SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Housing Futures Working Group	11th December 2007
AUTHOR/S:	Corporate Project Manager – Housing Futures	

IMPROVING SOCIAL HOUSING THROUGH TRANSFER: REPORT BY THE COMPTROLLER AND AUDITOR GENERAL MARCH 2003

Purpose

1. To consider the key findings and recommendations of a National Audit Office (NAO) publication of March 2003 on *Improving social housing through transfer*.

Executive Summary

2. This NAO report focuses on two programmes for transferring social housing in England from local authorities to Registered Social Landlords (RSLs). These programmes aim to improve the condition of social housing and the quality of housing services provided to tenants.

3. The main findings of the study are that RSLs have largely delivered the expected benefits to tenants of better quality social housing, better housing services and opportunities for tenant participation.

4. The report also made recommendations for future housing transfer programmes and these are set out in this report.

5. A copy of the full publication can be found on the National Audit Office website at http://www.nao.org.uk/publications/nao_reports/02-03/0203496.pdf. This report draws directly from the summary and recommendations from that publication..

Considerations

5. The NAO research focuses on two programmes for transferring social housing in England from local authorities to Registered Social Landlords (RSLs). These programmes aim to improve the condition of social housing and the quality of housing services provided to tenants. The Large Scale Voluntary Transfer (LSVT) programme started in 1988 and is still running, while transfers under the Estates Renewal Challenge Fund (ERCF) programme ran from September 1996 to March 2000.

6. By February 2003, 143 local authorities had carried out 180 transfers of a total of 738,000 homes - over 90 per cent under the LSVT programme -representing 18 per cent of the 4.2 million homes owned by local authorities at the start of the LSVT programme in 1988.

7. A key objective of the programme has been to bring in private finance to secure improvements in the quality of housing, especially by renovating stock in poor condition, and better services to tenants. Since 1988, RSLs have raised £11.6 billion of private finance, of which £5.4 billion has been used to purchase the stock. The remaining £6.2 billion represents finance which RSLs can draw on to meet future costs such as renovations as their long term improvement programmes proceed, transfer RSLs being required currently to secure 30 year funding at the time of

transfer. Private finance secured through transfer was in part intended to help remedy some of the backlog of disrepair in local authority housing.

8. Transfers were also intended to break up local authorities' monopoly of social housing by giving tenants a choice of landlord. Transfers have reduced the proportion of social housing owned by local authorities in England from 90 per cent in 1988 to 70per cent by 2001.

9. In around two thirds of transfers, local authorities have sold their homes to new organisations created from the authorities' housing departments specifically to receive the stock. More generally whole stock transfers have been the primary transfer vehicle and hence the new organisations have displaced the local authority landlord as the principal supplier but without necessarily expanding choice for tenants.

10. From the 2001 programme onwards, the government has formally required authorities to involve tenants in the selection of a new landlord. Where a choice of new landlord is available, and could provide for an element of competition in the transfer, a key difficulty is winning the trust of tenants in respect of the different landlords to maintain tenants' overall support for transfer.

11. RSLs have largely delivered the expected benefits to tenants of better quality social housing, better housing services and opportunities for tenant participation. Our survey of RSLs, supported by audit visits, found that around 72 per cent of RSLs' homes have been improved, that almost all repairs had been made on time, and promises met on housing services.

12. Most RSLs had kept rent increases within Housing Corporation guideline figures, and had met their promises on tenant participation. Their discussions with tenants also suggested that many considered that they had benefited from transfer. Fifteen per cent of the RSLs surveyed said that they had not met or were delayed in meeting promises to develop new homes. Reasons included financial or regulatory problems, planning delays or insufficient grant funding from local authorities. Additionally, in some instances the promises were no longer considered appropriate because costs had increased significantly or local circumstances suggested that less social housing was needed.

13. A survey was undertaken in November 2001 of 105 transfer RSLs to assess RSLs' progress with their improvement programmes. Prior to 2001 these programmes would not have been planned in relation to the Decent Home standard (DHS). About 30 per cent of the 82 RSLs responding were likely to meet the standard within five years of transfer, and most should do so within ten years. Up to 17 per cent of transferred homes might not meet the DHS within 10 years though. Transfer RSLs are more optimistic, anticipating on average that it takes around seven years to eradicate non-decent stock.

