

# Agenda Item

<b>Executive Board</b>
<b>15 March 2006</b>
<b>JG/MH</b>



## Housing Stock Options Appraisal – Final Report

### Summary

This report sets out and recommends the final report from the Project Team that have been working on the Housing Stock Options Appraisal, an exercise which is designed to determine the most appropriate option for the future management and ownership of the Council's Housing Stock.

The Project Team support the view that the Council retains its housing stock for the time being and have produced a detailed report on the work they have undertaken over the last 18 months together with a series of recommendations.

### Recommendation

The Project Team for the housing stock options appraisal have submitted their final report and recommendations on the conclusion of the housing stock options appraisal to the Executive Board.

The Executive Board are invited to :

- i) agree the Project Team's final report and recommendations;
- ii) invite full Council to agree the final report and recommendations;
- iii) allow any final amendments to the final report to be approved by the Portfolio Holder – Communities, Head of Housing and Social Inclusion, and the Chair of the Project Team; and
- iv) subject to the decision of full Council, allow the final report be submitted to Government Office South West for 'sign off'.

### a) Reasons for Recommendation

The recommendation has come from the work undertaken by the Housing Stock Options Appraisal Project Team and the Task and Finish Forum.

### b) Alternative Options

The alternative options for the ownership and management of Council homes are set out in the report.

### c) Risk Considerations

Selecting an inappropriate option.  
Housing Revenue Account Business Plan not robust over thirty years.

### d) Policy and Budgetary Considerations

These are set out in detail in the report.

## e) **Date for Review of Decision**

The decision on the preferred option should be reviewed before 2010.

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## **1 Main Body of the Report**

### **Background**

- 1.1 On 14 December 2005 I reported to the Executive Board on progress on the housing stock options appraisal. I am now in a position to present the final report of the Project Team and the work of the Task and Finish Forum established to shadow the work of the Project Team.
- 1.2 The Government's vision as set out in the Communities Plan (February 2003) is to improve housing conditions across all tenures so that housing contributes to the creation of successful, thriving, and inclusive communities that will stand the test of time, and in which people want to live. As part of this desire government has set a target for all council and housing association homes to be brought up to a decent standard by 2010.
- 1.3 The Decent Homes Standard requires that homes should meet the fitness standard, be in a reasonable state of repair, have reasonably modern facilities, and provide a reasonable degree of thermal comfort.
- 1.4 For some time local authorities have been required to produce a Business Plan for their housing management services, and undertake periodic option appraisals. The government has specifically requested that all stock owning authorities submit an option appraisal to the appropriate Government Office for 'sign off' by July 2005. This will be the first comprehensive housing stock options appraisal in East Devon.
- 1.5 The Business Plan for local authority landlord activities should set out:
  - A clear picture of the current position covering the condition of the housing stock, the cost of improvement/renovation work, and the services provided to tenants;
  - Details of the priorities for investment and service improvements agreed with tenants;
  - An analysis of the likely resources available;
  - An action plan for delivering the identified priorities.
- 1.6 The main features of a housing stock options appraisal include:
  - Extensive tenant and leaseholder involvement;
  - Consultation on aspirations and options;
  - Stock condition survey data captured and analysed to ensure that quality homes are provided for tenants;
  - Financial modeling of stock investment needs and the options for different service levels;
  - Analysis of the demand for existing and new affordable housing;
  - Evaluation and comparison of the options;
  - A decision making process to determine the future of the housing service.
- 1.7 The ODPM has produced guidance on conducting housing stock options appraisals and the Community Housing Task Force (CHTF) was established to assist local authorities through the process.

- 1.8 There are four main options that need to be considered as part of the appraisal exercise these are stock retention; undertaking a Large Scale Voluntary Stock Transfer (LSVT); creating an Arms Length Management Organisation (ALMO); or developing a Private Finance Initiative (PFI).

