

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Leader and Cabinet

9 June 2005

AUTHOR/S: Management Team

HOUSING OPTIONS APPRAISAL

Purpose

1. To present to Cabinet the outcome of the housing options appraisal project; to advise Cabinet of Management Team's conclusions and to ask that Cabinet recommends to Council its preferred future housing option.

Report structure

2. The Housing Options Working (HOW) Group report to the Housing Portfolio Holder is attached as **Appendix A**, along with the Financial Analysis executive summary prepared by Tribal HCH (**Appendix B**) (copy of the full financial analysis is available from the Housing and Environmental Services Director), the report of the independent tenants' advisor, PS Consultants (**Appendix C**) and the ODPM housing options appraisal evaluation criteria (**Appendix D**).

Effect on Corporate Objectives

3. Quality, Accessible Services	The Council's housing service carries out many thousands of transactions with tenants each week and is among the most significant front line Council services. The options appraisal considers future funding pressures and tenants aspirations for future housing services.
Village Life	The Council owns and manages affordable housing in 94 out of 102 villages in the district and so makes a major contribution to village life.
Sustainability	The promotion of energy efficiency and sustainable procurement of materials depends upon there being adequate resources for future housing investment programmes.
Partnership	There has been a high level of tenant participation and consultation through the options appraisal project and partner agencies have been briefed and updated through the South Cambridgeshire Strategic Partnership.

Background

4. The HOW Group has presented a summary of its findings to the Housing Portfolio Holder, and has used nine evaluation criteria to assess the impact of stock retention and stock transfer (arms length management and PFI having been discounted at an earlier stage of the appraisal). Either option has significant corporate organisational and financial impact and this Management Team report highlights some of the issues to be taken into account alongside the broader enquiries of the HOW group.

Revenue effects

5. The primary factor that enables a housing association to sustain a viable revenue position and secure additional investment resources is the impact of negative housing subsidy on the Housing Revenue Account (HRA) effectively taking from the Council almost half its annual rental income
6. The HRA is viable in the medium term as long as significant savings (from £410,000 to £437,000 pa) can be achieved in the next 18 months and sustained thereafter. This years HRA budget savings should make a significant contribution towards that requirement.
7. Stock transfer involves funding about £750,000 in pre ballot costs in order to establish the new landlord organisation and negotiate with the Council to develop a formal offer to tenants. These costs would be split about £500,000 HRA / £250,000 General Fund and would be spread over two financial years. If the Council chose to pursue stock transfer with an existing social landlord rather than set up a new organisation, set up costs may be reduced. Management of this 'at risk' sum is usually by monitoring of tenant views so that the transfer can be aborted prior to the ballot if it becomes clear that tenant support for the proposal is not being consolidated.
8. If transfer proceeds the financial model suggests that interest on the capital receipt received by the Council could more than cover the additional costs to be borne by the Council so that there could be a net positive cumulative effect on the GF of about £7m over five years. This figure would be reduced if part of the transfer receipt was used by the Council to fund new affordable housing development. Interest income from the receipt would not be received by the Council until 2007/08 assuming an 18 month lead in time for the transfer.

Capital effects

9. It is clear from the HOW Group's work that the expansion of the housing capital programme to include tenants' aspirations is not deliverable with retention, as the Council faces the full impact of Right To Buy (RTB) receipts pooling from 2007/08, reducing by 75% the Council's most significant capital funding stream.
10. In preparing for the threat of Council tax capping the Council is choosing to use its RTB receipts for a variety of non housing purposes and competition for diminishing funds between landlord and non housing activities could reduce resources available for housing investment further (the financial modelling assumes that beyond known non housing commitments, all RTB receipts will be applied to the housing investment programme).
11. At the most basic investment level (decent homes), investment requirements can be met until 2013/14.
12. If the Council chooses retention then the capital programme will need to be reviewed to ensure delivery of priorities in the short to medium term.
13. If the Council chooses transfer it will need to decide how the resulting receipt is deployed, either easing pressures in a number of service areas, or being targeted at the development of new affordable homes. Negotiations about the apportionment of any post transfer preserved RTB receipts will form part of the pre transfer preparations.

Tenants' views

14. The overwhelming majority of tenants responding to the test of opinion wished to stay with the Council. However their stated reasons for doing so were rent levels and investment in homes, suggesting that there had been a failure to communicate the effect of the options or that tenants did not believe the content of the consultation material.
15. Transfer is not available to the Council unless it can demonstrate to the Secretary of State that the majority of tenants are not opposed to it, this usually being achieved by way of a ballot of secure tenants. If the Council wishes to transfer its housing then it must communicate to tenants the reasons for its decision and ensure that those reasons are well understood.
16. It is not clear from the tenant consultation already conducted how 'fixed' tenants views are and so what is the likelihood of those views changing over time. The advice from the Council's consultants who have experience from other areas is that tenants are likely to become more supportive of transfer when details of the transfer offer become clearer in the pre ballot negotiations.
17. The effects of the housing subsidy system in restricting the Council's ability to use all of its rental income to improve services and increase investment in its homes emerged as a significant topic through the face to face tenant consultation.
18. There has been little evidence of anti transfer activity in the district during the options appraisal project. This may change if the Council decides to pursue transfer, and its effect on tenant views would need to be assessed and managed. Similarly the views expressed in the Cambridge Evening News may be a factor in influencing tenants' views, and every effort would be required to ensure factual and balanced coverage.
19. The Scrutiny and Overview Committee requested that Cabinet pay particular attention to the low tenant turn out achieved through the consultation by the HOW Group and ensure that a meaningful consultation form the part of any balloting process.