14. Local authorities and RSLs make promises about the benefits that transfers will bring to tenants. The extent and cost of these promises vary and are sometimes unclear, leaving tenants uncertain about what they can expect from transfers and hindering subsequent evaluation of RSLs' performance. While accepting the merit of clearly defined promises where possible and appropriate, the NAO considers that there are situations where it is possible that the new landlord, local authority and tenants will not wish to be tied down to firm commitments or will be unable to make such commitments.

15. Most RSLs have established sound finances after transfer. A small proportion have, however, experienced financial difficulties and a very few RSLs have had to merge with other more viable RSLs to overcome significant financial problems.

16. The terms on which a transfer is made to an RSL are intended to be cost neutral (i.e. to generate neither a surplus nor a loss) for the RSL but this may not be achievable in practice. The Communities and Local Government (CLG) and local authorities use a model agreed with HM Treasury to inform negotiations over the transfer value known as Tenanted Market Value (TMV). The fixed parameters within the transfer valuation model mean that cost neutrality is unlikely to be achieved in practice, and may increase the taxpayers' contribution beyond that intended to reflect the cost of bringing properties up to an appropriate standard.

17. In the cases examined the NAO found that post transfer events had an impact on the cost neutral position intended at transfer. Some changes reflected the difference between actual performance and that forecast at the time of transfer, and reflected the risk transfer inherent in the programme. For example, renovations cost more or less than planned, demand was lower or higher than expected, or rent regimes changed. But other impacts reflected events such as the refinancing of loans by RSLs after transfer, the sale of property under the Right To Buy scheme, or the sale or redevelopment of land after transfer. The possibility of these more foreseeable events occurring was not always recognised in the transfer terms.

18. RSLs are independent, not-for-profit organisations set up to meet the needs of their tenants and the local communities which they serve. When a new RSL registers with the Housing Corporation, the Corporation requires that its principal object must be to provide social rental housing, which must account for at least 50 per cent of the RSL's activity. Up to 49 per cent of an RSL's activities may be in non-social housing areas. In the cases examined these uses included student accommodation, key worker homes or assisting other housing needs, or they may be market renting or wider regeneration projects. Cost neutrality in the transfer value is difficult to achieve in practice, as noted above, and the NAO recommended that the CLG and Housing Corporation should look to increase their influence over how any surpluses are used to encourage their application to further social housing objectives or those designed to develop sustainable communities.

19. At various times the cost of future transfers have been estimated. In 2001, for example, it was estimated that the transfer of a million homes over 5 years would cost the taxpayer £4.2 billion spread over 30 years. However, it is considered that the additional financial cost of transfer over local authority renovation has delivered non quantifiable benefits such as earlier improvement of poor condition social housing, community regeneration and increased tenant participation, and achieved risk transfer, including risks relating to income and cost, maintenance and risks arising from shortfalls in demand. It also considers the additional financial cost to be small in the context of over £15 billion allocated to housing expenditure in the same 5-year period 2001-02 to 2005-06. As the report shows, the programme has been largely successful in delivering improvements in services to tenants and in transferring the financial risks in holding properties for letting.

20. On the basis of their report, the NAO made the following recommendations:

    i) Unless there are clear reasons why such definition is undesirable, require that all promises to tenants are clearly defined, measurable and time-related, including an explicit promise to meet the DHS in a reasonable timescale. Where promises need to be changed, tenants should be consulted and the

CLG or the Housing Corporation should monitor changes to ensure taxpayers and tenants continue to receive at least the value for money intended originally.

ii) Examine local authorities' option appraisals and satisfy itself that the authorities have assessed properly all options for improving their housing and services to tenants. The CLG should provide guidance on how a new model should be used by local authorities and central government to assess value for money. The NAO would be content to review and comment on any model as it is developed.

iii) Continue its efforts to extend the range of choice of landlord, to achieve the best transfer terms for tenants at a reasonable price. The CLG should explore further how greater choice and competition can be brought to bear without undermining tenant support where transfer offers the best option. Where a transfer has gone ahead successfully with choice or competition, the CLG should identify and disseminate good practice, particularly on how to handle tenants' concerns. Consideration should be given to the possibility of competition to help determine the transfer value received by the local authority, particularly where receipts may not be sufficient to pay off related local authority borrowing, leaving overhanging debt and any early redemption penalties to be repaid by the CLG.

