ONCE AND FOR ALL
FUNDING THE IMPROVEMENT GAP IN EXISTING COUNCIL HOUSING
Acknowledgements

Through the course of this research the LGiU was supported by many people with a commitment to improving life for local people and engaging in debate about housing policy. In particular, councillors, officers and tenants of Southwark Council provided invaluable time and insight to make this document possible. We extend our thanks for their help and advice.

The LGiU is the largest, most influential think-tank and representative body operating in the space between Town Hall, Whitehall, Westminster and communities. Now in its 27th year, the LGiU continues to make a significant impact on public policy. In 2008 the LGiU was awarded the Public Affairs News award for think-tank of the year.

Our mission is to strengthen local democracy. Four policy centres—Service Transformation, Local Sustainability, Local Democracy and Children’s Services—ensure that the LGiU’s focus is on how councils and partners can deliver positive results and genuine impact for empowered communities.
ONCE AND FOR ALL

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As you would expect I’m proud of many things in and about Southwark. I’m proud of our own rich heritage — Chaucer, Blake, Dickens and Michael Caine. I’m proud of our future: our schools are among the most improved in the country. I’m proud of our people — among the most diverse yet cohesive communities in the country.

And I’m proud that we’re one of the biggest council landlords in the country.

I’m aware that the last statement is unfashionable. Many councils have divested themselves of their housing stock — either because that was a condition of getting government investment or because of a belief that the registered social landlords are more effective. But tenants in Southwark have repeatedly told us that they are opposed to large scale transfers or an ALMO. And we believe that it ought to be possible for a council to provide a high standard of landlord service.

In practice however, our ambitions are hampered by our ability to finance the investment we need to make in the fabric of our housing stock. Despite a high level of spend, the nature and age of our housing means we are hundreds of millions of pounds short of being able to say that our homes are of a standard that we are proud of providing.

Too often, political attention in this country has been fixated on the provision of new social housing. It’s time to talk about the condition of the existing social housing, its needs and demands and most of all about the people who live in it. Improving existing social housing will improve public health, reduce crime, carbon emissions and fuel poverty, increase human dignity and create jobs. It’s a perfect invest to save argument. Neglecting the demands of social housing will only serve to polarise the gulf between public sector housing and private affluence in our cities and store up a drastic need for the sort of post war slum clearance programme which we are still struggling to pay off today.

So we asked the LGiU to help us formulate proposals about how we might address this shortfall without simply asking national government for more money. This report shows how, by making changes to the planning system and constructive discussions about debt financing, Southwark — and many other councils — could be empowered to raise the money we need to bring our housing up to scratch.

I commend them for the work they’ve done — it’s imaginative, localist and do-able. I hope this report will play a part in making housing finance a subject of political creativity rather than accountancy sterility and that it will unlock the funds we need to make sure that in the 21st century, tenants have 21st century homes to live in.

Nick Stanton
Leader, Southwark Council
Recommendations

1. We should adopt a new aim for our existing social housing estates.

**SUSTAINABLE SOCIAL HOUSING**

The aim of sustainable social housing is to achieve, at the end of a fixed term of years, through a programme of major renewal, housing which:

- Meets a basic standard of liveability which is locally appropriate, includes both internal conditions and the wider living environment, is recognised by tenants as meeting basic needs and complies with Health and Safety and Landlord and Tenant legislation.
- Is fully funded for the foreseeable future for management and maintenance costs at a level that militates against declining standards and is adequate to meet constantly rising regulatory standards.
- Is subject to a policy or regulatory framework that is flexible enough to maintain financial viability in the face of unpredictable change.
- Is part of a financial system with enough spare capacity to provide for periodic investment in major infrastructure, including new housing stock, to meet changing community needs.
- Is designed to be resilient to risks posed by longer term change, including rising fuel costs, flooding, demographic change and economic cycles.
- Is part of a financial system that delivers value for money — including a comprehensive plan to reduce housing debt.

2. We should renew our social housing estate with a ‘once and for all’ programme of refurbishment and redevelopment that will make Sustainable Social Housing possible.

3. We should free up funding to deliver this programme through either one of the following or a combination of these:
   a. central government acceptance of shifted allocation of local resources
   b. debt restructuring
   c. a cycle of investment that invests in one part of the country at a time.

4. We should enable the delivery of this programme through:
   a. a cross-government land lend approach
   b. creating a system of shared capacity and skills to pass expertise from one area to the next
   c. enabling local authorities to make an independent judgement about the use of planning gain, including using commuted sums from private development for the renewal of housing in the immediate area
   d. reforming the Compulsory Purchase Order (CPO) scheme.

5. We should make housing more sustainable for the future by:
   a. Encouraging tenant contributions, either through co-payment schemes of rent flexibility where that can be demonstrated not to impact on housing benefit levels.
   b. Investing in community energy schemes on estates which can draw in capital investment as well as provide an income stream for the future.
The problem

Housing finance is a fiendishly complex area of public policy. For reasons historical and in contravention of all that a housing tenant expects, funds collected as rent by council landlords are not retained in a local budget. Instead they form part of a national fund — the Housing Revenue Account (HRA). From that point, and by means of a notoriously complex formula, central government returns a grant to each local authority to meet their obligations. For most councils nationwide, this means in effect paying a subsidy to another council. For a much smaller number of councils, huge liabilities are offset by subsidies from the fund.

The HRA is being reformed. This is a move widely welcomed by local authorities, as it will finally grant them the freedom to manage their finances independently and to better plan for the future.

But a simpler approach to housing finance will not alone address the fundamental challenges facing the existing council housing estate in this country.

A legacy of debt

Firstly, there is the question of housing debt. At a time when the UK has suddenly catapulted into a heavily indebted situation, it is instructive to understand the long term consequences of taking on debt without the means to repay. Following the Second World War, the heavy toll of bombing combined with an ongoing need to clear slums led to widespread borrowing to fund reconstruction in the form of tens of thousands of council owned homes.

Almost 65 years after the end of the war, that debt is still being repaid. Unsurprisingly, the most controversial elements of HRA reform are proposals to deal with housing debt. Those who have the most would not be able to meet their liabilities without subsidy from the rest, those with the least (or none) are therefore facing the prospect of taking on new debt from elsewhere.

The inadequacy of decent homes

Secondly, while progress has been made towards homes that meet very basic decency standards, there remains a great unmet need for improvement. The Decent Homes Standard has significant limitations when considered in the wider context of the realities of housing management. As we explore further in this report, it does not always reflect tenant expectations, and does not include infrastructure which can be critical to quality of life, such as lifts. While the infrastructure of government control has focused entirely on the Decent Homes Standard as a solution to sub-standard housing, the reality is the Decent Homes standard is not adequate to deliver for the long term. The reality of decay will mean that huge investment in housing will not provide a break from the cycle of decline and therefore deliver savings, it will only deliver a standard which will quickly slip back to an unacceptable level.

A legacy of underfunding

One of the basic tenets of housing management, whether private or public, is that housing quality depends on adequate investment in management and maintenance. With the publication of the HRA review, the Chartered Institute of Public Finance and Accountancy welcomed “the government’s recognition in the consultation document that management and maintenance and the MRA are
currently under-funded; significant under-funding was identified in the work of CLG and other organisations, including CIPFA, leading up to the Review."

In the consultation document, the government proposed an uplift of five per cent in the management and maintenance allowance and an uplift of 24 per cent over 30 years in the major repairs allowance. This comes at the end of the one of the greatest booms in public spending that the UK has ever known — except for council housing. While five per cent may not sound substantial, for a council like Southwark it represents £8 million a year that funding has been short of need. The original research conducted by CLG suggests that in the case of London, the shortfall may in fact be much higher.

Policy without future

The third, and most fundamental concern, is that we as a nation do not have a plan for the future. While a very unpopular policy in some quarters, the government’s policy to only provide additional funding for Decent Homes to areas where housing was transferred to a housing association or arm’s length management organisation was understandable. In some quarters this was widely perceived as ideological — against councils as housing landlords. More likely it was pragmatic. Housing finance is a huge financial burden which needs maximum flexibility to manage in a value focused way. But housing policy in the UK generates an extraordinary level of political heat. Politicians invariably find themselves making sub-optimal financial decisions because the political fallout of a sound decision can be unbearable.

Filling a policy vacuum

Looking back at the announcement of the new Decent Homes policy, it seems clear that Communities and Local Government (CLG) believed that the financial incentive was so great to externalise, and consequences of not externalising so dire, that no council would not respond. In fact, today there are around 100 councils managing 800,000 properties nationwide.

