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<b>REPORT TO:</b>	<b>HOUSING AND COMMUNITY SERVICES</b>	<b>AGENDA ITEM:</b> 13
<b>DATE OF MEETING:</b>	<b>7 OCTOBER 2004</b>	<b>CATEGORY:</b> <b>RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>DIRECTOR OF COMMUNITY SERVICES</b>	<b>OPEN</b> <b>PARAGRAPH NO: N/A</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>BOB LEDGER (EXTN. 5775)</b>	<b>DOC:</b> s:\cent_serv\committee reports\housing & community services\7 oct 2004\housing stock options final report.doc
<b>SUBJECT:</b>	<b>STOCK OPTION FINAL REPORT</b>	<b>REF: MA/SH</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE:</b>

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## **1.0 Recommendations**

- 1.1 That Members transfer the South Derbyshire District Council housing stock to a registered social landlord.

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

- 1.2 Alternatively that a further financial appraisal be bought back before Members within 12 months of the date of this Committee namely the 26 August 2005 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. The right to buy drains the stock of houses and effects income. The Housing Subsidy arrangements means that further income is continually lost. Strategically transfer is more likely to deliver improvements to the private sector stock and potential development of new build social housing. Tenant Advisory & Consultation Team (TACT) are in favour of transfer, although clearly the majority of tenants at this time are not. 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 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 Committee i.e. doorstep campaign

## 4.0 Detail

- 4.1 The Government requires all Council's 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.

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.

The Council was originally advised by consultants to carry out the review over the period of November 2003 to March 2004.

It was 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.

An office project group was established in September 2003. From the start the group felt it was vital that officer, Elected Member and tenant representatives should be represented on the project group in equal numbers. A second key decision was to appoint a consultancy organisation to inform and test tenant opinion. By arms lengthening the consultancy process the Council wanted to ensure that any allegations of bias from any interested group could not be sustained.

The name 'Home Choice' was chosen for the consultation to convey to tenants that the Council was sensitive to the fact that we were not talking about 'stock' to tenants but their homes.

Several consultancies were chosen 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.

The project plan consisted of key elements which led to reports on key areas:

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

### Consultation Strategy (Annexe 1)

- 4.2 A first telephone survey of 20% of randomly selected tenants contacted at different times of the day took place. The purpose of this was to establish a base-line position in terms of tenant knowledge, preferred method of consultation and initial views on their preferred landlord.

- 4.3 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. A series of 17 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 to detailed and frank financial information. 3 tenants' workshops were provided to allow tenants to examine the housing transfer issues in some depth. 54 tenants attended these events. Towards the end of the process a second telephone survey of nearly 600 tenants was conducted. Awareness of the possible change in housing management increased from 39.2% to 90.2%. The aim of raising awareness of the issue had been successfully met. Awareness on the options increased. 86% of tenants stated that given a vote, they would vote for no change.
- 4.4 As no preference for any of the options was expressed by the Council the consultants advised that the high 'no change' opinion could be moved. For a ballot in favour of transfer to be viable the consultants have stated that a number of criteria would have to be 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 provided over a 12-18 month period. Given the high retention starting point this was seen as a necessary time period.
  - An intensive community i.e. doorstep campaign.

#### Member and Staff Information

- 4.5 All Council staff have been briefed on the stock option process. Housing staff have had 3 more in depth sessions at which union officials have been present.

The staff newsletter has also been used to give all staff information on the progress of the consultations process.

Members have been given 3 seminars to give them a chance to receive and ask for information.

#### Libra Housing Advisory Services (Annexe 2)

- 4.6 Libra were appointed as Independent Advisor by TACT in February 2004. Libra carried out the following activities:
- Support to TACT
  - Assessment of the options/liason with the Council and advisors
  - TACT training
  - Visits to Sheltered Schemes
  - Home visits/small group sessions
  - Scrutiny of publications, focus groups, results, etc
  - Freephone

- 4.7 Libra's view 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', 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.

#### Housing Strategy (Annexe 3)

- 4.8 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.)
- 4.9 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 2000 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 that figure is anticipated to be less due to a booming housing market.
- 5.0 The 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 needs for South Derbyshire is estimated to be 160 affordable properties per year.
- 5.1 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 – after stock transfer

- 5.2 There would be a capital receipt generated of approximately 22 million pounds. 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.
- 5.3 After transfer the Authority would retain all statutory obligations in relation to homelessness and the allocation of housing-homelessness and for ensuring that accommodation and any necessary support is available to everyone who is homeless or at the risk of homeless.
- 5.4 Currently the HRA Business Plan is one of the main sub-strategies of the Housing Strategy and is used as a mechanism to meet housing needs from within the existing stock. Members are involved in the setting of policies such as allocation. 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 consultant on and involved in making decisions on how the stock is managed. Under a stock transfer there would no longer be an HRA Business Plan and these important links may be lost.

