaseholders are concerned about the level of service charges they face. Many that the Commission spoke to thought that these didn't represent value for money. Just under a third

of those surveyed at the end of 2011 felt their annual service charge represented value for money; 40% thought responsive repairs were poor or very poor and a third thought the same of security services and care and upkeep. Only 6% felt that value for money was achieved in major works. The main reason was the cost of work (74%), followed by the quality (54%), clarity of information (46%), consultation (46%) and consultation with resident representatives (35%).<sup>71</sup> The Commission heard from leaseholders themselves that there needed to be greater transparency and a better breakdown of charges they were being asked to pay. The cost of major repairs was perceived as extremely expensive, especially for those on low incomes.

*We're just not getting value for money.*

Leaseholder

#### 2.4.13 Leaseholders' relationship with the council

Leaseholders also thought that there could be a much better relationships with the council. The Commission heard from leaseholders who felt that much more could be done to inform and involve them in the decision-making process, especially as they were going to be billed for the work undertaken. In the latest survey of satisfaction around 22% of leaseholders felt that the council was not good at keeping them informed. Home owners also had low levels of satisfaction for opportunities for participation in the decision-making process (albeit most were neither satisfied nor dissatisfied).<sup>72</sup>

*[The council needs to] improve regular communications between all stakeholders on developments in housing provision and services so that all involved know what is proposed and achieved.*

Leaseholder

### Young people's focus groups

As part of the Commission's work to better understand perceptions around the future of council housing we conducted two focus group meetings with younger people living in council housing in the borough (a mix of tenants and those living with tenants). The two groups were split between males and females who were aged between 18 and 30.

In a wide-ranging discussion the main points raised were the positives and negatives of living in council housing. The advantages were seen as the levels of rent and security of tenure. Renting privately was not seen as a viable option as rents were too high and would mean money couldn't be saved to buy a home.

The main concerns were around overcrowding, rising rent levels and poor repair and maintenance service.

"Just because it's cheap doesn't mean that we should lose out on maintenance."

These young people's interaction with the council was exclusively on an individual basis (through housing officers) to address specific problems or with contractors when work was being carried out. They felt that the service was often poor and talking aggressively was the only way they would be listened to. They also felt that contractors did "bodge jobs" rather than carrying out the work properly. One mentioned that while a contractor had not provided a good service on her flat, that same contractor had done an excellent job for another housing provider.

"They [contractors] stick a note through your door without knocking."

The young people felt they could be better informed about what was happening in their area. Although they wanted a greater say in decision making, many didn't know about tenants' and residents' associations or their functions. There was also scepticism about being listened to (that it would not make any difference), which was a barrier to getting involved. Those with young children or those working late thought that attending meetings would be difficult and that greater use should be made of questionnaires or people coming round to ask about choices. There would also need to be greater honesty about what can and can't be done and why.

"I would get involved if I knew decisions counted. I don't want to be heard and nothing to be done about it."

Those we spoke to felt that there was a lack of homes, in part because of knocking down large estates. The young men were particularly concerned about the need for new housing as those living with their parents knew they would not be allocated a home. The women were concerned with the size of the home that might be available. They thought that it was unfair that an older person could be living alone in a three-bedroom home yet they, with three children living in a one-bedroom home, had to wait to be rehoused.

The women believed that housing should be allocated by need, especially family size, but a local family should trump a newcomer family. The men were less sure, suggesting those who were in work might deserve greater consideration than at present.

"They said I was in band four. They were honest with me and said that I was completely wasting my time."



## 3. Drivers of change

### 3. Drivers of change

- Population growth will increase demand for council homes, and an ageing population will quicken the need to adapt properties.
- There is likely to be a continued increase in the number of private homes for sale or rent, most of which will be unaffordable to those on low incomes.
- The gap between social rents and private rents is set to widen as demands on the private sector increase.
- Welfare reforms will hit the poorest hardest and Southwark will need to focus on how it manages its future rental income. The reforms may force some prospective tenants out of the borough and could effectively require the council to provide more one-bed properties (which are cheaper to provide) and fewer (more expensive) family-sized homes.
- Council rents will continue to rise in real terms. Southwark is aiming to ensure rental convergence between housing association and council rents by 2021. Any deviation from rental convergence will adversely affect future housing investment plans.
- The council housing stock is set to decrease if nothing is done and the possibility of more leaseholders (caused by tenants exercising their Right to Buy) presents challenges, not least for major redevelopments.
- A large and sustained increase in Right to Buy purchases could have a significant impact on council house financing and levels of stock to rent, although the impact is unlikely to be anything like it was in the 1980s. Buying back Right to Buy homes will continue to be a necessary part of redevelopment schemes, but is both problematic and costly for the council.
- 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.
- Tackling the cost of repeat repairs is a major challenge. It requires a more forward-looking approach to ensure value for money for tenants, leaseholders and the council alike. Pressures to improve maintenance for the residents and to engage with them should lead to better outcomes and reduced costs.
- High-investment-needs estates are central to wider housing-led regeneration and will continue to take a large share of future investment and of council capacity to manage that investment process.
- Large-scale redevelopments present considerable challenges in replacing like-for-like council housing. Ensuring more low-rent homes for decanted tenants on new mixed-income developments is difficult and time-consuming and requires cross-subsidy.
- The quality of the stock is likely to decline faster than the council can repair it. There is a case for faster redevelopment and replacement, but there are financial and practical limits to large-scale demolition and regeneration.
- There is potential for significant energy-efficiency improvement in the council housing stock, with some funding available from energy suppliers. In addition to the benefits of this to the urban fabric and the environment, it would reduce fuel poverty and improve resident well-being.

This section of the report highlights the current and future drivers of change, especially those which are likely to have a significant impact on the council's long-term strategy for council housing. Our starting point is the current five-year housing investment programme, which seeks to make all council homes warm, dry and safe and includes funding for housing-led regeneration. The programme is fully funded, and includes the use of more than £100 million of land and asset sales. The level of investment represents a step change over previous programmes, although as the leader of the council, Peter John, admits: "It is unrealistic to believe that we can continue to do this indefinitely, not least because we will quickly exhaust the other assets available for sale."<sup>73</sup>

There is a risk, of course, that the council will fall short of its targets and stated objectives. More properties than anticipated may become non-decent, Right to Buy sales may exceed

expectations, and cost savings in housing services may be lower than expected. Some of the council's assumptions and judgments about future income under HRA self-financing and stock forecasts may then need to be revised. External events will also change the dynamic, especially the economic outlook. Continued slow growth and fiscal restraint, for example, will make self-funding more difficult and increase the demand for council homes. If living standards in the borough worsen considerably, the council will have to rethink its entire corporate strategy in order to mitigate risk and protect its most vulnerable residents, many of whom, of course, live in council housing.

The Commission was not asked to evaluate wider economic factors in depth or assess the impacts of the housing market on council housing or the complex interrelationships between, say, the demand for private rented homes and the availability



of mortgage finance for home ownership and the demand for council housing. We have commented where relevant, but in light of the information we have presented, there will be a need to consider this report against the backdrop of other drivers in the housing market (especially the growth of the private rented sector) and downward trends in home ownership.

The Commission has attempted to look ahead on the basis of what we know and what seems realistic and possible. No doubt some of our predictions will be mistaken or will fail to materialise. What we have tried to do is explain our thought process by highlighting what we think (and heard) are the main drivers for change; these include:

1. Population change
2. The housing market
3. Welfare reforms
4. Rental convergence
5. Affordable Rent
6. Stock levels
7. Right to Buy
8. Void sales
9. Maintenance costs
10. High-investment-needs estates
11. Regeneration and planning
12. Decent Homes
13. Eco-improvements
14. Operating efficiencies
15. Tenant empowerment

### 3.1.1 Population change

As outlined in the previous section, Southwark has a fast-growing population and housing in the borough will need to provide for an extra 27,320 households by 2031.<sup>74</sup> The composition of the population is also changing, with both more younger and more older residents.<sup>75</sup>

Such population growth will stretch the housing market and place huge demands on both the social and private rented sectors, especially if much of the growth is accounted for by low-income households. Given that demand for low-cost housing will continue to outstrip supply, the council will need to consider not only how many council/social homes it wants to provide, but to whom it should give priority in its allocations/letting policies.

These demographic trends will shape the council's options for the future. Under the housing programme to 2015, the council is already having to modify its stock to meet the needs of its ageing (and more disabled) population. It accepts it will have to do more, particularly given that the council will have new public health responsibilities in 2013. Social exclusion and concerns over loneliness and depression among elderly people in particular will come more to the fore. This may draw attention to the social benefits of preserving neighbourhoods and supporting community cohesion.

Alongside the higher costs of health and adult social care, the council will need to put more resources into, for example, dedicated housing for older people (including additional sheltered

accommodation and extra care housing). There may also be a need to move towards embracing the Lifetime Homes standard as well as considering the costs of poor housing on other organisations and service areas (such as health and social care).

The growing numbers of young people and young families also place pressure on the council. Shifting the balance of investment towards smaller (cheaper) council properties for young single people means more homes are provided, but the same people are likely to want larger (more expensive) family homes in the future. Getting the balance right between numbers of units and sizes of units will be an important driver of change.

- Population change will increase demands on the housing market and increase overcrowding and waiting lists. Demand for social housing will continue to outstrip supply.
- The increases in population of both young and old people will have a disproportionate bearing on council housing. Pressures will intensify to adapt the stock for older and disabled people at an ever faster rate.

### 3.1.2 The housing market

Changes in the wider housing market will continue to provide the boundaries of any strategy for council/social housing in Southwark. As we described in Section 2, the housing market in Southwark (and the rest of London) has been changing for a while, with the shortages of supply expected to continue for at least the next 20 years. London is expected to see further falls in home ownership (already below the UK average),<sup>76</sup> fewer new social rented homes and a sharp rise in private renting.

The last decade has been characterised by the consistent loss of council housing and the rapid expansion of private provision. Stock owned by housing associations has grown more slowly than the private sector, and only a handful of new council homes have been built. The council announced in 2012 that it would build 1,000 new council homes by 2020.<sup>77</sup>

On the basis of what happened during the past decade, private-sector housing (buoyed by the demand for rented properties) is forecast to increase its share of the total housing stock in Southwark from 56% in 2010 to around 60% by 2020. The share taken by housing associations would rise slightly from 12% in 2010 to 13% by 2020. Unless there is a significant council house-building programme, the share of council housing will continue to fall, and would drop to 21%, compared with 43% in 2001 (although this excludes the council's current investment programme).

Southwark has witnessed house building in lower house-price areas of the borough. However, most of these new homes are unaffordable to council tenants and those on low incomes. Indeed, the ratio of median house prices to median earnings in Southwark has risen by 240% since 1997.<sup>78</sup> Despite the stagnation in house prices the ratio is likely to stay very high given the fall in real incomes (especially for those on lower earnings).

- Expansion of the total housing stock in Southwark has been

driven by private-sector provision, which now accounts for the majority of housing compared with a decade earlier.

- Subject to continued population growth and adequate mortgage finance, it is difficult to see circumstances in which this trend of increasing private provision would not continue into the future, especially in the north of the borough, with its proximity to the expanding centre of London.
- Despite stagnating house prices, most people in Southwark cannot afford to buy. Private properties are likely to stay unaffordable to low-income residents.
- The growth in private housing (and private renting) is unlikely to push down rents in the borough. The gap between council and private rents could continue to widen.

### 3.1.3 Welfare reforms

The government's welfare reforms will have a high impact on people living in council housing, especially families with children. As well as a reduction in local housing allowance rates (in effect, private rented sector housing benefit), there will be cuts in housing benefit for under-occupying social housing tenants and the introduction of a £26,000 cap on total benefits that any one household may claim. The move to direct payments to tenants (in October 2013) and the consequent risk of increased arrears is another reform with potentially significant effects for Southwark.<sup>79</sup>

Older tenants will also be affected by other cuts in services, including possible reduction in supported housing funding. Further housing-related spending cuts and new welfare reforms (including under-funding of adult social care and the possibility of scrapping housing benefit for under-25s) would also affect council tenants. However, it is difficult at this stage to gauge the long-term effects.

What seems clear to the Commission is that welfare reforms aimed at capping welfare spending will remain a driver for change, with unknown consequences for the borough (including possibly driving some low-income families out of the borough to lower-rent outer London areas or out of London altogether).

- The impact of welfare reforms is uncertain, but will hit the most vulnerable the hardest.
- The cost pressures will encourage the provision of one-bedroom properties rather than larger family homes.
- Under its HRA business plan, the council may need to focus more on managing rental revenue risks, which could disproportionately affect those in greatest need of housing support.

### 3.1.4 Rental convergence

Average weekly council rents in Southwark are lower than the inner London average and marginally below the outer London average. However, council rents in Southwark have been converging with inner and outer London averages since 1998.

Rents are being restructured by central government edict, so all social rents for the same area and type and size of property are converging regardless of the type of social housing provider. Under the new self-financing model, Southwark's policy is to achieve rental convergence by 2021/22, at a slower rate than the DCLG modelling for the borough, which assumes 100% convergence by 2015/16. Under current plans, about 50% of Southwark's rents will have converged by 2015. In the medium term, rental convergence in Southwark will provide an increasing revenue stream to the council. (The speed of the rental convergence in turn affects the rate of increase in Southwark's income and the council's ability to service and repay debts.)<sup>80</sup>

Part of the reason for a more gradual approach to convergence is the speed at which the gap between the average rent and the target can reasonably be closed. However, even with a more gradual convergence, rents in Southwark are forecast to rise until 2015 and beyond (with increases of nearly 5% planned for 2013/14).<sup>81</sup>

- While Southwark is converging its rents more slowly than DCLG modelled forecasts, this is dependent on rent increases being consistent and in line with the formula over the next five years. Any deviation would undermine rental income projections and threaten investment plans.
- While using rent subsidies from government in the short run may help with the transition phase, there is a risk that over the long term this is an unsustainable approach.

### 3.1.5 Affordable Rent

Southwark has considered the impact of the government's Affordable Rent model on redevelopments in the borough (at present Affordable Rent applies only to developing housing associations).<sup>82</sup> Its analysis shows that market values vary significantly, reflecting different house prices across the borough. With the adoption of Affordable Rent at the maximum 80% of market rents, in comparison to social rent, does improve viability of some housing redevelopments in high-demand areas.

What this means is that a shift towards Affordable Rent would, in some circumstances, enable developments to provide a higher proportion of affordable housing than would have been the case with social rented units. However, the financial viability was evident only in one of the eight postcodes in Southwark (SE1).<sup>83</sup>

Southwark has particular concerns about the localised impacts of Affordable Rent, especially where council tenants on social rents are rehoused in redevelopments like the Heygate. Even applying rents at 60% of the market rate would result in increases in rents, which is an issue for the council in respect of striking the balance between funding new development (through RSLs) and offering rents that are genuinely affordable to people on low incomes.

However, even if rent levels in inner London boroughs are set at a considerable discount to market rents to provide homes for those on low incomes, there is still a clash with the forthcoming universal credit, which limits the amount of a household's benefits claim to a total of £26,000 (with certain exemptions).

According to the University of Cambridge Centre for Housing & Planning Research, the LHA rental reforms (described in section 2.3.7) will make Southwark increasingly unaffordable: in 2010 around 56% of the borough was classified as affordable for private-sector tenants; by 2016 this is forecast to fall to 36% (based on two-bedroom rents and LHA rates and rent inflation of 3.5% pa).<sup>84</sup>

*Inner London boroughs (like Southwark) may well experience considerable transformation in their rental markets and social composition as a result of the government's rent reforms.*<sup>85</sup>

*Any headroom in the HRA and Affordable Rents gives an opportunity to build more.*

Housing provider

- The Affordable Rent model does improve financial viability for housing association new-build (and new social housing tenancies) in a few areas of the borough, but doesn't apply to council housing.
- Social housing in Southwark is likely to become increasingly unaffordable for larger families on low incomes but still much more affordable than the private sector.

### 3.1.6 Stock levels

As we have described above, the stock of council housing in Southwark has been declining as a result of Right to Buy sales, void sales and demolition connected to redevelopment schemes. As a consequence there has also been an increase in the number of leasehold properties and their proportion of the asset base that Southwark manages.

