

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Leader and Cabinet	12 April 2007
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HOUSING STOCK OPTIONS APPRAISAL

Purpose

1. To outline a process and appropriate project management arrangements, with an indicative timescale, in order to complete a stock options appraisal in respect of the Council's housing stock.

Executive Summary

2. Of the four options considered as part of the 2005 stock options appraisal only Large Scale Voluntary Transfer (LSVT) offered a potential alternative to deliver a sustainable solution for the future of the housing stock.
3. The financial modelling, based on the stock condition survey of 2002, carried out as part of the options appraisal suggested that the Housing Revenue Account (HRA) was viable in the medium term as long as savings in the order of £437,000 per annum could be achieved within the next 18 months and sustained thereafter. In terms of meeting the basic requirement of the DHS the financial modelling indicated that the investment needs of the stock could be met until 2013/2014.
4. The overwhelming majority of tenants (82%) who responded to the test of opinion in 2005 indicated that they wished to retain the Council as their landlord. However, the response rate was low with only 23.5% of tenants expressing an opinion and the result, therefore, may not necessarily be representative of the views of the majority of tenants.
5. On 28 July 2005 Full Council voted in favour of stock retention as the preferred option for the future of the housing stock and the Council's stock options appraisal was subsequently 'signed off' by GO-East
6. Since the completion and 'sign off' of the housing stock options appraisal in 2005 a number of issues have emerged which suggests that the Council needs to review the viability of the stock retention option through a further options appraisal in full consultation with and the involvement of tenants (and leaseholders).

Background

7. In July 2005 Full Council considered a report on the housing stock options appraisal that had been conducted in order to meet the government deadline of 31 July of that year for stock retention local authorities to demonstrate how they would be able to meet the investment needs of their housing stock in order to achieve the Decent Homes Standard (DHS) by December 2010.
8. The stock options appraisal was carried out in accordance with *Delivering Decent Homes – Option Appraisal: Guidance for Local Authorities* issued by the Office of the

Deputy Prime Minister (ODPM) - now Communities and Local Government (CLG) - in June 2003.

9. In summary the requirements were as follows:

- Early contact with usual Government Office contact to discuss process and timetable
- Robust information on stock condition and on demand and supply on which to base the appraisal
- Tenants/leaseholders involved from the outset with a central role in decision-making and access to good independent advice from the start. The first stage of the option appraisal to involve developing their capacity to engage in the process and exploring their aspirations
- Consideration given to mixed-model solutions within a clear overarching strategy for the whole stock particularly for authorities with large or heterogeneous stock.
- A preliminary assessment of issues around choice of landlord, including community-based models, under stock transfer.
- Consideration of the potential for improvements to service delivery as well as capital investment as part of the options appraisal

10. Of the four options considered as part of the appraisal only Large Scale Voluntary Transfer (LSVT) offered a potential alternative to stock retention that would deliver a sustainable solution for the future of the housing stock. Of the other options explored Arms Length Management Organisation (ALMO) was ruled out because the Council could achieve the DHS by 2010 within existing resources and the Private Finance Initiative (PFI) route would not offer a whole stock solution as was more appropriate for smaller regeneration or, increasingly, non-HRA housing projects.

11. The financial modelling, based on the stock condition survey of 2002, carried out by Tribal who were appointed as the Council's independent lead consultant suggested that the Housing Revenue Account (HRA) was viable in the medium term as long as savings in the order of £437,000 per annum could be achieved within the next 18 months and sustained thereafter.

12. The savings identified in 2005/06 made a significant contribution towards this target and subsequent savings as a result of restructuring the management of the landlord function and most recently the sheltered housing service have enabled the required level of savings identified at that time to be met.

13. In terms of the capital investment needs of the housing stock it was clear that the tenants aspirational standard, developed with the involvement of the tenants as part of the options appraisal process, was not deliverable within available resources given the full impact of capital receipts pooling applying from 2007/08 and competing priorities for the Council's capital receipts from Right to Buy (RTB) sales, as a result of capping in 2005/06.

