

Item No. 12.	Classification: Open	Date: 14 December 2010	Meeting Name: Cabinet
Report title:		Review of Housing Investment Strategy	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Ian Wingfield, Deputy Leader and Housing Management	

FOREWORD – COUNCILLOR IAN WINGFIELD, DEPUTY LEADER AND CABINET MEMBER FOR HOUSING MANAGEMENT

1. One of our key policy pledges is a firm commitment to make all homes warm, dry and safe by 2014/15, and in order to achieve this, it will be necessary to review the existing approach to housing investment, working in close partnership with tenants and leaseholders.
2. The adoption of the current borough standard in recent years has and continues to limit the council's ability to spread investment evenly across the borough. We believe that any new approach should therefore seek to balance the affordability of decent homes investment against the delivery of an acceptable standard to the benefit of the majority of households. We will also investigate ways to maximise our options to bring in new sources of funding to invest in our housing stock.
3. In the meantime investment in the stock continues with the current two year programme expected to make 3,092 more homes decent by 2012. Efforts have also been made to ensure the best use of resources with the procurement of the new major works partnering contract resulting in savings of 10 -15%, allowing for more homes to be made decent.
4. I am therefore asking the cabinet, after consideration of the officers' report set out from paragraph 13 onwards to approve the recommendations set out below.

RECOMMENDATIONS

Recommendations for the Cabinet

That the Cabinet:

5. Confirms its commitment to making every home warm, dry and safe.
6. Notes the findings of the housing stock condition survey and the significant investment needs identified.
7. Notes the different standards that could be applied to achieving decent homes and the financial implications of the different standards; in particular the high cost of delivering the current borough standard.
8. Continues with those commitments already made to residents in the two year programme and requests officers to review the specification for work packages

where contracts have yet to be committed.

9. Requests that further reports are brought back to cabinet by February 2011 on a review of the voids disposal strategy, a review of the use of planning powers to generate funds to support decent homes work, and a review of options for estates with high costs and potential approaches.
10. Requests officers to consider all those options to increase the funding available to the council, set out in paragraphs 62 to 74, and to report back to cabinet with a view to agreeing a new approach which will achieve warm, dry and safe homes,
11. Agrees the consultation arrangements as set out in paragraphs 82 to 84 of the report and to begin the process of engaging with residents on the strategy for housing investment in the borough over the next five years, to deliver more benefit to residents overall for the resources available.
12. (1) Agrees that for homeowners, administration charges are levied in accordance with the terms of the lease to recover costs from homeowners but capped at 10%, subject to 12 (2).

Recommendation for the Leader of the Council

(2) That further to 12 (1), authority to periodically review the costs and recharge rate is delegated to the Cabinet Member for Housing Management.

BACKGROUND INFORMATION

13. The council is the largest local authority landlord in London, and one of the largest in the country, with 39,318 rental and 14,580 homeowner properties (13,412 leaseholders and 1,168 freeholders paying service charges). The council's housing stock is composed of a mix of dwelling types including Victorian terraces, pre-war walk-up blocks and system built blocks including high rises, built in the 60s and 70s. Sixty per cent of our stock was built before 1964. Although we have the largest housing investment programme in the capital, much of our housing still does not meet the Decent Homes standard, and we have greater landlord obligations given the nature and size of our stock, and more high rise blocks. Southwark had the highest number of dwellings in high blocks, in the whole of London at 10,646, (26% of our total stock); consequently we have more lifts and more district heating systems. Although these components tend to be in our 'younger' stock, many are old enough to require renewal. In the older age profile, we also have the second highest level of pre-1945 low rise blocks (predominantly mansion/walk up blocks) in London, many of which were inherited from the Greater London Council and which suffered from historic under-investment. The stock merger in 1980 increased the council's stock by a third, to 62,000 units.
14. The council's Housing Investment Programme incorporates all capital expenditure incurred by the council on its housing stock, including its obligations as a landlord, addressing the condition of the stock and the costs of any regeneration schemes. The overall programme has comprised capital expenditure of between £71m and £107m per annum over the past five years, a total investment by the council of some £441m. Decent homes and landlord obligations combined form the majority of the Housing Investment Programme, with Decent Homes being the largest single element. Previously, the largest strand of the programme was major repairs, largely to external elements eg roofs and windows. This was normally

associated with planned preventative maintenance elements including cyclical external decoration.

15. As a key part of this expenditure, in March 2006 the council's executive approved a five year Decent Homes investment programme, based on the housing options appraisal required by government. The options appraisal determined that the council could retain both ownership and management of its stock, and meet the government's Decent Homes Standard by 2010/11. Stock retention was seen as a positive option, in light of a history of tenant opposition to other funding options, including three unsuccessful attempts at stock transfer. This was subsequently agreed by the Government Office for London in June 2006 with a view to all council homes being made decent by 31 March 2011. Meeting decent homes is a major element of the programme. The Decent Homes standard is explained at Appendix 1.