The council is forecasting the loss of 0.7% of its rented housing stock each year for the foreseeable future (about 231 dwellings to 2042). Under this scenario, the council stock falls by 6,900 to reach 31,900 dwellings in 2024 (a loss of 18% in total). Leasehold properties meanwhile would increase to reach 17,300 in 2024. Faster declines of 1% or 2% a year are equally possible.<sup>86</sup>

The council predicts that the proportion of tenanted properties will fall from 73% to 65% over the period to 2042, and the proportion of leasehold properties will increase from 27% to 35%. Such a shift raises new challenges for Southwark as a major landlord of leasehold properties. For example, as well as eroding rented stock levels and making redevelopment/demolition of estates with larger numbers of leaseholders difficult and more expensive, the loss of council housing reduces Southwark's rental income (although capital receipts are achieved).<sup>87</sup>

- Southwark is currently forecasting that the rate of stock reduction will fall to 0.7% each year on average over the next 30 years. The decline could be faster or slower.
- Even a slow loss of stock (with more leaseholders) has long-term planning and financial implications, especially for high-investment-needs estates.

- The possibility of a disproportionate increase in the number of leaseholders could create new pressures on the council to reduce its service charges and could increase the cost of estate redevelopment.

### 3.1.7 Right to Buy

The Right to Buy gives tenants the option to purchase their property from the council as a leaseholder (for flats) or freeholder (houses). Leaseholders are subject to service and major works charges, which is particularly an issue in mid-rise and large blocks. With 16,700 leaseholders, the average charge is about £1,085 each year but there are wide variations.<sup>88</sup>

Since the mid 2000s Right to Buy sales have been very low. However, the government's efforts to re-stimulate the Right to Buy in April 2012 by offering more generous discounts could see Right to Buy sales increase. Southwark is currently forecasting sales to reach around 100 a year from 2015 onwards. This could increase over time to perhaps 200 a year, or even higher on the back of another property bubble and continuity of central government policy favouring large discounts. Right to Buy sales of over 200 a year would make them a major driver of change and could create issues for the council, especially if there are more Right to Buy sales of flats in estates that need costly redevelopment. While Right to Buy secures capital receipts for Southwark it also (over time) erodes the income streams (for example, income from rents and service charge averages about £5,000 per tenant, but income is only about £1,500 per lessee in service charges *and* major works costs).

Southwark has signed up to an agreement with the government to keep Right to Buy receipts and can therefore reinvest them locally. But it is unlikely, given the fixed discount, that the council will be able to provide one new social rented home for each council house sold.

The Commission heard concerns about the dangers of mis-selling sub-prime mortgages to prospective purchasers that come with Right to Buy. As we have explained previously many council tenants are on very low incomes or are benefit-dependent and would struggle to qualify for even relatively small mortgages. The Commission is therefore worried that Right to Buy incentives will be exploited in order to ultimately produce properties for subletting.

Whether the recent flurry of tenant interest in Right to Buy will continue is hard to predict. As mentioned, it partly depends on the state of the housing market and the availability of mortgage finance. Tenant awareness is also low. However, a sudden and sustained increase in Right to Buy sales would make forward planning under the HRA system more problematic. Council homes could be lost at a much faster pace than the council could replace them, and the replacement homes might have to be at higher rents.

- Future levels of Right to Buy sales are uncertain, although they are unlikely to return to the levels of 2004/05.
- However, Right to Buy sales of 200 (or more) a year would

- have a significant impact on HRA financing and reduce the housing stock.
- Higher-than-expected Right to Buy sales would increase the number of leasehold properties.

### 3.1.8 Void sales

Selling empty council properties provides capital receipts for Southwark which it can use for additional council housing investment (for instance, funding its Warm, Dry, Safe programme). Southwark's policy is to reinvest 100% of the receipts in the housing investment programme.

While about 2,000-2,500 properties fall vacant in each year, Southwark is capping void sales at a maximum of 140 a year to limit the loss of tenanted stock. Each property sold results in an annual rental loss to Southwark of about £5,000. However, over the last two years Southwark raised £13.95 million from the sale of 99 properties at an average value of £153,000 per property.

While performance is generally closely linked to local property market conditions, there is considerable variation between the values achieved. Street-based properties, for example, often achieve sales values about double that of similar units on estates. In addition, street properties are also more expensive to service.

The council has widened the disposal criteria and is aiming to secure up to £12 million a year from void sales by 2015/16. Depending on market conditions, the council has the option to continue or even increase void sales (especially of high-value properties) to fund refurbishment and new-build. In the Four Squares Estates, for example, the council proposes to raise £9 million from void sales – requiring the sale of 14% of properties on those estates.<sup>90</sup>

- Void sales can make a modest contribution to capital receipts but over time could create issues with blocks that have very high levels of leaseholders.

### 3.1.9 Maintenance costs

Southwark has particularly challenging problems with the extent and costs of maintenance of the current stock. As we have mentioned, some of the 1960s and 1970s system-built estates, in particular, have intractable structural problems. And on many estates, the services are often worn out and beyond their useful life. As a result Southwark has to contend with an overwhelming number of responsive day-to-day repairs. This, together with reduced budgets, affects the council's ability to maintain its stock and implement a consistent planned maintenance programme. As about 60% of these responsive repairs are emergency repairs, this suggests that Southwark is in effect often running to stand still.

Furthermore, where a significant proportion of repairs are repeat repairs in a block this suggests that the problems cannot be rectified easily or cost-effectively. Rather than investing good money after bad without solving the problem, demolition or redevelopment may be the only real long-term solution for these types of problems.

Delivering value for money with repairs and maintenance is a key issue for Southwark. The Commission noted, for example, that Southwark has a similar housing mix to the London boroughs of Camden and Lambeth (although with a higher proportion, in Southwark's case, of system-built estates), and yet the costs of responsive repairs are far higher. Failure to address the high cost of maintenance will undermine long-term investment in improving the stock. Driving down maintenance costs through better contract management and strategic investment in fixing underlying problems could be a major driver of change.

- Tackling maintenance costs and repeat repairs is a major challenge for the council.
- Failure to address the high cost of maintenance will negatively affect investment plans. Driving down costs could provide extra investment.

### 3.1.10 High-investment-needs estates

As described in the previous section, the council has embarked on a major programme of estate renewal centred on the 15 high-investment-needs estates. For the most part, these estates were built either in the inter-war period or during the system-building boom of the 1960s and 1970s. These housing-led regeneration schemes are at the heart of the council's plans for regenerating the borough. The sheer scale of these redevelopments (the Aylesbury Estate will probably have a time line of 25-30 years, and the Heygate Estate 10-15 years) demands long-term (joined-up) planning and continuous investment. Given this, at its maximum Southwark probably only has the organisational capacity to manage a small number of major redevelopment schemes over a 30-year period.

Southwark's model of large-scale housing redevelopment schemes involves the replacement of low-density council housing with higher-density private and (to a lesser extent) social rented developments. These developments lead to a net loss of low-rent council properties. The model also uses void sales to close funding gaps, which accelerates the loss of council homes over time. This obviously raises issues for the council in respect of replacing like-for-like council homes, and offering equivalent "affordable" rents under the HRA system.

The biggest issue for developers undertaking this scale of long-term development in Southwark is risk and certainty of outcomes. There is a financial risk because of the five- to seven-year business cycle affecting property prices. There are also planning risks with major applications and limits on how much new housing the market can absorb in a relative small area over time.

Over the 30-year period from 2015 it seems likely that other (non-HINE) estates will require large levels of investment to modernise the stock. Future investment in the worst estates will need to ensure that good money is not thrown after bad, and in some instances demolition will be the only viable option. It is also worth noting that while about 2,450 units will be constructed as part of the Heygate redevelopment (a doubling of scale), only around 300 will be for social rent, compared with the previous 1,200, a point which tenants were particularly concerned about.

- The high-investment-needs estate redevelopments are central to the council's wider regeneration and place-making strategy, and will continue to account for a large share of any future investment programme.
- Density of homes is an important factor: there is the potential to increase density significantly in lower-density estates to secure greater capital receipts and/or rental income.
- Large-scale estate development presents a considerable challenge to the council in terms of demolition and replacing low-rent "like-for-like" council homes.

### 3.1.11 Regeneration and planning gain

Housing-led regeneration (particularly the Heygate and the high-investment-need estates) are major drivers of change and are important features of the council's affordable housing strategy, although as already noted, most redevelopments provide for around 40-50% of new affordable homes through other social housing providers (mainly housing associations). This may change in future if the council seeks to directly provide new low-rent council homes. The government is also seeking to abolish planning requirements for low-rent homes, in a change that could have unforeseen consequences for Southwark, which has secured significant levels of social housing over the years from Section 106 agreements.

Planning gain from regeneration and development of other sites across the borough has also been a significant source of funding for the council's housing programmes. Planning gain and land sales, for example, have delivered substantial funds towards the council's Warm, Dry, Safe programme. Furthermore, financial contributions from planning agreements (Section 106 agreements) are being pooled under the council's Affordable Housing Fund (AHF) to fund new council homes in the borough.

The amount of funding from planning gain and land sales is limited and shaped by market conditions. However, there is still considerable potential for additional funding from planning gain, especially from developments in the north of the borough.

While planning gain brings in extra funds and regeneration generates much-needed jobs and growth, it also adds to the housing pressures across the borough. New employment will attract more people into the borough and push up the demand for rented homes.

*The Affordable Rent model is a headache for major redevelopments, such as Aylesbury. It could lead to a trebling of rents for a three-bedroom housing association property.*

Regeneration adviser

- Land sales and planning gain can provide extra investment for low-rent housing, but there are limits and competing priorities.
- Regeneration provides jobs and growth but also increases the demand for housing.

### 3.1.12 Decent Homes

As noted earlier, roughly a third of the total stock of rented council housing requires investment to bring it up the government's Decent Homes standard (at an average cost of around £5,345 per dwelling). Any commitment by the council to standards above Decent Homes carries a higher cost, although some examples of higher standards (such as for highly efficient boilers) can offer cost savings.

The stock of non-decent homes varies from estate to estate and over time. Properties are continually moving from decent to non-decent as the stock ages. The council estimates that around 1,000 homes will become non-decent every year after 2015. Conversely, the council is consistently investing in the stock to improve as many homes as it can. Changes in the total stock from year to year from Right to Buy and void sales also affects the proportion of stock considered non-decent.

- Plans to bring all council homes up to the Decent Homes standard by 2015 will provide a good foundation for future investment, but over 1,000 homes a year will still become non-decent each year thereafter.

### 3.1.13 Eco-improvements

As well as maintaining its stock to the Decent Homes and other standards (such as the Lifetime Homes standard), Southwark has to plan for improving the energy efficiency and reducing the carbon emissions from its current and any future stock. As we have already documented, many of the structural problems with council estates resulted from poor design as well as the variable skills and competence of the contractors building to those designs. For example, it is not uncommon for the same heating systems to be installed in every floor without acknowledging the increasing effect of wind-chill higher up in taller buildings.

The council has one of the largest engineering plant stocks in the country, including over 100 district heating systems. The vast majority were installed in the 1960s and 1970s. The plant and underground pipework have now exceeded their original life expectancy by over 15 years. Systems break down, particularly during winter months when there is peak demand. As a result Southwark has decided where possible to install combined heat and power (CHP) and biomass plants as a standard approach. As well as increasing efficiency, there is the potential to generate an income stream by selling electricity back to the national grid and to reduce carbon emissions.

The council could benefit from the government-backed Green Deal for retrofit and refurbishment. It could also benefit from the energy company obligation subsidy, which is available for "non-standard cavities" (including many of the kinds of non-traditional build types found on Southwark estates).

Cost-effective retrofitting of existing homes to reduce fuel poverty and emissions and to extend the life of properties is a challenge. Retrofitting only makes sense when the underlying structure is sound, the impact on "liveability" is positive and there is value for money over the payback period. If the on-going maintenance of retrofitted homes requires higher levels of investment than

newly constructed units, then the only long-term option may be to demolish and start again. However, this should not distract from the enormous potential to improve the eco-efficiency of council housing in the borough.

- There are benefits to be had from the Green Deal and other eco-efficiency initiatives.
- There are, however, some upfront costs associated with eco-improvements.

**3.1.14 Operating efficiencies**

Efficiency gains are an important driver and will need to be factored into a future investment strategy. All things being equal, operating efficiencies can create revenue headroom, which in turn can be used to support borrowing for investment (which itself can create more income). As described previously, there appears to be considerable scope for achieving better value for money in Southwark's housing services. However, it is difficult to quantify future operating efficiencies. The evidence the Commission has gathered suggests that there is potential for improvement in specific areas. For example, the cost of direct responsive repairs and voids was reduced by around £100 per property between 2009/10 and 2010/11. This saving amounted to almost £4 million, which is not insignificant if similar savings can be made in other housing service areas.<sup>91</sup>

*Given experience elsewhere, the council could reduce maintenance costs by 10% by outsourcing.*  
International construction and services group

- There is potential for further operating efficiencies, which even if they were as low as 2% could (given the scale of the council's housing services) make a big difference.

**3.1.15 Tenant empowerment**

A continued shift away from top-down regulation towards local co-regulation, with much greater tenant involvement in decision making and scrutiny of council housing, will continue to influence Southwark's role as a landlord. Under the housing reforms planned by the DCLG, Southwark will be able to introduce new complaints resolution arrangements (possibly involving councillors and/or tenant panels) and introduce new and more

localised self-assessment and value-for-money auditing. The push from central government is also to give tenants a bigger role in managing services and more of a say about who owns or manages their housing stock. The focus is on streamlining the regulations to make it easier for tenants to exercise their statutory Right to Manage and Right to Transfer.

Despite concerns over resources to support tenant empowerment, the new HRA regime should facilitate greater interest in self-financing TMOs (see the example of Leathermarket JMB). As the new structure for the HRA beds in, the council will have the opportunity to pilot alternative models of housing management, such as tenant co-operatives and community housing mutuals. Any review of new housing management models should encompass a range of performance measurements, including comparable costs of service delivery and rates of tenant satisfaction.

However, from the evidence the Commission has received, there does not seem to be much enthusiasm for stock transfer and there are mixed views among tenants about assuming outright ownership or management of their housing.

Under the Localism Act 2011, tenants and leaseholders will be able to play a bigger role in local planning for new homes. Southwark's resident forums (in Bermondsey and Bankside, for example) are already piloting neighbourhood planning schemes.

*We want our tenants and home owners to be involved in the design and delivery of ongoing service improvements.*  
Southwark council

*Residents want a TMO to manage stock in a different way from the council, and self-financing will give us more freedom to do things.*

TMO

- The HRA regime provides opportunities for more tenant control and local self-financing of housing services.
- The appetite for stock transfer remains very low, and without new incentives or major changes in the legislation Southwark will retain its role as landlord.

## 4. Options for the future

## 4. Options for the future

- The development of a long-term (30-year) strategy for council housing under the HRA is an opportunity to demonstrate a fresh start and reset the relationship between the council and its tenants and leaseholders. It also incentivises more cost-effective approaches to decision making so that the value of the assets can be maximised.
- HRA reform enables the council to manage its housing stock as a social business, including new freedoms to borrow. The council can now choose, within its own financial and management constraints, how many council homes it wants to provide over a longer time frame.
- The council has £126 million of "headroom" borrowing for investment in existing stock and new homes. This places Southwark in an extremely favourable position compared with other landlord authorities.
- The level of the council's housing debt (and gearing) is much lower than for comparable housing associations.
- There is a case for refinancing historic housing debts (which anyway starts to decline sharply in 2020), all of which have interest rates above current public-sector borrowing rates.
- Extra income from planning gain and void and land sales could complement borrowing to invest. There is also potential to release funds from further operating efficiencies. But a large proportion of any new investment may need to go into expensive and difficult-to-manage regeneration.
- The council will need to co-ordinate its plans and policies with the GLA and neighbouring boroughs, not least because the welfare reforms are set to cause more cross-borough movement of low-income households.

