
REPORT TO:	HOUSING AND COMMUNITY SERVICES	AGENDA ITEM: 11
DATE OF MEETING:	6th OCTOBER 2005	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF COMMUNITY SERVICES	OPEN PARAGRAPH NO: N/A
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SUBJECT:	ANNUAL REVIEW OF STOCK OPTIONS	REF: RL
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: HCSO1

1.0 Recommendations

- 1.1 That Members accept the revised financial projections for the Housing Revenue Account (HRA) to 2014/15 and note that the account is now projected to be viable over that period.
- 1.2 That Members note that 24% of all rent income into the HRA is still 'lost' to Government in terms of 'negative subsidy' and that whilst this situation is maintained the account cannot be sustained in the long-term.
- 1.3 That a recommendation be made to Finance and Management Committee that costed Service Level Agreements (SLAs) be developed between the central services and the Housing Division to ensure that central service recharges are made on the basis of an auditable assessment of work undertaken.

2.0 Purpose of Report

- 2.1 Members will recall the decision of full Council of the 4th November 2004 that in relation to the future management of the Council housing stock;
 - That the status quo is maintained and the Council retains the housing stock with the requirement that officers examine possible efficiency savings and examine revenue and capital resource deployment to ensure that projected deficits are addressed.
 - That the council maintains a monitoring role and provides annual updates on medium to long-term predictions so that the situation is kept under constant review.
- 2.2 This report is the first annual update since as per the second part of the above decision.

3.0 Executive Summary

- 3.1 The report recaps on the decision not to progress the stock transfer option and states though that although the HRA is now viable over a longer period than reported last year (principally due to additional resources being identified and efficiencies being achieved) the rationale for transfer remains in place i.e. the HRA is still not viable in the longer term and the district annually 'loses' 24% of its rent income to the national pool.
- 3.2 The report details the risks associated with the status quo of stock retention and concludes that the retention decision allows very limited scope for service and stock development beyond that already projected. In a fast changing sector at the centre of government policy this may well mean that South Derbyshire may get 'left behind' as any development of service vision will inevitably have a stringent cash limit attached to it.

4.0 Stock Options

- 4.1 The report to the Housing and Community Services Committee in October 2004 and the subsequent report to full Council on the 4th of November stated that stock transfer was:
- the best route to secure future improvements to the Council homes
 - more likely to deliver improvements to the private sector stock
 - more likely to deliver new build social housing
- 4.2 The facts which led to these conclusions were detailed in the reports at that time. In essence transfer would free up the landlord from the negative subsidy, allow it to borrow against the considerable asset of the stock to fund substantial investment in that stock and seek to realise tenant aspirations for the silver and gold improvement standards established in the options process, realise a capital receipt in the order of £24m for the Council which could be used to deliver private sector improvements and create a body which could seek to develop new affordable housing for the area from a local base. All of these circumstances are as applicable today as they were a year ago.
- 4.3 The combination of the factors outlined in 4.1 and 4.2 above with the fact that the HRA is not sustainable in the long-term principally because 24% of our annual income is lost to the 'national pool' led to the officer recommendation that the transfer option be progressed. All of these circumstances which led to that officer recommendation still apply today and therefore the officer view is that transfer remains the preferred option. This report does not revisit those issues as they were established in the reporting at the time.
- 4.4 It was also reported to the November 2004 Council that although the Tenant Advisory & Consultation Team (TACT) were in favour of transfer, the majority of tenants at the time were not. The consultation process with tenants was successful in raising awareness of the key issues but it was reported that attitudes amongst tenants had hardened and for a successful transfer vote to be obtained our specialist communications consultants 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

4.5 In the light of the clear preference amongst tenants for the status quo and the difficulty in satisfying the criteria at 4.4 the Council took the decision as outlined at 2.1 above.

5. Current financial projections

5.1 The financial appraisal part of the options process forecasted that there would be deficit on the HRA of around £2.5m by 2015. The current operating account projections, attached as appendix 1 to this report, indicates that the account will be around £500,000 in surplus by 2015. This brings the Council into line with the minimum Government requirement to make the account viable over the next 10 years. However the same appendix also highlights that utilising those same assumptions the account is projected to be £39m+ in deficit over the 30 year planning period required in the business planning process.