Decent Homes Review 2008

16. In April 2008, the executive received a further report on progress towards reaching this target, which produced a number of interim decisions. It was reported that over £127m had been spent on the Decent Homes programme over the period 2005/6-2006/7, with an additional £35m being spent on other works to the housing stock such as landlord obligations and housing regeneration schemes. This expenditure had achieved over 3,000 new kitchens, 2,000 new bathrooms and 5,500 homes rewired, with new windows for almost 200 blocks. Despite this progress, it was reported that, with the projected expenditure of £290m over the 5 year period for decent homes works, the council was now unlikely to meet the March 2011 target and identified a deficit of just over £60m for the period 2007/8 to end of year 2011.
17. The report indicated three main factors behind this projected shortfall:
 - (i) Building costs inflation had been higher than anticipated and had not been offset by procurement savings as envisaged.
 - (ii) Work had included items that, while desirable to tenants and beneficial to good maintenance, went beyond what was necessary to achieve the decent homes standard.
 - (iii) Some work had been carried out earlier than required by the decent homes criteria.
18. These changes reflected views expressed by tenants and leaseholders that they wanted a more flexible approach to investment and a stronger focus on neighbourhoods. Tenants had also expressed the view that their priorities were for new kitchens and bathrooms, beyond the core definition of a 'decent home'.
19. The report concluded that to take account of these aspirations for the whole period up to March 2011 would increase the funding deficit from £60m to over £180m.
20. The report set out various options for managing this gap. These included bringing spending strictly into line with the Decent Homes requirements, measures to improve cost efficiency through improved procurement and measures to increase the capital resources available. The latter included sale of major voids and street properties and identifying under-utilised housing assets to achieve capital

receipts.

21. In the light of this information, the executive agreed an interim position to allocate up to £14m per annum from the programme to meet resident aspirations, including increased refurbishment of kitchens and bathrooms and external works such as security and environmental improvements. It agreed the 'Southwark Decent Homes standard', reflecting these changes, noting that this enhanced standard would increase the funding required and the time taken to deliver the standard. It instructed officers to let new contracts to this standard and also to consider further ways of raising money for investment into the housing programme, including the measures outlined in paragraph 20 above and a bid to the London Housing Board.
22. Two assumptions underpinned this amended approach:
 - The expectation of a revised position from Government Office for London regarding the council's decent homes targets
 - The use of more up-to-date and reliable information from the update of the stock condition survey, which was anticipated to be ready by September 2008.
23. Appendix 2 sets out a comparison of the government definition of a decent home as against the agreed higher current borough standard.
24. Since April 2008, significant further work has been carried out on:
 - Means of increasing the capital resources available for investment
 - Surveying the condition of the stock and
 - Undertaking investment work in the stock.
25. Progress in these three areas is set out below.

INCREASING CAPITAL RESOURCES AVAILABLE

26. Officers have explored a wide range of ways of raising money for investment into the housing programme, including:
 - A bid to the London Housing Board (evolved to GLA targeted funding stream – outlined below)
 - The sale of major voids and street properties;
 - Larger scale sale of voids;
 - Ad hoc disposals eg roof voids, gardens, freehold reversionary interests, lease extensions etc;
 - Use of available land and under-utilised non housing assets;
 - Use of possible additional capital receipts from major regeneration projects;
 - Selective disposal of units on a small number of estates, together with redevelopment of additional units to cross-subsidise refurbishment of existing stock;
 - Increased social home buy;
 - Sale of commercial properties in the HRA as development opportunities.
27. The resource position was further examined in March 2009, when the Executive considered the report entitled 'Capital Income Generation for the Housing Investment Programme and Hidden Homes'. The Executive:

- Reaffirmed its commitment to retain both the ownership and management of the housing stock;
- Noted the funding gap to meet its investment needs for its housing stock, to deliver a Current borough standard for all tenanted homes;
- Noted the considerations for different funding options identified in the April 2008 executive report (Southwarks Decent Homes Standard) and agreed:
 - the disposal of empty homes (voids); and
 - the pro-active disposal of under-utilised land and non-residential buildings on housing estates.
- Agreed a new Hidden Homes strategy;
- Agreed that 100% of the receipts generated from the additional disposal of voids and land proposed be used to fund both the housing investment programme to deliver the current standard and to deliver new housing through a Hidden Homes strategy and potentially some new-build (maximising any external funding from the Greater London Authority (GLA) and Homes and Communities Agency (HCA) where possible to help fund these initiatives);
- Agreed that receipts gained from disposals under the Social Homebuy (SHB) scheme are directed, in the first instance, towards the operation of a Cash Incentive Scheme;
- Noted the impact of the current economic climate on these strategies and that the executive member for housing be delegated to vary these strategies in the light of market conditions.