The only option that was offered to this group was private finance. The seriousness with which CLG took private finance for housing is indicated by the fact that there is currently only one person employed in the department to provide support and oversight — a role created eight years after the policy was introduced. Compare this with the 135 people employed as central programme support for the privately financed Building Schools for the Future Programme.

The National Audit Office has undertaken intensive review of private finance for many years and the overwhelming conclusion is that private finance relies on standardisation to deliver value for money. Refurbishment, particularly where information about stock condition is poor (which is frequently the case for council housing) contains high risk factors and therefore is a poor candidate for private finance. The NAO will publish an in-depth report into private finance for council housing early in 2010. The report is widely expected to be critical.

That many councils have overcome this policy vacuum is testament to their ingenuity and determination to improve the condition their tenants live in. Leeds City Council has been exceptionally successful with private finance, not least because of significant expertise built up through a wide range of projects. Leeds’ use of private finance had reached £804 million by 2006, including a £106 million programme to replace and maintain streetlights, a £113 million social housing programme in

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1 CLG, Reform of Council Housing Finance: consultation, July 2009.
3 Association of Retained Council Housing http://www.arch-housing.org.uk/whoweare.htm
4 National Audit Office, The Building Schools for the Future Programme, February 2009
Swarcliffe, and a £249 million Building Schools for the Future programme. The latest project is a £32 million Wellbeing Centre, combining leisure, health and social care. Local capacity to manage the complexity of private finance is crucial — particularly in the absence of any central support. Most local authorities are not in this position.

Other councils have pursued improvement in other ways. Birmingham made a political commitment to reach decent homes without stock transfer, and funded £600 million in improvements in part through selling land made vacant through the demolition of council housing. The rest was funded through borrowing — the proportion that this represented increasing as a result of the recession and falling values.

But housing policy should not be a catalogue of triumph against adversity — as well as inevitable failures as unlikely gambles go awry. Neither should policy be made in the hope that politics will prove fortuitous — the gamble that CLG took in hoping tenants would see the advantages of stock transfer and vote accordingly.

Housing policy for existing homes should be based on the combined expertise of the best minds this country has to offer, focused on delivering a robust and convincing plan to ensure all housing is not only decent, but delivered on a financially sustainable basis. Affordable not only today, but insulated against the shocks of the future. And critically, this should not be policy of secondary importance compared to the provision of new supply, but balanced as part of a wider view. As John Hills notes:

> A failure to maintain property adequately, to prevent decline in neighbourhood conditions, or to keep an income mix that would avoid stigmatisation of an area that led to just one per cent of the stock effectively being lost would offset more than a year’s new production. The history of the last 30 years is that such mistakes have been made all too often.

**A different way**

This report advocates a new way out of this trap: a locally focused deal that would provide a turnaround that is fundamentally about sustainability. This is a deal that is unashamedly local. Housing is so variable, so different place to place, that that is the only rational way to plan for the future. But as a local deal, it is a deal that sees each local area of need as networked with other areas in similar need. That resources and expertise could be shared over time. This report offers a way to turn investment into sustainable, high quality housing, rather than the endless outpouring of funds that never deliver to a level that is adequate. Central government policymakers have not provided a lasting solution. Now they should listen to local government.

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5 http://leedslibdems.org.uk/news/000342/804_million_leeds_investment_continues_apace_despite_national_skills_shortages.html
6 http://www.leeds.gov.uk/page.aspx?pageidentifier=d7adec6c-4d99-4463-851f-0da1ed1dd809
7 Communities and Local Government Select Committee, Beyond Decent Homes Inquiry, Oral Evidence 10 November 2009
About Southwark

Southwark does not represent a typical council landlord in a typical area. It is facing exceptional challenges in an unusually deprived area. It is not unique, and there are local authorities elsewhere in London and in other urban areas in England facing challenges of similar complexity and scale.

Homes in Southwark

Southwark is the third largest council landlord in the country and the largest landlord in London. It has 40,485 properties let to social tenants as of October 2009. It also has landlord responsibilities for leaseholders, bringing its total property management portfolio to around 55,000 properties.

Southwark had higher levels of social housing in the past. In the 1970s nearly 70 per cent of all housing in the area was social housing. This fell to 53 per cent by 2001 and to 45 per cent today. The council is responsible for 33 per cent of all households in the borough — the rest of the social housing properties are delivered by other social landlords.

As a result, owner occupation in the area is far lower than the national average of 70 per cent, and lower even than the London average of 40 per cent. Nonetheless, private ownership has grown over the years, reflecting both right to buy purchases and the construction of many private housing schemes since the 1980s.

Southwark’s housing stock is in the main very recognisable. If it could be called fame, then Southwark is famous for having some of the most iconic estates in the country: easily recognisable for their distinctive combination of high rise and low rise flats on vast estates, many of them deteriorating. For some time Channel 4 television has featured the famous Aylesbury estate in a haunting “ident” of gritty urbanity. Southwark has social housing from almost every era, but the vast majority are high rise [more than six storeys] and medium rise [three to five storeys] flats. There are more than 21,000 medium rise properties. Around 10,000 properties are high rise.

People in Southwark

Southwark is not a wealthy area. Out of almost 400 districts, Southwark was in the top 30 most deprived areas in the country. Nearly half of Southwark households have gross annual incomes of less than £15,000. This is far below the national average income, even though the cost of living in London is high. Southwark’s tenants often live on very little: the median income for a council tenant is only £9,100. More than half of all households in social housing in Southwark do not have anyone in paid work.

As a result, social housing is in demand. In the same situation being replicated around the country, there is not enough space to go around. On 1 April 2009 there were over 15,000 households registered with the council as wanting social housing, while only 3,691 social rented homes became available for letting. At the same time, those already housed lack space as well: nearly 12 per cent of households in Southwark are overcrowded, with overcrowding highest among council tenants.

9 Core Strategy Appendix A
Understanding housing finance

Housing finance is complex. Not only because landlord responsibilities are many and subject to a wide range of variables year on year, but because the centralised control of housing finance introduces a dizzying array of complications which are based on notional sums, rather than real figures from real accounts.

The demise of national controls on housing will be welcomed by councils everywhere. The system will be more transparent, and more accountable to local people. Perverse incentives to fit finance with national expectations to balance the account, rather than investing for the best outcome locally, will be removed.

What will not be removed is the gap between what is needed to deliver long-term, sustainable change, and what is available. As we will see later, this is not necessarily due to lack of public expenditure. The funds being spent are vast, and there are resources available if they could be effectively used.

The following is based on the 2008/09 accounts for Southwark.

Rent

Southwark receives in rent every year: £164 million

The capacity to vary rents is strictly limited by central rent policy. According to research for CLG on social housing rent:

The current regime can be characterised as being highly centralised. In formal terms the policy suggests target, or ‘formula’ rents for each individual property, subject to landlord discretion to vary those rents by a maximum of five per cent.

While local authorities could vary rents more, the HRA subsidy system would penalise them, making it a futile exercise. In fact, central government decides rent levels for local authorities very actively. In 2009, it was central government that decided to alter rent levels in response to the recession, five months after rents had been set for the year.

On 27 January 2009, the Executive agreed an average rent increase of 5.86 per cent for 2009/10 (below the national average increase of 6.2 per cent), in accordance with the maximum rent guidance set by government. Subsequently, on 6 March 2009, the Minister for Housing announced a cut in the national guideline rent increase from 6.2 per cent to 3.1 per cent in response to the economic climate. CLG issued interim guidance to local housing authorities on 11 March, with a view to publishing definitive guidance in May. The late revision was after the council (and the majority of other authorities) had informed tenants of their original rent increases.11

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11 Southwark, Policy and Resources Strategy 2010/11 to 2012/13 — Scene Setting, October 2009
Charges

It also receives money from tenants in the form of charges for services and facilities (such as garage rental charges, leaseholder service charges, etc):
£60 million

Southwark does have flexibility to vary some charges other than rent, and has a policy to increase these year on year wherever reasonable and where charges are lower than comparable parts of London. In 2008/09 the council approved an increase to non-residential charges, such as for garages, by 25 per cent. While this sounds a substantial increase, this brought charges to only £2.25 a week on average.

Service charges for leaseholders are also subject to central control and capped nationally.

Subsidy

In addition, the government considers that Southwark requires subsidy from the HRA nationally, and allocates a positive subsidy of: £32 million

Southwark is one of a minority of councils that receive, rather than contribute, subsidy from the central HRA system. But being in receipt of subsidy does not provide any advantages for financial management, as the subsidy only exists to mitigate for the burden of servicing historic housing debt.