Because of its sheer size and scale, council housing in Southwark has a much bigger role to play in protecting and improving people's lives than for most local authorities. We therefore believe it is important to understand not only the drivers for change but what the strategy for council housing could seek to achieve and what the potential for extra investment might be. We have therefore, in this section, briefly set out some of the main features of a long-term strategy for council housing and commented on debt levels and the opportunity for extra borrowing.

Set against what we have identified as the drivers for change and the purposes and levers underpinning a long-term strategy for council housing, we then put forward three basic investment scenarios for the next 20 to 30 years (each based on a set of shared assumptions and risk factors). In the final part of this section we turn our attention to housing management and related governance issues and consider three possible future housing management options.

### 4.1 Strategic planning

The strategic housing role of a local authority starts from the premise that the council as a landlord, planner, investor and service provider has a responsibility to do all it can to ensure that its residents live better lives, in better places. Council housing in Southwark is an important factor in achieving that aim. Indeed, the Commission believes that it must be at the centre of the borough's wider housing plans and fit with the council's vision.

However, for much of the past 20 or so years, social housing policy (and more so council housing policy) in Southwark has been largely a subset of national housing policy, which was driven by market-led housing for sale and rent. Under successive governments since the 1980s the strategic focus for housing has been on supporting home ownership and, to a lesser extent,

intermediate housing. Investment in social housing was concentrated on maintaining and improving the stock, in part through stock transfer and government grants aligned to national programmes (such as Decent Homes). New social housing (provided almost entirely through housing associations) was funded by central government grant and locally via Section 106 planning agreements.

For decades the building of new private housing for sale or rent in Southwark has outstripped the supply of new social housing. As land and house prices rose, council housing took a back seat to the support for Right to Buy and private investment in residential homes in the more prosperous parts of the borough. Faced with a centralised funding system and tight controls on investment in new-build, Southwark was in effect hamstrung with regard to adopting a strategy for council housing. The council's role was largely confined to that of manager, rather than being a developing landlord. As we have described in previous sections, the new HRA regime has changed the context and ushered in a new era of self-financing.

Whatever options the council chooses for the future, strategic planning and effective management will demand real engagement with residents and other stakeholders. Indeed, we believe that the development of a long-term strategy for council housing is an opportunity to demonstrate a fresh start in the relationship between the council and its tenants and leaseholders.

In preparing a long-term strategy for housing and council housing in particular, the Commission would consider the following to be core components.

#### *Sustainable communities*

Housing is not just about "bricks and mortar", but also people and



places. Sustainable housing provision in the borough will depend on the existence of mixed communities with low-cost homes for local people. Allocation policies will therefore need to ensure that the selection of people for new lettings is inclusive and also takes into account those with local connections, as well as providing housing for those in work but for whom the market rented sector is simply unaffordable.

#### *Engaging tenants*

Like any organisation, the council needs to understand and respond to its partners. The effective management of any council's housing stock is reliant on building good relations and partnerships with the tenants and leaseholders to understand their needs (and use their expert knowledge on local issues). There is clear evidence that greater resident involvement has benefits, including efficiency savings, better quality of service and greater customer satisfaction. The Commission heard from tenants and leaseholders who felt that the council could do a lot more to inform, consult and listen to their concerns and needs.

#### *Understanding the issues*

To make informed decisions, the council must do all it can to understand fully both the condition of the stock and the needs and expectations of tenants and leaseholders. In particular, it should also be aware of how its housing policies affect age, gender and racial group (indeed, the council has an equality duty to assess potential impacts on, among other things, race equality).

#### *Managing housing as a business*

A core component of any strategy is effective asset management, which will involve the council taking tough (but informed) decisions in order to provide a sustainable level of good-quality housing. The new HRA regime means that Southwark has greater freedoms and opportunities to run housing in a more business-like fashion, and any long-term plans must stack up financially. Running council housing on a more commercial footing also means that the council has incentives to ensure high levels of rent collection and that investments add to the value of the stock. Moreover, it allows for longer-term decision making (and an integration of housing asset management with the council's overall asset management plans).

#### *Managing repairs*

The council performance on managing repairs has been unsatisfactory for many years. Southwark should look to take a long-term strategic approach to maintenance of buildings. Rather than spending a large proportion of resources on short-term responsive repairs, the council should seek to find preventative solutions by involving tenants and leaseholders more proactively. Improving the cost efficiency of repairs will be central to the success of a long-term investment strategy.

#### *Monitoring and accountability*

Assessing the success of projects is crucial to improving value for money and quality services to tenants. The council needs to monitor a range of processes and outcomes, including tenant and leaseholder engagement, procurement and delivery. For each measurement some criteria are needed to assess performance and targets should be set. The purpose is to seek out efficiencies

that can be made, improve service quality and hold the directors of services to account. There needs to be benchmarking against other councils and housing providers, but also comparisons with the council's performance over time. This should allow the council to learn from best practice within the housing department and from other providers. To ensure that the monitoring and accountability is effective requires independence for those making the assessment – this again will involve the opportunity for input from tenants and leaseholders into this process. In council housing there is also the added element of elected representatives who are accountable to residents for housing and housing services in their wards.

#### *Leadership and staff skills*

Council officers need to work with tenants, leaseholders, councillors, representative bodies, boards and partners to identify needs, develop a strategy and achieve objectives. This will require leadership across a range of issues such as housing services, asset management, staffing and business planning. Recruiting staff with the right skills and experience, and having training and development programmes in place, will be essential. The council will need an appropriate level of staff to carry out particular landlord functions – which may change depending on the overarching strategy.

#### *Co-operation with other boroughs*

A future strategy for council housing will need to take into account not only local housing market trends, but also developments in neighbouring (housing market) areas. The council will need to co-ordinate its housing and planning policies with the GLA and other London boroughs. Co-operation with neighbouring boroughs will be particularly important if Londoners are forced to move out of high-rent areas as a result of the LHA caps on private rents. More cross-borough movement will inevitably increase demand for any new council (and social housing) properties. As the LGA's housing commission commented in its report, "unless supply is tackled by adjacent councils acting in concert, authorities that encourage development will not see the benefits: people will move there from the neighbouring areas and pressures will not reduce"<sup>92</sup>

#### **Local authority strategic housing role**

The Local Government Improvement and Development Beacon Scheme "Excellence in Local Government"<sup>93</sup> offered a checklist of criteria in relation to a council's housing strategy. The key components are:

- leadership, with housing fully integrated across the council to support sustainable communities;
- effective partnerships and community engagement;
- meeting housing delivery targets;
- housing and planning in effective joint working;
- five-year land supply for housing development;
- infrastructure delivery alongside housing numbers;
- innovation in delivery: greener homes, hard-to-reach groups, design guides, jobs and homes; and
- equality in all activity.

#### **4.1.1 A business plan for council housing**

The Commission considers that under the new HRA regime,

effective long-term business planning, together with good business practice, is essential to achieving a financially sustainable investment programme for council housing in the borough. By 2015, the council needs to have in place a forward-looking 30-year business plan for council housing based on accurate knowledge of stock conditions, robust data on costs, rents, and other income and commercial information, as well as acceptable (and comparative) performance measures and financial indicators. We hope this report will inform such a plan, which we believe should be shaped and supported by tenants and leaseholders.

Under the new HRA regime the council has the opportunity to develop long-term investment plans based not only on financial and commercial information, but also on information from tenants and leaseholders. The business plan should also enhance tenant scrutiny and improve accountability by linking performance to decision making. Through this plan, tenants and leaseholders will in the future be better able to judge whether the council has achieved stated benchmarks and objectives. What resources are available, how they are deployed and how investment decisions are made should be more transparent under the business plan. This greater openness on the planning and delivery of services could mark the beginning of a new and more proactive, less paternalistic, relationship between the council and its tenants and leaseholders.

The Commission acknowledges that Southwark's council housing business plan must form an integrated part of the council's overall strategic plan for housing and other services for the borough. Indeed, the financial demands of the new HRA regime require integrated planning between housing services and the council's treasury management functions. It should also facilitate closer working between housing and other related council services, such as adult social care, regeneration and planning.

Many of the economic factors that affect future housing investment, such as inflation and interest rates, will of course also influence the council's planning for other services. Council housing is not immune from economic shocks or sudden and radical shifts in public policy. However, the council is now able to independently plan its landlord services and make decisions itself about the future of council housing in the borough. With that autonomy comes greater responsibility. The council will therefore have to plan ahead in a much more businesslike manner and under greater scrutiny from its tenants, leaseholders and other stakeholders.

#### 4.1.2 Debt and borrowing

The HRA system offers new opportunities for the council to fund investment plans by borrowing against its housing and land assets. As a self-financing landlord, the council has the potential (within prudential borrowing caps imposed by central government) to borrow significant extra funds at low rates of interest from the Public Works Loan Board (PWLB). Although Southwark has a considerable inherited debt (£451 million, with a relatively high consolidated borrowing rate of 6.8%),<sup>94</sup> its debt profile over the medium to longer term is relatively comfortable. As stated previously, the current headroom for borrowing (unsupported) is

£126 million. However, this is expected to increase over time as the debt starts to fall from around 2020.<sup>95</sup>

There is no statutory requirement to repay debt, although the self-financing HRA model is predicated on the debt being paid back over 30 years. The current level of debt per property is relatively low, at around £11,600, and the gearing (proportion of debt to net asset values) appears to be much less than that of London housing associations with similar balance sheets (L&Q housing association, for example, currently has the same net book value as Southwark's council housing, but a debt per unit of £26,556 in 2010/11). One housing investor in Southwark that we spoke to thought the council's debt per unit was probably still less than that of most housing associations operating in the borough. According to the Chartered Institute of Public Finance & Accountancy, local authorities' borrowing for council housing was around £7,000 per unit—less than half that of comparable housing associations (albeit with younger stock).<sup>96</sup>

The council's preference is to have minimum annual repayment provisions (partly on the grounds of concerns about risks to future rental income and worries about inflation and further welfare cuts, as well as relatively expensive repayments on past loans), rather than to plan for higher levels of borrowing over a 20- to 30-year period. The council's view is that there is no imperative at present to borrow, but the strategy to borrow prudentially to finance housing investment beyond 2015 is still to be determined.<sup>97</sup>

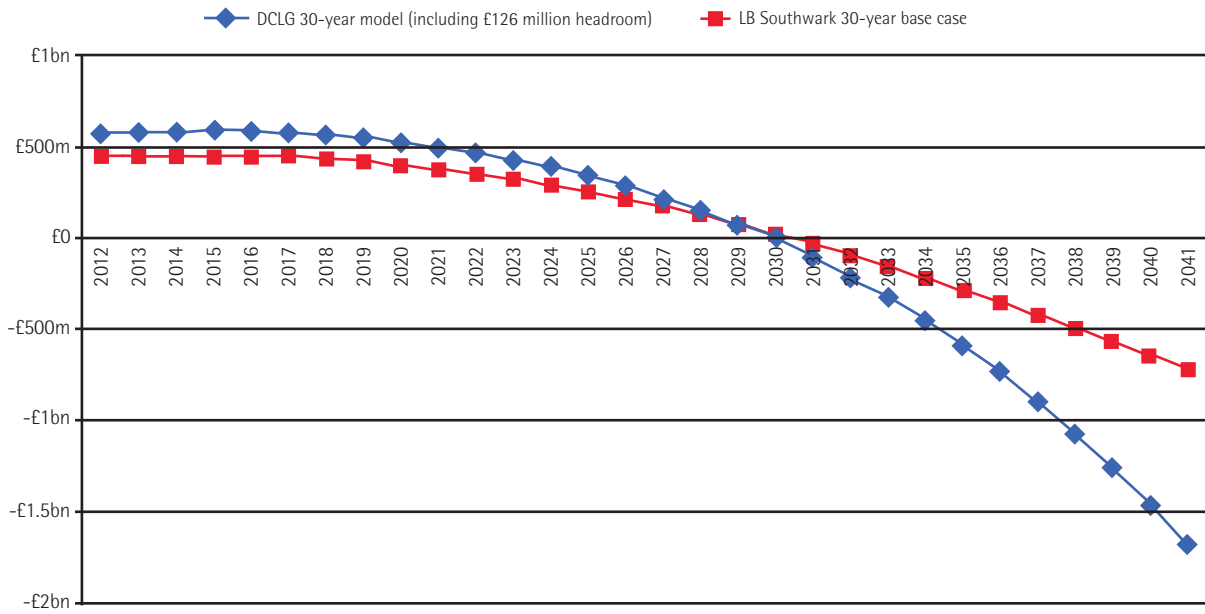
The Commission considers that the council could do more to maximise its assets in a businesslike way. We see no logic in seeking to reduce annual housing debt repayment to a minimum unless the council wishes to significantly reduce the stock of council housing. Under a scenario by which the council improves and replaces council homes, it could increase borrowing prudently so long as it is invested in ways which generate income or cut revenue costs (at least sufficiently to service the debt). The Commission notes that the Lambeth Housing Commission recommended that "Lambeth Council should borrow the full amount possible, under the reformed HRA, to invest in its council housing stock".<sup>98</sup>

Given the high rates of interest the council is paying on its housing debts (some of which was incurred in the 1970s at rates of over 9%),<sup>99</sup> it would seem sensible to take advantage of current low PWLB rates to refinance. Indeed, around £100 million of loans with the PWLB were refinanced in April 2012. Despite concerns within the council about hefty upfront premium payments that might negate any benefits from lower interest rates in the short term, there is clearly scope for major debt refinancing as part of a longer-term housing investment strategy.

The council expressed concerns to the Commission about risks to future housing revenue streams that (under HRA) would affect their ability to support and service increased debt levels. However, the data the Commission has seen on Southwark's consolidated rate of interest on its debt shows that the interest rate falls over time from 6.09% in 2015 to 4.87% by 2039.

A prudent approach to decisions about borrowing for a self-financing business based on the ownership of income-generating assets can (and should) be different from decisions about other council functions.

Southwark debt profile 2012-41



Source: DCLG, London Borough of Southwark

## 4.2 Investment scenarios

- There is no financial "clean sheet" for council housing. Southwark will be paying for the legacy of its past investment mistakes for years to come. Any future investment strategy will therefore need to take on board current commitments as well as future needs. Extreme investment scenarios (such as doubling the stock or transferring the stock) are unlikely.
- The Commission examined three indicative scenarios for rented council homes for the period from 2045: 30,000 homes; 39,000 homes; and 20,000 homes. All three options are possible, and at least in principle financially sustainable. Each has its advantages and disadvantages.
- The council could manage a slow but steady decline in its stock to around 30,000 homes. This would release extra funds to improve the retained stock and enable major restructuring of estates but do nothing to address the shortage of affordable low-rent housing. Over time the council would gain a relatively large financial surplus from its rents, which it could reinvest.
- Maintaining the stock at around the current level of 39,000 homes over 30 years would necessitate a substantial and sustained refurbishment and new-build programme. This more ambitious scenario would help ease the borough's housing problems, but it requires the council to undertake a higher level of borrowing against the value of its larger stock to cover the funding gap. It also requires a step change in the quality of strategic and project management.
- A carefully managed reduction to 20,000 homes should cut management and maintenance costs and release more resources for improving the existing stock. Fewer council homes would mean more pressure on other social and private housing providers, as well as probably many more leaseholders as a result of tenants exercising their Right to Buy. But this option would also generate a larger financial surplus for reinvestment, which could be used in partnership with other providers.

The council's long-term business plan for council housing will be subject to continued amendments, and will inevitably be shaped by events. However, as explained above we believe that a prudent and sustainable level of borrowing at low rates of interest could underpin a relatively ambitious plan for council housing.

As with all strategic plans, it will be a living document and its effectiveness will hinge on the quality and relevance of available data and intelligence. The Commission can advise and inform, but we are not in a position to offer an "oven-ready" business plan for council housing. Such a document has to evolve and engage residents and other stakeholders, and must not be prescriptive. It also has to form part of the council's overarching strategy and corporate plan for Southwark.

We are mindful, nevertheless, that investment modelling is a critical aspect of developing a sound business plan and that any strategic consideration of council housing in the borough has to be conducted within limits. There are, of course, multiple options as to how much council housing Southwark could provide in the future, and in what different forms and places. However, the Commission is mindful of its terms of reference, which stress the need to be realistic and consider an investment strategy that is "sustainable, affordable to the council and breaks the current cycle of escalating demand for resources to maintain the quality of the stock". As such, the Commission did discuss several "bookend" possibilities, but discounted the extreme scenarios (such as doubling the stock or selling off or transferring the stock) and decided to concentrate on three simplified investment scenarios for the period 2015-45.