## 2. Project Team report

- 2.1 The Project Team of tenants/leaseholders, Members, and housing employees, have been working on the housing stock options appraisal for some 18 months and have recently concluded their work. The final report is the culmination of a comprehensive appraisal of the options available to meet the Decent Homes Standard, identify tenant aspirations, and how to improve homes and housing services.
- 2.2 The Project Team has set out their work in the attached report **Annex 1**, and recommends that the Council retain its housing stock, but keep the decision under review. I have included the final report less all the annex documents, as these exceed 250 pages of text. Copies of the full report have been placed in the Member's area and on the intranet. A copy of the full report will also be made available to Members on request.
- 2.3 The Project Team had some difficulty in reaching their decision because although Council homes will have reached the Decent Homes Standard in 2005/2006, consultants have estimated that considerable investment is required to maintain this position and improve beyond this basic standard. Two options emerged as realistic through the option appraisal process – council retention and LSVT.
- 2.4 It became clear that the LSVT option would make it possible for the new housing association body to raise funding to invest into the service improvements and tenants homes. Under the retention option the housing subsidy system means that the Council has to pay £4.3 million of rental income to government in 2006/07. The subsidy system and rent controls make it impossible for many housing authorities to maintain or increase levels of investment needed to continuously improve the housing stock and services.
- 2.5 It should be noted that the twelve tenants on the Tenants Steering Group and six tenants and leaseholders on the Project Team were in favour of LSVT, and the final report contains a paper which explains why those tenants reached this view. The main reason related to the desire to see tenants' rent spent on improved homes and services, and not subsidy payments for other housing authorities' benefit. This is an understandable stance to take. The tenants on the Project Team only relinquished their position, to agree a retention decision, after much debate.
- 2.6 The Project Team's Decision Making Matrix informing the final recommendations was deliberately weighted in favour of the results from the tenant and leaseholder preference survey, but again it is worth noting that 8 of the overall 11 decision making criteria came out in favour of LSVT.
- 2.7 If it was not for the strong tenant and leaseholder preference for retention I would expect that the Project Team may be recommending LSVT. However, with 82% of tenants and leaseholders preferring retention on the information put to them, we do not feel that we could achieve a positive vote in a ballot for LSVT at this time, even if we pursued this option.
- 2.8 A practical and financial consideration is that if the Council balloted tenants on the LSVT option and did not secure a majority in favour of LSVT, the considerable cost of preparing for ballot and the ballot itself would be a cost falling on the General Fund.
- 2.9 The Project Team in reaching its decision and recommendations want to see the establishment of a Housing Project Board. This Board is intended to keep the options for the future management

and ownership of the housing stock under review, and involve tenants more in the Council's housing management activities. This arrangement would enable us to continue with the joint working with tenants and leaseholders, and signal a step forward in tenant involvement in the management of their homes.

- 2.10 The Housing Project Board could be developed to operate like a shadow housing association Board and would be useful experience should the Council decide to transfer the housing stock at a future date. I have sought initial legal advice and am advised that this Board can be established under the Council's constitution. Draft terms of reference are set out in **Annex 2**.
- 2.11 The Project Team have had a difficult exercise to undertake and a hard decision to reach. I am grateful for the commitment, hard work and care that they have taken in undertaking the many complex tasks that make up a housing stock options appraisal.

### **3. A viable and robust Business Plan**

- 3.1 My report to the Executive Board in December 2005 highlighted the fact that "early analysis of the Business Plans suggests that we can fund the low cost option and maintain a Housing Revenue Account (HRA) which is in balance over 30 years. However, the stock investment proposals indicate relatively high costs in the early years of the plan which will lead to a short term deficit. This must be addressed by adjusting the profile of anticipated expenditure, short term borrowing, or the sale of assets to finance investment in the housing stock."
- 3.2 This statement is consistent with the messages contained in the tenant and leaseholder information newsletter sent out as part of the tenant and leaseholder preference survey.
- 3.3 The HRA cannot be allowed to go into deficit, but with the 'frontloaded' expenditure profile in the low cost investment option, estimated expenditure would exceed income in the first five years.
- 3.4 The investment requirements were estimated using a combination of our existing stock condition data, and where data did not exist, recommended lifecycle replacement dates for key building components. A consultant assisted in the production of these investment models.
- 3.5 Over the 30 years the low cost investment option produces a surplus of £15 million, but in the first 5 years an accumulating deficit of £8.8 million in cash terms has to be addressed.
- 3.6 It is essential that a viable and robust HRA Business Plan is produced to justify retention of the housing stock and achieve 'sign off' by Government Office. This has been a major piece of work for the Project Team since I last reported on this project.
- 3.7 We have used the ODPM Business Plan Model to produce and evaluate the various profiles of the Business Plan.
- 3.8 We need to ensure that we do not renege on the consultation information presented to tenants and leaseholders, so we have limited options. The options available are to either rephase some planned expenditure later in the Business Plan, or borrow to fund capital expenditure with repayments spread over 20 years. A combination of both approaches has now been used to produce a Retention Business Plan. The Business Plan assumes that we borrow £3.5 million over 30 years at an interest rate of 4.24%.
- 3.9 An extract and summary of the Retention HRA Business Plan is shown in **Annex 3**.
- 3.10 The main assumptions built into the Business Plan are explained as notes included in the Plan.