The impact of central decision making is that subsidy levels can alter without any consequent change in need at the local level. In 2004/05 the government decided to reduce subsidy for the maintenance and management of high-rise flats to distribute to other types of property.

Given the profile of Southwark’s stock this translates into a very significant reduction in funding:

<table>
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<tr>
<th>2009/10 Movement (gain)/loss</th>
<th>Subsidy determination £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management, maintainance and major repair allowances</td>
<td>(1.6)</td>
</tr>
<tr>
<td>Rent clawback</td>
<td>8.1</td>
</tr>
<tr>
<td>Debt charges (net)</td>
<td>3.1</td>
</tr>
<tr>
<td>Total loss in subsidy</td>
<td>9.6</td>
</tr>
</tbody>
</table>

The perversity of this is clear when comparing to the government’s own research about maintenance and management costs. Research for CLG in 2009 found that management and maintenance costs are at least five per cent higher than the allowances being given by government through the subsidy system, with management being the primary area of underfunding.

The gap for London councils is even wider. The research estimated that 40 per cent of local authority management costs are being spent on additional activity beyond landlord duties, such as anti social behaviour and tenancy support.
Costs

Southwark has the following costs:

<table>
<thead>
<tr>
<th>Cost</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Repairs and maintenance</td>
<td>£62 million</td>
</tr>
<tr>
<td>Housing staff and management</td>
<td>£104 million</td>
</tr>
<tr>
<td>Housing debt repayments</td>
<td>£43 million</td>
</tr>
</tbody>
</table>

For accounting purposes the council also must record depreciation of assets of: £213 million

In addition, the council has a capital investment programme for housing of: £100 million

While maintenance and management costs look high, CLG’s research compared costs to Registered Social Landlords and found that:

Local authorities spend about five per cent less than RSLs on management but about 10 per cent more on maintenance. However the difference in maintenance costs is largely due to the different ages of the stock which is much older in local authorities. And when controlling for rental income which is higher in RSLs there is no variation between total maintenance and management spend between the two sectors.

Southwark has little flexibility to manage the cost of debt. Unlike a private individual who could consolidate debts to achieve a better rate, though Southwark is paying on average over 9 per cent interest, the lengthy lifetime of each debt agreement means there are few opportunities to reduce that rate. Loans from the Public Works Loan Board are for fixed terms and are only renegotiated at the end of the term. Moreover, agreeing a different loan, possibly from private finance, would reduce the funds currently used to calculate the subsidy and the outcome would be financial penalties, not benefits.
Debt

Managing housing finance and managing debt, for most local authorities, go hand in hand. Following the large scale destruction of housing in the Second World War and the need for slum clearances led to pressure on councils to build throughout the post-war period to the end of the 1960s. Unsurprisingly, there are echoes of the problems faced by local authorities today in the policies of that era:

The increased development of high rise blocks of flats during the 1950s and 60s can be directly attributed to a response to the government's subsidy system. From 1956, subsidy was confined to new houses built to replace those lost to slum clearance and there was more money available for blocks of more than six storeys high. Helped by this subsidy, neighbourhoods all over the country were being demolished and rebuilt according to modern town planning concepts of mixed estates with low and high-rise building. Council house building redoubled in London and by the 1960s over 500,000 new flats had been added to London's stock. Many of the new dwellings were in the form of multi-storey tower blocks which seems the ideal solution to the housing problem at the time.12

While there was subsidy, other costs were met through local authority borrowing. While the Public Works Loan Board, which is responsible for the management of the outstanding loans to local authorities, does not itself keep records of which debts are housing debts, the indicative figure used by CLG for 2009 is more than £18 billion13. Councils raise £6 billion a year from housing — £1.1billion of that goes on servicing debt14.

Not all local authorities are debt laden — there are 205 councils who are part of the HRA and about a quarter are debt-free15.

Given the long history of this debt, the relationship between the borrowing, borrower and value derived has long been broken. Councils in London came into existence on 1 April 1965 — with many debts taken on before their creation. The Local Government Association argues that, with local authorities repaying £1.3 billion pounds annually, the amount of capital borrowed is repaid every eight years16.

Stock transfer debt

This debt is a point of grievance for local authorities, tenants and various campaign groups for a number of reasons, some arguable, some less convincing. For opponents of stock transfer out of local authority ownership, the cancellation of local authority debt as a consequence of transfer is and has been regarded as political manipulation. In 2001, Glasgow negotiated the cancellation of £300 million in housing debt on transfer of its housing stock to the Glasgow Housing Association. The reaction was the creation at the time of a local group called Campaign Against the Stock Transfer who saw the transfer as privatisation and cover for higher rents in future17.

12 http://environment.uwe.ac.uk/video/cd_new_demo/Conweb/house_ages/council_housing/print.htm
13 HRA Subsidy Determination 2009-10.
14 CLG, Reform of Council Housing Finance: consultation, July 2009
15 CLG, Reform of Council Housing Finance: consultation, July 2009
16 LGA Briefing, Housing Finance Reform, July 2009
17 http://news.bbc.co.uk/1/hi/scotland/1549541.stm
This is typical of the reaction of campaign groups to what has been seen as a government presumption in favour of externalisation. Though rhetoric on privatisation suggests the debate is from the left-wing, the call for debt cancellation is a local rather than party political debate. Currently the leading council in the debt cancellation campaign group Campaign for Fair and Local Housing is Waverley, a Conservative council holding 51 of 57 seats.

Right to buy

Another complaint has been that local authorities who repaid debt often achieved this state because of government rules around right to buy receipts, rather than by sound financial management. The sense of grievance has been exacerbated by changes to the rules, so that cash was returned to government rather than reducing debt. Through the 1990s, local authorities were required to set aside 75 per cent of receipts raised to reduce debt. The remaining 25 per cent could be retained for capital expenditure.

Up to 1996/97, local authorities set aside £7.6 billion of “reserved receipts” — funds set aside to repay debt\(^\text{18}\). From 2004, that 75 per cent was returned to the Treasury and the practice of paying off housing debt from right to buy receipts ended\(^\text{19}\). Since the recession this has become increasingly an academic debate, with right to buy receipts reducing dramatically — down 89 per cent between the third quarter of 2007/08 and the same period the following year.\(^\text{20}\)

Impact of HRA

Perversely, the current HRA subsidy system offers significant disincentives to local authorities to pay off this historic debt. The HRA is based on a complex system of calculations which runs to many pages of lengthy formulas and figures. The system uses a series of indicative assumptions about the costs facing local authorities and the income they will receive to determine whether they have (supposedly) excess funds or are in deficit. They are then either awarded a subsidy or asked to contribute to the central fund for redistribution.

One of the costs in the calculation is the total housing debt the authority has to service. If a local authority reduces that debt, then the calculation no longer awards them funds to service it. This would have no impact if the HRA calculation reflected real costs, but because they are indicative rather than real, the consequence can be that subsidy decreases while costs do not decrease to the same extent.

Future of debt

What is shocking about historic housing debt is that there is no plan to pay it off. While the expectation of the untutored observer would be that local authorities would take on debt that was structured like a repayment mortgage; in fact, historic housing debt is structured like an interest-only mortgage\(^\text{21}\). Which means that, given chronic under-funding for social housing, no funds are ever available to pay off the principal of the debt when the debt comes due. Instead, local authorities are forced to take out new loans to pay off the existing debt. This creates a perpetual cycle of repayment which there is currently no plan to replace for a more sustainable approach.

\(^{18}\) Research Paper 99/35 House of Commons, Right to Buy
\(^{19}\) LGA Briefing, Housing Finance Reform, July 2009
\(^{20}\) http://www.insidehousing.co.uk/story.aspx?storycode=6503042
\(^{21}\) http://www.cipfa.org.uk/panels/housing/show.cfm?news_id=60669
Decent Homes

The objective of making homes decent was widely welcomed and has no doubt improved the quality of housing for many tenants. However, there are acknowledged weaknesses:

- The target and standard were set nationally, with no reflection of local circumstances or the aspirations of tenants. Councils were forced to prioritise investment in ways that were not necessarily in the interests of good asset management.
- Standard is low
- Standard did not take account of the local environment, whereas tenants see this and issues such as security as particularly important
- Important elements such as lifts were omitted
- Less appropriate for estates with large numbers of flats with communal areas, where concerns with security and environment are more prevalent
- Underfunding and the lack of a level playing field. Assumptions built into the option appraisal model were unrealistic e.g. re inflation.

Southwark

Stock retaining councils do not receive additional funding to meet DHS. The situation in Southwark highlights the difficulties faced by councils where tenants want their council to continue to own, manage and maintain their homes.