The three scenarios are presented as an indicative guide to what is achievable in the context of a long-term strategy for council housing. Each is based on a similar set of assumptions and they relate to council housing for rent to tenants, not leaseholders

or Right to Buy freeholders. However, we make comment under each in relation to the numbers of leaseholders.

The scenarios can relate to any of the landlord options described later, although different housing management models are arguably better suited to different scenarios depending on the number of homes the council manages.

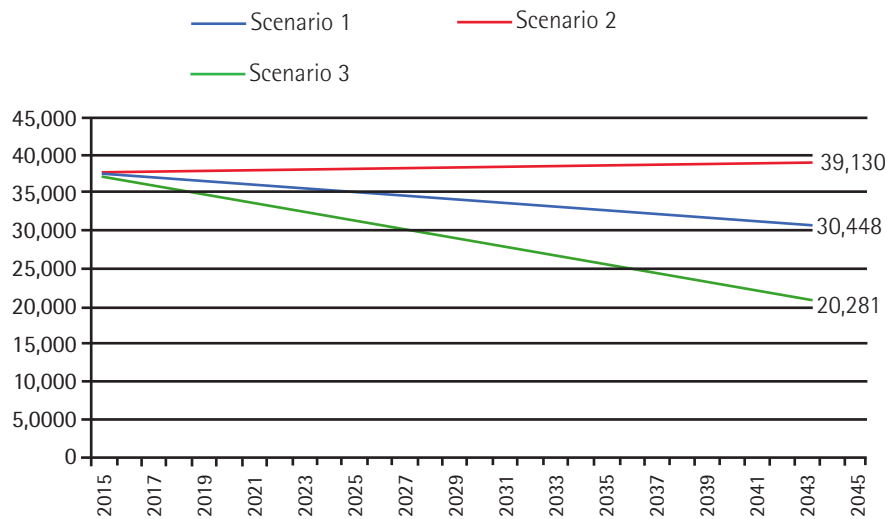
There is no financial "clean sheet", and as we have already documented, Southwark's council housing for tomorrow is in part determined by the legacy of council housing in the past. What is achievable will depend on a range of drivers, including potentially significant efficiency savings, which we have excluded from the investment scenarios.

Addressing the terms of reference (to explore options for a future investment strategy that is financially sustainable and affordable to the council), the Commission presents three comparative scenarios.

**Scenario 1:** Southwark council would be aiming to provide about 30,000 rented council homes by the end of the 30-year period in 2045, and would probably remain the largest provider of council housing in London. This would involve a managed decline from the 39,000 rented units in the current stock, with the loss of about 9,000 units over time due to Right to Buy, void sales and demolition.

**Scenario 2:** Southwark council would aim to keep the rented stock at 39,000 over the longer term and seek to replace any stock lost through new-build. While there would be a number of challenges with this approach (financing the cost of repairs, managing leaseholder liability, etc), it could be a possible model given extra resources (principally from prudential borrowing).

### Stock of council housing for rent 2015-45



Source: Southwark Housing Commission

**Scenario 3:** Southwark council would seek to reduce its rented stock by about 50%, to 20,000 units by 2045 – similar to the current stock of other inner London boroughs. This would involve the borough reconsidering its allocation policy (given the rising demand for social housing) and its broader housing duties. More than scenarios 1 and 2, this scenario reflects a continuation of the trends over the last decade (and the impact of large-scale developments now under way), so would need to be considered as part of a wider housing strategy.

#### Key assumptions

Getting the assumptions right is, of course, key to any option appraisal. This is obviously more difficult the further ahead we look. There are complex interactions of factors, which can change over time. Affordability of replacement, for example, is affected by land and price inflation, while incomes and expenditure can be dramatically changed by national or local policy changes, such as even more generous incentives under the Right to Buy scheme.

The financial sustainability of the scenarios has been assessed by forecasting the undiscounted cash flow over the 30-year reference period from 2015 to 2045. Current prices are used throughout and a discount rate of 3.5% has been applied where relevant, in line with Green Book guidance. The net cash flows include management, maintenance and investment costs, and revenues.

The scenarios are indicative and exclude possible future efficiency savings. Each provides a level of council housing over time and does not include large variations on rent levels. To be meaningful the Commission has had to assume a predicative rent/service charge income which is "affordable" (see below).

To permit some comparisons between the scenarios the following simplifying assumptions are necessary. These have been derived from recent historic data about the dynamics of social housing in Southwark as well as assumptions in the current housing and

investment plans of the council.

(a) *New-build rate.* On the basis of historic trends the new-build rate for council homes would be around 20 units a year. This would have to rise to 165 units under scenario 2 (above the recent pledge to build around 100 units a year), which assumes that Southwark aims to keep provision at 39,000 units by 2045.

(b) *Loss of council housing.* Historic trends show the loss of social housing stock in Southwark to be 2.2% a year (which includes void sales, Right to Buy and demolition). However, the council forecasts this to fall to 0.7%, despite the expected rise in Right to Buy sales. A 0.7% loss would amount to about 280 units a year. This rate is assumed to drop to just 0.3% under Scenario 2, with the council proactively resisting the loss of stock. Under Scenario 3 annual losses are assumed to be higher at 2.1% (reflecting trends over the last decade) with about 200 Right to Buy sales each year, 140 void sales (the current cap) and other losses of 256 a year.

(c) *Income.* To consider the income position for these three scenarios the following was assumed on the basis of historic data and Southwark's planned approach to housing to 2015:

- o The average income to the council from a council house or flat is assumed to be £5,000 a year (rent and service charge). Rent from dwellings makes up 70% of Southwark's HRA income.
- o The average income from each leaseholder to the council is assumed to be £1,500 a year (service charge, major works).
- o The average income to the council from each Right to Buy sale is assumed to be £70,000 (average receipt was £68,000 between 1998 and 2010).
- o The average income to the council from each void sale is assumed to be £150,000 (£153,000 was the average achieved over the last two years).

- o Other income to the council of £35 million a year is assumed (such as non-dwelling rents).
- o The council is assumed to be able to secure £10 million a year from other land sales or income from planning agreements (CIL, Section 106 etc).
- o Interest on any surplus has been excluded.

(d) *Expenditure.* To consider the expenditure position for these three scenarios the following was assumed on the basis of historic data and Southwark's maintenance and investment plans and policies to 2015:

- o Each socially rented unit under the council's management is assumed to have total management costs of £3,200 a year.
- o Each socially rented unit under the council's management is assumed to have maintenance costs of £1,600 a year.
- o Depreciation is assumed to be fixed at £45 million a year.
- o Each new-build unit is assumed to cost £112,000 with a further 50% for other associated development costs (such as roads and utilities), giving £168,000 a unit.
- o There is assumed to be an ongoing £5.5 million revenue contribution to capital spend each year.
- o The council is assumed to have opening debts of £450 million in 2015 and to pay off £30 million each year so all debt is cancelled by 2030. Interest is paid at the rate of 5.5% a year on any debt held (the current average interest rate is 6.6%, falling to 4.8% by 2030). No repayment premiums are assumed.
- o Debt management costs are assumed to be £1 million each year.

**4.2.1 Scenario 1: 30,000 units in 2045**

*How would this come about?*

Scenario 1 would occur with the loss of low-rent council stock at a rate of 0.75% each year, roughly in line with the council's current projections (although less than the historic rate). If no investment is made to build new properties, the number of low-rent council homes is due to drop (as a result of Right to Buy and void sales) to just over 30,000 homes by 2045.

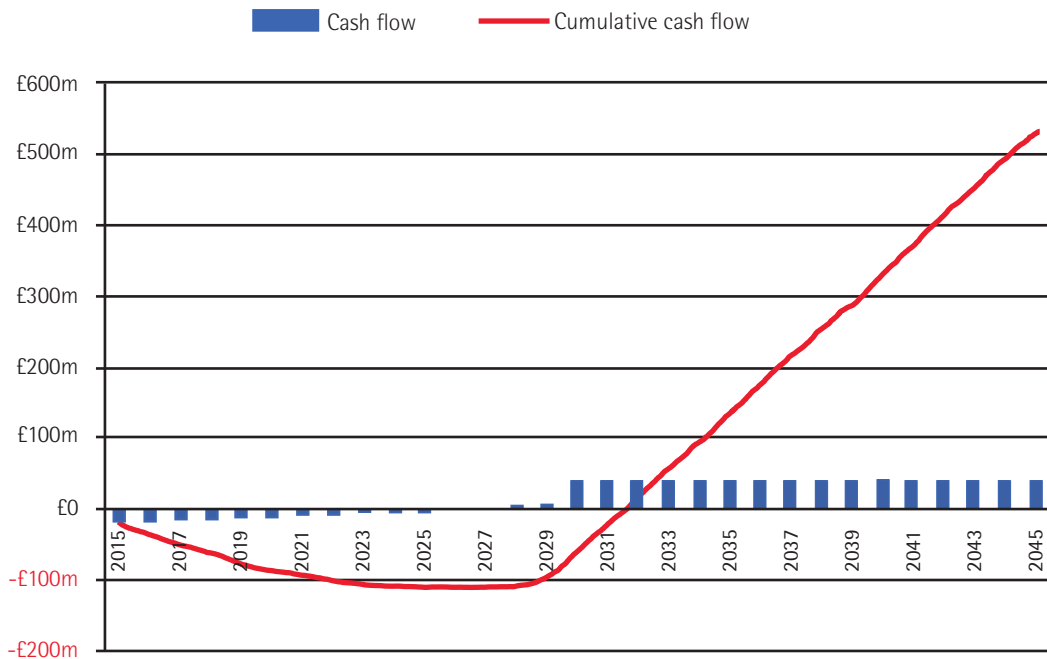
*Is the scenario financially sustainable?*

The cumulative annual cash flow position over the 30-year reference period is shown in the graph below. At the end of the 30-year period the cash position would be **£529 million (surplus)**. On this basis, the rental and lease charges and other revenue entirely cover the capital, investment and operational costs. Net cash flow becomes positive by 2026 and cumulative cash flow positive from 2032 onwards. By 2045 the net present value (NPV) would be £201 million.

With a positive cash flow at the end of the 30-year period, funds would be available for undertaking major unforeseen repairs. It would also allow for investment in the stock beyond the Decent Homes standard. Homes could, for example, have improved insulation to reduce tenants' utility bills. Funds released from a faster loss of stock and land sales could support more housing-led regeneration programmes and speed up the redevelopment of the worst estates.

However, the number of council homes for rent that would be available would fall below 2012 levels. This would inevitably place extra pressure on waiting lists and exacerbate overcrowding. Other social housing providers would be expected to offer more low-rent homes.

**Scenario 1: Forecast net and cumulative cash flow 2015-45**



Source: Southwark Housing Commission

A managed decline to 30,000 units may (even without a surge in Right to Buy sales) change the balance of leaseholders/freeholders to council tenants. It could create a new dynamic between the council and leaseholders and tenants, especially over levels of investment in particular blocks and who pays. More leaseholders could also lead to greater pressure to reduce service charges, particularly if the council is running an HRA surplus.

If the money were not spent on delivering higher-quality homes, it is likely that central government would take action to stop the council accumulating such a large housing surplus.

#### What are the implications?

- Slightly faster loss of stock generates extra revenues and reduces costs.
- The challenge would be to selectively release the stock that is the most costly to manage while improving the unit costs of the retained stock.
- Over time the council gains a relatively large financial surplus, which could be spent on improvements.
- But fewer council homes to rent exacerbates the borough's housing shortage.
- A reduction in the rented stock would change the balance between leaseholders and tenants.

#### 4.2.2 Scenario 2: 39,000 units in 2045

##### How would this come about?

Scenario 2 involves a concerted and long-term commitment to maintain the council's rented stock at 39,000 by 2045. This

would require a substantial and sustained programme of building new council homes, plus plans to prevent any further loss of stock. As well as lower levels of stock loss, the scenario requires about 165 new council homes each year for 30 years (4,950 in total). If stock levels fell faster, more council homes would be needed, at a higher cost.

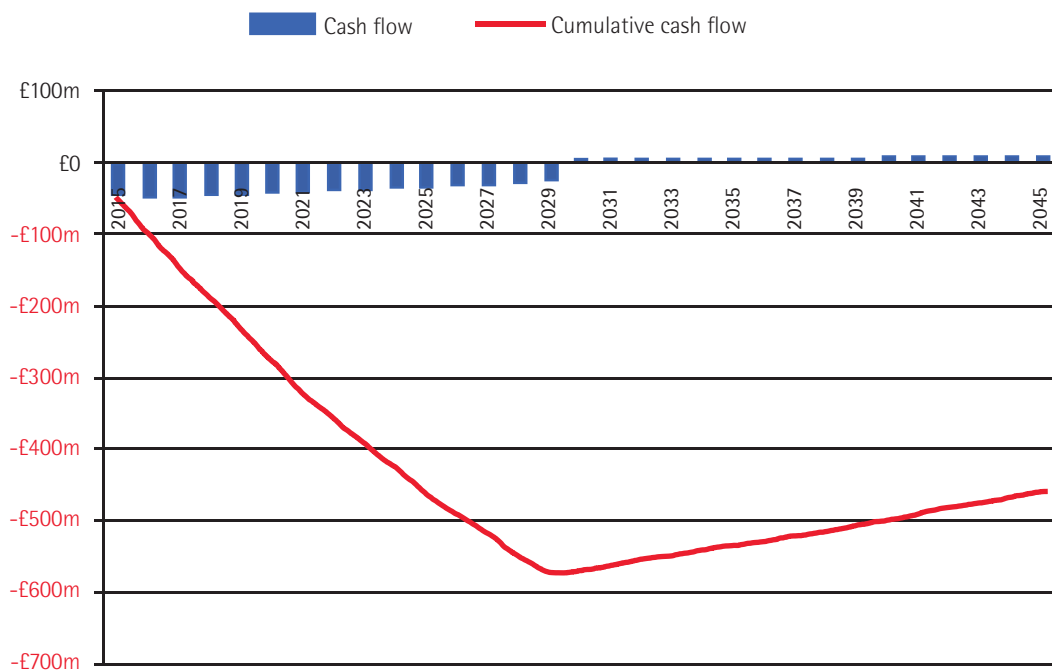
A crude calculation of the cost of new-build (on the basis of a unit cost for constructing a new dwelling at £112,000 for 70m<sup>2</sup> x £1,600/m<sup>2</sup> and excluding inflation, land costs and demolition as well as the potential to refurbish existing stock) would be £18.5 million a year (£555 million over 30 years).

##### Is the scenario financially sustainable?

The cumulative annual cash flow position over the 30-year reference period is shown in the graph below. At the end of the 30-year period the cash position is **-£459 million (deficit)**, indicating a significant funding gap. On this basis the rental and lease charges and other revenue do not cover the capital, investment and operational costs. Loans and/or grants to cover the funding gap would be required. Annual net cash flow becomes positive in 2030 when the existing debts of £450 million are assumed to be paid off and the negative cumulative cash flow position begins to improve thereafter. By 2045 the net present value (NPV) would be -£417 million.

By assuming that debt is being paid off while significant investment is under way the revenues do not cover expenditure. This results in Southwark having a similar cumulative cash flow position in 2045 as it does in 2015 in terms of debt (about £450 million) which if secured under a loan would have annual charges around £30 million (at 6.6%, although current interest rates are lower). This debt would suggest a lower gearing than at present as the new-build would boost rental income and add to the net value of the stock.

Scenario 2: Forecast net and cumulative cash flow 2015–45



Source: Southwark Housing Commission

With a negative cash position, further resources (possibly extra borrowing) would be required if the existing stock required unforeseen investment or income fell due to changes in market conditions or government policy. Equally, additional funding might be required to meet higher standards that could be demanded by central government, such as reducing the carbon footprint of properties.