28. These decisions have been progressed as follows:

Void Disposals

29. The sale of empty homes (voids) within the Housing Revenue Account has taken place where properties were uneconomical to repair. The Void Disposals Strategy was designed to extend the disposal programme to include a number of general voids (that is voids that would be available for re-let to applicants registered on the housing list via Southwark Homesearch) subject to their meeting specified criteria set out in the strategy.
30. The strategy was intended to be rolled out over a three year period with a view to generating £20m each year, divided between the investment programme and Hidden Homes scheme. During its first year, 2009/10, 65 units were sold against a target of 103, raising around £9.5 million against a target of £20 million.
31. A recent review of the Void Disposal Strategy has revealed that this limited success can be attributed to the restrictive nature of the initial criteria aimed at identifying suitable properties for disposal as well the value and type of properties earmarked to date.

Better Use of Housing Land and Property

32. A number of smaller scale estate regeneration schemes have been undertaken in the past eg Linden Grove, Coopers Road and the first phase of Elmington, which have been based on redevelopment rather than refurbishment. One of the common factors was a combination of high projected cost of refurbishment coupled with doubts on the part of the council and residents, that refurbishment

would achieve a suitable living standard. The redevelopment of Wooddene and the second phase of Elmington that are currently being pursued, are a response to the same conditions.

33. Certain of our estates continue to pose this challenge, and consideration should be given to appraising options for alternative solutions. If this is to include redevelopment, there would need to be development capacity to enable a phased and manageable programme of rehousing and redevelopment. There should also be an assessment of the capacity to develop on housing land, whether redevelopment is proposed or not. Consideration of this option will need to be made in the context of constraints eg. limited government funding available for regeneration and the changing policy framework making rehousing more difficult.

Hidden Homes

34. The first phase of Hidden Homes is currently being progressed. To date four have been completed and six more are in progress. The natural extension to Phase 1 of Hidden Homes which is delivering new homes in existing spaces within blocks is to develop unused or underused areas of estates

Targeted Funding Stream

35. In March 2008 the Greater London Authority (GLA) announced the availability of additional resources of £309.4m to RSLs, Arms Length Management Organisations (ALMOs) and Local authorities via the Regional Housing Pot Targeted Funding Stream 2008-2011. Allocations were made via a bidding process administered by the London Development Agency against a number of categories as outlined below.

- Gypsy and Traveller Site Grant – for new and refurbished pitches
- Settled Homes Initiative – aimed at reducing the number of households in temporary accommodation
- Innovation and Opportunity Fund – aimed at promoting better environmental practices; funding for improving homes beyond the decent homes standards; innovative approaches to the procurement or release of land for residential development
- Improving the Condition and Use of Existing Homes – aimed at bringing long term empty property back into use; improving the homes of vulnerable households in the private sector; extensions / deconversions of existing homes and enabling and supporting the delivery of estate/area renewal.

36. In response officers submitted a single bid amounting to £15.3 million and a sub regional bid of approximately £19.7 million. As a result Southwark received an allocation of £1,742,000 in response to its sole bid for the East Peckham and Nunhead Renewal Areas; and further allocations including support for upgrading the district heating on the Brandon and Cossall estates. An additional sum of £8,498,000 was also secured in response to the sub regional bid to improve homes in the private sector; extensions / deconversions and bring empty homes back into use which included an allocation for the Caroline Gardens estate.

The Context of Decent Homes

37. In December 2009, Southwark's Comprehensive Area Assessment found that *"too many of Southwark's tenants are living in poor quality housing and it is not*

likely that this will get better in the next two years. Despite significant investment in recent years, the funding needed to improve all the housing has not yet been secured. There is not yet an up-to-date picture of the condition of housing so improvement plans are not robust." This resulted in a red flag for the delivery of decent homes.

38. A number of meetings with the Tenant Services Authority (TSA), the regulatory authority for housing providers, have taken place to discuss decent homes delivery and other issues. Following these meetings, on 30 July the TSA formally wrote to the council to explain that in view of the improvement plans that were in place and the positive approach from the council they "*do not need to further consider any inspection of Southwark's services at the present*".
39. The government has signalled its support for the continuation of the decent homes programme through its announcement in the Comprehensive Spending Review of £1.6bn funding for this purpose, although no details are currently available on how this will be allocated.

STOCK CONDITION SURVEY

40. The original timetable for updating the Stock Condition Survey was not met because it was found that the quality of existing data was of low standard. In order to address these concerns over data quality, a detailed stock condition survey has been carried out by Savills to accurately assess the current and future repairs and maintenance liability of the housing stock. The survey was designed to provide statistically reliable information on repairs and maintenance as well as investment costs forecast over a 5 and 30 year term. The survey of Southwark's stock of 37,301 tenanted dwellings and 2,061 blocks at May 2010 included:
 - 100% survey of external and communal areas
 - 10% sample of internal condition
 - 20% sample of street properties
 - Housing Health and Safety Rating System (HHSRS) /Asbestos 10% sample of internal areas
 - SAP energy surveys carried out – 10% sample.
41. The Stock Condition database has been cleansed and data cloned (this is where surveyed data is copied across to unsurveyed properties of the same type and in the same area) according to professional advice based on current industry best practice, providing the most accurate position since the start of the Decent Homes programme. This has been a very thorough exercise, taking considerable time and resources, but can be regarded as a sound basis on which to make further investment decisions. The methodology used in the Stock Condition Survey process is described in more detail at Appendix 4.
42. The survey found that while the stock had generally been well maintained on a day-to-day basis, it had not received the level of major capital investment necessary to maintain all the homes to a recommended condition. As a result, there are a significant number of major components that have reached or are reaching the end of their useful life and which will require renewal in the short term.
43. Analysis of the survey shows that at the end of 2009/10 the level of decency had increased to 65.3% of the stock from the previous 53%. As well as this overall

improvement in condition, the survey also found that street properties were in better condition than assumed based on previous stock exercises. However, on the less positive side, electrical installations, both internally and on the landlord's side (external to dwellings) required renewal in more of our stock than previously known.

