
REPORT TO:	HOUSING AND COMMUNITY SERVICES	AGENDA ITEM: 7
DATE OF MEETING:	26 AUGUST 2004	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF COMMUNITY SERVICES	OPEN PARAGRAPH NO: N/A
MEMBERS' CONTACT POINT:	BOB LEDGER (EXTN. 5775)	DOC: s:\cent_serv\committee reports\housing & community services\26 august 2004\housing stock options final report.doc
SUBJECT:	STOCK OPTION FINAL REPORT	REF: MA/SH
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE:

1.0 Recommendations

- 1.1 That Members recommend to Council the transfer of the South Derbyshire District Council housing stock to a new or existing registered social landlord

And

That the process of undertaking a ballot of all SDDC tenants with costings and timescale be brought to a future meeting of Members.

- 1.2 If 1.1 is not agreed that a further financial appraisal be brought back before Members within 12 months of the date of this Committee outlining the full impact of retaining the housing stock. The report to include choices on the level of service and staffing provided, with all income and expenditure options examined.

2.0 Purpose of Report

- 2.1 To bring before Members the final report on the stock option process.

3.0 Executive Summary

- 3.1 Financially, transfer is the best route to secure future improvements to the Council homes. Negative Housing Subsidy means that a net 19% of all rent and other HRA income is lost from the District each year and goes to the Government and the 'national housing pot'. The right to buy further drains the stock of houses and adversely affects revenue income.
- 3.2 Strategically transfer is more likely to deliver improvements to the private sector stock and potential development of new build social housing and more improvements to the current social housing stock sooner.
- 3.3 The Tenant Advisory & Consultation Team (TACT) are in favour of transfer, although clearly the majority of tenants at this time are not.

3.4 The consultation process with tenants was successful in raising awareness of the key issues. Attitudes have hardened and to be successful for a yes vote for transfer the consultants, who are communications specialists, have stated that some essential criteria must be met:

- Ruling group support with no active campaigning against the vote from within the Council.
- High profile leadership from key members
- Adequate resources over a 12-18 month campaign period
- An intensive community campaign i.e. doorstep

4. Project framework

- 4.1 The Government requires all Councils to undertake a long-term look at how its public sector housing services are provided and funded. The deadline for all reviews is set as July 2005.
- 4.2 Some of the review was to examine whether Councils will achieve the Decent Homes standard by the deadline set of 2010 but also broader issues such as tenant aspirations and longer-term budgetary issues.
- 4.3 The Council agreed the framework for detailed consultation work with tenants in the summer of 2003 in its Consultation and Empowerment Strategy. We were then originally advised by consultants to carry out the options review over the period of October 2003 to January 2004. It was subsequently decided that as a key part of the review was tenant consultation, asking tenants to attend meetings during the winter months was unlikely to maximise attendance at meetings. The second project plan set a start of the consultation process for February 2004 with a proposed final reporting stage of June 2004.
- 4.4 An officer project group was established in September 2003. Following a recommendation by that group Committee established the project group membership with equal numbers of elected Members, tenant representatives and officers. A second key decision was to appoint a consultancy organisation to inform and test tenant opinion. It was decided that in terms of public profile the consultancy process would be operated at 'arms length' in an effort to minimise any allegations of bias for one option over any other.
- 4.5 The name 'Home Choice' was chosen for the consultation process to convey to tenants that we were sensitive to the fact that we were not talking about 'stock' to tenants but their homes.
- 4.6 Following initial written submissions, several consultancies were selected to present to the project group of 3 TACT members, 3 Members (2 Labour, 1 conservative) and 3 officers. Key issues in selection were track record and capacity. In November 2003, October Communications and Vision 21 were appointed.

4.7 The overall project plan consisted of key elements which eventually led to separate reports in the following key areas. The rest of this report draws together the main conclusions from each key area.

- Consultation Strategy
- Financial Assessment
- Independent tenant adviser (LIBRA)
- GOEM and CHTF involvement and sign off
- Housing Strategy implications

5. Consultation Strategy (Annexe 1)

5.1 Before any consultation work took place a telephone survey of just under 20% (631 actual number – approx. 3,320 tenants) of randomly selected tenants was undertaken to establish the baseline position in terms of tenant knowledge, preferred method of consultation and initial views on their preferred landlord. Tenants were contacted at different times of the day.