Southwark’s position was set out in their written evidence to CLG’s select committee’s inquiry into Decent Homes (Memorandum from the London Borough of Southwark (BDH 27)):

One of Southwark’s key priorities is to invest in its stock – currently, approximately 25 per cent of the housing investment programme is funded from capital receipts. However, Southwark Council receives less than £50 million a year from the government to invest in major repairs and renewal to its stock – £37 million by way of grant and £12.5 million of supported borrowing. In context, with this government funding we are only able to carry out major works on about 14 per cent of our buildings requiring investment each year to meet the government’s Decent Homes standard, or seven per cent to meet a higher standard and address the wider needs of our inner-city estates.

For Southwark to have met the 2010 target would have meant the authority not addressing the wider investment needs of the stock as a whole, nor meeting residents’ aspirations for their homes and estates. The standard was increased to a higher local decent homes standard, with additional works to improve security and estate works and renew higher levels on non-key components.

As of 1 April 2007 Southwark had 13,620 non-decent homes. Over the course of the year the council improved 2,161 homes to meet the standard. At the same time, 6,861 declined in quality and became non-decent. Meaning the number of non-decent homes increased to 18,320 over the year. 22

The council predicts that the number of decent homes will not fall in the coming years:

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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<th>2013</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>13,620</td>
<td>18,320</td>
<td>18,365</td>
<td>17,998</td>
<td>19,329</td>
<td>18,216</td>
<td>18,710</td>
</tr>
</tbody>
</table>

22 Southwark Council, 2008 Business Plan Statistical Appendix
In 2008/09 1,977 council homes were made decent. By contrast 23,136 had works that involved new installations (such as bathrooms or kitchens) or major repairs. This represents major work to 57 per cent of all council properties in a single year.

The latest figures put the proportion of non-decent homes in Southwark at around 47 per cent. At the same time, 35 per cent of the nearly 15,000 housing association properties in the area were also non-decent. This is in the context of housing association stock that is generally more modern in construction than the council’s stock. 47 per cent of private sector homes were also non-decent. A large proportion of these fail the Category 1 hazard test because of being excessively cold.

What the evidence suggests quite clearly is that, though the council has a measurable gap, this is a gap that is replicated in every sector.

**Post-2010**

The government has said that the (revised) Decent Homes Standard will provide one of the reference points for the baseline arrangement for each council if the HRA is abolished (John Healey, oral evidence to CLG Committee Review of Council Housing Finance 13 July 2009).

Healey acknowledged that ‘decent homes plus’ would require additional funding which would be outside the self-financing arrangements, such as funding energy efficiency work and common parts and lifts.

It is also not clear how the backlog (estimated at £19 billion of major repairs and decent homes work) of major repairs will be cleared. The government has agreed a 24 per cent uplift in the Major Repairs Allowance to maintain the stock in a decent condition beyond 2010. They have also acknowledged that there will be in addition a backlog that requires ongoing capital grant separate from the MRA.

However, there is no consensus that the MRA uplift is adequate — Steve Partridge, a Housing Quality Network consultant who supported the HRA review group, estimated that the shortfall was nearer 40 per cent over the 30 years.

Southwark has estimated that it needs £300 million over the next five years to meet the minimum requirements of the DHS and up to £700 million to meet their local standard and ‘current sources of funding are insufficient to meet the investment needs of our stock’.

**Reform of the HRA**

> As a government we remain fully committed to completing our comprehensive Decent Homes programme and to seeing this standard maintained. The reforms proposed in this consultation will safeguard this commitment. We will also improve the common areas of estates and will ensure that there is sufficient funding in the system to do so. If we are to maintain these improvements for the long term then it is imperative to reform the system that finances council housing.

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23 Southwark Council, Southwark Housing Strategy 2009 to 2016
24 Inside Housing, Subsidy Black Hole, 14 March 2008
25 London Borough of Southwark, Memorandum to the CLG Select Committee inquiry into Decent Homes (BDH 27), October 2009.
26 Communities and Local Government, Foreword to Reform of Council Housing Finance, July 2009
There are currently many unknowns here until the government responds to the HRA consultation and sets out how they intend to deal with historic debt in the system. The consultation paper says that 'the total debt allocated to councils under self-financing could be higher or lower than the current level of debt in the system' and total debt levels could increase by up to 40 per cent.

It is hard to see how the additional spending outlined in the paper could be achieved if debt was actually higher, even if councils had the additional revenue from retaining rents locally and 100 per cent of capital receipts. The assumptions that are made about rent increases in the proposed business plans will be especially important and the consultation paper is silent about these. It is clear that the government need to give councils much greater flexibility in both setting the level of and the distribution of rents if business plans are to be viable in the long term.

A decent home... meets the following four criteria:

1. **It meets the current statutory minimum standard for housing**

   Dwellings which fail to meet this criterion are those containing one or more hazards assessed as serious ('Category 1') under the HHSRS.

2. **It is in a reasonable state of repair**

   Dwellings which fail to meet this criterion are those where either:
   - one or more of the key building components are old and, because of their condition, need replacing or major repair; or
   - two or more of the other building components are old and, because of their condition, need replacing or major repair.

3. **It has reasonably modern facilities and services**

   Dwellings which fail to meet this criterion are those which lack three or more of the following:
   - a reasonably modern kitchen (20 years old or less);
   - a kitchen with adequate space and layout;
   - a reasonably modern bathroom (30 years old or less);
   - an appropriately located bathroom and WC;
   - adequate insulation against external noise (where external noise is a problem);

   and
   - adequate size and layout of common areas for blocks of flats.

   A home lacking two or fewer of the above is still classed as decent, therefore it is not necessary to modernise kitchens and bathrooms if a home meets the remaining criteria.

4. **It provides a reasonable degree of thermal comfort**

   This criterion requires dwellings to have both effective insulation and efficient heating. It should be noted that, while dwellings meeting criteria b, c and d are likely also to meet criterion a, some Category 1 hazards may remain to be addressed. For example, a dwelling meeting criterion d may still contain a Category 1 damp or cold hazard.

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Tenants

The council have a duty to look after the property and the area, but tenants have a duty as well: to look after their own home and keep the area nice and respect the neighbourhood and pay their rent.

*Southwark tenant, November 2009*

The role of tenants in the council housing system is a microcosm of the contradictions councils face in dealing with their residents. On the one hand, residents are customers and users of services. They should receive the highest quality service, get good value for money and be involved and consulted on service design. On the other hand, residents can cause a host of problems — they can fail to pay their bills, disrupt the lives of others, be dependent and lack self-reliance and incur all kinds of unnecessary costs by acting irresponsibly.

Tenants are the same — but their close relationship with the council’s housing services amplifies the contradiction. To add to the complexity, tenants as a user group have heavily protected rights. Council house tenants, once awarded a tenancy, have the right to remain in that property, paying heavily subsidised rents at rates controlled by central government, for their entire lives. The tenancy can even be passed on to the next generation.

The extraordinary level of protection this affords tenants has no comparator in public services. Compare services given to people who have been disabled from childhood. Though children may receive extensive services in childhood, those services may disappear as they make the transition to adulthood though needs have not changed. Benefits like disability living allowance are usually time limited and subject to periodic review. Child benefit once claimed is paid throughout the child’s life — but this is not a means tested benefit. Social housing is a very scarce resource, highly subsidised and allocation is very tightly controlled. Yet once allocated, there is no review mechanism at all.

What this means is that tenants have many rights but means to enforce responsibilities are few. That said, many tenants are very responsible, committed to their homes and communities and demonstrating an enthusiasm to contribute to the wellbeing of their area and estate.

Unfortunately, other tenants are not. This has financial implications. Southwark tenants owe £9.2 million in unpaid rent. This is less than six per cent of the total rent bill and is £1.3 million less than the year before. While unpaid rent can relate to economic conditions and ability to pay, there can also be an element of lack of responsibility from tenants benefiting from a scarce public asset.

**Tenants as customers**

The implication of tenants as customers is that decisions about housing investment can’t be made in isolation. This has significant implications in the context of policy on decent homes.

Decent Homes sets a standard — but this isn’t a standard that has been agreed or negotiated with tenants. In particular, the Decent Homes standard only relates to property internally. CLG’s recent research demonstrates that tenants see services as relating to three categories: property, communal areas and amenities. Their priorities depended on proximity, not whether a service was a “core” housing service for the landlord.

28 Parliamentary Hearings on Services for Disabled Children, Full report, October 2006
29 Southwark Council, Statement of Accounts, 2008/09
30 Communities and Local Government, *Tenants’ attitudes towards council housing finance and rents policy: to inform the review of council housing finance*, July 2009
For Southwark tenants, communal areas can have a major significance. Because of the profile of the social housing in the area with more lifts in medium and high rise flats than any other landlord in the country, access can take on a critical importance.