14. In terms of meeting the more basic requirement of the DHS the financial modelling indicated that the investment needs of the stock could be met until 2013/2014. A stock retention strategy would, however, require a review of how available capital resources were spent to ensure delivery in the short to medium term.

15. The overwhelming majority of tenants (82%) who responded to the test of opinion indicated that they wished to retain the Council as their landlord despite the financial

pressures that had been outlined in information provided as part of the consultation process and the potential for cuts in services and/or in levels of investment in the housing stock.

16. However, the response rate was low with only 23.5% of tenants expressing an opinion and the result, therefore, may not necessarily be representative of the views of the majority of tenants. Of those who expressed an interest in stock transfer to a Registered Social Landlord (RSL) option it would appear that younger tenants favoured this option more than older tenants.
17. The conclusion of Management Team was that LSVT offered the greatest long term benefits for the Council and its tenants for the following reasons:
 - Negative housing subsidy accounts for approximately 50% of the rental income which combined with capital receipts pooling requirements means that stock retention is only a viable option in the short term
 - Stock retention is not able to support the broader aims and objectives as set out in the Community Strategy and corporate objectives and priorities eg increase the supply of affordable housing
18. The advantage of LSVT, in addition to the positive benefits for tenants and leaseholders in terms of improved services and investment to deliver the 'aspirational' rather than the basic DHS as illustrated by the financial modelling is that there could be a net positive cumulative effect on the General Fund (GF) of around £7m over five years. This would be reduced should the Council decide to invest some of the net disposal proceeds to deliver objectives and priorities in relation to the Sustainable Community Strategy.
19. However, it was also made clear that an LSVT proposal is more likely to succeed if there is broad support amongst Members and strong political leadership in its delivery. The LSVT process would take around 18 months to complete and require sustained commitment from Members and Officers leading the project and the support and involvement of Members and staff more generally across the Council.
20. Further, the level of resources required to pursue LSVT are significant and could be in the region of £750k according to indicative costs outlined by Tribal. This investment would need to be made 'at risk' with strict rules applying to how this could be accounted for within the GF, HRA and/or recovered from any capital receipt accruing from the disposal of the stock in the event of a positive or negative ballot result.
21. It was also noted that the stock condition survey completed in 2002 did not provide a robust and up to date source of information in line with the options appraisal guidance and would not satisfy requirements for any LSVT proposal. It was therefore proposed to commission a new survey regardless of the outcome of the stock options appraisal to ensure that the Council had adequate information on the condition of the housing stock which could be updated in-house in order to inform future investment needs
22. Having considered the report from Management Team and a copy of the Housing Options Working Group (HOWG) report to the Housing Portfolio Holder Members of Full Council voted in favour of stock retention as the preferred option for the future of the housing stock.
23. The Council's stock options appraisal was subsequently 'signed off' by GO-East.

Considerations

24. Since the completion and 'sign off' of the housing stock options appraisal in 2005 a number of issues have emerged which suggest that the Council needs to review the viability of the stock retention option through a further options appraisal in full consultation and with the involvement of tenants (and leaseholders) which are summarised in the following paragraphs.
25. An overview of the HRA as presented to the Executive on 14 December 2006 highlighted the following issues:

Revenue Expenditure

- There is uncertainty in terms of revenue expenditure forecasts that could have a significant impact on the viability of the HRA including the level of negative housing subsidy payable into the central pool and the cost of repairs and maintenance of the housing stock which could be affected by the latest stock condition survey with work on financial modelling the results nearing completion
- Whilst the reorganisation of the housing service (including sheltered housing) has achieved significant savings and further cost savings relating to corporate expenditure have been attributed to the HRA as part of the Medium Term Financial Strategy (MTFS) and the Transformation Project the need to identify further savings in net revenue expenditure may be required to maintain the minimum acceptable working balance on the HRA of £1m from 2011/12.
- The financial forecasts illustrated that from 2009/10 annual expenditure will exceed income with consequent reliance on balances. It is also expected that expenditure will continue to increase at a greater rate than income due to various factors such as staffing costs rising at more than inflation, reduction in stock numbers, limits on rent rises imposed by CLG and uncertainty around future levels of Supporting People grant
- An expectation that service users will pay for cost of services they receive rather than being subsidised through rents more generally
- The current HRA Business Plan was produced in 2004 and is consequently nearly 3 years old and in view of the current issues facing the landlord service needs to be reviewed