- 3.11 The Business Plan is just affordable as estimated, and will need to be carefully monitored throughout the 30 year period. The recommendation to retain the housing stock was marginal on financial grounds, and there is little doubt that the LSVT option would present opportunities for more investment into the housing stock and housing services. These differences can be seen in the 'compare the repairs' annex in the final report which sets out the variations in repairs and improvements under each option.
- 3.12 There is no doubt that the retention option will require continued and detailed management and monitoring of the HRA, particularly in the next 5 years when expenditure is likely to be relatively high. The Project Team wants to ensure that it fully understands the Business Plan and is still scrutinising some aspects of the Plan. We intend to invite our financial consultants, Tribal HCH, to test and validate the Business Plan. The Government Office is seeking some further sensitivity testing on some of the assumptions. I will give a verbal update at the meeting of any outstanding issues in relation to the Business Plan.
- 3.13 The structure and rules of the current housing finance system make it difficult for Council's to continue to own their housing stock. Additional funds are not being made available for Council's to achieve decent homes and the housing subsidy rules mean that authorities like East Devon who have a negative subsidy, pay Government almost 40% of rental income. Rents are fixed by formula and major repairs allowances set. We operate as a local authority in a heavily constrained system of housing finance, which has forced many housing authorities to transfer the ownership or management of their housing stock.
- 3.14 It should be noted that the estimates in the Business Plan are highly susceptible to changes in the formula used to calculate the HRA subsidy, changes to ODPM accounting practices, and external factors like inflation, borrowing rates, unforeseen need to spend on the housing stock etc. It is therefore impossible to estimate with accuracy over thirty years and as such the Business Plan should be seen as our best estimate based upon a range of assumptions and what we know of the financial conditions now.

#### **4. Next steps**

- 4.1 If Members recommend the approach set out in the Project Team's final report to full Council, who then agree, we can submit the options appraisal to the Government Office for the South West, (GOSW) for 'sign off'.
- 4.2 We can anticipate that the housing stock options appraisal final report will be scrutinised very carefully and there will be an expectation upon us to provide any additional information requested, and we may be asked to undertake additional work. GOSW could even challenge the conclusions and will want to be satisfied that the chosen option can realistically be delivered and the Decent Homes Standard be maintained and improved upon.
- 4.3 Although the main purpose of the housing stock options appraisal is to identify a viable way to meet and sustain Decent Homes, there has been subtle pressure to move away from the Council continuing to own its housing.
- 4.4 The GOSW have requested a meeting with the Leader of the Council and Chief Executive. This meeting will take place on 24 March, and I expect that we will be invited to demonstrate that we understand the implications of the decision reached on the housing stock options appraisal.
- 4.5 The assessment of the options has not produced one clear answer to all aspects of the project. There are advantages and disadvantages of all options, which are set out in the final report.

## **5. Conclusions**

- 5.1 I am sure that Members will want to decide on an option which is in the best interests of tenants, leaseholders, future service users, the wider community, and the Council. LSVT could generate a significant capital receipt for the Council and create a new housing organisation with a single focus, and the ability to access more funds for improved services and homes.
- 5.2 However, LSVT is not what the majority of our tenants and leaseholders currently want, and it seems that a positive yes vote through a formal ballot is not currently achievable. LSVT once achieved is not reversible. If the Council decides to maintain its housing stock for now, but keep the decision under review, it can invite tenants and leaseholders to reconsider LSVT in the future. By keeping the options under review as recommended by the Project Team, the Council has the flexibility to adjust its position in future years, if circumstances become even less favourable for Council's to continue to own and manage their housing stock.

## **Legal Implications**

Housing functions are Executive functions and may only be discharged by the Executive Board, a sub-committee or officers on its behalf. The Executive may not co-opt; therefore the level of independent and tenant involvement sought by the housing stock options appraisal Project Team cannot be achieved through the Executive Board itself.

However, subject to the approval of full Council, an additional Overview Committee could be set up to advise the Executive Board on the future management of the council's housing stock. This Housing Overview committee could make reports or recommendations to the Executive Board in relation to housing functions and to Council in relation to council matters such as the policy and budgetary aspects of transfer. Portfolio holders cannot be members of an Overview Committee, and seats on an Overview Committee must be allocated to political groups on a proportional basis. The terms of reference put forward by the Head of Housing and Social Inclusion propose 5 councillors, 5 tenant and leaseholder representatives and 2 independent community representatives.

It is possible to include co-optees on an Overview Committee provided the Council has made and approved a scheme for co-opted members. A further report will be needed to Council on the future composition of a Housing Overview committee (whose name could include reference to the Project Board, the terms of reference, and a scheme for co-opted members. This report will come to Executive Board for comment first.

## **Financial Implications**

There are no other financial implications apart from those mentioned in the report.

## **Consultation on Reports to the Executive**

The final report on the housing stock options appraisal comes forward from the Project Team and includes consultation responses and the results of an extensive tenant and leaseholder preference survey.

## **Background Papers**

The housing stock options appraisal files and the agenda and minutes of the Project Team and Task and Finish Forum meetings.