5.2 The movement in the projection is down to four main points

- The additional £1m put into the account from the debt free capital receipts
- Improved performance by the Housing Service on management of void properties which if sustained over the 10 year period will also realise £1m worth of additional income
- A better than projected out-turn on the 2004/5 HRA
- Some changes in projections, for instance on the number of houses lost through the right to buy and other variables which lead to additional income in the account

5.3 On this latter point, each element of the projections has been checked and, if appropriate, revised in accordance with the detailed government business planning model. However there are considerable areas of risk associated with the projections and particularly relating to assumptions within the projections about the status quo being maintained over a long planning period such as the ten years minimum required by the Government office. Some of these are discussed in detail in the next section.

6. Risk analysis

6.1 Service Development

6.1.1 The projections assume that staffing levels and therefore the overall broad level of service delivered are to remain the same over the planning period. There are competing pressures relating to this assumption. On the one hand the projections allow for a reduction on stock over the ten year period of 11.8% and no commensurate reduction in staff. On the other hand the actual cost of managing the housing service in South Derbyshire is already low being upper quartile in that regard.

6.1.2 There are new pressures and requirements being brought to bear on the service e.g. extending the breadth of improvement works into new areas, the requirement for a more comprehensive approach to homelessness, homelessness prevention and strategy, a more responsive and proactive approach to anti-social behaviour, etc. There are also pressures within the

Council to continue the delivery of improved service provision by the Housing Division and whilst inevitably some of that can be achieved through improved processes and systems (i.e. limited direct cost) others may require additional staff. Furthermore there is considerable evidence that some key posts in the Housing Service are under graded in terms of attracting and retaining the right calibre of staff. An example of this is the key Tenant Liaison Officer post i.e. arguably our most important frontline customer role. We have four such posts to cover the whole district. Over the last two years we have lost four good quality staff from that role.

- 6.1.3 A restructuring report will be brought to the Committee before the end of the calendar year that if approved in full would lead to additional costs of around £30,000 per annum. However given that the principal additional resource required will be to enable us to address new government targets in homelessness prevention these costs should be legitimately offset against the General Fund rather than the HRA. Restructuring proposals will be brought that will increase costs in some parts of the HRA but these will be largely offset by savings in other HRA areas.

6.2 Internal recharges

- 6.2.1 The Management cost of running the Housing Service does not only relate to staff employed within the Housing Division it includes the cost of internal services provided by other departments principally the central 'support' departments. In the Stock Options report it was reported that the cost of internal support was in the order of £670,000 which is 34% of the total management cost of providing the Housing Service. The most significant recharges are the support of the Finance Service at £111,000 and Committee Support (i.e. 'the cost of democracy') at £67,000.
- 6.2.2 The Head of Finance and Property Services and the Director of Community Services have done some work on these recharges to date. For instance the IT recharge has been reduced to reflect the move away from software supported by that section and some of the costs relating to homelessness and housing strategy have been moved to the General Fund. Whilst some of the remaining charges look high such as Housing funding 25% of the total cost of the Human Resources section and contributing £110,000 to the cost of Finance others look low such as the recharge made by Legal Services at £21,000.
- 6.2.3 Although some recharges are made on a transactional basis it is clear that a number of recharges are made on an historical basis that may not reflect current practice and time commitments. It is also clear that a more auditable approach is needed for such recharges given the high proportion of the total costs involved and therefore their effect on the viability of the HRA. It is therefore proposed that costed Service Level Agreements (SLAs) be developed between the Housing Division and the Corporate Services and that Finance and Legal Services be prioritised in that process.
- 6.2.4 It can be argued that widespread use of SLAs in a relatively small Council such as South Derbyshire would be counter productive and in themselves would carry a significant burden and cost. This may well be the case between general fund services but the Housing Division is in the unique position of being

separately funded and for that reason the costs do need to be derived from an auditable base.

6.2.5 There is no guarantee however that simply by putting internal recharges on a more auditable footing will lead to lower charges for the HRA. The charges could of course be higher once the detailed analysis and assessment is carried out.

6.2.6 Some internal recharges have already and others will need to be reduced in line with improved working practices. For instance the number of invoices processed by the Finance Service on Housing's behalf has already reduced substantially with a move to payments based on monthly schedules rather than job by job invoices.

6.3 Negative Housing Subsidy (or payment to the national pool)

6.3.1 In the current year South Derbyshire District Council is projecting that it will have to contribute £2.05M to the national pool out a total income of £8.647m i.e. 23.7%. We have no control over this contribution and the money is simply lost to the area.

6.3.2 It is also projected that under the current system the proportion of our contributions will increase still further over the next 10 years.

6.3.3 It is clear that if the Government continues to redistribute resources for Council Housing through the subsidy system then because of the large number of stock transfers to Housing Associations there will fewer contributors to the national pool in the future. The clear consequence of that is that either those currently in receipt of positive subsidy will have to take less or those remaining within the Council sector but contributing to the pool through negative subsidy such as South Derbyshire D.C. will have to contribute more.