I think specifically because I have a disabled wife... it is difficult for the council because of the old buildings to make them accessible. Where we live we don’t have a lift and no access for disabled. I have to carry my wife up, I live on the first floor. The building is old. Only one entrance for all the tenants... My wife is paralysed. We spoke to social workers [they suggested alternative accommodation]. When we went to look there it has not got access for disabled but it has a lift. It is not the first floor or the second floor, it is the last floor, so we said no.

Southwark tenant, November 2009

The central London location also means that security is very important. Security issues can relate to the building but often security issues relate to the estate and surrounding area.

The problem is security because first we have... not got phone entry, so people can just come and go... we have not got CCTV.

Security is a big thing for people to feel safe in their own homes... Where I am living now in a block of flats no one really knows anyone else. They could run something where people get to know their neighbours.

Obviously the security aspect... They should put a path on the green so people don’t slip when they walk their dogs. It is very poorly lit. I would not like it if I were by myself.

Southwark tenants, November 2009

This is a national problem. While there are commonalities across the country, the reality is that different estates have different needs, and many pressing improvements fell outside the narrowly defined standard.

Decency funds could only be spent on the homes themselves and there is a pressing need for spending on the environment of council estates – boundaries, paths, parking. Leeds ALMOs did not have sufficient resources to adopt a ‘decency plus’ standard of the sort seen in stock transfer organisations.

Linda McNeil, Leeds Tenants Federation

As well as the need for a local standard that takes account of wider needs, genuinely giving tenants what they want means listening to how they want it. Delivering home improvements involves mess, inconvenience and reduced security — like anyone else, tenants will put up with this if the end result improves their quality of life.

Southwark Council’s initial policy on decent homes was to pursue the national standard. As it implemented the standard, it became clear it was unpopular with tenants who found that the work to their properties was disruptive and not delivering a standard that was worth the while.

When they were doing the better homes work, there were a lot of break-ins because people took advantage.

A few years back they used to do everything but doing part of it and leaving the rest damages the other rooms.

I had a new bathroom and kitchen about five years ago but the fittings were not as good as what I had before.

Southwark tenants, November 2009

31 Oral evidence to House of Commons Council Housing Group Inquiry into council housing finance, 2009
In 2008, after consulting with tenants, Southwark instituted a new, higher standard. This was with the recognition that the higher standard would come at greater cost and fewer homes would be improved. By consequence, this also meant the decent homes target would not be met. While the tenant view was that the government standard did not meet their aspirations, the council also had misgivings about the standard in terms of effective asset management. The collective view was that the standard was inadequate.

Tenants as citizens

Tenants also have responsibilities — they are contributors to their own communities and have a key role in making them good places to live. They also have an interest in their own properties — something an inflexible system does not enable them to take a role in.

Councls are responsible for taking care of the external building but internally we should share some responsibility. We could report things to the council and they come do it rather than let things get worse. When you are talking about decorating etc we can share responsibility like you said whether we can pay more so we can get what we want because there is a limit on what the council can spend.

Southwark tenant, November 2009

The Tenant Services Authority conducted a major survey of social housing tenants that found a significant appetite for more flexible relationships between landlords and tenants. In that survey, 10 per cent of tenants said they would be willing to pay a higher rent for ‘extra services’, 29 per cent said they would accept more responsibility — such as dealing with minor repairs — in return for a rent discount.32

Some of the attitudes towards sharing financial responsibility expressed by Southwark tenants who were interviewed could be summed up, as one said: “Yes, if I had the money and it was for my comfort.”

I think that would be a good system and everyone would be happy. You could always say no. I want a gas cooker but I realise I don’t have a gas point. I would not even mind paying to have that done.

If the council had said, ‘I will give you £50 to go and do it yourself’ everyone would be happy. They could just take it from your rent and they can send an inspector if they want.

That should be fine because then you get to choose what you want and not what the council will choose for you and if you want to spend more you can because it is your home you can spend more on it... I would not support anything to do with the boiler or gas because that is specialist but something like lighting or painting.

There should be more parking spaces. Where I live we are just on the border of the congestion charge and most people come in and park in our estate. We haven’t got permanent parking spaces, anyone can park anywhere. If council wants us to pay for it that would be ideal so you know it is yours, no-one can park there.

Southwark tenants, November 2009

While managed parking regimes are currently only implemented on Southwark estates where there is resident support for implementation, this view is a useful indicator of an appetite for further charges, if there is a tangible benefit.

32 TSA, Existing Tenants Survey 2008: tenant perspectives on landlord services, September 2009
The challenge of renewal

Heygate Estate

Elephant and Castle was the focus of major development by the London County Council from the 1950s onwards. The final stage of this development was the Heygate Estate, from 1970 to 1974. In the time since construction, it became an object of love and loathing. It boasts its own blog “Live from the Heygate” and has been used as a film set for the recent film *Harry Brown* starring Michael Caine.

But the message from the film and blogosphere makes it clear why the estate is in the process of being emptied in the hope that regeneration can take place:

*Would you have stayed if they fixed the place up?*

*No, no. Most people here, they been waiting years to get out. People from outside, they come here and say, ‘why do you live in an army barracks’?*

The Heygate regeneration is a complex scheme. It is a critical factor to the success of the future of the Elephant and Castle. The estate occupies 20 acres of land, with around 1,200 housing units.

But it is also a cautionary tale. The council first stopped letting on the estate in 2001. But the relationship with the original developer foundered with the end result that the council and developer separated. Over time, without new lettings, the permanent tenant population dwindled to about half of full occupancy. This had some interim advantages, allowing the council to use the properties instead of temporary accommodation, which for other London Boroughs without vacancies to make use of can be both expensive and unsatisfactory.

In 2007 the council started negotiations with developer Lend Lease. But after two years the exclusive agreement lapsed without the two parties reaching a deal to progress. By this stage the need to progress on the Heygate estate was unavoidable. The costs associated with maintaining the estate were very high, given its general disrepair. Critically, the lifts needed serious intervention which would have been prohibitively costly.

The council took the decision to empty the estate — something usually only undertaken at the very end of a project to avoid the immediate consequences associated with empty properties: vandalism, squatting, crime.

The commitment to the community had been that re-housing would be to new units — but of course none were yet available, with no deal on the table and no new development yet underway. Tenants had to be moved into other properties as they came available, with the understanding that tenants would be offered a further move at a later stage.

At present, one block is empty, but clearing it entirely would require a CPO. This is a project that has taken many more years than anyone envisaged, but hurdles in the CPO scheme could result in considerably more attenuation. Both tenants and leaseholders could resist leaving to the bitter end. At the end stage, once reached, the vast majority of tenants and leaseholders could have vacated, with only the final court case lengthening the process. The uncertain status of the development may impact on this — the court must judge the alternative to be a reasonable one before it will enforce any order.

33 http://livefromtheheygate.blogspot.com/search/label/Southwark%20Council
Elmington Estate

The Elmington Estate is a smaller scale project with around 230 units in 14 low-rise blocks and a council office building. The current project was considered because they required extensive refurbishment and the cost and practicality of pursuing this course was called into question. In addition, the blocks are in an area where redevelopment had been undertaken, starting in 1998 with the council’s decision to demolish four 12 storey blocks that had developed structural weakness. The residents of the four blocks recognised that refurbishing the flats would mean moving just as redevelopment would, and that the final product might well not have been worth saving. It was agreed that redevelopment was the best option. This was to be a council build and to have taken place in two phases. By 2006 a total of 338 units had been demolished and 136 had been replaced through Phase 1 of the scheme. Around the same time, the council began considering extending the scheme to 17 low-rise blocks on the estate because of their high refurbishment costs.

However, plans for the second phase fell foul of changes to national and regional policy. The pressures linked to the introduction of the Decent Homes Standard meant no funds were available for redevelopment of council homes and changes in the funding plans of the Housing Corporation meant that funding was no longer available for replacing housing — only adding new housing stock where none had been before. The London Plan also had a requirement that regeneration schemes should result in no net loss of affordable housing. Altogether, the consequence was that the project stalled after Phase 1 redevelopment and refurbishment work on three of the 17 blocks was completed.

A combination of drivers within the council, and from the new Homes and Communities Agency and London mayor, opened the door to a new approach. The new approach was more complex than the initial plan. Phase 2 is being disposed for redevelopment with 35-50 per cent affordable housing provision. Nine of the 14 low-rise blocks are to be redeveloped along with the site of a local housing office on the estate, and the rest are being scheduled for refurbishment. To determine the way forward for the 14 blocks, there was a detailed analysis of the redevelopment and refurbishment options as follows. The option not to act was not considered. The state of the blocks was such that action needed to be taken.