44. Further survey work by Southwark's own stock condition survey staff is carried out on a continual basis and is fed in to the database. More than 2,000 surveys are expected to be completed each year to ensure that the reliability of stock condition information is increasingly robust and up to date.

INVESTMENT IN HOUSING STOCK

Spend over last 5 years

45. Over the last three years 5,982 homes have been made decent, including 1,866 in 2009/10. Works have included the fitting of 2,929 new bathrooms and 1,726 new kitchens. Over the past five years the council has spent over £317m investing its housing rental stock. This figure includes expenditure through the decent homes allocation, and in meeting our obligations as a landlord, and covers works to estates and to individual dwellings. Expenditure relating to wider regeneration schemes, for example acquisition of leasehold interests, is not included.
46. As stated above, the Stock Condition Survey shows that the council's stock is 65.3% decent at the April 2010 baseline. However this is expected to change over time as more properties become non decent.

Current Two year Programme

47. The current two year programme was agreed in November 2009 following extensive consultation with all Area Forums, Tenant Council and Home Owner Council. The programme runs from April 2010 to March 2012 and is being delivered through a mixture of traditionally procured contracts and new partnering contracts. The works are scheduled to make 3,092 properties decent meaning overall decency will be 63%. This is lower than end of 2009/10 because more properties are currently projected to become non decent than will be made decent in the period. Ongoing survey work, both general and associated with particular work packages will clarify whether this actually occurs. The number of properties made decent is also lower than might be expected due to the inclusion in the current programme of some estates where the unit cost of works is higher than average. Existing commitments and pilot projects include:

- Hawkstone Estate
- Draper House
- Sceaux Gardens
- Consort Estate
- Street properties

48. The two-year programme is attached as Appendix 3.

Delivery Mechanism

49. The council has recently procured new long-term major works partnering

contracts. Five companies have been appointed to deliver decent homes works; they will be deployed geographically across the whole borough, with one focusing on the specialist area of street properties and major voids. The tendered costs provided by the contractors are extremely competitive and represents a 10%-15% reduction on prices previously secured by the council. This means that more decent homes work can be delivered for the same resources.

50. The longer-term approach is based on contractors demonstrating a commitment to the council and managing resources to deliver capital works with a predictable workstream that lead to further savings that are shared with the council. The contracts also have the ability to scale up quickly in the event of increased resources being made available and vice-versa in the event of a reduction. This is particularly important in light of the framework for bidding for future decent homes funding as mentioned in paragraphs 68-69 below, where value for money and the ability to deliver will be key factors in determining the award of resources.

KEY ISSUES FOR CONSIDERATION

Identifying the Investment Need

51. The council is committed to making every council home a decent home by making them 'warm, dry and safe'. The new 2010 stock condition survey provides a sound basis for assessing what works need to be carried out to meet such a standard. The level of decency is dynamic, with properties falling out of decency over time as individual components reach the end of their useful life. Overall, without further investment more than 23,000 properties will become non-decent by 2015, reducing the percentage of Southwark decent homes to 39%.
52. Modelling takes account of the whole stock where investment is required and no alternative decisions have been taken; for example, Maydew House is included for investment although a decision has been taken to rehouse residents, because no decision has yet been made on the future of the block. On the other hand, the phases of Aylesbury where delivery mechanisms were in place have been excluded from investment projections. No further adjustments have been made for the government announcement on the loss of PFI funding, pending a reassessment of alternative funding sources.
53. The application of the government Decent Homes standard is complex with a range of alternatives possible beyond the minimum requirements. For example, not all aspects of the standard need to be met (kitchens or bathrooms) and components can be refurbished or renewed. The standard does not replace the council's obligations as a landlord; costly works such as lift maintenance and replacement do not count towards Decent Homes.
54. The results of the new stock condition survey have enabled the investment requirements arising to be modeled against a range of definitions of decency, as follows:
 - **Minimum standard** – minimum works only to achieve decency, no new kitchens or bathrooms, refurbishments only.
 - **Minimum standard including bathrooms** – refurbishments with some replacements, low proportion of new internal components including just bathrooms but no kitchens. This standard is commonly used in Arms

Length Management Organisation (ALMO) authorities to work towards the 2010 decent homes target.