This scenario would represent a step change in council house building, with at least 5,000 new council homes as well as higher levels of investment in refurbishment and regeneration. Although the new-build would be relatively modest, compared with the building programmes of the 1960s and 1970s and set against the rate of private new house building over the past 12 years, it would demand additional funding (outside of the HRA) for the physical and social infrastructure to support the new homes, such as transport links and schools.

Under this scenario the council is able to offer council homes to more residents, especially those on low incomes. This should help reduce waiting lists and overcrowding. With a large stock, the council could also offer a wider mix of different council homes, with perhaps some new properties provided at higher rents or on short leases.

The council could also benefit from central government funding for a new build programme, through the New Homes Bonus or a similar future incentive scheme. As with the other scenarios, improving the stock could lead to more Right to Buy sales. The proportion of leaseholders would probably be lower though, with income from service charges less significant than rents to HRA future funding.

**What are the implications?**

- More council homes and scope for more variety of council housing under a sustained new-build programme.

- The challenge would be to borrow cheaply to fund the new-build and to improve the best of the existing stock.
- A commitment to new-build and increased regeneration would require maintaining borrowing at levels similar to the present, although the stock would have higher net asset value.
- Southwark would remain as London's largest council landlord.

**4.2.3 Scenario 3: 20,000 units in 2045**

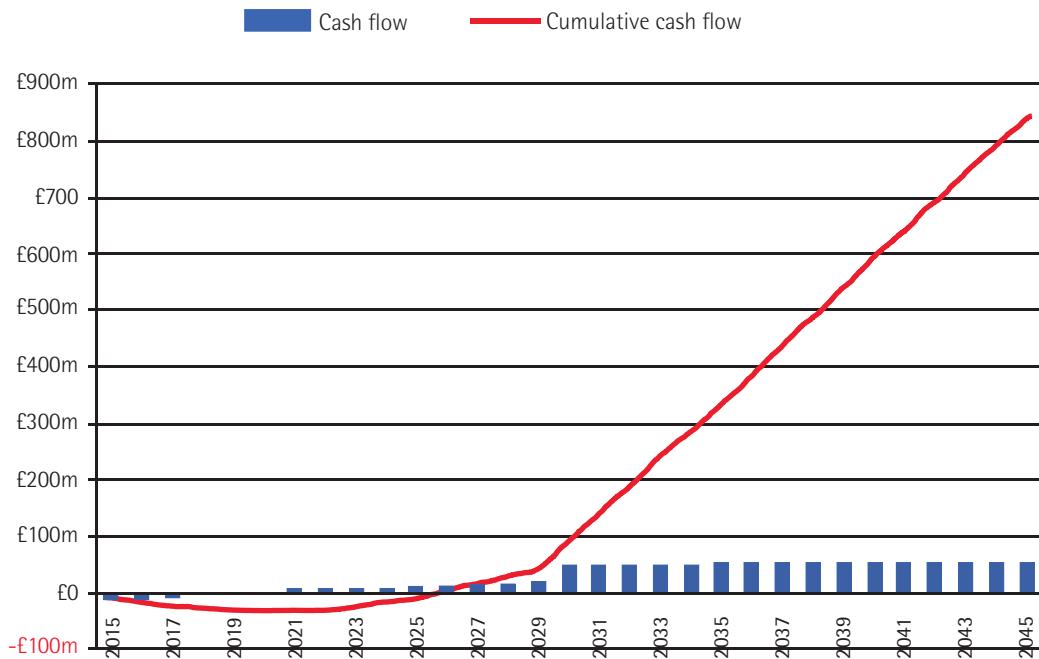
*How would this come about?*

This scenario would come about through an annual rate of loss of rented council stock of 2.1% each year. While this is faster than current projections by the council, it is slightly less than the rate of loss over the last 12 years, which was a period with a relatively high level of Right to Buy sales. The level of stock reduction could result from increased Right to Buy sales (following the stimulus to Right to Buy given in April 2012 and perhaps with improvements in the availability of mortgage finance in the medium term for some tenants) and increased void sales. It would also involve much faster demolition or redevelopment of the worst-condition council estates.

*Is the scenario financially sustainable?*

The cumulative annual cash flow position over the 30-year reference period is shown in the graph below. At the end of the 30-year period the cash position would be **£845 million (surplus)**. On this basis, the rental and lease charges and other revenue more than cover the operational costs and annual depreciation costs. Net cash flow becomes positive by 2021 and cumulative cash flow positive from 2026 onwards.

**Scenario 3: Forecast net and cumulative cash flow 2015-45**



Source: Southwark Housing Commission



By accelerating the reduction in the stock there are significant falls in the management and maintenance costs, together with increased capital receipts from Right to Buy and void sales. There is also an expansion in the number of leasehold units to about 20,000 by 2045, broadly equivalent to the remaining number of tenanted properties.

The council gains a huge financial surplus by the end of the 30-year period, which could allow for major investments in the stock and redevelopment along the lines described in scenario one. The HRA surplus could also be used for supporting investment by other social housing providers.

The fall in the level of rented council homes would leave many in the borough without the affordable homes they need. Council housing would form a much smaller segment of the housing market, and there would be a much greater reliance on the private sector. This could lead to high average rent levels and possibly more overcrowding. A sharp fall in the provision of council housing (with no compensatory rise in social housing through housing associations) could force people to live in cheaper homes out of the borough.

The fall to 20,000 units would significantly change the leaseholder/tenant balance and could also lead to calls for reductions in service charges and rents. However, central government is unlikely to allow the council to retain large surpluses from its HRA account.

#### What are the implications?

- Significant reduction in the number of rented council homes would reduce the availability of affordable homes, with consequential pressure on rents, waiting lists and more overcrowding.
- The private sector would be a bigger provider and the council would have proportionately more leaseholders.
- The challenge would be to manage decline and ensure other social housing providers step up to the mark.
- After a short period the council would accrue large surpluses, which could lead to calls for lower service charges and rent reductions.

#### 4.2.4 Comparing the options

While these are highly simplified scenarios, discounting the cash flows gives a net present value (NPV) for each scenario to show their comparative financial benefit. Under this analysis scenario 3 results as the most financially positive option. However, this analysis does not include the value of any social or economic benefits achieved under each scenario.

The financial difference between the options is stark. The NPV loss of £417 million under scenario 2, for example, represents nearly a third of the net book value of all Southwark's council housing today, and would imply that by 2045 the council, having paid off its historic debts, would face a council housing debt similar to what it has now. However, the council housing debt under

this scenario would still only be around £10,700 a unit, roughly a third of what it is for some large housing associations. There are predicted surpluses for scenarios 1 and 3, although they exclude the higher social and economic costs of longer waiting lists and overcrowding.

The Commission accepts that the scenarios depend on the political choices the council wishes to make about its future as a landlord:

- whether it wishes to be a very large landlord or a smaller landlord; or
- to use its HRA funds to provide council homes itself or invest/co-invest in housing by other social landlords and the private sector.

Each option carries a price tag and has a different cost-benefit outcome depending on the total level of social housing the council is seeking to provide.

There are also limits to the degree to which the council can switch between scenarios. It could adopt a long-term strategy on scenario 2 and switch to scenarios 1 or 3, but it would be problematic to change direction the other way and plan for scenario 3 and then switch to scenario 1 or 2.

#### Risk factors

It is important to qualify and contextualise the different scenarios. As stated, they depend on a range of variables relating to expenditure, income and planned investment. What they can't include are unknown costs of building failure, such as the asbestos removals which affected thousands of buildings across the country in the 1980s. There are also a number of other risks affecting the options, including the following.

- All forecasting has a well-established tendency to be over-optimistic: benefits tend to be overstated and timings and costs understated.
- While averages are used, maintenance and management costs can be expected to vary greatly by property type (such as varying the costs across the high-needs estates identified by Southwark). Any significant failures would hasten the need for major refurbishment or demolition.
- Any sales are likely to focus on the better properties (street-based properties typically give about double the receipt of estate-based properties), with the potential for the council to be left with stock with above-average maintenance and management costs. This could reduce the (pro rata) savings achieved from managing a smaller stock.
- Standards adopted in the future will affect the required expenditure (Decent Homes; Warm, Dry, Safe; low-carbon standards; Lifetime Homes etc).
- Over 30 years the land values in Southwark, especially the northern part of the borough, may change dramatically and alter the viability of development.
- Similarly, the future level of market rents and policy in terms of moving towards social rents converging (including the "elasticity of demand") will significantly affect the main element of Southwark's future housing revenues by

increasing them.

- Some capacity constraints can be expected to operate affecting the speed of change that is possible. For example, the capacity for the public and private sectors to manage and deliver major redevelopment schemes, the capacity to rehouse tenants during redevelopment (especially if the stock is diminishing) and the maximum achievable (and acceptable) housing densities.
- Some spillover effects may occur. While housing spend may be reduced, there could be increased demands against other budgets, such as temporary accommodation costs, health and adult social care (especially given the rise in the over-65 population).
- The medium-term impact of welfare and housing reforms together with the council's policy stance and the policy of other London boroughs could fundamentally alter the demand for council housing in this part of London.
- Major efficiency savings are possible, although much depends on the implementation of reforms to the management and delivery of housing services.

#### 4.2.5 Who should tomorrow's council housing be for?

Despite the best endeavours of the council, the demand for council homes will continue to increase while Southwark's population growth outstrips the supply of low-cost housing. Whichever strategic option the council chooses and whatever adjustments it makes to its allocations policy and procedures, Southwark will for the foreseeable future still need to prioritise who gets access to the borough's council (and other social) housing. The problem is compounded by the fact that Southwark has both relatively high levels of under-occupation and relatively high levels of overcrowding (fifth-highest in London).

As documented in previous sections, the income mix and age profile of those who live in council housing has dramatically changed over time. Compared with the post-war era, there are now many more council tenants on low incomes or jobless and this trend seems likely to continue. It is also important to consider, in framing a long-term plan for council housing, that the age profile of tenants is still changing (for instance, a lot more people over 80) and that in the future there will not only be more elderly tenants, but more low-income elderly tenants (and leaseholders).

As outlined earlier, around a quarter of council properties are the homes of people in retirement. This group includes people with very different needs – someone who has just retired at 60 and leads a healthy and active life has very different needs from someone in their 80s with a debilitating health condition. A future housing strategy will have to take into account not only the growing need for more sheltered and extra care accommodation but also consider the social and economic costs of inaction in regard to housing-related health problems to do with falls, poor thermal insulation, and social isolation in council housing.

With 15% of all council housing classified as overcrowded, the need for family-sized homes is acute.<sup>100</sup> At the same time around a third of households live in under-occupied properties. However, tenants with security of tenure and roots in the borough are unlikely to move unless they are offered a better local alternative (the so-called "bedroom tax" – see Section 2.3.7 – does not apply to those aged over 65, who are often those in under-occupied properties).

New provision of family homes will be more expensive than smaller properties and will impact on the overall numbers provided. However, an alternative could be providing new council homes for older tenants (whose children have grown up and left home) to free up family-sized homes. This would obviously need to be carried out carefully, given the social ties many tenants have.

Applicants for one-bedroom properties form the majority of people on the waiting list, primarily because of high (and rising) private rents. People, particularly younger people, cannot move. The provision of council homes for this group would be cheaper to deliver, but many of the applicants are unlikely to be anywhere near the top of the waiting list. Moreover, today's young (single) people are likely to be tomorrow's families looking for larger low-cost accommodation.

Southwark's Homesearch scheme (its choice-based lettings system) is one route to opening up access to council housing and tackling under-occupation. As the commission of inquiry into the future of council housing in Birmingham commented: "A well-oiled transfer system encourages those tenants who act responsibly. They are a cheap and easy way of making more tenants happy. They are also relatively easy to organise at area level."<sup>101</sup>

There are clearly constraints on whom the council can house, especially given that it still has a duty to find accommodation for those in priority need who are unintentionally homeless. Housing supply within the borough will always be finite, and there are choices to be made between investing in suitable homes for existing tenants and the provision of new homes for younger people. These choices are about not only who the council wishes to house but what kind of place the council wants Southwark to become. These choices should not be made solely in respect of council housing. The council will need to engage all its residents fully in deciding who should live in Southwark's social housing and where in the borough they should live.

It is also worth noting that there may in the future (in part due to welfare reforms) be a much greater movement of people between the London boroughs. More people from neighbouring boroughs may look for council housing in Southwark. The council will therefore need to closely monitor migration flows, and (under the Localism Act 2011) may wish to amend its allocations/lettings schemes to include some form of local residency criteria.

### 4.3 Housing management options

- Aspects of the housing service (repairs and maintenance) are unsatisfactory and suffer from underinvestment, short-termism and a rather paternalistic culture. Improvements are being made to the service, but radical steps must be taken to achieve a structural improvement in customer care.
- HRA offers opportunities for more tenant involvement (especially more self-financing by tenant management organisations), although the appetite for local control over all housing services seems low.
- The council could, as part of its future strategy, bring more landlord functions in-house and provide a wider range of homes to rent or part-own.
- Another management model would be to devolve more housing services to TMOs and neighbourhood housing organisations, which would run on a self-financing basis to performance standards set by the council (which would remain as the landlord).
- Running housing services more along the lines of a social business will require more flexibility, expert financial advice and investment in staff training.
- The council could also seek to work in closer partnership with other social and private housing providers, playing more of a steering role and perhaps taking equity stakes in new housing developments.

Southwark has a myriad interconnecting housing and place-making activities – from supporting the homeless and older people to planning and regeneration. The Commission appreciates that these demands place enormous pressure on the council's scarce resources. We also recognise the commitment and endeavour of the council's housing staff, as well as the work of councillors, residents and community organisations. Thousands of people are involved in the provision of council housing and many of them are working under stressful conditions.

However, the function that is all too often overlooked but most keenly felt by both tenants and leaseholders is housing management services, especially repairs and maintenance. The evidence we have received shows that housing services for council tenants and leaseholders have often been poor or unsatisfactory for some time. We believe this has to change and that a much improved housing service (especially on repairs and maintenance) must form a central part of a long-term strategy for council housing.

The culture of housing services seems to the Commission to be rather paternalistic, over-centralised and too top-down. As shown in section 2.4, tenants and leaseholders kept telling us that they were dissatisfied with their repairs and maintenance, and as unhappy with private contractors' performance as they were with the council's failure to check and monitor work carried out by contractors. The almost unanimous call from residents was for a better and more responsive service. On some estates there was a demand for greater involvement and control, but little appetite for a new landlord. The message was unequivocal: when you look to the future, make sure a much improved housing service is at the heart of any plans. Change the culture and reform the system so that tenants and leaseholders form part of the solution, and are not seen as part of the problem.

Council housing in Southwark is like a giant oil tanker: changing direction requires time and consistency of purpose. The sort of fundamental change that we think is needed in the provision

of housing services will take time and has to be planned ahead. For example, the council will need to invest in skills training and improve its performance management and procurement systems. It will also need to take some difficult decisions about maintaining estates where the recurrent costs of repair no longer make any financial sense.

It is difficult to get a balanced account of how well the council's housing department performed in the past. We know the old housing department was broken up around 2006 because of deep dissatisfaction with performance. However, there is some evidence that following the break-up, housing started to link more closely with other parts of the council, such as finance, planning and regeneration. Other evidence suggests that this was more a reflection of the "boom times" and that housing was losing influence within the council.

The Commission recognises the efforts the council is making to improve housing services. However, we believe there is a case for further improvement in housing management. As such, we would urge the council (together with tenants and leaseholders) to consider more radical housing management options which draw on best practice and the council's experience. We have set out three broad options, all of which retain Southwark as the landlord and fit with a longer-term housing strategy.

The Commission holds the view that the different management scenarios are not mutually exclusive. Indeed, under any of the investment options outlined in this report, the council can pick and mix from a range of options for promoting partnership working and engaging tenants and leaseholders.

#### Three housing management options

- **Large-scale landlord:** to meet part of the growing demand for low-cost rented housing, the council could become a major landlord/developer. The landlord function would be in-house and resources would be concentrated on delivering

higher numbers of good-quality council homes for rent.

- **Partnership model:** the council would seek to work in closer partnership with other organisations, with the support of tenants and leaseholders, to provide new housing, upgrade existing stock and improve housing services. The council would remain the landlord but would play more of a steering role, working with others (like housing associations) on delivery.
- **Devolved (flexible) housing management:** the council would remain the landlord but control of housing services and major works would be delegated to TMOs and neighbourhood housing organisations (NHOs). These area-based organisations would run on a self-financing basis to over-arching standards set by the council.

