

Agenda Item

Executive Board
14 December 2005
JG/MH



Housing Stock Options Appraisal

Summary

This report summarises the comprehensive appraisal that has been undertaken of the options available for the future ownership and management of the Council's housing stock. The government required all housing authorities that owned housing to undertake a housing stock options appraisal with a view to ensuring that their homes achieve the Decent Homes Standard by 2010.

A Project Team of Members, Tenants and Leaseholders, and staff have been engaged in the project for just over a year working through the key elements of the exercise, and looking in detail at stock condition, tenant's aspirations, financial modeling, and how the options fit with this Council's situation. A Task and Finish Forum (TAFF) has also worked alongside the Project Team and a Tenants' Steering Group.

The Project Team and Task and Finish Forum will soon be in a position to put forward their recommended option. This report has been prepared in advance of the Project Team's final report to set a context for the final decision and recommendations, which is anticipated early in the New Year.

Recommendation

The Project Team for the housing stock options appraisal exercise is invited to submit their final report and recommendations on the conclusion of the housing stock options appraisal to the Executive Board.

a) Reasons for Recommendation

The recommendation has come from the work undertaken by the Housing Stock Options Appraisal Project Team although the final report and recommendations from the Project Team will follow once they have completed the final stage of the options appraisal.

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.

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.

1 Main Body of the Report

Background

- 1.1 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.
- 1.2 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.
- 1.3 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.
- 1.4. The Business Plan 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.
- 1.5 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.
- 1.6 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.
- 1.7 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).
- 1.8 We have established a Project Team of Members, tenants, advisors and officers to work through the elements of the housing stock options appraisal. To engage Members in the process we have a TAFF and tenants have their own Steering Group. Tenants and leaseholders have also appointed their Independent Tenants Advisor, the Tenant Participation Advisory Service (TPAS), to assist them through the housing stock options appraisal process.

2. Progress on the project

- 2.1 I produced a Scoping Report (reported to the Executive Board in April 2004), before we initiated the project, which set out the main tasks and approach to be adopted. Early in the process we appointed a Project Manager to co-ordinate the work involved in a comprehensive appraisal of the options and selection of the most appropriate option for the future ownership and management of the Council's housing stock.
- 2.2 We produced a Communication Strategy setting out how we would work with tenants, staff, Members and other stakeholders. We also produced a Tenant Empowerment Strategy to outline how tenants will be put at the heart of the housing stock options appraisal process.
- 2.3 Much of the work involved in the project has centered on understanding the different options, ensuring that we have comprehensive stock condition data, understanding tenants' aspirations, and modeling the various financial scenarios. The decision on the most appropriate option is likely to be strongly influenced by what service the Council can afford to provide in the future, the extent of investment required to maintain and improve the housing stock, and tenant's wishes.
- 2.4 The East Devon housing stock is in very good condition due in the main to careful and sustained investment into maintaining tenant's homes. Many housing authorities envy our position as they aspire to achieving the Decent Homes Standard over the next five years.
- 2.5 Through careful interrogation of the stock condition database we discovered that a number of our Council homes did not actually meet the Decent Homes Standard with regard to thermal insulation. Specifically homes with electric or solid fuel heating required more loft insulation than currently exists. This involves some 1,112 homes and the work required to bring these homes up to standard has been programmed to go ahead this financial year.
- 2.6 We also realised that our extensive stock condition information was not easily compatible with the requirements of the Decent Homes Standard, and a considerable amount of additional work was required to ensure that our stock condition information could be validated independently. This involved the services of two specialist consultancy companies.
- 2.7 Using a combination of our existing stock condition data, and recommended lifecycle replacement dates for key building components, our consultant, Tribal HCH, has been able to produce a 30-year Investment Plan, showing the cost of maintaining the housing stock to a modest (low) standard.
- 2.8 TPAS has assisted us in consulting extensively with our tenants and leaseholders and we have undertaken an aspirational survey to determine what tenants want in terms of a housing service, work to their homes, and the surrounding environment. Tenants want new doors, more extensive kitchen and bathroom improvements, improved grounds maintenance, etc. The cost of these aspirations amounting to £3.7 million, set out in **Annex 1**, has also been built into the 30-year Investment Plan models (the medium and high standard).
- 2.9. We have also produced a high cost Investment Plan with an accelerated kitchen and bathroom replacement programme. These financial projections have been set out in summary form in **Annex 2**.
- 2.10 Over the 30 year period the low cost option estimates the need for an investment of £121 million on repairs and improvements to the housing stock; the medium cost option £172 million; and the high cost option £188 million. These costs have not taken account of

inflationary increases over the 30 year period, but the ODPM model used to produce the Business Plan makes this adjustment.