- **Minimum standard plus** – a variant on that above, with additional replacement of the worst kitchens (those in old and poor condition);
- **Current borough standard** – full block refurbishments, high proportion of internal components, some environmental works;

55. A summary of each standard is attached at Appendix 2. All four of these standards provide for residents' homes to be "warm, dry and safe".
56. A full reassessment has been carried out of the resources available for housing investment, taking into account all currently available funding sources, including capital receipts from housing land sales and the sale of voids. This has enabled an allocation for the decent homes programme over the next five years of £43 million on average each year, a total of £215 million, in addition to the funding allocated for landlord obligations.
57. Based on this level of investment over five years, the following table shows how many properties could be made decent and the percentage level of decency achievable for each standard. The table also shows the total level of investment needed to achieve full decency.

Decent Homes Standard	No. of Properties made decent by 2015 with £215 million <small>(assuming work commenced in April 2010)</small>	Percentage Decency by 2015 with £215 million	Total Investment Need for Full (100%) Decency by 2015
Minimum Standard	21,725	96%	£241 million
Minimum Standard plus Bathrooms	19,198	89%	£271 million
Minimum Decency plus	15,514	79%	£333 million
Current Borough Standard	9,672	64%	£529 million

58. For each standard there is a shortfall between the available resources and the investment required – the investment gap. The investment gap increases through this range of options and are all currently unaffordable at this stage given the funding available to the council; the gap ranges from £26 million to £314 million for the five year period as follows:

Decent Homes Standard	Investment Gap
Minimum Standard	£26 million
Minimum Standard plus Bathrooms	£56 million
Minimum Decency plus	£118 million
Current Borough Standard	£314 million

59. However, commitments have already been made to residents on a two year programme based on the current borough standard. Some of these works have already commenced, there are therefore limitations on the extent to which it would be possible in practice to change to a different standard for the first two years of the five year period. The cost of meeting the current standard beyond the minimum standard is £38m for the 2 year programme alone. This would take the cost of the minimum standard from £26m to £64m.
60. In addition, some residents have in the past expressed a priority for the replacement of windows by double glazed units. The additional costs of replacing all substandard windows in those properties being improved is estimated as a further £67m.
61. Whichever standard is adopted, the council will be faced with the challenge of bridging an investment gap. Given the current economic situation and the unprecedented cuts proposed by central government, this will be particularly difficult and it seems impossible to envisage how the investment gap of £314 million for the current borough standard could be bridged. The effect of retaining this standard would be that a lesser number of properties would be invested in, with the majority of residents seeing no benefit. This approach would fail to address overall levels of decency and fail to satisfy the council's commitment to make every council home a decent home by making them warm, dry and safe.

Bridging the investment gap

62. To achieve the decent homes standard within five years, even at the minimum levels, will require an additional £64m, comprising £26m to meet the minimum standard and £38m to meet the existing commitments over and above this standard. This figure rises to a maximum gap of £314m at the current standard.
63. Whatever standard is to be adopted, bridging such an investment gap while retaining the current level of council stock is a significant challenge, particularly in the current economic situation. In practice the investment gap can only be bridged by reducing costs or by finding additional resources.
64. Officers are exploring a range of measures to meet this deficit and these will be critical to the council achieving its aim to make every council home 'warm, safe and dry. These measures comprise the following:
- Efficiency savings in terms of the operation of the works contracts
 - Allocation of any housing capital programme surplus over five years
 - Award of national funding for decent homes from 2011/12
 - Increases in the sale of voids by changing the disposal criteria

- Regeneration or partial stock transfer including some of those estates that require the highest investment costs for refurbishment
- Possible use of commuted sums from planning s106 agreements.

65. Each of these is explored in greater detail below.

Reduction in Costs of Works

66. The new major works partnering arrangements will deliver overall costs savings going forward, as outlined above. In addition, if specifications for future work packages not yet committed were adjusted to remove elements that do not directly contribute to the Decent Homes standard, or that could reasonably be delivered later, costs for those packages could be reduced, and the benefit spread to allow works to be carried out to more homes.

In particular, not all of the works comprising the two year programme have yet been contractually committed. It would, therefore, be possible to review the extent of the uncommitted works to reduce the level of specification overall to allow more homes to benefit from decent homes work than is currently planned within the two year programme.

Allocation of Housing Capital Surplus

67. When the overall HIP is projected forward, there are some years when the balance of projected allocations to projected resources is in deficit and others where it is in surplus. On a year by year basis the programme is managed to spend the maximum amount of resources available, and it is normal practice to make provision for commitments where contracts or work packages cross financial years. At present, there is projected to be a surplus of around £20m over the 5 year period, with the balance of resources available at the end of the period. This figure will be constantly adjusted in the light of capital receipts and other changes.

National funding for Decent Homes

68. The council has expressed an interest in being involved in the development of the Devolved Delivery process which could result in the localisation of powers and financial autonomy to London boroughs. A consequence of this would be the creation of a single housing pot which would potentially allow individual boroughs flexibility in terms of funding flow between new build housing, decent homes and regeneration. Further detail about the implementation of Devolved Delivery, and the resources that may be available is awaited following the Comprehensive Spending Review.