#### 4.3.1 The large-scale landlord

The tenants that the Commission heard from were almost unanimous in their call for Southwark to remain as their landlord. There was also a widespread view that the council should be taking on the responsibility of building more council homes at rents local people could afford. Tenants and other stakeholders highlighted the growing waiting list and acute problems faced by younger people with low incomes in finding housing they could afford near family and friends. There was a sense that without additional council homes local people would struggle to be housed in suitable accommodation.

While the history of council housing in the borough belies the idea of the council embarking on a major new-build programme similar to the high-rise estates of the 1960s, as a large-scale landlord it could seek to replenish the homes lost through Right to Buy and redevelopment. This would also be possible under other governance arrangements, but arguably the council as house builder in its own right lends itself more to the large-scale landlord model.

Southwark could become a major developer, with its purpose and vision centred on building large numbers of new (low-rent) properties. As a consequence, the council would need to dedicate more resources to development and more fully integrate its housing, planning and regeneration departments. There is also likely to be a need for more in-house staff and a wider range and greater specialisation of skills. The council would seek to grow its social housing business to reap economies of scale and calibrate its HRA around the provision of more low-rent council housing. As with the other management models we discuss, the large-scale landlord would still have the option to outsource some of the housing services (such as repairs).

To become a large-scale house builder under the HRA regime, the council would have to consider higher prudential borrowing, with perhaps more homes provided at higher (and variable) rents. This would enable higher income streams to pay off the properties' debt, but would exclude more tenants on very low incomes.

It could also be argued that if the council's housing services business became too big, it could risk becoming more remote and

insensitive to the needs of its tenants and leaseholders.

#### 4.3.2 The partnership model

The Commission heard considerable evidence on the benefits of partnership working and how the council could do more to improve its relationships with private developers, house builders, housing associations and other local authorities (for example, L&Q and Peabody, as well as London councils such as Croydon, submitted evidence calling for greater co-operation on social housing).

Under the partnership model, the council would play a much more strategic and enabling role and look to other (private and not-for-profit) providers to deliver housing services and housing-led regeneration. The council would remain the landlord, but contract out the majority of its core services and seek to make cost savings in the process. This model, which in part builds on current best practice by the council, could seek to attract extra resources to complement additional borrowing under the HRA.

However, this approach is not risk-free. On the development side, it is proving harder, with lower central government grant and modest social rents, to make large-scale schemes with private developers stack up if the proportion of low-rent council housing is too high. On the contracting side, the Commission heard concerns from tenants and leaseholders about the quality of service they received from some private contractors.

As part of the partnership model, greater emphasis and resources would need to be placed on improving contract management and procurement capability. Tenants and leaseholders could also (with help) be much more closely involved in the design, monitoring and general scrutiny of service contracts. This could involve giving tenants a greater say in shaping housing services, both directly with the council and via tenant involvement schemes with private providers. A partnership model could include setting up a housing board, which might include tenant and leaseholder representatives (and key staff) to design contracts and hold partners to account. This could be supported by area housing forums, or something similar.

A partnership model would involve closer working with housing associations, some of which are based in Southwark. Peabody housing association, for example, said in its written submission that the council should explore the potential for shared services and pooling resources with key partners, and potentially outsource more of its housing services: "We encourage the borough to think flexibly and creatively about how it might work with housing associations to deliver and improve its core housing services and we would be keen to explore this in more detail with the council."

The council could explore how its housing assets could be pooled or shared with neighbouring boroughs and other social housing providers to enhance borrowing powers and leverage investment. For example, it could feasibly "trade" borrowing headroom with other councils to bring forward investment or development. Alternatively, neighbouring local authorities might combine HRA funding and available development land. This is new policy territory and the council would need to carefully consider the

legal and governance aspects, not least in regard to the way in which income and expenditure on HRA is currently ring-fenced.

Partnering is of course not new to Southwark. The council is actively involved in several long-term partnerships with investors and developers (not least on its high-investment-needs estates) and operates a number of successful partnership groups and forums with housing associations and other housing providers. However, HRA does offer the possibility to consider alternative forms of partnerships, such as the council taking equity stakes in new developments, new funding partnerships with pension funds (possibly through bond finance) or supporting land trusts (where the presumption is that land would be provided for low-cost housing at a considerable discount).

#### 4.3.3 Devolved (flexible) housing management

Southwark has a long history of devolved housing management and actively supports the local TMO movement. The council holds the view<sup>102</sup> that where tenants play a bigger role in managing housing services, those services can be improved and made more responsive.

The Commission is aware that the council is piloting new self-financing schemes for TMOs, which have been widely applauded (see Leathermarket JMB case study in section 2). However, the TMOs providing housing services cover only 3,500 residents and some have run into difficulties (for example the Perronet and Tabarb TMOs, which handed back their landlord functions to the council).

When TMOs work well they are arguably able to provide a better service, although rolling out TMOs out across the whole borough would require a big commitment from tenants. It is unlikely that all estates would wish take on such a responsibility. Some of the residents to whom the Commission spoke, for example, were critical of the way the council engaged with residents but were unsure whether they had the appetite or capability to run a TMO.

To overcome these issues the council could adopt a more devolved or delegated structure of housing management, which exploited

the advantages of resident-led boards and self-financing systems. This might be similar to the plans Birmingham council announced in May 2012, that it would give responsibility for its housing management to 10 district housing panels (which would work with the council and tenants to shape repairs, allocations and redevelopment). This type of localised hub-and-spoke system would empower tenants and residents to tailor solutions to the specific challenges faced in their neighbourhood, possibly through local boards setting key performance indicators/output service level agreements and co-managing service contracts.

The Commission supports the idea of encouraging TMOs to become self-financing, although we are also aware of the limitations in regard to residents having the right expertise and know-how. Where there is no TMO there may be merit in considering the idea of self-financing neighbourhood housing organisations (NHOs), which could be piloted as alternatives to TMOs. Residents could be offered a choice of an NHO or TMO to run their housing services. The proposition is not to foster duplication, but to offer tenants and leaseholders a choice and a stronger voice. The NHO would carry out similar functions to TMOs (including rent collection, maintenance and repair, budget setting and contracting), but would be run in a different way, with a director and devolved budget from day one. With a director and board the buck for repairs would stop with the NHO, which could engage with local councillors and other community organisations.

This structure might suffer if NHOs became a barrier to taking tough decisions about particular blocks that were consuming large sums of investment without extending their lives. There are also concerns that devolved management systems do not always work easily alongside exploring greater use of borrowing (given lenders' need to understand management structures and how revenue streams and repayments are delivered). However, the Commission's view is that there is little hard evidence to support the view that lenders apportion higher risk (and demand greater scrutiny) for devolved or delegated housing management structures. It can be argued that bringing services closer to tenants and leaseholders, creating much higher levels of customer satisfaction and giving real choice, creates certainty and lowers risk.



## 5. Support for council housing

## 5. Support for council housing

- *Tenant engagement and improving services:* The council should involve tenants and leaseholders far more in assessing the performance of the services they receive as part of an approach that involves rigorous performance monitoring.
- *Tenant and leaseholder compacts:* As Southwark draws up a longer-term action plan for its housing it will be essential for this to be communicated to tenants and residents. One approach it could consider would be to draw up a compact centred on local housing standards and performance.
- *Self-financing tenant management organisations:* Customer service could be improved by more support for TMOs, especially those which choose to become self-financing.
- *Reward and loyalty schemes for tenants:* There are many types of incentives and reward schemes being offered by social housing providers to encourage tenant engagement and help them keep service provision on track. One such scheme, which works on the loyalty card principle, provides financial bonuses to good "customers".
- *New funding tools:* There are numerous new financial mechanisms coming to the fore, which Southwark might consider in order to bring equity into the borough (such as partnership-funded development, local asset-based vehicles, bond financing and a revolving fund). The Commission recommends that the council should undertake a full assessment of funding tools for housing and regeneration and the potential for partnership.
- *Using existing spaces:* Maximising the use of existing space is one route towards creating more affordable homes. An audit of potential spaces may be useful.
- *Housing and employment:* Creating opportunities for work or training for its residents is an area we would also encourage Southwark to develop. Requiring maintenance contractors to train local residents where possible is one way forward.
- *Resident caretakers and concierge schemes:* Caretakers can provide the human presence on estates. The council could consider piloting caretaker and concierge schemes.
- *Free up more family homes:* One way of providing more family-sized accommodation is to encourage those tenants that are under-occupying to downsize. The council needs to know more about the costs and benefits of incentives to downsize.
- *Lettings policy:* The council could continue to give priority to those most in need. However, some reassessment of the council's allocations/letting scheme may be justified, with possible new criteria such as allocating more homes to those in low-paid employment locally and some restrictions on newcomers to the borough.
- *Provide security of tenure:* The Commission is concerned about the social effects of short-term tenancies and sceptical of the benefits.
- *Reduce disruptive subletting by leaseholders:* It is not feasible to change leases retrospectively. However, that does not stop Southwark introducing detailed covenants as to the behaviour of leaseholders (and their subtenants) in future leases.
- *Leaseholder management:* The council needs to develop a long-term strategy for its leaseholders, who will increase in number. As a prelude to this, the council needs to better understand leaseholder concerns over the cost of repairs, problems of leaseholder debts, and the extent of subletting.
- *Community land trusts:* Southwark may wish to consider other routes to new homes for prospective council tenants, such as community land trusts, which could be piloted in the borough.

In the previous sections we have laid out possible options for the council to consider when drawing up a strategy for council housing over the next 30 years. In this section we have put forward some ideas and suggestions that the council could adopt as part of its strategy. Our suggestions do not cover every issue and we are mindful that there is good practice elsewhere that the council might consider. We have only offered short summaries of actions for change and would hope that the council, with its tenants and leaseholders, will explore them in more depth.

### Tenant engagement and improving services

Improving services is essential to the success of a strategy for council housing, and strengthening engagement with tenants goes hand-in-hand with this. Southwark must treat tenants and leaseholders as partners. It should make use of tenants' on-the-ground knowledge and involve them more in scrutiny and governance. This way efficiency should improve and tenant satisfaction increase.



We appreciate that the council is taking action on this front, and has recently terminated its contract with its two main repairs and maintenance providers and appointed a new contractor on an interim basis. Whether it chooses to bring back repairs in-house in the longer term or come to another arrangement, we would draw the council's attention to a number of approaches that could prove fruitful in terms of improving performance and tenant satisfaction. For example, the council should involve tenants far more in assessing the performance of the services they receive as part of an approach that involves rigorous performance monitoring.

The contractor could: employ and train tenants to independently assess local service delivery via telephone surveys; establish a local forum for customer engagement to interact with the repairs and maintenance provider; and consider drawing up a responsive repairs charter which sets out the exact nature of emergency and non-emergency repairs and the maximum response times for them to be carried out.

For example, Pinnacle PSG (a major contractor) prepares an annual action plan in consultation with residents known as the Residents' Community Compact. This acts as a contract with the residents, setting out targets with specific times by which they are to be met. This in turn is linked to the fee level, an increasingly common contractual arrangement. So, if the targets are not met, Pinnacle receives a lower fee. Residents agree their priorities for improvement with the estate manager each year. If they are satisfied with the improvement it can be taken out of the compact and replaced with another issue that needs attention.

The council could review such schemes, and there may also be merit in studying the work of other London boroughs, like Lambeth, which has explored the idea of opening up void properties to potential co-operative housing pilots.

As we have stated previously, improving performance management is critical to the future success of the council's housing services. Southwark could more openly use peer-based benchmarking systems, such as HouseMark's performance improvement service. Benchmarking services are not the whole answer, but the Commission believes they are a useful tool for identifying improvements that are needed.

### **Tenant and leaseholder compacts**

As Southwark draws up a longer-term action plan for its housing, it will be essential for this to be communicated to tenants and residents. Southwark should strive to be honest and open with its tenants and residents and not over-promise. A number of failures to deliver on promises in the past have led to a mistrust of the council by tenants and residents. One approach it could consider would be to draw up a compact on local housing standards and performance. The council has introduced similar compacts in the past (with the help of the Tenant Participation Advisory Service), but these seem to have lacked real teeth. The Commission sees no reason why the idea should not be revisited.

### **Self-financing tenant management organisations**

As we have documented in this report, tenants and leaseholders

are far from satisfied with the repairs service and are calling for major improvements. The Commission is aware of the reforms the council is carrying out, but thinks that customer service could be improved by enabling more TMOs to become self-financing. TMOs could also offer help to reduce the cost of repairs by supporting DIY schemes.

### **Reward and loyalty schemes for tenants**

There are many types of incentives and reward schemes being offered by housing providers to encourage tenant engagement and help them keep service provision on track. One such scheme, which works on the loyalty card principle, providing bonuses to good customers, has been set up by Phoenix Community Housing. Tenants get reward points, which can be converted into points from the co-operative, for measures such as keeping rent and service charge accounts in credit, and for making payments by direct debit and on time.

Another is being offered by Watford-based housing association Thrive Homes, which was set up this year to reward tenants who have kept to their tenancy agreement throughout the year, and is a way to say "thank you" for paying rent and service charges on time. Every year, tenants who have joined the scheme and met the criteria will be entered into a prize draw. A reward scheme, with resident support, would certainly seem worthwhile for Southwark to pilot.

### **New funding tools**

There are numerous new financial mechanisms coming to the fore which Southwark might consider in order to bring funds into the borough. The Commission suggests that the council undertakes a full assessment of funding tools for housing and regeneration as part of its long-term housing strategy for the borough. Possible new funding approaches include:

#### *Partnership-funded development*

Southwark might be able to use finance partnerships to advance the development of new council housing with other housing providers. For example, the council might enter an agreement with a housing association to provide new housing now – and then pay from the borrowing available to the council further down the line (once the debt backlog has been cleared). Alternatively, councils might use their borrowing powers to borrow at low rates from the Public Works Loan Board to lend to housing associations to develop affordable housing. Edinburgh council, for example, plans to kick-start mothballed housing developments across the city by borrowing money at cheap rates and lending it to housing associations.

#### *Local asset-backed vehicles and local housing companies*

These are quite similar to PFI schemes except that profits are shared. The local authority puts in land or sites and the private sector comes up with the funding. They create a joint company and share any long-term profits. This is seen as a vehicle for developing both commercial property and housing (known as local housing companies). These arrangements are complicated and have been very slow to take off, not helped by the economic climate, which has

made it hard for the private sector to raise finance. Local authorities need good sites to put into the mix to be able to make it work. Southwark does have land and therefore could make this model work. One of the first to be set up is Sheffield Housing Company (a joint venture between Sheffield City Council, Keepmoat and Great Places Housing Group, in which the council has a 50% share). The company plans to build around 2,300 new homes over the next 15 years.

#### *Bond financing and leaseback*

Rather than borrowing from the Public Works Loans Board, some local authorities are looking at bond finance as a potentially cheaper alternative. Southwark is a large enough authority and could have enough scale to make a bond issue work, if it could make the repayments.

Another financial model to get better value from existing housing assets is for the council to enter a leaseback option with a private company, but remain the owner of the land. This would allow assets to remain in public ownership while raising funds for refurbishment and new-build.

#### *Borrowing against the New Homes Bonus and community infrastructure levy*

In the future there could be an opportunity for Southwark to obtain low-cost, long-term loans from the Public Works Loans Board against future New Homes bonus receipts. There is also the possibility of borrowing against the community infrastructure levy (CIL). Expected CIL income cannot currently be used to set against any form of prudential borrowing by local authorities; although the legislative powers to do so exist, they have not been enabled. The possibility of allowing city mayors to borrow against CIL receipts to support national infrastructure is also being considered. This could provide another mechanism for providing upfront resources for investment in council housing.