5.2 At this stage awareness of a possible change in housing management was 39.2%. Over 80% of tenants wanted to stop with the Council as their landlord. Tenants contacted said that their preferred method of being contacted to receive information was by newsletter, telephone and meetings.

5.3 A series of 17 meetings around the district was organised at which 252 tenants attended. A freephone telephone line was set up as a support service for tenants and 153 tenants took advantage of this. Three newsheets were sent out to all tenants and moved from an initial introduction of the issues in the first edition to detailed and frank financial information in the third edition. Three tenants' workshops were provided to allow tenants to examine the housing transfer issues in some depth and 54 tenants attended these events.

5.4 Towards the end of the process a second telephone survey of just under 600 tenants was conducted. Awareness of the possible change in housing management had increased from 39.2% to 90.2%. The aim of raising awareness of the issue had therefore been successfully met. Awareness on the options increased. 86% of tenants stated that given a vote, they would vote for 'no change'.

5.5 As the process did not actively promote transfer the consultants advise that a majority of tenants in favour of no change is understandable against a background of high satisfaction levels with the Council's service. The consultants are of the view that achieving a positive ballot result in favour of transfer could be achieved if a number of criteria are met:

- The ruling group would have to support transfer with no active campaigning against the vote from within the Council.
- There would have to be high profile leadership and campaigning from key elected members.
- Adequate resources would need to be provided over a 12-18 month period. Given the high retention starting point this was seen as a necessary time period.
- An intensive community campaign i.e. doorstep.

Member and Staff Information

- 5.6 All Council staff have had the opportunity to be briefed on the stock option process. Housing staff have had more in depth sessions. Union officials have been present at a number of meetings.
- 5.7 The team-briefing newsletter has also been used regularly to give all staff information on the progress of the project.
- 5.8 Early in the process a pocket guide was produced for both members and staff reference.
- 5.9 Three Members seminars were arranged over the course of the project to give them a chance to receive and ask for information on the process.

6. Independent Tenants' Adviser - Libra Housing Advisory Services (Annexe 2)

- 6.1 Libra were appointed as the Independent Tenants' Adviser by TACT in February 2004. Libra carried out the following activities:
 - Support to TACT
 - Assessment of the options/liaison with the Council and advisers
 - TACT training
 - Visits to Sheltered Schemes
 - Home visits/small group sessions
 - Scrutiny of publications, focus groups, results, etc
 - One edition of a separate newsletter
 - Freephone
- 6.2 Libra's conclusion is that South Derbyshire is 'in a relatively strong position in terms of the standards of its housing stock. There is no immediate crisis requiring attention and no difficulty meeting the Government's basic Decent Homes Standard'. Libra identified that higher standards to tenants were unlikely to be affordable if the stock was retained within Local Authority control and the Right to Buy issue may affect services into the longer term. Libra's view is that 'staying with the Council is a real option in our view', although the longer term gave them 'some concern'. In meetings with TACT Libra report that TACT's view is that transfer provides the best option for tenants.

7. Strategic Housing Issues (Annexe 3)

- 7.1 The population of South Derbyshire is 81,600. The district is rated 216 out of 354 Local Authorities of the Government's indices of deprivation. (A rank of 1 indicates the most deprived.)
- 7.2 In April 2003 the District's housing stock stood at 35,436. Of these 88% are either owner occupied or privately rented. A further 10% are rented from the Council with the remainder under the control of Registered Social landlords. Around 2,000 properties were considered to be unfit at the time of the 1990 private sector stock survey. A new survey of stock is currently being completed and the unfit figure is anticipated to be less due to a booming housing market.

- 7.3 The house price increases of the recent past, along with the influx of people from outside the district is causing problems for some first time buyers. On the basis of district wide averages and incomes the overall housing need for South Derbyshire is estimated to be for 160 additional affordable properties per year.
- 7.4 The Council commissioned a public sector stock condition survey in 2001 with the primary aim of identifying how much of the stock failed to meet the Decent Homes Standard. 76% of the stock is classified as decent and 24% (774 properties) are classified as non-decent.