iv) Allow greater flexibility in determining the transfer price, to reflect a range of property lives and discount rates, taking greater account of the nature of the housing to be transferred and the likely cost of finance. In this way a range of possible transfer values could be derived, to inform the local authorities' negotiations of transfer prices and to get closer to the cost neutral outcome intended at transfer. Valuations and prices in this wider range could be compared to the value derived from the CLG's fixed model and justified before transfer proceeds.

v) To assist in this process of transfer valuation, commission a review of a sample of past transfer RSLs' finances, to assess the extent to which transfer assumptions have proved realistic and the transfer valuation robust, the lessons to be learned for transfer valuations in future, and the implications for policy relating to post-transfer gains and losses where these are significant.

vi) Check that transfer terms take account of all assets that RSLs receive from local authorities, including receipts from Right To Buy sales and disposals of land for development.

vii) Post transfer events (including the refinancing of loans by RSLs), and risks inherent in any model producing values based on forecasts, can impact on the cost neutrality intended in the transfer price. The CLG and the Housing Corporation should look to influence the use by RSLs of additional surpluses arising, if any, to encourage their application into further social housing development, other stock transfers or objectives designed to develop sustainable communities, such as key worker homes.

viii) At present, before transfer, the Housing Corporation reviews the RSL's business plan to consider the financial viability of the RSL. The CLG should seek formal confirmation from the Corporation that the assumptions underlying the transfer price are realistic, and neither too optimistic nor too conservative.

21. The last housing transfer programme was in 2006 and detailed guidance produced by the CLG in 2005 on housing transfer was updated in 2006. A new housing transfer programme has not yet been announced by the CLG although it is expected that there will be news on future programmes and relevant criteria in the new year

together with any revised guidance that may or may not take account of all of the above recommendations.

Consultations

22. The NAO used a variety of methods to obtain evidence for their research. These included case studies of 10 transfer RSLs and a survey of these and a further 50 RSLs receiving transferred stock. The files and evaluation reports held by the CLG and the Housing Corporation were examined and there was an analysis of RSL performance data collected by the Corporation as part of its regulation of the RSL sector.

23. The NAO also interviewed tenants and a range of stakeholders, and received advice and guidance from an expert panel.

24. Over the same time period as the NAO study, the Audit Commission looked at how local authorities, which have transferred some or all of their housing stock, carry out their continuing responsibilities. The NAO worked closely with the Audit Commission, co-ordinating their fieldwork and sharing information. This report complements the Audit Commission's report, *Housing After Transfer*, together providing a comprehensive assessment of the success of the LSVT and ERCF transfer programmes from the perspectives of both central and local government.

Effect on Project Objectives

25.

Investment needs of the housing and the resources available to meet those needs	The report identifies the additional investment that has been levered into housing transfer organisations and how that has helped deliver improvements to homes and housing services.
The viability of the Housing Revenue Account	The research highlights the issues around determining the valuation model used for a housing transfer and how this needs to be reviewed to ensure value for money for taxpayers as well as achieve cost neutrality for the new organisation.
Tenants' views on the current housing service and their priorities	The report provides independent evidence of the performance of housing transfer RSLs on delivering against promises made and improving homes and housing services in line with tenant aspirations.
Sustainable Community Strategy (and LAA) implications	The recommendations to government for future housing transfer programmes include a means to encourage application of any additional surpluses arising within the new RSL into further social housing development or objectives designed to develop sustainable communities, such as key worker homes.
Staff are well informed and involved in the Housing Futures process	
A sound and robust evaluation based on the above objectives, and relevant government guidance	The research is helpful in making an assessment of how a housing transfer option could contribute to achieving tenants aspirations for the future in terms of their homes and housing services.

Actions Required

26. To note the key findings and recommendations of the National Audit Office research into improving social housing through transfer.

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

Improving social housing through transfer National Audit Office March 2003

Contact Officer: Denise Lewis – Corporate Project Manager – Housing Futures
Telephone: (01954) 713351