Capital Expenditure

- Projected HRA related capital expenditure means that there will be a problem in maintaining the current level of investment in the housing stock by 2009/10 and by 2010/11 there is likely to be a funding shortfall in the region of £4-£5m a year
 - The preliminary results of the latest stock condition survey indicate that the existing level of investment in the stock will be required to maintain the DHS and other essential and/or mandatory capital works eg Disabled Facilities Grants (DFG's)
 - Any cut in capital expenditure could have an adverse impact on HRA revenue expenditure in relation to responsive repairs and staffing costs
26. More recently in a report to the Cabinet in March the implications of the following on the Housing Capital Programme were outlined:

- A further delay in the amendments to the capital receipts pooling regulations which currently affect sales under the Council's equity share scheme as well as RTB receipts
- The effect of a lower than anticipated housing capital grant allocation for 2007/08 of £180,818 and projections for future years

The overall effect is to increase the projected shortfall in funding for the Housing Capital Programme to £2.6m by 2009/10 assuming that the capital receipts pooling requirements do not apply to equity share sales beyond 2007/08 or £4m if they continue into future years.

27. In order to inform a further stock options appraisal the results of the stock condition survey and the financial modelling work on the investment needs of the housing stock need to be completed alongside the development of a new HRA Business Plan. The consultants engaged on these activities advise that outputs should be available in May as planned. It is also essential that tenants can help to develop the new HRA Business Plan as well as be fully involved in the stock options appraisal process.
28. Whilst the guidance on stock options appraisals was primarily to assist local authorities to determine how to deliver the Decent Homes agenda by the target date of July 2005 it is suggested that it is used as a framework for any new process. However, Officers will be liaising with GO-East to seek their advice and input in order that any options appraisal will meet with any government expectations. This will be particularly important should the outcome be different to the current stock retention strategy.
29. In addition to the basic requirements set out in the guidance it is recommended that there is a review of the previous options appraisal to identify new and/or improved ways of engaging key stakeholders particularly tenants, staff and Members but also partner organisations and other local representatives eg Parish Councils who could have strong and influential views on any debate about the future of the housing stock in order that there is a wider understanding of the issues and buy-in to any agreed solution.
30. Further, it is important that the project is well resourced and managed in order that it can be delivered in accordance with any agreed timescale and budget. There is some degree of urgency to get the project underway and completed because of the increased financial pressures, particularly with regards to the forecasted HRA capital position in April 2009 but the revenue position could also be put under further pressure because of the uncertainties highlighted earlier in the report around certain elements of expenditure/income.
31. It is estimated that any stock options appraisal process would take a number of months to complete in a proper and meaningful way and assuming it can be commenced in May 2007 the outcome could be available in September/October 2007. If the preferred option at that time is LSVT then the transfer process would take around 18-24 months although this timescale would be subject to there being a new transfer programme announced either later this year or in early 2008 following the Comprehensive Spending Review (CSR) 2007 and that the Council secures a place on that programme.
32. In order to oversee the project it is suggested that a Joint member and tenant working group is established for this purpose with the following aims and objectives:

- A. To assess the investment needs of the Council's housing into the medium/long term and to project the resources available to meet those needs with particular reference to the Council's ability to achieve and sustain the Decent Homes Standard for its homes.
 - B. To assess the viability of the Housing Revenue Account in the short, medium and long term.
 - C. To gather information about tenants' views on the current housing service and their priorities for future investment/development.
 - D. To set out the Council's Sustainable Community Strategy (and LAA) implications of the stock retention and stock transfer options to deliver against these priorities.
 - E. To ensure that all tenants have the opportunity to express their views on the options available for the housing service.
 - F. To ensure that all the Council's staff are well informed and involved in the housing options project and able to answer questions or signpost people to appropriate sources of information.
 - G. To present to the Housing Portfolio Holder by December 2007 a sound and robust evaluation for decision, based on the above objectives, and the relevant guidance on Option Appraisals and/or updated advice from the Government Office for the East of England (GO-East)
33. In terms of tenant involvement it will be a key requirement that the Tenant Compact is honoured and built on during this period. Tenants will need access to independent advice and support through the options appraisal. An Independent Tenant Advisor (ITA) will need to be appointed for this purpose and any selection process will need to be in conformance with relevant good practice guidance.
34. A communications strategy will be essential to manage communications not only with tenants but staff, Members and other key stakeholders and the local media.
35. The largest single age group within the Council's housing stock are people aged over 60 - it is estimated that around 60%+ are within this age group. However, the recent Tenant Survey and the Council's existing databases can be used to help build an up to date tenant profile which can be used to help target consultation methods and information that addresses specific issues that are likely to be of concern to particular groups.

Staffing Implications:

36. In order to manage the options appraisal effectively it is recommended that adequate project management arrangements are established as soon as possible.
37. It is essential that staff from both within and outside of the housing service are fully involved as members of an Officer Project Team that will support the proposed Member/Tenant Working Group that will oversee the project and should include representatives from the following service areas:

Housing Services
Property Services

Sheltered Housing
Housing Strategic Services
Finance
Communications

38. In addition a project manager/lead officer should be identified to drive the project forward and ensure that it meets the stated aims and objectives within the agreed timeframe. It is also recommended that the role should be held by a senior Officer with relevant experience and expertise who can engage effectively with staff, Members and tenants as well as external stakeholders and consultants. However, if there is no suitable internal candidate then alternative project management arrangements would need to be put in place which would need to be funded from within existing HRA revenue budgets.
39. This level of investment in the stock options appraisal is critical as this project will determine the preferred option for securing a sustainable future for the housing stock and it is important that the outcome is able to deliver this objective. Should stock transfer then be pursued as a result of the options appraisal, this will lay the foundations for the successful delivery of this option.
40. The person appointed into this key role could also be responsible for taking forward a stock transfer proposal in terms of project management and acting as lead negotiator for the Council with any prospective new landlord. The person would, therefore, need to be recognised as a senior non-transferring Officer with the ability to influence as well as negotiate, with sound financial management as well as project management, leadership and staff/relationship management skills with appropriate reporting lines in order to confer the status required to lead the project.
41. In addition appropriate project support should be made available as follows:
 - 1) Project Co-ordinator (Part-time) – this could be through a secondment opportunity
 - 2) Tenant/ITA Liaison Officer – this could be offered as a secondment but also a new post either on a permanent or a 2 year fixed term contract. The cost of this post is estimated at around £35k per annum.
42. The impact of the stock options appraisal process on staff within the organisation, not just within housing, cannot be underestimated. For staff within housing there will be a significant increase in their workload as they will be involved in the consultation/engagement with tenants and leaseholders. For staff in other services there may be knock-on effects of the workload issues within housing and also concerns/anxieties about the future depending on the outcome.

Other Implications

43.	Financial	A budget for the stock options appraisal will need to be identified and will need to take account of costs incurred in the previous stock options appraisal eg appointment of ITA, production of consultation material as well as the staffing requirements to ensure that the project is well resourced. These costs will need to be accounted for within the HRA.
	Legal	None.

