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<b>REPORT TO:</b>	<b>Finance and Management Committee</b>	<b>AGENDA ITEM: 17</b>
<b>DATE OF MEETING:</b>	<b>23<sup>rd</sup> October 2008</b>	<b>CATEGORY: Delegated</b>
<b>REPORT FROM:</b>	<b>Director of Community Services</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>Bob Ledger (ext 5775)</b>	<b>DOC:</b>
<b>SUBJECT:</b>	<b>Stock Option Appraisal</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>All</b>	<b>TERMS OF REFERENCE: HCS01, FM08</b>

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## **1. Recommendations**

- 1.1 To seek approval from Members to revisit the 2004 Stock Option Appraisal (SOA) process leading to a report to Members in March 2009.
- 1.2 To authorise the Head of Housing to establish a Review Group and finalise its Terms of Reference and recruitment to places not held for Members. Draft Terms are at Appendix 1.
- 1.3 That the Committee nominate 3 Members to serve on the Review Group.
- 1.4 To confirm the indicative event timetable for the SOA Review Group as attached at Appendix 2.
- 1.5 To suspend Contract Procedural Rules (Tendering Provision) and delegate to the Head of Housing, subject to the approval of the Director of Corporate Services, the authority to appoint, a lead consultant for the period of the Appraisal and with a timeliness to enable them to be in place to support the SOA Review Group. A brief for the Lead Consultant brief is attached as Appendix 4. The cost of the lead consultancy not to exceed £15,000.
- 1.6 To delegate to the SOA Review Group, subject to the approval of the Director of Corporate Services, the authority to appoint, within Financial Regulations, an Independent Tenant Adviser for the period of the Appraisal. Consultants brief attached as Appendix 3.
- 1.7 To approve a working budget of £50,000 for the Appraisal process.
- 1.8 To authorise the Head of Housing to hold exploratory discussions with CLG and Government Office East Midlands on process and timetable to ensure the Appraisal meets all party's requirements.

- 1.9 To note that as this matter has service delivery implications it was also considered by the Housing and Community Services meeting held on the 16<sup>th</sup> of October 2008.

## **2. Purposes of the Report**

- 2.1 To establish the rationale for revisiting the 2004 Stock Option Appraisal (SOA); confirm the method and timetable for the SOA; provide it with the necessary resources and authorities to complete its work.

## **3. Background**

- 3.1 South Derbyshire District Council last carried out a full stock option review in 2004.
- 3.2 The Government required all stock retaining authorities to complete a stock option review/appraisal by July 2005. Stock Option Appraisal is a process which considers the long term viability of the local Housing Revenue Account including the standard of property maintenance, the standard of service being delivered to tenants, the level of rents, etc. There were four different models of looking at the future of the HRA business, all of which would be covered in a SOA. These are:
- stock retention;
  - transfer of the stock to a Housing Association;
  - Private Finance Initiative;
  - Arms Length Management Organisation (ALMO).
- 3.3 Whilst the stock retention and transfer options are better understood for the opportunities and constraints they bring the latter two are less well so. In simple terms both are centred around achieving the Government's Decent Homes Standard which is a basic level of property maintenance and condition that all social landlords are required to achieve by 2010. In the case of PFI this provides a vehicle to generate more investment income from the private sector, money which ultimately has to be repaid with interest. For ALMOs the increased funds for investment are provided by government through increased positive subsidy. There were a series of application rounds to become an ALMO. The latest one is closed and it is not clear if there will be any further application opportunities. It may be, therefore, that the ALMO option does not now exist. Neither ALMO or PFI option is designed to address investment in services, new homes or above Decent Homes Standard although they can in some circumstances contribute to those aspects.
- 3.3 In South Derbyshire we can achieve the Decent Homes Standard with the current funding streams and therefore the latter two options were rejected in the 2004 Stock Option Appraisal process as offering no additional overall value. The review became focussed on the future viability of the HRA account with the two options of stock retention or transfer to a housing association being considered in detail.
- 3.4 A large part of the stock options process is about consulting tenants on the levels of service and property standard they choose and aspire too. Through the 2004 Stock Option Appraisal the Council and tenants set two higher levels of property maintenance calling them the South Derbyshire Silver and Gold standards with the government's decent homes standard becoming the bronze standard. In relation to service levels there was a presumption that tenants would not support more staff being appointed to increase service levels although the Housing Service is low cost

according to Audit Commission figures. Customer satisfaction with Housing Services was high in 2004 and remains high (officially joint fifth best regarded landlord with its own customers in the country). The SOA process was more about alerting tenants that service levels and property standards would likely decline under the current finance regime because of the negative subsidy issue.