The Strategic role of the Council – after stock transfer

- 7.5 There would be a capital receipt generated of approximately £23.8 million. This fund could be used to develop affordable housing and help achieve the decent homes standard in the private sector. It could also be used for other capital projects for community needs.
- 7.6 After transfer the Authority would retain all statutory obligations in relation to homelessness and for ensuring that accommodation and any necessary support is available to everyone who is homeless or at the risk of homeless. It may be that the Council would wish the transfer association to carry out these functions under an agency agreement.
- 7.7 In South Derbyshire, as in other districts, stock transfer would have a significant implication for the future role of the Authority and therefore its Members and officers.
- 7.8 Currently the HRA Business Plan is one of the main sub-strategies of the Council. Members lead in the setting of significant housing policies such as allocations, repairs, improvements, etc. The Council stock is used to ensure that all tenant groups, particularly vulnerable people, have access to accommodation. Partner organisations, such as Social Services, Connexions are consulted on and involved in making decisions on how the stock is managed. It is clear that under a stock transfer a number of the existing mechanisms for setting policies and establishing frameworks for management decisions would change.
- 7.9 As well as the policy role Members also have a constituency role within their wards receiving queries and complaints from constituents concerning the allocation, management and maintenance of housing generally. Undoubtedly, tenants of a new social landlord would still come to ward Councillors with housing issues in the same way as housing association tenants do at present. Members would have less direct control, however, over the response to these as they would no longer be the landlord, although it will be open to them to make representations on behalf of constituents to the new landlord.

- 7.10 New opportunities would, however, open up through a new landlord body. The Council could nominate a proportion (usually a third) of the board of the new landlord. As such, these Members would be responsible as a director of the new landlord rather than as a nominee of the Council. Given that the new landlord will be undertaking an investment programme not currently available to the Council, which will include the development of new housing, these responsibilities would arguably be more fulfilling than those currently available to Members because there would be a responsibility for a major development programme and, thereby, improved service provision.
- 7.11 Transferring to the RSL Sector would to some degree put the transfer Housing Association in an equal footing to those that currently operate in the District. However, evidence shows that where there has been a stock transfer there is a tendency for other RSLs to feel 'left out', as the Local Authority tends to focus on the new Association.
- 7.12 Until recently one of the advantages of stock transfer was that the new Association could then start to bid to the Housing Corporation for development funds. However, the Housing Corporation is currently piloting developing with only its preferred partners. To be a preferred partner the RSL must have an excellent track record in development. Local Authorities have not been able to build new housing for a number of years and so the prospect of a new Association building new affordable homes is restricted. Although an option would be for it to join a partnership whereby a preferred partner of the Housing Corporation bids and develops new homes and then on completion hands the housing and management responsibility to the transfer Housing Association i.e. properties are built through another association on an agency basis.
- 7.13 Following stock transfer the Council will continue to have a strategic housing role. While methods for achieving strategy will change, as it will have divested itself of its housing assets, the Council will remain responsible for determining the extent of housing need throughout the District and overseeing the investment in new housing provision.
- 7.14 Generally, when an Authority transfers the whole of its housing stock to a new landlord there are substantial implications for housing staff and for some other staff such as legal, finance, personnel, etc. In most cases housing staff dealing with the management and maintenance of the stock usually transfer to the new landlord under Transfer of Undertaking Protection of Employment (TUPE) Regulations.
- 7.15 Decisions would need to be made with regards to those staff who do not spend all of their time on housing matters. Even if a proportionate number of staff in terms of current activities transferred to the new organisation from the supporting services e.g. finance, legal, personnel, etc, it is likely that the costs remaining in the general fund (as outlined in the financial report) would become an additional burden simply as a result of the loss of economy of scale achieved by having the Housing Service in-house.

7.16 Table 1 is a summary of the key issues in housing strategy terms for the 4 options that the Council has consulted the tenants on.