6.3.4 The single most critical factor in officers recommending last year that the transfer option be progressed is that of negative subsidy.

6.3.5 Given the circumstances of 6.3.1 – 6.3.3 there is pressure on the Government to change or amend the subsidy system. The 'fourth option' movement led by Austin Mitchell M.P. is about lessening the burden of negative subsidy for Councils such as South Derbyshire by allowing them to keep more of their own income to invest in their stock. However the movement has been around for at least 18 months and the Government has not yet indicated that it will move on its current position.

6.3.6 The Audit Commission in a report published in June 2005, titled "Financing Council Housing" recommended to Government that they "take a fresh look at the way Council housing is funded" further stating that the subsidy system is volatile and makes meaningful planning difficult.

6.3.7 Overall it would be a fair conclusion to draw that the subsidy system which affects South Derbyshire so critically will have to change to some degree over the ten year planning period i.e. the current system appears to be unsustainable in the longer term. Although it is difficult to predict which way any changes will

go, on balance it would probably be fair to say that the Government is less likely to allow what it perceives as well off Councils to keep more of their own money than they are currently allowed i.e. even if the subsidy system changes with less money being contributed to the national pot as a result of there being fewer Councils contributing, it is difficult to see any incentive for Government in allowing those remaining contributing Councils to contribute less.

6.4 Housing Repairs

- 6.4.1 Current projections of repair improvement spend do not allow for any acceleration of improvement programmes or additional work to meet higher tenant aspirational standards such as those developed in the stock options work into the Silver and Gold Standards. As the overall stock condition nationally and within the region is driven up by Government investment in Arms Length Management Organisations (ALMOs), e.g. Derby, and by stock transfer associations having substantial additional resources being released, e.g. Trent and Dove, South Derbyshire may find itself getting left behind on stock condition. For instance we have only recently started a bathroom renewal programme and have 3,000 properties identified with such a need; although we are now several years into our kitchen renewal programme there are still over 2,000 properties left to complete, etc.
- 6.4.2 Although South Derbyshire compares well to the Government's Decent Homes standard it has been widely commented that the standard is quite low (set deliberately so that those Councils' catching up' have some chance of achieving it).
- 6.4.3 Keeping repair and improvement spend at current levels allows very limited scope to establish a vision for the stock. Even extending our programmes into basic work such as rewiring is difficult from existing resources.
- 6.4.4 Furthermore on our responsive repair spend we have not built in any real increase in costs into the projections and yet it is well established that building sector inflation is consistently running at a higher level than the general inflation level e.g. at the time of the Options Study the government agency, Community Housing Task Force, were urging us to put significant real cost increases into our projections.
- 6.4.5 There are additional real pressures in Repairs that the Council will need to address in the coming months if we are to maintain spending at current levels. This inevitably will be about carrying out fewer tenant repair requests, i.e. saying "no" to requests more often, repairing rather than replacing more often and deferring work to planned maintenance programmes more often.
- 6.4.6 From the records available it is clear that the DLO part of the Housing and responsive repair business has not been performing well against target timescales for work for at least 4/5 years. A significant reason, although not the sole reason, for this is that the DLO is under-resourced. Our analysis at this time is that if we are to have a responsive repair section that performs well against target timescales the service will cost more to deliver. The Council has committed itself to tendering the responsive repair business in 2006 and the

outcome is likely to be, whether won in-house or externally, increased costs in return for a better service.

7. Conclusions

- 7.1 On current projections the HRA is sustainable over the ten year planning framework. However only just. This inevitably will constrain the ability of the service to develop and to deliver additional services and works on behalf of its customers.
- 7.2 There are considerable risks associated with the status quo of stock retention and in a fast changing sector at the centre of government policy this may well mean that South Derbyshire may get 'left behind' as any development of service vision will inevitably have a stringent cash limit attached to it.
- 7.3 The rationale for stock transfer remains firmly in place i.e. the HRA is still not viable in the longer term and the district annually 'loses' 24% of its rent income to the national pool. South Derbyshire contributions to the national pool are estimated to exceed £30M over the next ten years. This money could be used to deliver real improvements to tenants homes if transfer took place.

8. TACT Comments

- 8.1 A draft copy of this report was considered by TACT at their meeting on the 19th September 2005, at which 13 members were present. TACT's view remains that the transfer option should be progressed given the clear financial advantages of that option.