- 5.5 Transferring to the RSL Sector would to some degree put the new 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 the RSL to feel left out as the Local Authority tends to focus on the new Association. 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. Local Authorities have not been able to build new housing for a number of years and so the prospect of the new Association building new affordable homes is restricted. Although an option is 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 management responsibility to the LSVT Company.
- 5.6 In South Derbyshire stock transfer would have a significant implication for the role of the Authority and therefore its Members and officers roles.
- 5.7 With regards to housing, transfer of the housing stock represents a potentially significant change in the role for Members. At present Members have two distinct roles in respect of Council housing stock. Firstly Members have a role in setting policies and strategies affecting all aspects of housing but particularly the Council's own stock and, secondly, Members have a constituency role within their wards receiving queries and complaints from constituents concerning the allocation, management and maintenance of housing generally.
- 5.8 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.
- 5.9 The change for individual Members would be more significant. Undoubtedly, tenants of the 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. However, it will be open to them to make representations on behalf of the constituents.
- 5.10 New opportunities would, however, open up through a new landlord body. The Council could nominate a proportion 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 these currently available to Members because they would have responsibility for a major development programme.
- 5.11 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 of the stock usually transfer to the new landlord under Transfer of Undertaking Protection of Employment (TUPE) Regulations. Decision would need to be made with regards to those staff who do not spend all of their time on housing matters.

5.12 Should a stock transfer proceed, consideration needs to be given as to which services might transfer and which remain and the resulting financial implications. The Council will need to decide which strategic housing functions, such as housing advice, the housing waiting list and homelessness service stay with the Council.

5.13 Other staff may be eligible for TUPE eg some financial and legal staff. The Council will still face a considerable extra burden to the general fund (as outlined in the financial report) from staff some of whose time is recharged to the HRA.

5.14 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 – eg 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	Yes	No	No	No
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

5.15 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.

## **6.0 Financial Implications**

### Financial Appraisal (Annexe 4)

- 6.1 It appears that from a financial viewpoint, the 2 options of “no change” and “transfer” appears 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 etc. where a PFI would neatly fit.
- 6.2 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.
- 6.3 As regards ALMO, the main reason for this option is that it effectively provides resources to bridge the funding gap in meeting the Decent Homes Standard. The 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).
- 6.4 Consequently, it would be difficult for the Council to gain Government approval for this 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

- 6.5 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 this paper.
- 6.6 Clearly, this may be desirable to the Council and tenants alike making this option the most attractive.
- 6.7 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 as successful – it would still be open to business risks as much as other organisations.
- 6.8 “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.

- 6.9 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.
- 6.10 However, 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.
- 6.11 The biggest risk with “no change” is that current funding streams, including the Major Repairs Allowance, continue in the future and any changes do not have an adverse affect on the Council. In addition, further budget issues are likely to emerge in future years, which would put further pressure on the HRA.
- 6.12 Increases in subsidy allowances and additional capital sums may help the HRA in the shorter to medium term. However, in the longer term, Housing’s costs base is not sustainable, it will need to be addressed and this will be a major factor for the Council.
- 6.13 On this point, 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 be delivered to tenants.

6.14 Risk Assessment

Transfer – Benefits v Risks

Benefits

Risks

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

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

## 6.15 Overall Summary

### Points to Consider

- PFI and ALMO less likely options for SDDC
- Basically leaves Retention or Transfer
- Transfer is the favoured option financially
- Council gets a large lump sum and has in issues regarding future sustainability of the Service
- 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
- Retention could be viable to 2009/10 and perhaps beyond
- There are options – using capital receipts?

### RISKS

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

## **7.0 Conclusions**

- 7.1 Financially transfer is the best route to secure future improvements to the Council homes. The right to buy drains the stock of houses and effects income. The housing subsidy arrangements means that further income is continually lost.
- 7.2 Strategically transfer is more likely to deliver improvements to the private sector stock and potential development of new build social housing.
- 7.3 TACT are in favour of transfer although clearly the majority of tenants at this time do not.
- 7.4 The consultation process with tenants was successful in raising awareness of the key issues.
- 7.5 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 ie doorstep campaign.

The officer recommendation is for transfer.