- 3.5 The national HRA subsidy system is a way that the Government looks to redistribute money between the remaining stock retained authorities. It basically treats all the individual HRAs as one national account. Of the 206 authorities retaining stock, in 2008/9 50 are in positive subsidy and receive money – 156 are in negative subsidy and contribute money. After taking account of the Major Repairs Allowance (a government assessment of what we need to maintain the key functional components of the stock) the government this year is taking 30% of the South Derbyshire income i.e. 30p in the pound of everyone's rent goes to government which accounts for some £2.85m this year. The contribution we are expected to make to the national pot is scheduled to increase year on year. It is this factor that is the most significant in planning for the future viability of our HRA and if all other commitments remained the same (with inflationary allowances) and subsidy rises as predicted, the account will go into the red within the next ten years.
- 3.6 The national HRA subsidy system has widely been accepted as being in need of reform since the early 1990's. The Audit Commission, a Government body, recommended the system for wholesale change in a 2005 report. A formal Government review was undertaken in 2006 reporting in 2007. The main outcome was the recommendation of a need to undertake a further review which is now underway and is due to report in 2009. There is a fundamental problem in any review that if Councils such as our own are allowed to keep more of their own income where are the replacement resources required going to come from? This problem is only likely to be further exacerbated by the current economic downturn. Should a revised scheme be proposed that favours Councils such as our own it will almost certainly have a transitional period over a number of years i.e. there is unlikely to be an immediate significant beneficial impact.
- 3.7 In 2004 officers recommended to Council to proceed to a tenant ballot following the SOA given that the local HRA could not be balanced in the medium to long term (later this was clarified in the HRA Business Planning process by government to be a 10 year period). Council's decision was not to proceed to ballot and keep the situation under at least annual review. In the first year (i.e. 2005) this was a full report to the Committee on the specific viability of the HRA and in subsequent years has been part of the twice-yearly projections of the HRA reported through the Finance and Management Committee.
- 3.8 There has been no thorough review of the Stock Options process therefore since 2005 and no dialogue with tenants on the matter since 2004. It is therefore recommended to revisit the Stock Options process in an involved way that incorporates the views of customers and revisits in detail the options available. The funding problems of the local HRA have not gone away. In the four years since the last review some £9m has been 'lost' to the national system.
- 3.9 In 2004 the anticipated net receipt should the housing stock transfer was £24m.

#### **4. Proposal**

- 4.1 In 2009 it will be five years since the last stock options review. Given the financial viability issues of the HRA and the need to keep tenants involved in the process of determining service and stock condition levels it is proposed to reopen the stock options process now and report back by the end of the financial year on the options available, the preferences of tenants and any next steps to be taken.
- 4.2 To be meaningful and thorough the Stock Options process is involved and time consuming. Government Office and CLG (Communities and Local Government Department) have produced guidance on the approach to stock option appraisals which they will require to be followed. The Council needs to have confidence that financial projections and tenant opinion has been accurately assessed to ensure that it has a mandate for future management. Whatever the outcome of the process it will need to stand up to scrutiny and therefore it needs to be a well structured and thorough process which follows good practice and government expectations.
- 4.3 The SOA is about verifying the future viability of delivering service and property standards in line with national and local agendas particularly with regards to the views of the tenants themselves. The SOA must concentrate on the financial viability of the HRA and in meeting tenants' expectations into the future. It must also consider the impact of different options on the wider Council. The review should take into account the impact on the whole Council of each of the four options in terms of its corporate viability and its opportunity to achieve its enabling roles such as the provision of more homes for affordable rent or low cost home ownership.
- 4.4 It is important to emphasise that the decision to re-open the SOA process it is not a decision to proceed with stock transfer nor a presumption that transfer is the likely conclusion. The recommendation in this paper opens up options for tenants and for the Council: it does not commit the Council to pursuing the transfer option to its conclusion or indeed any other option. Even if the recommendation from the SOA is to pursue transfer that would then be subject to extensive consultation with tenants, a detailed evaluation of the financial situation including the anticipated net receipt and finally the formulation of a formal 'offer' to tenants. That 'offer' would be balloted on and transfer cannot proceed without the majority of the tenants who vote voting in favour.
- 4.5 As was the case in 2004 it is proposed that the review would be carried out by a specifically formed group of nine people made up of equal numbers of the three main stakeholders: Members, tenants and staff. The three tenants to be nominated by the South Derbyshire Tenants' Forum; three members of staff, one to be nominated by Housing Services, one to be nominated by staff from outside Housing Services and one to be nominated by Unison. If Unison decline to participate a second nomination from Housing Services to be sought. The Group would work to agreed Terms of Reference. Proposed Terms are attached as Appendix 1 for Members comment. The group would meet at least four times in the period from adoption of this report through to reporting in March 2009.
- 4.6 The Group would follow a concentrated programme with the aim of concluding in February 2009 and reporting back the following month. An indicative programme is attached as Appendix 2. Whilst the Group may introduce criteria against which it will