#### *A revolving fund to reduce responsive maintenance costs*

Southwark clearly needs to improve its stock for the long term. The issue is whether, after service costs, further borrowing to get the stock in better condition could finance investment which would have a positive net present value. A key proposition for the council to consider would be to set up a revolving spend-to-save fund, to be invested in estates where major works have the potential to bring to an end the need to spend well above typical levels on responsive repairs. This would be prudential borrowing; for example, the council could borrow £50 million and invest it in a range of projects which would put right the most significant causes of high levels of responsive repair demand. The savings in responsive repair cost, after meeting the costs of debt service, would be ploughed back into the fund to finance further spend-to-save projects.

The principle could be applied whether the repairs are carried out in-house or via a new provider. The council may wish to consider the experience of other boroughs, such as Camden,

which is using its HRA borrowing headroom as a revolving fund to finance regeneration schemes.

#### **Using existing spaces**

Maximising the use of existing space is one route towards creating more affordable homes. We note that the council has already announced plans to build 1,000 new homes before 2020 in spaces that are underused, vacant or problematic, such as garage spaces. However, we would urge the council to explore whether there is more "hidden space" to be found, not necessarily to develop itself but to work in partnership with housing associations if the circumstances and resources make it more appropriate and efficient to do so.

Southwark has an overcapacity in office space that could be converted into homes. Under changes to the government's new National Planning Policy Framework, it should be easier to turn what were once business premises into homes "where there is an identified need for additional housing in that area" unless there are "strong economic reasons" to oppose the development.<sup>103</sup>

It was apparent from a number of estates we walked around that garages could be put to better use. Often the garages had become eyesores or served as locations for antisocial behaviour. The council has plans to deal with this and we understand some of the difficulties (for instance, the low ceilings often make conversions unviable), but allocating more resources could hasten the pace of change and get more garages converted quickly. Putting the empty garages to some use, even at below cost, makes sense even if they cannot be used for housing.

#### **Energy efficiency and fuel poverty**

The new Green Deal and the accompanying Energy Company Obligation (ECO) are intended to provide a mechanism for improving the energy efficiency of existing building stock. Under the Green Deal, for example, households can receive energy efficiency works at no upfront cost, and then repay the cost of the works using the resulting savings to the fuel bills. The works will be carried out by accredited Green Deal providers – a role the government is keen for social landlords to take on. ECO replaces previous energy company obligations, requiring them to subsidise energy-efficiency measures for homes that would not financially stack up without different or additional support.

The Green Deal (as yet untested) could provide a mechanism for Southwark to help finance estate renewal and take tenants out of fuel poverty. The GLA, which is exploring setting up a central mechanism to help roll out the Green Deal, aims to retrofit 2.4 million homes in London by 2020 at a potential cost of £10 billion. The ECO ensures that energy providers still provide substantial grants for poorer households where more extensive measures are needed to make homes more energy-efficient. These are in fact the type of properties which make up much of the council stock. Southwark could investigate a non-Green Deal model, possibly using some of the HRA borrowing headroom, supported by an energy charge on residents who benefit. From residents' point of view, this is similar in effect to the Green Deal but may be a lot less hassle for both residents and the council.

The council may also want to consider how best to bring in external heat and power generation. Southwark may find it no longer financially viable to install large-scale photovoltaic panels to generate electricity, since the feed-in tariff is now much lower. Prospects may be better for securing funding for replacing obsolete district heating plant with modern combined heat and power, with support from the Renewable Heat Incentive.

### **Developers' forum**

One of the key messages from developers in Southwark was a desire to work more closely with the council. There may be merit in establishing a developers' forum, which could operate in a similar way to Southwark housing strategic partnership. The council may also wish to study developers' forums in other London boroughs.

### **Housing and employment**

Council housing can contribute to the economic, social and environmental well-being of the borough. Creating opportunities for work or training for its residents is an area we would also encourage Southwark to develop. Requiring maintenance contractors to train local residents where possible is one way forward. City West Housing, based in Salford, for example, made it a non-negotiable condition of all its framework contractors that training and job opportunities had to be created as part of its £235 million home improvements programme. By 2013, City West Works estimates that the initiative it started in 2008 will have created 250 new jobs from its construction training centre. The council may wish to examine similar initiatives, such as the award-winning Wise group, which operates housing-related job creation schemes for local people in Scotland and the North East.

Southwark may also wish to develop local "handyman" schemes, whereby local residents are employed/contracted by the council and resident organisations for low-skill, easy repairs.

### **Resident caretakers and concierges schemes**

Concierges and caretakers won't work in isolation, but they can provide the human presence on estates. The evidence suggests they can (over time) reduce vandalism, increase personal security and provide other help to tenants. There are a number of high-profile examples where the introduction of a concierge scheme has turned around troubled estates (for instance, Trellick Tower in west London and Agar Grove in Camden). The council could review best practice elsewhere.

### **Free up more family homes**

Southwark has a shortage of three- and four-bedroom properties. One way of providing more family-sized accommodation is to encourage those tenants that are under-occupying to downsize. We appreciate this is a very sensitive issue that is difficult to resolve. There is, for example, often very little in it for the tenant who is being asked to move, combined with the fact there is also a shortage of one- and two-bedroom properties to move to. The council's Smart Move scheme offers financial incentives to tenants with spare rooms to swap homes with tenants who are entitled to a larger home. Expanding the scheme and offering more support (and not just financial) may be worth considering.

The Leathermarket Joint Management Board flagged up to us its

informal Better Fit initiative, where tenants who have a spare room are approached to see if they are prepared to move to a smaller home within the same estate or area that is more affordable to run. JMB makes the point that this allows people to maintain their links and support networks too.

Another possible solution might be to turn unpopular general-needs high-rise into good-quality housing for older people. The Commission was informed that this was working well in Enfield (Edmonton Green, where there is a residents' lounge on the top floor with outdoor terraces) and Basingstoke (Oakridge). The key is ensuring that the properties are weathertight, easy to keep warm, secure (controlled entry/concierge) and with guaranteed access to working lifts. If those conditions are satisfied then the dwellings can be ideal for the elderly.

### **Provide security of tenure**

The Localism Act 2011 allows councils to let homes to new tenants on fixed-term tenancies (two years and above) as part of their tenancy strategies. Southwark will have the freedom to introduce short, fixed-term tenancies for new tenants in council housing if it so chooses. The Commission is, however, concerned about the social effects and sceptical of the benefits.

### **Tackling voids and empty homes**

According to the Empty Homes Agency, Southwark keeps voids low but "has large numbers of vacant properties because homes are decanted because the estate is being decanted, but then the regeneration scheme is put on hold and the homes sit there vacant for years (as happened in the Heygate)".

### **Crack down on unlawful subletting**

Subletting of tenanted properties is unlawful and the government is encouraging councils to crack down on it. Southwark has taken action to deal with the problem, but the Commission was told by tenants that the issue was still prevalent. The Commission appreciates that the problem is difficult to deal with, but the council should perhaps consider what further actions it can take.

### **Reduce disruptive subletting by leaseholders**

A number of tenants told us they wanted Southwark to take greater control of leaseholders who rent out their properties to people who engage in antisocial behaviour. It is not feasible to change leases retrospectively. However, that does not stop Southwark introducing detailed covenants as to the behaviour of leaseholders (and their subtenants) in new leases. We recommend the council reviews its leasehold conditions for new Right to Buy deals with a view to helping control the problem of rogue landlords.

One option the council might also want to consider is to provide incentives to leaseholders so that if the property is let, it has to be done through a social lettings agency affiliated with the council (with management and maintenance carried out by the council and its contractors). Properties let through the agency could be included in the choice-based letting scheme and be available to discharge the homelessness duty.

**Community land trusts and self-build**

Southwark may wish to consider alternative routes to new homes for prospective council tenants, such as community land trusts (CLT). The Commission notes that the UK's first urban CLT is to be set up on a former hospital site in Bow, east London. The CLT will provide 21 homes for sale to local people at prices determined by local income levels rather than market rates. This idea could be piloted in Southwark.

The council may wish to look at self-build as a means of increasing homes for low-income residents. A new £30 million government fund has been set up to support self-build, including for self-build on council land. The Commission notes that Wokingham

Borough Council is exploring how self-build could be used to regenerate a run-down council estate in the town.

As part of its considerations of different forms of council housing, Southwark may wish to review the development of intermediate housing (homes for sale and rent provided at a cost above social rent, but below market levels) – mainly provided by housing associations in the borough. The Commission thinks it would be worthwhile for the council to consider piloting schemes which offer residents new low-cost shared ownership and rent-to-buy homes, where Southwark plays a similar landlord role to a housing association.

## 6. Conclusion

## 6. Conclusion

- Much of the housing stock in Southwark is of poor quality and is ageing fast. There are no quick fixes, and sustained levels of investment will be needed to bring and keep council housing up to acceptable standards.
- The council has a chance to break from the past and under the new HRA system can do things differently. It has the opportunity to become a beacon of excellence.
- But to do this the council will need to change the way it invests in and manages its council housing. It will need to run council housing more as a social business. That in turn will require a different and more business-orientated mindset.
- More refurbishment and more demolition and redevelopment are options for the future, but the council has to decide how many low-rent homes it wants to provide and for whom. Those decisions will shape the investment strategy for council housing over the next 30 years.
- Whichever investment option the council chooses, it must improve its housing repairs and maintenance service, strengthen tenant and leaseholder engagement, up its strategic and project management capacity and manage its housing finances (and borrowing) in a manner appropriate to a landlord with significant housing assets and rental income.
- The council cannot possibly meet all housing demand in the borough, but could take the lead in developing a new agenda for council housing in London and explore, with the GLA and other boroughs, proposals to pool land and housing assets and create common housing investment funds.
- The council's decisions on the future of council housing will have a major influence on the well-being of all Southwark's residents. It is therefore vital that its investment plans are not only affordable and sustainable, but deliverable and effective.

Southwark council is London's largest council landlord and a long-standing advocate of public housing. The council takes pride in its role as a major housing provider, and council tenants and leaseholders (despite their ambivalent relationship with the council's housing services) show little desire to change their landlord. There is very little prospect in the short to medium term of the council transferring large parts of its stock to a housing association or another social landlord. As such, the council will remain a major landlord and needs to plan accordingly.

The Commission has presented the case for council housing. Southwark council has the opportunity to provide good-quality, low-rent council housing, not just for the benefit of its tenants, but for the well-being of all in the borough's residents. As we describe in the report, council housing is an integral part of Southwark's urban fabric and way of life. The borough needs a range of low-rent social housing, including more housing association homes. Without it many more local people on low incomes will probably have to leave the borough. Furthermore, social housing can support mixed-income communities and offer important economic and social benefits to the borough.

With its current five-year housing investment programme now funded and operational, we think the council is right at this juncture to explore the options for the future financing, ownership and operation of its housing stock over the longer term. It has a chance to put in place a robust and fundable investment plan which can break the cycle of growing demand for diminishing resources.

### *Past mistakes*

The Commission's task is to look to the future and, on the evidence we have gathered and the discussions we have had, advise the

council on the choices it faces in formulating a long-term investment strategy for tomorrow's tenants and leaseholders. Our intention was to start with the "here and now" and then explore what realistic options the council might wish to adopt. However, it quickly became apparent to us that it is impossible to consider the future of Southwark's council housing without understanding its past. Indeed, it is the legacy of council house building in the past – good and bad – that still dominates the topography of Southwark today.

The decision by the council (with government backing) in the 1960s and 1970s to replace the slums of Southwark with what turned out to be poor-quality, system-built tower blocks carried an enduringly high price. The "gigantomania" of concrete and cheaply built high-rise flats provided a quick fix to the housing waiting lists of the time, but those blocks have since proved uneconomic, difficult to manage, and deeply unpopular. Southwark, of course, is not the only local authority suffering from these legacy issues. The Commission can only conclude from this history of poor long-term decision making that whatever investment option the council chooses, it must ensure that this time round it formulates its vision and strategy from the bottom up, with the consent and support of its residents, and not top-down in league with architects and developers who claim to "know best". There must be no repeat of past misjudgments and mismanagement, and no grand designs that put buildings first and people second. Any future council housing strategy will also have to be adaptable and measured against what is financially sustainable and in line with the expectations of tenants and leaseholders.

The Commission was struck by the scale of the structural problems in system-built estates and by the recurrent failure of to

address the underlying problems. Patch-and-mend continued despite the knowledge of serious design and construction faults. Decades of underinvestment, make-do repairs and intransigence have left the borough with one of the worst council housing stocks in the country. By 2009 nearly half of all council homes in the borough failed to meet the government's Decent Homes standard and the stock overall was deteriorating faster than the council could repair it. At the same time more and more properties had been sold under the Right to Buy, creating a new, significant class of leaseholders dotted around the different estates.

#### *Redevelopment and demolition*

Southwark's council housing today is set for major investment and change. The Warm, Dry, Safe programme, for example, aims to bring all council homes up to the Decent Homes standard by 2015. This is positive news, and the investments the council is making now should make a big difference to the quality of the stock and, as a result, to the well-being of tenants and leaseholders. The starting point for future council housing investment should therefore be much improved by 2015, giving the council a window of opportunity to plan for the longer term.

However, we are mindful that investments in the pipeline do not cover most of the estates and that over time more homes will become non-decent (perhaps more than 1,000 a year). The council will also need to review its repairs programme in light of new environmental standards, which may challenge the cost-effectiveness of retrofitting some high-investment-needs estates. As we mention, the eco-agenda might also bring real benefits, not least additional funding.

The Commission would expect the council to maintain up-to-date surveys of its stock and continue to prioritise those estates most in need. But it is also important to ensure that, in future, good money is not thrown after bad. One of the objectives of the investment plan must be (by a combination of redevelopment, refurbishment, improved preventative maintenance and better repair management) to eliminate the legacy of recurrent structural unfitness of the stock. In some instances demolition will be the only viable option, although there are practical limits to how many major demolition schemes Southwark can undertake at any one time (redevelopments like Aylesbury involve decanting thousands of tenants and can take 20-plus years to complete).

The Commission is also mindful of how difficult it is to finance redevelopments which allow for a significant number of new homes at lower council rents. We noted, for example, that while housing densities in the Heygate redevelopment will increase, there will be relatively fewer new homes for social rent on site. As we point out in the report, the council is concerned about the localised impacts of Affordable Rents where tenants on council rents are rehoused in redevelopments on rents they can't afford. Nevertheless, while we appreciate the complexities and financial constraints involved in getting the rental mix right for new, higher-density redevelopment, the Commission would hope that, in the future, more social-rented (and perhaps council-owned) homes could be provided as part of planned new mixed-income housing schemes.

#### *Housing management options*

While the Commission accepts the difficulties the council faces in repairing often un-repairable estates, we believe there is a case for a change in the way housing services are organised and managed. As such we have looked at three possible housing management options, which are not mutually exclusive: the large-scale landlord, with most services retained in-house; a more assertive partnership model, with the council contracting out more services and collaborating more with housing associations and the private sector; and a devolved structure, whereby the council would delegate services to TMOs and neighbourhood housing organisations.

The Commission has briefly reviewed the pros and cons of each option and referred as much as possible to best practice and what works. We are not advocating one option over another. Indeed, the council can choose to pick and mix from each, although there are limits to a hybrid model. The Commission is also mindful of staffing issues and the need to invest in skills training and better performance management and measurement. We are also aware that although we found widespread concern about repairs and maintenance, not all tenants wanted greater control over housing services. The call we heard was for more consultation and much better engagement with tenants and leaseholders, as well as much higher-quality outcomes.

#### *Customer service and engagement*

Tenants have real concerns over rising rent levels, security of tenure, the lack of suitable housing and overcrowding. Both tenants and leaseholders were also very agitated about the poor level of customer service. The Commission heard complaints about the poor standard of repairs, problems with contractors, and failures with the responsive repairs system. Leaseholders were particularly troubled by the cost of major repairs and told us that responsive repairs did not seem to represent value for money. We also saw for ourselves the neglect and substandard repair work on some estates. As we comment in the report, the performance and costs of responsive repairs (around half of which are emergency repairs) is unsatisfactory. Although recent customer surveys suggest the service is getting better, there is clearly much room for improvement.

We have made a number of suggestions as to how the council could improve its housing service in co-operation with tenants and leaseholders, drawing in part from successful initiatives in the borough by TMOs. We think that more effort should be made to change the rather paternalistic and somewhat remote "provider-user" culture that pervades council housing in Southwark. This could be partly achieved by actively seeking to engage residents more with housing management and setting local housing standards. The Commission felt strongly that an improved housing repairs and maintenance service should be at the heart of any future investment strategy. We believe that this is achievable only with greater tenant and leaseholder participation.