New build: redevelopment would offer the potential to build 404 homes. There would be 51 fewer affordable homes than at present, but would be in line with the council’s strategic aims of increasing tenure diversity and private ownership and would be offset by other affordable development in the area.

Net present value: calculations of the relative long-term cost of each option, for each part of the estate, showed that the NPV for refurbishment was -£5.5 million, while for redevelopment was -£1 million.

Strategic fit: a comparison of the benefits of each option showed that redevelopment offered more opportunities to contribute towards the council’s strategic aims for the area, such as reducing crime with Secured by Design standards.

Tenants: tenant views were mixed: the majority believed the blocks to be too degraded to repair, but specific groups had concerns. Elderly and vulnerable residents, for example, had concerns about their ability to cope with relocation.

Cost: The total cost of redevelopment of all blocks is £10.5 million offset by income of £6.9 million from selling properties giving a net cost of £3.6 million. The project would take eight years. The total cost of refurbishment works is £11.9 million offset by income of £368,000 from

34 Southwark Council Executive Committee, Agenda Item 6, October 14 2009
leaseholder recharges giving a net cost of £11.5 million. The refurbishment project would take four years, subject to the availability of resources. When money is spent over the timeline of the project is quite similar for both projects.

On the basis of the above considerations, the evidence suggested that redevelopment was the preferred option. However, there was a further consideration, which was the capacity and resources to deliver. The critical point was made that redevelopment requires considerable human resource to deliver, across a number of teams in the council. With other very significant projects underway, such as Heygate and Aylesbury, the realistic assessment had to be that full redevelopment was beyond the council’s capacity.

The council decided to adopt a mixed approach: part redevelopment, part refurbishment. The figures for the combined approach show that the combination of the two is a reasonable balance of losses and benefits of the two approaches:

- New additional homes = 109
- Net loss of affordable units = 27
- Total cost (all refurbishment and redevelopment costs combined) = -£10,322,330
- Total receipt anticipated = £6,015,496
- Net cost of preferred option, less the receipt = -£4,306,833
- NPV of preferred option = -£1,006,651

One critical element which has made this possible is the existence of an empty site on the estate. Without a piece of land to start building on, which can then house decamped tenants, the logistical cycle could not be started. Redevelopment cannot take place unless existing tenants have somewhere to go.
Once and for the future

The same amount of money can deliver different outcomes: build one new home for two people, bring six empty homes back into use, providing a home for 14 people, or make nine homes decent for vulnerable people, improving living conditions for 21 people...

Audit Commission

Introduction

This is Southwark’s problem. But it is our problem too. It is inconceivable that the housing in some of the most deprived estates in this country could be left to deteriorate further. Estates like the Heygate and Aylesbury were iconic for a reason: because they represented our collective inability to deliver the places we promised to those least able to find homes for themselves. It is no coincidence that one of Tony Blair’s first acts as a new prime minister in 1997 was to visit the Aylesbury estate. More than 10 years later, success in transforming areas like these eludes us. The Aylesbury estate will be transformed — but there remain many others with their own decline which need solutions too.

This is not a problem that cannot be solved. But there is an ever present risk that the plans of today will not be adequate to meet the challenges of tomorrow. If nothing else, the ongoing burden of historic housing debt should be an illustration of the risk of unsustainable financial models.

What must trump everything else for housing finance is sustainability. Access to good quality, affordable housing is a necessary element of a successful community. Much of the anxiety and public debate surrounding housing stems from a serious concern that housing in this country is marching inexorably towards unaffordability, inaccessibility and decline in quality.

The problems arising from lack of supply are articulated elsewhere, not least in the LGiU’s own recent paper Room to Move, which argued that the rising levels of overcrowding in social housing are themselves an argument for reform.

But supply is not the only problem facing council housing. As we have argued throughout this report, councils like Southwark are at a financial impasse. Regardless of whether the HRA is reformed, there will still be too many demands on the same limited supply of funds. While stock remains unimproved, building new affordable housing does not result in increased stock, as new homes simply become receptacles for tenants vacating properties needing to be demolished. The resulting compromises mean that no response ever turns the tide and produces a positive cycle that improves over time. The tide is only at best held at bay, with the constant threat that improvement is overtaken by new degradation.

Holding the tide at bay would be an acceptable response if estates were already thriving, mixed communities where people want to live. This is their potential — but it is not the reality.

What is needed is a fresh start. What follows is a comprehensive case for reform that would lever in a contribution from everyone who has a stake in seeing Southwark renewed. Delivering such a programme of change would mean years of carefully managed development and logistics. It would also need cooperation from central government to reform key areas of policy and negotiate a cost neutral but different funding relationship.

35 Audit Commission, Building Better Lives: getting the best from strategic housing, September 2009
Step 1: define the goal

The question of what we should be working towards is a surprisingly difficult one. In this regard, the government’s commitment to decent homes was not only salutary but productive — in the face of perpetual decline and residualisation, to articulate a clear and theoretically achievable goal was a significant step forward. But as the decent homes deadline approaches, the time is right to identify a new model for the future — an end state that is recognisably better than what we have today.

The focus of Decent Homes was on housing alone — all homes to meet a basic level of decency. Built into the policy was the ambition to achieve financial sustainability through externalisation. The policy on decent homes had a number of limitations:

1) It was only tangentially linked to delivering financial viability long-term.

2) It did not take account of housing needs for the future.

3) It was a parallel policy to policy on increasing housing supply, meaning local authorities with retained housing were forced to continually choose between regeneration and new stock on the one hand, or the decent homes standard on the other.

4) It was delivered in the context of an unreformed system characterised by inflexibility: all the elements of the system that would enable good financial management were constrained, including rents, tenure, quantity of affordable housing, and debt management.

What is needed now is a more sophisticated approach.

SUSTAINABLE SOCIAL HOUSING

The aim of sustainable social housing is to achieve, at the end of a fixed term of years, through a programme of major renewal, housing which:

- Meets a basic standard of liveability which is locally appropriate, includes both internal conditions and the wider living environment, is recognised by tenants as meeting basic needs and complies with Health and Safety and Landlord and Tenant legislation.

- Is fully funded for the foreseeable future for management and maintenance costs at a level that militates against declining standards and is adequate to meet constantly rising regulatory standards.

- Is subject to a policy or regulatory framework that is flexible enough to maintain financial viability in the face of unpredictable change.

- Is part of a financial system with enough spare capacity to provide for periodic investment in major infrastructure, including new housing stock, to meet changing community needs.

- Is designed to be resilient to risks posed by longer term change, including rising fuel costs, flooding, demographic change and economic cycles.

- Is part of a financial system that delivers value for money — including a comprehensive plan to reduce housing debt.
Step 2: scope the process

Some facilities the council cannot continue spending on because if they want to put a lift in that requires the whole building be taken out. It depends on the building – if the building is old then you spend more on it each year. It’s better to bring it down. If they can do it bit by bit instead of spending so much money only to tear it down again.

Southwark tenant, November 2009

What the process must achieve

To achieve Sustainable Social Housing there is a critical shift that must be made: the existing estates must be brought up to a standard which can be kept at a stable, liveable standard with basic maintenance and does not require significant ongoing investment.

Achieving this means bringing the stock — all the stock — to a standard high enough to deliver financial viability. Bringing the stock to a better standard, but not a standard that is high enough to become less costly to maintain, will not deliver financial viability.

The logic of this is not blue sky aspiration — continuing to manage from a baseline of low quality stock creates a huge financial burden which absorbs all available funds and leaves nothing remaining with which to raise the standard overall. It is the equivalent of a family spending all their extra income making repairs and replacing belongings destroyed by a leaking roof. Until the roof is repaired and the house is watertight, funds will never be available for the family to address other household needs.

What is needed for Southwark is a comprehensive plan to redevelop every unsustainable estate, repairing to a high standard those elements suitable for repair and demolishing and reproviding those elements where repair would be too costly or would not provide a sufficient step change to merit the investment. Areas where demolition was involved would be reprovided at higher density, with mixed tenure to meet Southwark’s housing strategy objectives for increasing the range of private housing in key areas such as Elephant and Castle, Peckham, Camberwell Green, South Bermondsey, Livesey and The Lane ward.