evaluate the different options it is useful to set out the types of issues the Group is likely to consider and seek Members comments on factors that they also wish the Group to include. Typically the Group will consider the four stock options over the medium to long term on their likely ability to deliver stock investment to meet aspirations, service range and quality, support to vulnerable residents, new homes, tenant and resident involvement in governance, protection of jobs and improving service capacity, enhanced repairs and support service (e.g. decorating and gardening help), investment in community facilities and services, and improvements to open areas to meet expectations.

- 4.7 Stock option appraisal has a number of costs. The Council will need help in a number of areas, as it did in 2004. It is essential to have an Independent Tenant Adviser (ITA) and they need to be in place as soon as practicable. The proposed Brief for the ITA is attached as Appendix 3.
- 4.8 There will need to be lead consultants to advise and guide the process in accordance with accepted best practice. In 2004 we appointed communications specialists to the lead consultancy and whilst this did prove fruitful in relation to keeping all parties 'on board' and well informed it meant more of the background administrative processes continued to fall on officers to research as well as implement. Using a communications specialist in the lead consultant role could also constrain the ability of the Group to carry out the depth of financial and operational analysis that is preferable. It is therefore proposed to appoint a more experienced lead consultant to the project this time. Their brief forms Appendix 4.
- 4.9 As part of that role they will take a lead in managing communications. The Appraisal draws on tenant opinions and there is a need to produce at least one newsletter and run a programme of consultation. It is not unusual to hold a SOA with support from a lead consultant and an independent tenant adviser and no communications specialist. At this point the recommendation is to defer a decision on whether or not a specialist communication consultant is required and to delegate that decision to the SOA Review Group who will therefore be able to decide on need, timing and scope.
- 4.10 To summarise. To support the 2008/9 stock options process thoroughly it is proposed to appoint the following;
- i) Lead consultants to advise and guide on best practice, support the Review Group and provide initial financial analysis
  - ii) Independent tenant adviser. This is a fundamental to a stock option process and is primarily about checks and balances to the messages coming from the Council
- 4.11 It is proposed to make provision for but defer a decision on the appointment of a communications consultant and give the SOA Review Group authority to proceed with such an appointment should they so choose and then only in accordance with Financial Regulations.

## **5 Next steps**

- 5.1 Subject to Committee approval of the recommendations above, the next steps of this process will be as follows:

- a) to identify and invite a number of Members and Tenants to join the re-formed Stock Options Appraisal Review Group.
  - b) appoint lead consultants.
  - c) confirm the terms of detail of the review and its programme with the Group
  - d) through the SOA Review Group appoint an Independent Tenant Adviser to support that Group and provide impartial balanced communication with the wider tenant community;
  - e) review the availability and quality of information and data to enable a fully informed conclusion to be reached by the SOA Review Group
- 5.2 It is anticipated that the stock options process will report back to Committee by March 2009 with a recommendation on any next step.

## **6. Financial Implications**

- 6.1 The costs to support the Stock Options process are assessed as:
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|--|---------|
| Lead consultant:   | £15,000 |
| Independent Tenant Adviser:  | £15,000 |
| Printing and communications costs plus provision for any additional support to the Head of Housing Services: | £10,000 |
| Provision to be made for a Communication adviser should the SOA Review Group so choose:                      | £10,000 |
- 6.2 The total cost of the stock option appraisal process is therefore to be in the region £50,000. These costs will need to be met from HRA balances.

## **7. Corporate Implications**

- 7.1 Anything that moves from the status quo will have an impact on the Council. The clear consideration has to be that the SOA takes the corporate impact fully into account and looks to ensure that the outcome provides a best and viable solution for all parties.

## **8. Community Implications**

- 8.1 The report as a whole is essentially about making the best choice for the future maintenance and maintenance of the housing stock based on the needs and aspirations of the community.

## **9. Comments from South Derbyshire Tenants' Forum**

- 9.1 SDTF meets on the 20<sup>th</sup> October and this report will be considered at that meeting.