69. In addition, the government has announced the national allocation of £2.1bn for the period 2011-15, of which £1.6bn has been earmarked for council providers to assist local authorities in achieving Decent Homes, with a target of achieving 150,000 refurbished council homes by 2014/15. This initiative is the subject of a separate report to cabinet.

Increases in the Sale of Voids

70. The current voids policy and performance against targets has been reviewed as outlined at paragraph 31. A range of options aimed at addressing these issues and increasing the level of capital receipts to support investment in existing stock

has been evaluated and will be set out in a separate report for consideration by the cabinet early in the New Year.

Selective Estate Regeneration

71. The stock condition survey has highlighted those estates with the highest maintenance and repair costs. These will require a disproportionate amount of the available resources and therefore impact negatively on the rest of the stock.
72. Some initial analysis has been carried out initially assess any redevelopment potential. The factors considered include: redevelopment viability issues; relative costs and capital receipts; legal or physical constraints; strategic considerations, and wider sustainability issues e.g. access to transport.
73. If an alternative solution to investment is to be considered for any estate, a great deal of further detailed work will be required. In particular it will be necessary to identify the criteria to be used to prioritise estates for further review and consultation and ultimately produce a short list for further consideration. While such measures would be of financial benefit, in the longer term, they require up front investment for leaseholder buybacks which would create short term pressure on investment budgets.
74. If after working this process through it was determined that full or part redevelopment was the appropriate solution for some estates, it must be recognised that the alternative proposals would not necessarily deliver a quicker outcome than Decent Homes work but it is assumed that that outcome would be more satisfactory for residents. The result would also mean that the resources for investment in remaining stock would spread further.

Other options for consideration

75. The transfer of parts of the stock could be considered where there is interest from residents in achieving investment either earlier than programmed, or to a higher standard than can be achieved with currently projected resources. Transfer would normally only be viable if the condition of the homes was such that the block or estate had a positive valuation. There is a limited history of stock transfer in Southwark, with only Dawson's Heights actually being transferred to other owners in 1986. Most transfers elsewhere have been achieved through the creation of a purpose built organisation backed by an existing large housing association.
76. As well as transfer of occupied homes with the support of residents, the possibility of a trickle transfer of empty homes to a housing association could be considered, although there would be difficulties to be overcome in respect of underleases and service charges. This would be similar in effect to the disposal of void properties outlined above, but could ensure that the properties remain in the affordable housing sector with nomination rights.

Possible Use of Planning Commuted Sums

77. An option to deliver funds for decent homes and landlord obligations investment may be to consider the negotiation of developer contributions which could be used for this purpose, in addition to the provision of affordable housing. This is being considered as part of our ongoing process of planning policy development. This will be the subject of a separate report to Cabinet in the New Year.

Community impact statement

78. Southwark's Housing Requirements Study 2008 found that certain types of households are over-represented in the borough's social housing, e.g. lone parents and pensioner households. Of pensioner households, for example, 69.1% live in social rented housing. The study also found that 40% of council renters contain at least one person with a health problem. The study found that disadvantaged groups overall are more likely to be living in social housing- for example certain BME groups.
79. There is increasing evidence of a link between poor housing conditions and ill-health. The proposals in this report to make homes warm and dry are likely to have health benefits for tenants and residents.
80. Replacing single glazed windows with double-glazing and replacing older, less efficient heating systems, increasing the thermal efficiency of council homes will have benefits for all residents in the borough, through reducing carbon emissions.
81. Demolition of council housing in poor condition may have an effect on established communities which may need to be considered on an individual scheme basis but all communities should benefit overall from eliminating non-decent homes.

Consultation

82. Consultation is planned with Tenant Council and Homeowner Council about the investment need identified by the stock condition survey, the projected resources and programme assumptions, and ways of dealing with the investment gap. It is proposed that the principles contained in this report are the subject of further discussion through the established machinery of Tenant Council, Homeowner Council, Area Housing Forums and the Decent Homes Review Working Party (DHRWP) to gather views and report them back to cabinet in March 2011. It is likely that the consultation will take place in two stages, an initial exercise about fundamental principles and a follow up when more information is available about resources available and alternative solutions.
83. The principles for initial consultation will include:
 - Work elements included in the different levels of Decent Homes standards.
 - Gap between identifiable resources and investment need.
 - Use of resources to achieve a higher standard in fewer properties, therefore taking longer period as opposed to: spreading resources more evenly and raising standard of more homes more quickly.
 - Relationship between investment to meet Decent Homes standard, landlord obligations and other requirements.
 - Relative importance of investment in Decent Homes and landlord obligations against elements not included eg security and environmental works.
84. This exercise will form part of overall consultation with residents on the Local Offers framework established by the Tenants Services Authority (TSA). This requirement will continue when the TSA is incorporated into the Homes and Communities Agency. The consultation will also include consideration of housing budgets and priorities.