Looking at the funds currently going towards housing in Southwark there is:

- **£62 million revenue expenditure on repairs and maintenance**
- **£89 million capital expenditure on improvement (decent homes plus and regeneration schemes)**
- **£14 million on landlord obligations including repairing lifts, removing asbestos, central heating, wiring and fire safety**

If there was no outstanding backlog of repairs or improvements, investment in maintenance could be increased by 15 per cent and £40 million a year set aside for periodic investment [including future regeneration] and there would still be £55 million pounds liberated to pay down historic debt principal. Southwark would be debt free in less than 15 years.

This is clearly only indicative and based on 2008/09 expenditure rather than future projections, but illustrates clearly the fundamental principal on which this hinges — managing poor quality stock is hugely expensive, and sound financial management for the future requires the means to reset the clock once and for all. This should be the focus of all our efforts.
How the process can be achieved

The example of the Elmington Estate offers a solution that could be scaled up across the whole of the borough. The advantage of the Elmington model is that it is a compromise solution that is being developed piecemeal, leveraging resources from one part of the estate to fund improvements in other parts of the estate.

Within a set period of time, with the right resources, planning and capacity, every estate in the borough could be either reprovided or renovated, depending on an assessment of what was deliverable and would provide the best complete solution. Rehousing resources arising towards the latter stages of one scheme could assist with the rehousing requirements of the next. Whether this took ten, fifteen or twenty years, the focus would be to reach the level of sustainability as part of a single plan.

Step 3: recycle resources

The full cost to make all social housing sustainable for the long term is vast. But large numbers can be a distraction. A more detailed look at what is required shows that whole scale renewal is achievable. While total spend is large, the potential to draw in investment is nearly as large, and the costs in any individual year are considerably more modest. The true obstacles are more subtle than headline figures describe. Three things are required:

1) Funds for front ended costs
2) A starting place
3) Dedicated capacity and specialised skills

What is striking that all of these have in common is the critical importance of logistics and the potential to recycle resources. What this offers is the potential to maximise any investment to generate a repeating cycle.

A starting place

If you tear it down then where are you going to put them? I suppose we need to upgrade and keep the buildings already there. We are running out of space. The Aylesbury estate did not really work.

Southwark Tenant, November 2009

The example of the Elmington Estate demonstrates the importance of having a piece of land to begin a cycle of regeneration. Empty land is a key that unlocks potential, as long as it is viewed as unencumbered in policy terms even if it has previously contained affordable housing. Local authorities are the stewards of a considerable asset base, but it is not always politically achievable to use land. An underused, unattractive park might offer an ideal space to start the logistical chain, but even though at the end of the redevelopment land will be freed as the last tenants are re-housed and the final estate demolished, the logic of this is not enough to overcome political objections to using parkland.

However, local authorities are not the only public sector asset holders in any given area. If the whole of the public sector land base was included in any search for land, there would be significantly greater opportunity to identify land that could be cleared and used for the first logistical step in the chain. What would be required would be a land loan until all housing projects were complete. At that stage land would become free and returned to the agency who had made the loan. With the right planning, that agency could be returned land in a more useful and appropriate location than the land that had been loaned, which is appropriate if viewed to be in lieu of a return on the investment of an asset.
Funds for front ended costs

Empty land unlocks potential. But getting to the stage of having cleared land ready for redevelopment incurs up-front costs. Even where part of the strategy is refurbishment, these costs need to be met so that the capital receipts from new housing can be brought in to offset project costs.

The critical costs that must be met up-front are the costs of buying out leaseholders and the costs of demolition. At present, though these costs are not vast, they compete for attention with all the other financial demands of the housing system. Funds spent renewing estates ironically come at the expense of decent homes, even though in the long run renewal offers a more sustainable and convincing approach to delivering decent homes.

Southwark is already committed to spending £520 million on housing investment over five years. A proportionately smaller amount, possibly £20 million a year, would be enough to pump prime a series of projects such as Elmington by covering up-front costs such as leaseholder buybacks and demolition costs. £20 million represents less than half of Southwark’s annual expenditure on financing housing debt.

There are three options to raise this proportionately small additional amount:

1) Readjust commitments

Southwark’s capital investment programme has increased from £86 to £113 million between 2002 and 2008. Within this overall expenditure, Southwark could find the necessary funds to deliver Sustainable Social Housing. But it would mean compromise.

Southwark has already been criticised for not committing to delivering the government’s decent homes standard, even though it has made clear that it is following tenant consultation that the higher local standard has been adopted. Further compromises would need to be made if pump priming funds were to be released to deliver Sustainable Social Housing. Fewer new bathrooms and kitchens would be fitted, or fewer homes would be improved in the short term. In the long term, all estates would be renewed, but at the cost of short term fixes.

Central government would need to recognise and support a deliberate decision to spend resources differently. Furthermore, given that a completely renewal of all the estates in the area could take up to 20 years, central government would need to maintain a policy distance while renewal was delivered. A programme of this size and significance would need the support of all tiers of government — some of the recommendations that follow outline areas where policy change or specialist support are needed to make delivery possible. Fighting central government over the allocation of resources to different outcomes would make delivery impossible.

As far as local politics goes, Southwark would need to demonstrate local leadership and negotiate with tenants on each estate about the programme to deliver Sustainable Social Housing. Not everyone can be entirely satisfied, but those who know that they will have an entirely new flat in five years may be prepared to wait without any intermediate investment — those waiting ten years may need a quick fix while they wait. Though much can be done within the basic maintenance budget to tide tenants over while they wait their chance for renewal. What is most important is that they are confident that what is promised will be delivered. Tenants on the Elmington Estate will be in their new or renewed properties within three years — their experience would be a critical tool in winning hearts and minds.
2) Debt restructuring

Between February 2014 and February 2016 Southwark will see 25 different loans worth £217 million come to maturity. That debt is currently being paid at an interest rate of between 9 per cent and 9.625 per cent, depending on the individual loan.

This represents 28 per cent of Southwark’s total debt. This is also potentially a significant opportunity for the country. These are loans dating to the 1960s that have been rolled over for two consecutive periods of approximately 25 years. Southwark is not the only council with this loan profile. The vast amount of construction in the early 1960s to raise the distinctive tower blocks of the time means that historic housing debt has a similar profile in other areas.

Realising the potential of this window relies on abolishing the centralised subsidy system. The current system of subsidy acts as a significant disincentive to local authorities to change their debt profile. Local authorities reducing their debt payments receive a reduced subsidy, and because the subsidy is indicative and only notionally relates to expenditure, this can leave the local authority worse off.

Assuming the end of the central subsidy system, there are two opportunities in 2014-16:

1) to negotiate significant reduced interest rates
2) to negotiate a repayment holiday and free up resources which could be used for the Sustainable Social Housing programme

The first depends on the position of interest rates in five years’ time. Given the volatility of the economic situation, predictions about interest rates vary wildly. Nonetheless, interest rates over the history of finance have sat between five per cent and six per cent, which would still represent significant savings. Local government should be given the flexibility to ensure that the best rates can be negotiated, even if that means placing the debt outside the Public Works Loan Board.

The second has the potential to free up resources without incurring additional debt. Assuming lower interest rates and stable resources to pay off interest, Southwark commits £43 million a year to interest payments.

Of this, approximately £14 million is up for renegotiation. At a rate of four per cent, the interest due over 35 years would be £189 million.

If Southwark could negotiate a 10-year payment holiday, so that this amount was repaid over only 25 years the yearly interest would be only £7.6 million for the remaining 25 years. Even with heavy penalty charges to account for the reduction in the value of money, repayments would still be affordable relative to current levels of spending.

A 10-year payment holiday would free up £14 million a year from current spending, and would provide £140 million to support the Sustainable Social Housing programme.

3) Cycles of funding

The political objection is that any grant to Southwark would need to be made to other councils and the costs nationally would be astronomical. But if funds given to Southwark were then passed on to another council, and then another, in a continual chain of housing investment, the initial investment would benefit many areas in the fullness of time.

If central government were minded to provide grant funding for Sustainable Social Housing, then this could be part of a long-term chain of funding that provided pump priming for one area for the lifetime of the renewal period before passing on to the next area.
The value of this approach would be to minimise investment in any given year while establishing a commitment to reaching all areas over time. This would have the added advantage of prioritising areas of greatest need while still committing to investing in areas of low need at a time in the future when their need might have increased. This approach links closely with the next area of recycled resources: sharing human resources.

**Dedicated capacity and specialised skills**

Lessons from major regeneration schemes such as the Greenwich Peninsula demonstrate that one of the most significant critical factors in delivering value for money schemes is dedicated capacity and high demand skills across a range of specialisms.