Risk Management	<p>A sustainable option for the future of the housing stock needs to be identified and agreed in order that the Council can meet and sustain the Decent Homes Standard and provide a high quality services to our tenants (and leaseholders).</p> <p>The current financial position of the HRA in terms of capital expenditure indicates that if the current level of investment in the housing stock needs to be sustained that by 2010/11 there is likely to be a funding shortfall in the region of £4-£5m a year. The financial forecasts illustrate that from 2009/10 annual revenue expenditure will exceed income with consequent reliance on balances. A stock retention strategy would, therefore require significant cuts in current levels of expenditure and services in order to be viable. Any stock transfer option would require significant investment 'at risk'.</p> <p>The options available are stock retention and LSVT and these will be evaluated as part of the proposed options appraisal. However, whatever the outcome the preferred option would require support from tenants (and leaseholders), Members and other stakeholders in order to be successfully delivered.</p>
Equal Opportunities	<p>The consultation process and methods will need to ensure that all groups can be effectively engaged. A equality impact assessment will be carried out as part of the development, implementation of strategies that need to be in place to take forward a stock transfer option eg in respect of consultation, communications and resident involvement.</p>

Consultations

44. As part of any stock options appraisal there will be an extensive consultation exercise with tenants and leaseholders through the development and implementation of a resident involvement strategy.
45. Other key stakeholders including staff and Members as well as other external organisations and partners eg Parish Councils, LSP, GO-East will be consulted as part of the options appraisal process.

Effect on Annual Priorities and Corporate Objectives

46.	Affordable Homes	The Council has a housing stock of around 6,000 properties and is therefore the largest provider of affordable homes in the district.
	Customer Service	Identifying aspirations of tenants and leaseholders for the future of the housing service and preferred option to deliver them should help meet our aim to provide excellent services.
	Northstowe and other growth areas	The transfer of the housing stock would enable the Council to make its contribution to delivery of a new Sustainable Community Strategy and the growth agenda.
	Quality, Accessible Services	The Council's housing service carries out many thousands of transactions with tenants, leaseholders and those seeking housing every week and is therefore one of our most significant front line services.
	Village Life	The Council has housing stock within 94 of its 102 villages in the district and so makes a major contribution to village life.

Sustainability	<p>The promotion of energy efficiency and the procurement of sustainable materials in relation to maintenance and improvement of the housing stock is dependent on adequate resources into the future for this purpose.</p> <p>The housing stock may become more marginalised in the future as a result in the increase in supply of affordable housing. This is because if people have a choice of more modern and energy efficient homes in sustainable locations such as Cambourne, Northstowe and other planned major developments this could impact on sustainability of the Council's housing stock in the longer term.</p>
Partnership	<p>The Council will need to consult with partners on the LSP and LAA boards regarding the future of the Council's housing stock in order to ensure any preferred option will help achieve common objectives and priorities as set out in the Sustainable Community Strategy and LAA.</p>

Recommendations

47. It is recommended that
- (a) a new stock options appraisal be carried out to evaluate the options to deliver a sustainable future for the Council's housing stock in full consultation with/involvement of tenants, staff, Members and other key stakeholders.
 - (b) the stock options appraisal process to commence as soon as possible, taking into account receipt of stock condition survey and financial modelling information, with a view to presenting the outcome to the Cabinet and Council later this year.
 - (c) a Member/Tenant Working Group be established to oversee the project supported by a corporate officer project team and to agree the size and membership of the Working Group in accordance with the political proportionality rules.
 - (d) the initial project management and staffing proposals outlined in this report be implemented and that other costs associated with the stock options appraisal eg consultancy fees be from within the HRA Estimates for 2007/08 in order that the project can be well managed and adequately resourced.

Background Papers: the following background papers were used in the preparation of this report:

Delivering Decent Homes – Options Appraisal: Guidance for Local Authorities
ODPM June 2003

From Decent Homes to Sustainable Communities
DCLG June 2006

Housing Options Appraisal: Report to Cabinet 9 June 2005 and Full Council 28 July 2005

HRA – A Forward Look 2007/08 to 2011/12: Report to Cabinet 14 December 2006

Capital Receipts Pooling – Update: Report to Cabinet 8 March 2007

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