- 2.11 As part of the project we have undertaken an audit of our older persons housing to ensure that this sector of our housing stock contains the facilities, and is located appropriately to meet the needs of current and future tenants. We have also measured our accommodation against the Supporting People standards to ensure that they comply with current requirements. We will need to invest in some sheltered housing schemes and consider reusing or decommissioning schemes which do not have a long term future. From this exercise we have estimated that an additional £4.3 million should be built into each of the Investment Plans.
- 2.12 The Project Team have examined in detail and dismissed two of the four main stock options under consideration. ALMO is not seen as appropriate for East Devon primarily because the Council does not need to secure additional funding to meet the Decent Homes Standard. PFI is not seen as a suitable option for similar reasons, and we do not have concentrations of run down estates, which is where the limited number of housing PFI schemes has been initiated.
- 2.13 Regrettably we missed the ODPM submission deadline of July due in the main to the reformatting of our stock condition data and securing validation of Decent Homes compliance. We are also undertaking the exercise comprehensively and involving tenants at all stages in the process which is time consuming. Prior to the deadline we submitted a position statement to Government Office and the CHTF explaining the work completed to date and that required to complete the final phase of the project.

3. Producing a robust Business Plan

- 3.1. To the three variations of the Investment Plan we have added the cost of running the service, rental income, subsidy payment etc. to produce 30 year Business Plans using the ODPM financial model devised for the housing stock options appraisal process. 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.
- 3.2 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 the investment in the housing stock.
- 3.3 We cannot afford to meet the medium cost option and continue to operate a viable Housing Revenue Account. We anticipate that we are able finance something in between the two options.
- 3.4 The table below shows a summary of the HRA cash flows projected over 30 years for each of the three Business Plan options. The costs include allowances for inflation, which in the case of works to stock is above RPI to reflect our current experience of building costs. There is a surplus of £15m over 30 years in respect of the low cost option, which can be invested into repairs, and improvements to tenant's homes. The medium and high options are not viable because they would not maintain a HRA in balance.

HRA Cashflows – 30 Year Models

<i>All Figures in £M</i>	Low	Medium	High
Income			
Rents	573	573	573
Other Income	<u>10</u>	<u>10</u>	<u>10</u>
	<u>583</u>	<u>583</u>	<u>583</u>
Expenditure			
Repairs and Maintenance			
Responsive	66	72	72
Planned (cyclical)	45	51	51
Major Repairs	78	134	154
Other Improvements	3	11	16
Housing Management	109	109	109
Other Expenditure	12	12	12
Other Capital Expenditure	<u>5</u>	<u>5</u>	<u>5</u>
	<u>318</u>	<u>394</u>	<u>419</u>
Surplus/(Deficit)	265	189	164
Right to Buy Receipts	6	6	6
	<u>271</u>	<u>195</u>	<u>170</u>
HRA Subsidy Payment	<u>256</u>	<u>256</u>	<u>256</u>
Net Cash/Inflow/(Outflow)	<u>15</u>	<u>(61)</u>	<u>(86)</u>

- 3.5 As part of the project we have also considered the Audit Commission Key Lines of Enquiry (KLOE's) for housing management activities, and have undertaken a self assessment exercise to estimate the resourcing implications of aspiring to becoming an excellent housing service. We have estimated the need for an additional four staff and retaining our temporary appointments, which translates into approximately £121k of extra cost per annum on the HRA. This cost has been built into all of the three models of the Business Plan.
- 3.6 The financial viability of the HRA Business Plan hinges upon a number of key factors:
- Rent convergence – rents will rise faster than inflation until 2011 to bring them into line with those of other social landlords in Devon;
 - Major repairs – our consultants have advised that a notional backlog of improvements, based on lifecycle replacement dates, will need to be addressed in the early years of the Business Plan;
 - HRA subsidy – this payment to government will rise considerably in the next few years, mainly due to assumptions made by the ODPM on inflation of income and expenditure. In terms of repairs and maintenance, the ODPM's assumptions are lower than those we are actually experiencing.
- 3.7. Despite our current £1.6 million surplus on the HRA, the Business Plan will move into a negative position within five years if we continue with current levels of income and expenditure. This assumes that we will not use the prudential borrowing facility now available to local authorities. We have limited control over income from rents and other variables are strictly controlled by formula set by government.
- 3.8 This analysis strongly suggests that we will need to consider an option other than stock retention within the next five years.
- 3.9 It is worth reminding ourselves that the decision on which option to pursue should be influenced by tenants and leaseholders, and any

decision to transfer the housing stock flowing from the housing stock options appraisal would be through a separate formal ballot of tenants, with the majority of tenants voting in favour of a transfer.