Feature	Stock Transfer	Arm's Length Company	Private Finance Initiative	Stock Retention
Property Ownership	Homes (and related assets) sold to registered Social Landlord (RSL)	Homes remain in Council ownership	Homes remain in Council ownership	Homes remain in Council ownership
Capital receipt	Capital receipt if stock has a positive value	No capital receipt	No capital receipt	No capital receipt
Public funding eligibility – e.g. able to bid for additional grants not currently accessible	Yes	No	No	No
Likely to maximise use of Section 106 money and other funding streams	More likely	Less likely	Less likely	Less likely
Reduce the depletion of social housing by Right to Buy	Yes	No	No	No
Likely to increase delivery of affordable homes	Yes	No	No	No

7.17 Stock transfer is the only option in which the Council receives a capital receipt. This makes the option favourable in terms that the Council would be able to deliver more of its targets and aspirations within the housing strategy. In addition new tenants to a housing association are likely not to have the Right to Buy, although a less financially advantageous Right to Acquire would be available. In this way a transfer helps over time to reduce Right to Buy numbers and retain a greater proportion of homes in the social housing sector although current tenants transferring to a new landlord would retain their Right to Buy.

8.0 Financial Implications

Financial Appraisal (Annexe 4)

- 8.1 It appears that from a financial viewpoint, the two options of 'no change' and 'transfer' appear much more favourable to the Council compared to PFI and ALMO. Firstly, to make the best use of PFI would require a large contract and be able to target particular problems or "hotspots". At present, it is considered that there are no specific issues concerning voids or a particular housing estate for the Council where a PFI would neatly fit.
- 8.2 In addition, it would be questionable whether the traditional high set-up costs and technicalities in monitoring contracts, would be realistic given the relatively small number of Council homes. However, the Government is trying to make the complexities easier, and assistance and advisory support is available to Councils pursuing this option. The biggest risk is that this option is not well tested for housing even in larger Councils.
- 8.3 As regards ALMO (Arms Length Management Organisation), the main reason that some Districts choose this option is that it effectively provides resources to bridge the funding gap in meeting the Decent Homes Standard. This Council is not currently in this position, and can meet the minimum (Bronze) standard earlier with possible headroom to meet a higher standard (although not by 2010).
- 8.4 Consequently, it would be difficult for the Council to gain Government approval for the ALMO option, notwithstanding the fact that it may not be able to meet the Government's performance criteria. However, this may be less of a factor as ALMO is all about meeting "Decent Homes".

This leaves "no change" and "transfer".

No change compared to Transfer

- 8.5 The main benefits of transfer are that the Council would receive a substantial sum for new investment, which could be used to fund its wider housing, regeneration and community investment strategies. In addition, a RSL has the potential to access additional resources, which could deliver additional improvements earlier, for instance the Gold Standard as identified in the finance paper.
- 8.6 Clearly, this may be desirable to the Council and tenants alike making this option the most attractive.
- 8.7 However, due consideration would need to be given to the significant impact a transfer could have on the rest of the Council, if one of its major service areas is lost. In addition, there is no guarantee that a RSL would be successful – it would still be open to business risks as much as other organisations. The Housing Corporation though would take on the monitoring and assessment role of any new organisation.
- 8.8 In financial terms "no change" should not be easily dismissed as an option, especially if the projected budget deficit in future years can be addressed. There are options available for doing this and the Council could benefit from changes being proposed to

subsidy and rent setting guidelines. However although these changes may be beneficial they are unlikely to change the overall position of negative subsidy and reducing income i.e. their effect may be to delay rather than change the point when the HRA became unsustainable.