The opportunity of a cyclical approach to housing renewal is that it would provide a managed environment to enable the development and transfer of the highest level skills. Moving from one area to another to deliver whole scale renewal could be the country’s most skilled and experienced team. This could be made up of a combination of centrally employed specialists alongside a local team. Staff might even choose to follow the renewal programme around the country, taking their experience with them to each new project (recognising the lifetime of a renewal programme might be quite lengthy).

Local authorities would need to be willing to allow experienced staff to move to new programme areas. Good planning would be required to ensure teams for new areas worked alongside existing programmes in the end stages to ensure complete knowledge transfer where individuals will change. This extension of capacity and skill could be used to tackle problematic housing association estates, as well as local authority ones.

There is also a need for a more complete set of measures for housing stock. Audits of stock condition need to be weighed against measures of the long term sustainability of estates, including factors such as worklessness and crime.

**Step 4: optimise investment**

If financial sustainability is paramount, programmes must be delivered in the most economic way possible, in the shortest time possible so that the value of money does not decline. At present there are two key obstacles in planning law which should be reformed to guarantee financial soundness.
Planning obligations currently can provide funding which can be used for housing renewal on other sites — but only as the option of last resort if new on-site affordable housing or non-housing related improvements to the site can’t be delivered. While there is some political logic to linking planning obligations tightly to the development site, in terms of wider considerations of value for money funds should be used flexibly where they will deliver most value for the community.

The priority should be local discretion and flexibility. The weakness of the current scheme is that there is a closely defined order and priority for the use of planning gain. If local authorities are to deliver a major programme for Sustainable Social Housing, they should be empowered to make a local judgement about best use of resources on a case by case basis.

The best use of planning gain for a major private development may be to invest in the regeneration of the local authority estate which sits across the road. This may well prove the greatest value for local residents in both the new private development and the council’s own estate. Local political leaders should be able to make these judgements on a case by case basis, with regard to the need to balance new housing outputs with other requirements.

CPOs are a further area where community benefit should override individual considerations. While the protections afforded the individual are important to ensure rights are not trampled and should not be discarded, there should be means in law to identify projects of such scale and strategic importance that delivery to time has exceptional priority for the public purse. Central government should review the opportunities to ensure that compulsory purchase does not present an unnecessarily burdensome obstacle to housing renewal.

The current consultation on the use of CPOs by the Homes and Communities Agency (HCA) should be widened to consider a streamlined process for use both by the HCA and local authorities. The aim should be to identify projects of national significance where informal means will certainly be inadequate to progress all necessary purchases, so that they can receive adjudication at an early stage, possibly by establishing Ministerial consent and High Court review at the outset of the process. The facility for objections, public inquiry and judicial review would then only be permitted to elements of the CPO not already established as valid by the preliminary legal approval. This unique CPO process would outline what those considerations might be, but would be expected to be exceptional. The obligation placed on the local authority would be to prove when seeking adjudication that it had undertaken comprehensive consultation with the community and evidence of individual negotiations with legal representation with every affected party.

**Step 5: plan for the future**

**Tenant Contributions**

One of the key areas where greater flexibility is required is on rent policy. Creating a system that is sustainable in the long term must include giving local authorities the flexibility to set rents locally.

The challenge with rent policy, and no doubt one of the motivating factors for the Treasury in retaining control, is that increases in rent inevitably mean increases in the housing benefit bill. While this has advantages for the local authority landlord, it does not represent good social policy, and a direct grant from the Treasury would be a far superior way of moving funds around the system. Recent research by Professor Steve Wilcox for CLG indicates that an increase of 10 per cent to social housing rents would bring an additional 50,000 people onto housing benefit with a resultant increase in the RPI of 0.25 per cent and further disincentive to work with an increased earnings threshold to escape benefits.

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37 Review of council housing finance: Summary of commissioned research, 2009
Of Southwark’s 39,000 tenants, 16,000 are in receipt of income support and 23,000 are in receipt of housing benefit. Housing benefit tenants make up 59 per cent of the total.

At the same time, a new approach to social housing renewal should include some element of tenant contribution. An appealing approach is the one being planned by Hanover Housing Association for introduction at the end of 2009/10.

A GUIDE TO THE CO-PAYMENT PROPOSAL

Residents will be eligible for a ‘co-payment’ if they wish to replace their kitchens and bathrooms sooner than Hanover’s planned works programme allows. Hanover will match-fund a resident’s contribution. Residents will have a choice of who they want to supply, how they want it fitted and when they want the work completed.

The match-funding ratio is to be determined, and will vary according to the individual home. However, Hanover intends to use a sliding scale approach, to reflect the period since the kitchen or bathroom was last replaced. If the replacement was undertaken very recently then the current installation will be seen as fit for purpose and no contribution will be made by Hanover. Conversely, if the replacement is due in the near future, Hanover should meet the full cost. Between these extremes the resident’s contribution will decrease over time as the replacement date comes nearer and Hanover’s will increase.

Hanover’s current replacement cycle for kitchens and bathrooms is 27 years and 37 years respectively. This is not considered acceptable. In the meantime, we believe that co-payments may be attractive to some residents who recognise the ability to enhance their property by utilising to some extent their own resource.

Co-payments as outlined by Hanover represent a co-production model for ongoing maintenance. In the context of a major renewal programme, there is potential to use the principle to draw in tenant investment to the programme. Tenants with the will and resources could be given opportunities to contribute to the cost of higher quality materials (with the consequent improvement in longevity) given first choice of new build properties or other advantages. Opening up a market to existing tenants as well as leveraging capital receipts would provide an additional funding source.

The unknown question is the extent to which this would generate significant funds. The potential is likely to be small given the very high levels of tenants in receipt of benefit and significant numbers in rent arrears. In all probability this would not be a significant fundraiser, but would have more value in the longer term as a way to promote responsibility and contribute towards financial sustainability over time.

Rent flexibility remains important. Local authorities should be given the flexibility to determine rents where that does not impact on the housing benefit bill, either by increasing rents for tenants in receipt of benefit, or by raising rents to a level that more tenants become eligible. A middle ground would be to give local authorities conditional flexibility: freedom to raise rents in any way they considered to be politically viable, on the condition that they could convincingly demonstrate that there would be no consequent impact on housing benefit, and that it was not socially divisive.

The onus would be on the local authority to develop policy that met those conditions, as well as to demonstrate those the conditions were met. Central government would have the power to fine local
authorities who raised rents locally without meeting the condition not to impact on housing benefit, to a level that matched the additional revenue generated.

The government has a clear interest in this kind of decision – after all, it would pay the cost through higher Housing Benefit for the majority of tenants receiving it – but the current lack of flexibility in the way rents are set would appear to act against the sorts of choices that bodies such as the Tenant Involvement Commission are calling for.

**Community energy**

I do hope extremely large estate construction will be avoided in future and more individual blocks will replace them, of architectural merit and family and environment friendly.

*Southwark tenant, November 2009*

A critical area which has been inadequately addressed in social housing debate and funding is environmental sustainability. While policy on new build has clearly emphasised energy efficiency and promoted the use if technological innovation, sustainability has held a very low priority for existing council housing and is not part of Decent Homes.

While this might seem reasonable in the context of more pressing concerns, it should occupy a significant position in sustainable housing. This is not just in recognition of the government’s international commitments, including the commitment to reduce CO2 emissions by 80 per cent by the year 2050, but weighing up the high probability of significant rises in the cost of fuel.

One of the challenging issues for social housing is the high proportion of residents living on or below the poverty line, highly dependent on benefits for survival. Communities need to be planning now for the impact of fuel rises — not least because tenants in estates with district heating may find themselves unable to pay. Current action to deliver nuclear power is linked to the imminent risk in the UK that electricity supply will fall below demand with the decommissioning of major coal-fired plants in the next few years. The use of district heating and combined heat and power is a significant means to increase energy security.

**Energy Service Companies** are a new concept that has not currently been put into practice, but offer a clear avenue to deliver on major infrastructure. An ESC is a partnership between an energy company, a local authority and the community. The capital costs of the combined heat and power system are met by a bank or venture capital firm. The system generates heat and energy for the estate, as well as supplementary energy that is sold to the National Grid. The investor retains profits for a fixed period. The estimate is that a major system would provide a return on investment in five years. The infrastructure would have a 25-year lifespan, delivering 20 years of energy to be sold to the national grid at community benefit. The funding obligation contained in an ESC does not appear on the balance sheet.

This kind of local energy will be made possible with the introduction of feed-in tariffs currently in the Energy Bill. There is also at present considerable funding available from the Low Carbon Transition Strategy for developing new technology. Social housing renewal projects offer significant potential for trial sites.

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