Resource implications

85. The Housing Investment Programme is resource-led and seeks to invest all available resources in line with the council's priorities for housing investment. This report seeks to ensure the delivery of maximum benefit for the resources available. While further reports on resourcing the programme will be brought to cabinet in the New Year, there are no wider financial implications for the programme arising from this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law & Governance

86. The report recommends requesting officers to consider options in relation to the housing investment strategy and report back to cabinet with a view to agreeing a new approach. This may lead to changes of council practice or policy or to other housing management changes being proposed that could substantially affect secure tenants. In this event the statutory consultation requirement in section 105 of the Housing Act 1985 is likely to be engaged. Broadly, the requirement to consult arises where, in the opinion of the landlord council, a matter of housing management represents a new programme of maintenance, improvement or demolition or a change in the practice or policy of the landlord authority and is likely to substantially affect secure tenants as a whole or a group of them. Proposed consultation arrangements are set out in paragraphs 68-70 of this report. To meet legal requirements consultation must be undertaken when the proposals are still at a formative stage, include sufficient reasons for the proposals to allow any interested party the opportunity to consider the proposal and formulate a response and allow adequate time for interested parties to consider the proposal and formulate their response. Members will need to take into account the product of consultation when the matter is brought back for decision making.
87. The council's standard Right to Buy lease includes a provision enabling the council to charge an administration fee of up to 10% of the total service charge. Accordingly there is a contractual basis for the increase of the administration fee to 10% as set out in recommendation 12.

Finance Director

88. As stated in paragraph 58 there is an identified basic resource shortfall for Decent Homes investment of between £26m and £314m over the next five years (costs ranging from £241m to £529m, against identified funding of £215m). The shortfall on the minimum standard will also require an additional £38m for existing commitments above the minimum standard as detailed in paragraph 59.
89. It should be noted that the basic sum of £215m comes from a combination of several sources of capital funding, detailed below, and that this expected sum is based on current knowledge and not guaranteed. Also it should be noted that additional to this several other areas of the housing investment programme will be progressed, such as major projects, redevelopment, safety work and landlord obligations and that any new financial shortfalls developing in those areas could impact on Decent Homes funding. There is therefore a constant need to minimise unplanned commitments, to maximise all possible resources and to use these efficiently.

90. Key sources of HRA capital funding comprise the following:
- Capital receipts from void, surplus property and site sales – prices can be affected by the property market and availability of grant towards new-build. Earmarking of receipts is an internal matter for the authority to decide.
 - Capital grants – Government has severely cut back on new commitments. We have some grants already approved and the opportunity to bid for Decent Homes funding over the next four years (separate report being prepared on the bidding process). However, we cannot be assured of these until, at the earliest, the settlement announcement due in December 2010.
 - Borrowing – a four year £12m p.a. supported borrowing approval ends in 2010/11; further borrowing would largely be unsupported and there is no identified funding for consequent extra future debt charges due to uncertainty over the effect of revenue subsidy abolition from 2012/13.
 - Revenue Contribution – a basic amount from leaseholder contributions to major works continues, with any possible addition to this again affected by uncertainty over the effect of revenue subsidy abolition from 2012/13.
 - Depreciation contribution – funded by Major Repairs Allowance to 2011/12, internally generated under self-financing from 2012/13. New detailed arrangements are awaited from CIPFA.
91. Against the spending need and funding background the options proposed in paragraph 64 above are the following:
- a) Efficiency savings in terms of the operation of the works contracts
 - b) Allocation of any housing investment programme surplus over five years
 - c) Award of national funding for decent homes from 2011/12
 - d) Increases in the sale of voids by changing the disposal criteria
 - e) Regeneration or stock transfer of some of the most expensive estates to refurbish
 - f) Possible use of commuted sums from planning s106 agreements.
92. It is not yet possible to quantify the effect of these measures but it will be necessary to pursue and implement most, if not all of these, in order to eliminate the current investment funding gap. Regeneration and stock transfer schemes - e) - need to be thoroughly assessed before being progressed, as the cost of early acquisitions, low site values and rent loss can affect viability.

Head of Home Ownership & Tenant Management

93. The Decent Homes Standard is a standard for social housing tenants; full equity long leaseholders are not included in the definition of 'social tenant' (Housing and Regeneration Act 2008). Although many of the elements used to quantify decency do not impinge on our homeowners (for example the repair or renewal of kitchens and bathrooms or internal rewiring or replacement of individual boilers) other elements do because of the leaseholders' obligation to contribute towards the repair of the structure and communal services and installations by way of service charge. Windows, roofs and concrete/brickwork repairs are part of the decent Homes Standard which impinge on service charges; as well as most of the landlord repairing obligations referred to in the report (for example landlord wiring, district heating systems, lifts etc).
94. Variable service charges reflect the costs incurred by the landlord which raises the question of whether or not grant funded work results in a cost to the council

as landlord. The current funding regime for Decent Homes Work is in the form of (supported) permission to borrow. In 2011/12 the proposal is to reduce self financed debt, as this debt will be financed from rents (not service charges, the leaseholder proportion of debt was paid by the RTB capital receipts and major works service charges) the council incurs costs in respect of homeowners. As for future years grant will be paid in respect of the tenanted stock, service charges can only be reduced if the grant funding stream is included in a Secretary of State Direction pursuant to sections 219/220 Housing Act 1996.