4. Final phase of the project

- 4.1 We have finalised the financial models with our consultant and have undertaken some sensitivity testing on the assumptions. The sensitivity analysis is producing dramatic differences in costs particularly around inflation assumptions; anticipated Right to Buy receipts; additional works to sheltered housing to meet Supporting People requirements; and the additional employee costs associated with continuing improvements to the service.
- 4.2 In addition to stock retention the alternative option presented to tenants, at the request of the Project Team, is the high cost model, which can only be financed through raising significant extra resources secured through the sale of the housing stock to a new or existing housing association (the LSVT option).
- 4.3 Our consultants have provided us with some estimates of the cost implications of LSVT. Using the medium cost model, the stock valuation, which is based on the anticipated rental income stream, has been estimated as £17.7 million (gross). From this amount we would need to deduct set up costs estimated at £2.7 million; the 20% ODPM levy of £2.8 million; pension fund contribution £2 million; and any HRA debt (not applicable in our case). This leaves a net capital receipt to the Council of approximately £10.2 million.
- 4.4. Consultants have also considered the implications on the General Fund of a transfer of the housing stock, and estimated residual corporate costs of £563k in year one reducing to £458k in year five. However, much will depend upon the scale of housing service the Council wants to deliver post-transfer. Furthermore, some of these costs could be offset by investing the capital receipt.
- 4.5. Tenants and leaseholders have been informed of, and consulted on the two options (Council retention and LSVT) and invited to express a view on their preferred option for the future management and ownership of their homes. We have used a variety of methods to inform tenants about the options including meetings, a road show, drop-in sessions, a newsletter, telephone hotline, press releases, and our website. In tandem with these activities we have run a test of tenant opinion or preference survey to gather evidence on our tenants preferred option.
- 4.6. The results of this exercise show that of the 1,327 preferences expressed, 1,079 tenants and leaseholders preferred to remain with the Council; 231 preferred a stock transfer; and 17 preference slips were spoilt. This represents a response rate of approximately 31% with 82% of preferences in favour of Council retention and 18% for stock transfer.
- 4.7. Interestingly we had 242 tenants and leaseholders attend the road shows and drop-in events, 136 expressing an opinion on a preferred option, with 42 (31%) in favour of Council retention and 94 (69%) preferring stock transfer.
- 4.8. The Project Team agreed a Decision Making Model at its meeting on 15th November to ensure that it had regard to all the major influences on the best option for the future of council homes. The Model includes a scoring and weighting system to attach relative priorities to the criteria under consideration.
- 4.9 The Project Team has now completed the Decision Making Model and will soon be in a position to recommend to the Council a preferred option, with a full justification and final report on the project. The completed Decision Making Model with the scores for each criterion is shown in **Annex 3**. The Project Team received a briefing on 23rd November reminding them of key aspects of the project and enabling them to individually score the factors, which were not

related to preferences of specific groups of stakeholders. Eleven members of the twelve strong Project Team scored the criterion and these were aggregated to produce the overall scores.

- 4.10 It can be seen that the Project Team's work indicates a score in favour of the Council retaining the housing stock. The Decision Making Model is only an aid to the final decision and I expect the Project Team to conclude their work and reach a final decision over the next few weeks.
- 4.11 The Project Team will consider the draft final report in December and be invited to amend the report for consideration by the TAFF, Tenants Steering Group, Overview Committee, and onto the Executive Board and Council. The final report on the project will be a comprehensive write up of all the research, analysis, and investigations undertaken by the Project Team, and incorporate consultants advice received throughout the project.

5. Conclusions

- 5.1 Regardless of the decision made the project has been demanding but valuable in helping us to better understand our business, quantifying future investment needs, and clarifying tenant's aspirations. The project outputs will be good preparation for future challenges in ensuring that the Housing and Social Inclusion Service or its successor meets the housing needs of existing and new tenants and leaseholders, continuously improves performance, and remains customer focused.
- 5.2 We have learnt valuable lessons in respect of large-scale consultation and information transmission. I believe that we have become more accountable to our tenants and leaseholders, and understand their priorities and needs more clearly through the options appraisal process.
- 5.3 I am convinced that we must keep the financial and stock condition situation under review through effective monitoring mechanisms and refresh the options appraisal project within the next five years.
- 5.4 I will present the final report and recommendations from the Project Team to a future meeting of the Executive Board.

Legal Implications

There are no legal implications contained within this report.

Financial Implications

There are no financial implications arising from this report.

Consultation on Reports to the Executive

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Background Papers

- Reports and minutes of the Project Team and task and Finish Forum.
- Guidance and good practice notes from the Community Housing Task Force.
- Housing Stock Options Appraisal scoping report, Executive Board April 2004.

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