- 8.9 Negative Housing Subsidy currently means that a net 19% of our rent and other HRA income is lost from the District each year and goes to the Government and the 'national housing pot' i.e. in 2004/5 our negative subsidy 'payment' is projected at £3.62M and our Major Repairs Allowance 'income' at £1.87M giving a net contribution to Government of £1.75M. The total income projected is £8.77M.
- 8.10 The right to buy further drains the stock of houses and adversely affects revenue income.
- 8.11 The Council potentially has the resources to go above the minimum Decent Homes Standard and could deliver further improvements over time, although this is not certain and at the very least, would probably be slower compared to the "transfer" option.
- 8.12 The Council does now have potential access to additional resources, from the transitional pooling arrangements and "in and out" rules. These could help address the projected budget deficit and provide for additional capital investment. The Council would need to balance using these resources for council homes against the wider priorities contained in its Housing and Capital investment strategies. As stated in 8.8 though the effect may be to delay rather than change the point when the HRA became unsustainable.
- 8.13 If "no change" became the preferred option, then the Council would need to set in place a robust business plan and strategy. This would need to demonstrate to the Government the long-term viability and sustainability of the HRA and that improvements can still be delivered to tenants. If other factors remain the same the long-term viability of the HRA can only be ensured by economies in service provision. Additionally there may be consequential effects of such economies in other non-housing services.

8.14 Financial Risk Assessments

Transfer – Benefits v Risks Benefits

Risks

- | | |
|---|--|
| <ul style="list-style-type: none"> • Council receives significant capital sum • Remaining HRA Reserves transfer to the Council • Financial stability more certain • RSL can potentially access more resources to improve services | <ul style="list-style-type: none"> • Could be limitations on spending this money • Less likely to receive an on-going share of RTB's • Costs remaining with the Council currently in the HRA • The RSL would still face business risks |
|---|--|

Financial Issues –Private Finance (PFI)

- Consortium delivers services in accordance with a Contract
- Future costs more predictable
- Additional money available
- BUT only to target particular problems/issues
- Cost of getting it off the drawing board
- AND it is not really tested in Housing – Risk!

PFI – Benefits v Risks

Benefits

- Raises additional resources for targeted improvements
- In theory, a contract provides more certain and predictable costs
- Council continues to receive proceeds from RTB's

Risks

- Not well tested for Housing
 - High set up costs
 - Consortium could fail to deliver
 - Extra costs of on-going administration and monitoring
-

Financial Issues – ALMO

- Would the Council qualify?
- Costs of setting it up – but less onerous
- Costs of running the ALMO – could push costs on the General Fund
- Substantial additional resources have been made available in previous bidding rounds
- But on-going support could be subject to future Government policy
- Cost Base could still be a problem

ALMO – Benefits v Risks

Benefits

- Potentially, significant additional resources available
- Still a contribution to the Corporate costs of the Council
- Council continues to receive proceeds from RTB's

Risks

- Still a business risk – doesn't necessarily overcome projected budget deficit
- No mid to long term guarantee of on-going Government support

8.15 Overall Financial Summary

Points to Consider

- PFI and ALMO less likely options for SDDC
- Basically leaves Retention or Transfer
- Retention could be viable to 2009/10 and perhaps beyond if options explored – using capital receipts?
- Transfer is the favoured option financially
- Council gets a large capital lump sum
- Transfer significantly improves future financial viability for social housing in the District
- And tenants may get more improvements delivered sooner

BUT Transfer

- Could have a significant impact on remaining Council services
- And the RSL would be a business – there is no ultimate guarantee of delivering everything

MAIN RISKS

- Significant factors outside the Council's control
- Demonstrating the financial sustainability of the HRA in the longer-term

9. Conclusions

- 9.1 Financially, transfer is the best route to secure future improvements and services to the Council homes. Negative Housing Subsidy means that a net 19% of all rent and other HRA income is lost from the District each year and goes to the Government and the 'national housing pot'. The right to buy further drains the stock of houses and adversely affects revenue income.
- 9.2 Strategically transfer is more likely to deliver improvements to the private sector stock, the development of new build social housing and more improvements to the current social housing stock sooner.
- 9.3 TACT are in favour of transfer although clearly the majority of tenants at this time are not.
- 9.4 The consultation process with tenants was successful in raising awareness of the key issues.
- 9.5 Attitudes have hardened and to be successful for a yes vote to transfer the consultants have stated that some essential criteria must be met.
- Ruling group support with no active campaign against the vote from within the Council
 - High profile leadership from key Members
 - Adequate resources over a 12 – 18 month period
 - An intensive community campaign i.e. doorstep.
- 9.6 The officer recommendation is for transfer.