95. Service charges for major works can exceed £30,000, especially where the current borough standard is used and 'enveloping' schemes are undertaken. Generally leaseholders have criticised this approach (sometimes successfully having their service charges reduced by the Leasehold Valuation Tribunal) stating that certain works are not required at the current time i.e. that specific building elements have some life left or could be repaired rather than renewed.
96. The thrust of this report, to repair those elements that need repairing to meet decency standards and landlord's obligations, will be welcomed by most leaseholders who have criticised 'gold plating' of specifications in the past. Should the recommendations of this report be agreed with anticipated funding the general effect will be more major works service charges but at a lower level.
97. Major works income currently has an effect on both the Housing Revenue Account and the Investment programme. 65% of income is used to finance investment and 35% is taken as revenue (which can be used to finance capital expenditure). The anticipated funding contained in this report is in line with current budget projections for major works income.
98. Southwark's standard right to buy lease allows the council, as freeholder and landlord, to charge management and administration costs. The administration costs are limited to 10% of the major works service charge. In April 2002 the Executive made a decision to charge administration fees on a sliding scale related to the cost of the contract. This will in effect limit the administration charge to 4% given the nature of the partnering contracts and the fact that the 2002 decision was irrespective of whether the contract included non rechargable decent homes works such as kitchens and bathrooms. Inherent in the decision of April 2002 was the requirement to review the fees and bring a further report and recommendation to Executive in 2004, such a report was not produced. In October 2003 new requirements for statutory consultation with leaseholders came into effect. In order to deal with these a new team had to be created Home Ownership Services to carry out all statutory consultation with leaseholders and the construction of major works service charges. The amount of consultation required was doubled, and in some cases trebled, resulting in higher administration costs to the council. However the 2002 decision was never reviewed. Home Ownership Services calculated the cost of administration for its services alone in relation to major works contracts for the year 2008/09. The total cost was just under £800,000 whilst the total administrative fee billed to leaseholders was £343,000. It must be borne in mind that the £800,000 does not include the administrative costs of divisions outside of HO&TMI. Benchmarking across the 33 London boroughs has shown that the majority charge an administration fee of up to 20%, with Southwark being the lowest. This is in addition to the management fees incurred on major works projects (covering the cost of design, procurement, surveyors etc). Any decision to charge in accordance with the terms of the lease will not be retrospective, it will only be applied to major works service charges where the revised administration charge

has been identified on the section 20 notice of proposals.

99. There is a statutory obligation in the rules governing the right to buy to provide estimates of the cost of repair work to be carried out in the five to six year period following purchase. The non inclusion of estimates means that costs of any repair work which is carried out in the "initial period" cannot be recovered from the leaseholders, a financial loss to the housing revenue account. Any five year investment programme needs to show detail of planned work at the block/estate level.
100. As indicated in paragraph 100 ante the decency standard relates to the tenanted stock; thus as properties are sold (either at auction as indicated in this report or through the right to buy or social homebuy scheme) the absolute number of homes needing to be made/kept decent reduces both in absolute and percentage terms. Since the original report on delivering decency was made in 2006 some 577 homes have been sold (2006/7 207; 2007/8 180; 2008/9 55; 2009/10 89 and to date 2010/11 46).
101. In paragraph 27 ante the report confirms that the March 2009 report on the generation of capital receipts was predicated on the retention of both the ownership and management of the housing stock. This, of course, is subject to the management of some of the stock by Tenant Management Organisations (TMOs) who have exercised their statutory Right to Manage. Some 6.7% of the total stock is managed by TMOs, the largest of which (the largest in the country), Leathermarket, delivers their own major works programme utilising a capital allocation from the council. Consultation with Leathermarket over the levels of capital funding have been had in the past. At present Leathermarket are putting together proposals to ring fence its income so as to be able to deliver 100% decency in its areas.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Report to Executive Meeting 08 April 2008 - Southwark's Decent Homes Standard	Investment Strategy Team 160 Tooley Street London SE1 2TZ	Sonia Esnard 020 7525 7743
Report to Executive Meeting 21 March 2006 – Housing Options Appraisal	Investment Strategy Team 160 Tooley Street London SE1 2TZ	Sonia Esnard 020 7525 7743
Report to Executive Meeting 08 April 2005 – Housing Options Appraisal Process	Investment Strategy Team 160 Tooley Street London SE1 2TZ	Sonia Esnard 020 7525 7743

APPENDICES

No.	Title
Appendix 1	A Decent Home: Government Definition
Appendix 2	Applications of the Decent Homes Standard
Appendix 3	Two year programme
Appendix 4	Stock Condition Survey Approach and Methodology

AUDIT TRAIL

Cabinet Member	Councillor Ian Wingfield, Deputy Leader and Housing Management	
Lead Officer	Eleanor Kelly, Deputy Chief Executive	
Report Author	Maurice Soden, Regeneration Initiatives Manager	
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Finance Director	Yes	Yes
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