#### *Where will people live?*

Southwark is a growing borough and is forecast to be home to 50,000 more residents by 2030. Much of that increase is indigenous, comprising both many more younger and many

more older people. A majority of future residents will be on relatively low incomes, and many will be benefit-dependent. Such population growth will inevitably increase demand for social housing, especially in the less wealthy areas, where household incomes of those in council housing are currently below £10,000.

The extent of that pressure will of course depend on future levels of prosperity and employment in the borough. A worst-case scenario would be higher rates of worklessness and increased deprivation, which would exacerbate housing inequalities and potentially undermine the council's HRA business plan (especially if rental revenues are depressed through renewed cuts in housing benefit and worsening rent arrears). A best-case outcome would be more residents in work and on relatively higher real incomes, which would improve the income mix among council (and housing association) tenants and would also lower rental revenue risk.

To some extent the burgeoning private rented sector will probably meet the demand from those earning above the borough average, although rent levels will continue to reflect Southwark's housing wealth divide. However, for many of Southwark's existing and future residents, council (or at least social) housing is the only affordable option. Home ownership is likely to stay well beyond the means of those on low incomes, and private rents are predicted to remain significantly above social rents. Until all social rents in the borough converge (and this may take longer than the 2021 deadline to which the council has agreed), council homes will remain the cheapest housing option. For those on very low incomes, such as pensioners, there will be no incentive to move and no possibility of exercising the Right to Buy.

Welfare reforms are expected to make the situation worse (especially for the most vulnerable residents), though the long-term effects of benefit caps and the other reforms we discuss in the report are uncertain. If the welfare reforms remain unchanged then some low-income residents could be effectively priced out of the borough. However, there would have to be an exodus of thousands of families (rather than hundreds) for it to have a significant bearing on future investment plans.

The welfare reforms may lead to the council providing more one-bed properties and supporting higher-density developments with smaller flats. This will increase the challenge to get the balance of investment spending profiles right, given the growth of young families in the borough and the requirement to modify existing homes to meet the needs of an ageing (and more disabled) population.

#### *Right to Buy*

Another complication and possible high-risk factor is the Right to Buy, which is relatively costly in regard to redevelopments and has an overall negative financial effect on the HRA (even though the council can keep Right to Buy receipts). A government move in April 2012 to further ramp up the Right to Buy discounts could lead to a repeat of the past, when council homes were being lost at a much faster pace than the council could replace them with council or housing association properties. It is hard to judge whether there will be a sustained increase in the Right to Buy

over 10 to 30 years. Given income levels among council tenants, we would not expect sales to be as high as they were in the 1990s. Much will depend on the state of the housing and financial markets and the political climate. However, in order to understand better the costs and consequences of the Right to Buy (including the problems faced by leaseholders, some of whom struggle to meet the cost of repairs), the council might undertake research on future scenarios, the results of which could inform the long-term investment strategy.

#### *How many council homes?*

The council has limited resources and cannot provide a council home to rent for everyone who wants one. To try to do so "on the cheap" would surely be to repeat the mistakes of the past. Under HRA there are also limits on what is financially possible, and we appreciate that the council is not completely free of central government control to do as it pleases. Nevertheless, Southwark can determine the future for council housing in a way that it never could before. But in order to develop a long-term investment strategy, the council will need to take some critical strategic decisions about how many council homes it wants to provide over the next 30 years; who should live in council housing; and how the homes will be managed and paid for.

There will always be some trade-off between scale and quality and, all other things being equal, the council would be in a much better position to invest in improving its existing stock if it had fewer structurally deficient homes to care for. Equally, there are significant social and economic costs to take into account if the reduction in the number of council homes exacerbates what is already an acute housing shortage, especially for those on low incomes.

The Commission is also mindful of the fact that the council has a responsibility towards its existing tenants and leaseholders, many of whom (particularly the elderly) cannot afford to move out of their homes. A lot of council tenants have lived in council housing all their lives. Many have struggled with recurring problems, such as damp, poor-quality kitchens and bathrooms, and antisocial behaviour. These tenants deserve a better deal and should be a priority group for improved and new homes under any future investment strategy.

The Commission considered three 30-year investment scenarios for council housing, all of which would need to complement the council's wider housing and regeneration strategy and council plan. There is, of course, no risk-free future, and in developing these options for change we have taken account, as best we could, of ways in which the different drivers we discussed earlier in the report could shape outcomes. The options for council housing for tenants by 2045 (30,000 homes; 39,000; or 20,000) are indicative of a range of possibilities and offer some boundaries for what is possible.

The Commission holds the view that all three options are possible and potentially financially sustainable, and that each has its advantages and disadvantages. If the council wanted to, it could manage a steady reduction in its stock to around 30,000 homes, possibly releasing first the homes that are the most costly to



maintain. This would generate extra funds to improve the retained stock but do nothing to address pent-up demand. Under this scenario, over time the council should gain a relatively large financial surplus, which it could reinvest in a range of different ways.

A reduction to 20,000 would aim further to reduce management and maintenance costs and (again depending on what stock is retained) generate a very large financial surplus. Fewer council homes would mean more pressure on other social and private housing providers, as well as probably a much higher proportion of leaseholders. But this surplus could be used to partner investment or further renovate the existing stock.

Maintaining the stock at around the current level of 39,000 over 30 years would necessitate a substantial and sustained refurbishment and new-build programme. As we have documented in the report, more and more ageing stock will need replacing and some will be lost to Right to Buy and void sales. The evidence suggests that this more ambitious scenario is financially viable and could make a contribution to easing the borough's housing problems. It requires the council to maintain a similar level of borrowing to today's to cover the funding gap. One challenge would be to borrow cheaply to fund new-build (and perhaps co-build in partnerships with other housing providers). The other is the scale of the regeneration programme envisaged if standards are to be improved across the stock. A third is that a more ambitious investment programme needs even higher standards of strategic and project management.

To summarise: the council could steadily manage its stock volume downwards and seek to support (and possibly cross-subsidise) the provision of affordable homes by other providers – as it has been. Alternatively, the council could choose to play a more proactive role in the local housing market, and in an effort to promote more mixed-income communities possibly offer council homes to applicants who are in work locally. Equally, it could adopt a more enabling, but lower-profile, role in the housing market and concentrate its resources on improving its best stock.

#### *Who should live in council housing?*

Our analysis suggests that for the foreseeable future, Southwark will remain a place of rich and poor, and that a large number of low-income residents will depend on low-rent public housing. The Commission recognises this but believes the council should continue to do what it can to promote mixed-income, mixed-tenure communities. As we state in the report, the council (with its residents) needs to be clear in its vision and policies about not only who should live in council housing, but what kind of place Southwark should become.

The council's regeneration and place-making programmes are already helping to change the landscape, but more will need to be done to ensure that estates do not become residualised and blighted. Analysis suggests that clear policies will be needed to ensure that there is no concentration of particular groups, such as lone parents and ethnic-minority households.

We think that the council's allocation policies should continue to

give priority to those most in need. However, in our discussions with council tenants, there was support for giving greater priority to local people and to those working in the community. There was also some interest in the idea of prioritising those in work, who might be able to pay a premium on top of their council rent.

The financial pressures are likely to continue to be for smaller properties, which are cheaper to provide. However, much of the urgent need is for larger family housing, which is expensive to provide and (given the changes to welfare) often unaffordable to low-income households. Any long-term investment strategy predicated on new supply of council homes will have to reflect the realities of the council's waiting list and the fact that there are high levels of under-occupation.

Tenants and leaseholders told us that the council needed to do much more to clamp down on unlawful subletting, which they suggested was much more widespread than the council believes. There were also calls for controls over (lawful) short-term lets by leaseholders, which some tenants said led to antisocial behaviour and countered efforts to instil a community spirit. We would suggest that the council consult its tenants (and their representative organisations) and leaseholders on these issues.

#### *Funding the future*

The new self-financing HRA system represents a different approach and greater opportunity to the way council housing is funded and managed, providing Southwark with new opportunities to invest over the longer term. The Commission appreciates that the HRA reforms are new and will take time to settle in. However, we think the council needs to approach the HRA in a more businesslike fashion and use it to provide the best value for tenants and to improve efficient delivery.

Our impression is that the council is perhaps rather too risk-averse in its financial management, especially in regard to prudential borrowing (which we appreciate is capped and subject to Treasury rules). We noted in our research that although Southwark has a large inherited debt, its debt profile improves dramatically from 2020. We also point out that council housing gearing appears relatively low compared with other social housing providers. But a less risk-averse approach does involve higher financial skills.

There is potential under a long-term investment strategy (dovetailed to the HRA 30-year financial/asset management plan) for the council to increase its borrowing significantly, and possibly to refinance more of its expensive existing housing debts. A self-financing HRA turns the financial management of council housing into something more akin to a not-for-profit social enterprise, which has the freedoms to borrow more and invest more as long as there is a secure expectation of a revenue or asset benefit further down the line. We have adopted that logic in the report and made some suggestions as to how the council could utilise new funding tools, such as a revolving spend-to-save fund to reduce maintenance costs, leaseback arrangements, borrowing against the new community infrastructure levy, and bond financing. However, we continue to stress that all such investment must be predicated on a step change in management quality and decision making. There is no point in using more

complex approaches unless the predicted benefits can be achieved.

The council should consider reviewing the case for future borrowing and examine in more detail the pros and cons of using a range of such financial instruments – as well as the implications for management. More funds for council housing could also be released under planning gain from new developments, particularly in the north of the borough.

#### *Government support for council housing*

We would hope that the findings in this report will be of some relevance to other local authorities with council housing, notably those in London who face similar challenges. The London boroughs already collaborate on supporting social housing under the umbrella of London Councils, the LGA and other representative bodies. However, as the largest council landlord, Southwark could take the lead in developing a new forward-looking agenda for council housing in London and, with the GLA and other partners, explore ways of pooling land and housing assets and establishing common investment funds.

We hope that the council will seek cross-party support for the options and suggestions in this report. A broad political consensus on the aims and objectives of an investment strategy for council housing for the long term must make sense. As we have described in the report, the economic case over the long term for council (and social) housing remains as it always did – investing in the bricks and mortar is more cost-effective over the longer term than subsidising rents through housing benefit. Therefore, as a social landlord, by investing for the long term the council is helping to save the Exchequer money. The more housing need the council can meet, the greater savings (in housing benefit paid to the private rented sector) the government will enjoy.

Central government could also do more to support council housing in Southwark. The House of Commons Communities and Local Government Select Committee and organisations such as

the Chartered Institute of Housing have argued the case for amending the public accounting rules to permit councils to borrow to invest for housing on the same terms as housing associations. The government could also offer extra incentives and funding (perhaps under an enhanced New Homes Bonus) to councils in high-demand areas that invest in new-build and major redevelopment. The government could also provide more resources directly to the council to support TMOs and other tenant groups, especially for skills training and independent advice.

#### *Tomorrow's council housing*

The Commission has explored the main issues that might shape a future investment strategy and offered some options for change. The evidence suggests that under the new HRA regime, the council has the opportunity to embark on a new era of excellence in council housing. Whether it has the capability to use these funding streams effectively depends on radical change in the council's approach to investment. Equally, the council must strengthen its relationship with tenants and leaseholders and improve its housing management, and in particular switch the focus from responsive repairs to planned maintenance. The current five-year housing investment programme and the reforms that have been made to the council's housing services are a step in the right direction, but there is still much to do.

We have also made a number of other recommendations which we think will help improve council housing, including tenant and leaseholder compacts, expanding loyalty schemes, better use of existing spaces and empty homes, freeing up more family homes, clamping down on unlawful subletting, introducing caretaker systems, and support for self-build. These suggestions are intended for consideration and could form part of a future housing strategy.

With the resources at its disposal and with the backing of its tenants, Southwark could become one of the best housing providers in the country. We hope that this report helps the council on its way to achieving that goal.

## 6. Appendices

## Appendices

### Meetings of the Commission

- 26 January 2012
- 29 February 2012
- 22 March 2012
- 24 April 2012
- 31 May 2012
- 12 June 2012
- 19 July 2012
- 11 September 2012

For these meetings several papers were prepared, including:

- Introduction and background to council housing in Southwark
- Dataset background paper
- Policy review discussion paper
- Written and oral evidence: summary
- Future options
- Options appraisal: scoping and method – issues and options
- Housing options – current and future drivers for change

### Written evidence

#### *Individuals*

Jeff Barnett (chair, Brandon 1 TRA)  
 Rosamund Beattie  
 Nichola Bramley  
 Peter Brown (director of housing needs and strategy at Croydon council)  
 Ann Marie Connolly (director of public health at the London Borough of Southwark)  
 Celia Cronin (member of tenant management company and housing association tenant)  
 Pat Edmonds (chair, Camberwell West Neighbourhood Forum)  
 Dr Nicholas Falk (founder director of Urban & Economic Development)  
 Jerry Flynn (tenant and member of Elephant Amenity Network)  
 Rt Hon Frank Field MP DL  
 Susan Grant  
 Rt Hon Harriet Harman QC MP (MP for Camberwell & Peckham)  
 Derek Joseph (financial information company representative)  
 Richard Lee (tenant and member of the Elephant Amenity Network)  
 Richard Llewellyn-David (general secretary, Wells Way Triangle Residents Association)  
 Dolly Mace  
 David Montague (chief executive of L&Q)  
 John Nosworthy (past chair of the Home Owners Council)  
 Neal Purvis (independent tenants and leaseholders adviser to the Elmington Resident Steering Group)  
 Colin Thomas (head of performance and research at Metropolitan Housing)  
 Sarah Timewell (Pullens TRA member)  
 Susanna White (strategic director for health and community services at Southwark council)  
 Tenant (to be treated in confidence)

#### *Organisations*

Leathermarket Joint Management Board  
 Joint Committee of TMOs in Southwark  
 Nunhead & Peckham Rye Area Housing Forum (made up of TRAs within the area)  
 Peabody  
 Southwark Group of Tenant Organisations  
 Southwark Legal Advice Network  
 Southwark UNISON Local Government Branch

### Interviews

#### *Individuals*

Simon Hughes MP  
 Gordon McCullough (chief executive of Community Action Southwark)  
 Steve Platts (director of regeneration at London Borough of Southwark)  
 Gerri Scott (director of housing services at London Borough of Southwark)  
 Duncan Whitfield (finance director at London Borough of Southwark)

#### *Organisations*

Affinity Sutton  
 Berkeley Group  
 Bouygues UK  
 Chartered Institute for Housing  
 Chelsfield  
 Department for Communities & Local Government  
 Essential Land  
 Family Mosaic  
 First Base  
 HTA  
 i.s.4  
 London & Quadrant (L&Q)  
 Penoyre & Prasad  
 Pinnacle PSG  
 PRP  
 PwC  
 Savills  
 Willmott Dixon

### Meetings with the Commission

Two open sessions with tenants and leaseholders: Peckham Settlement, Thursday 22 March 2012; and Amigo Hall, Thursday 31 May 2012

Attended meetings with:

Leaseholders Association Southwark 2000  
 Southwark Group of Tenant Organisations  
 Osprey TRA

Oral evidence sessions with:

Stephen Battersby (chartered environmental health practitioner, environmental health and housing consultant)

Rob Deck (project director at Lend Lease UK), Mark Dickinson (managing director of development at Lend Lease UK) and Ian Doolittle (partner at Trowers & Hamlins)

David Hall (director at Sector)

Councillor Lewis Robinson (leader of the Conservative Group in Southwark)

Councillor Ian Wingfield (deputy leader of the council and Cabinet member for housing management)

### **Focus groups**

The Commission held two focus group meetings in the borough with young tenants, aged 18-30.

## Footnotes

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a report by the independent commission  
on the future of council housing in Southwark  
presented to Southwark London Borough Council

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**HOUSING, ENVIRONMENT, TRANSPORT & COMMUNITY SAFETY  
SCRUTINY SUB-COMMITTEE** **MUNICIPAL YEAR 2012-13**

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