Organisational issues

20. Although retention is sometimes described as the 'no change' option, there are clear requirements to reduce staffing and service budgets significantly in 2005/06 and 2006/07.
21. Transfer would involve the transfer of approximately 150 staff to the new landlord organisation along with a small number of support staff who provide services to housing for more than 50% of their time. The majority of staff on the ground floor at Cambourne and half of the Waterbeach depot staff would have to be relocated to the transfer landlord's new office and depot accommodation. The Transfer of Undertakings (Protection of Employment) (TUPE) regulations would apply to transferring staff.
22. An independent health check of the Council's Direct Labour Organisation (DLO) will be required if it is to transfer with the landlord service. DLO transfer would increase the apportionment of some fixed costs to the Council's Environmental Services operation. The Housing Corporation would need to be satisfied that continued use of the DLO by the new landlord met its best value requirements. Contracts with other providers would generally need to be novated to the new landlord.

23. A degree of decoupling from Cambridgeshire Direct may be necessary as a transfer landlord establishes its own means of direct contact with customers.
24. Retained housing services (those remaining with the Council) would include the strategic housing team, housing advice and homelessness team, and the allocations function currently carried out by Neighbourhood managers.

Governance

25. Significant resources have been invested in tenant participation and communication over the course of the housing options project, and whichever option is chosen by the Council should build on these foundations. In the case of transfer a 'shadow board' will be established comprising elected members and tenant representatives to negotiate the terms of the transfer with the Council.
26. If the Council chooses to retain its landlord function then it may wish to explore the establishment of a housing management board which could engage a small number of elected members and tenant representatives more closely in the management of the housing service.
27. A new tenant compact (which sets out the consultative relationship which the landlord will aim to have with its tenants) will be negotiated over coming months, providing an opportunity to review current tenant participation arrangements, and consider ways of all tenants being able to elect their tenant representatives.
28. It became clear early in the project that the fact that the 2002 SCS had not been commissioned for the options appraisal process was a significant weakness, and verification of its content was problematic.
29. The identification of changes in investment requirements towards the end of the project confirmed that a new SCS, designed to fulfil options appraisal requirements and future asset management needs is a priority whether the Council retains or transfers its housing. It is proposed that its commissioning should be undertaken at the earliest opportunity.
30. Since the options appraisal commenced the Council has decided to dispose of some Airey properties and has agreed in principle to proceed with the redevelopment of the Windmill estate in partnership with Nene Housing Society. These decisions need to be factored into the new stock condition database and financial projections.

Timing of decision and relation with other service reviews

31. The Council is carrying out reviews in the following areas:
 - Sheltered housing – to address high cost of current service (£900,000 annual subsidy from the HRA) and improve service provision.
 - Responsive repairs procurement – to address issues of medium term DLO viability.
 - Allocations review – to consider the adoption of choice based lettings
32. Although all reviews will need to take into account the options appraisal, in the absence of a positive decision to transfer, then retention of the stock continues along with revenue savings required to balance the HRA. Within each review the effects of

future transfer can be modelled to identify the potential effects of the additional resources that transfer would provide.

Management Team Conclusions

33. Management Team believes that transfer of the Council's housing to a housing association offers the greatest long-term benefits to the Council and its tenants.
34. The effect of the housing subsidy system, which takes out of the HRA almost half of the Council's rental income, and the loss of three quarters of house sale receipts through receipts pooling, combine to mean that the Council's housing business will only be viable in the short term if expenditure is cut and services reduced. Because of this unlevel playing field, retention by the Council is less able than transfer to support the achievement of the Council's broader corporate objectives and priorities, particularly in respect of the Council funding new affordable homes.
35. It is evident from the experience of authorities elsewhere that transfer is most likely to succeed if the Council is united in its support for such a proposal, recognises the potential benefits which transfer can offer to local communities, and is prepared to provide community leadership for its delivery. If elected members are not persuaded of the case for transfer it is unlikely that tenants will be.
36. The Council will have to invest up to £750,000 over two years before knowing whether its transfer proposals are supported through a tenants' ballot. This investment is 'at risk', and is recovered by the Council at a later date if transfer proceeds, but is lost if a tenants do not support the transfer proposals at a ballot.
37. If the Council does not choose to pursue transfer then it will continue to own and manage its housing. It should be stressed that although retention becomes the option of choice if transfer is not pursued, it will entail significant organisational change and reduction of expenditure in order for the housing service to remain viable in the short to medium term.
38. A further risk which the Council will need to assess is whether the housing finance system is likely to change in such a way to make the gradient of the unlevel playing field even steeper, and as a consequence the Council may have less flexibility to develop its own local proposals in future.

Recommendation

39. Cabinet is asked to recommend to Council its preferred future housing option.

Background Papers: Options Appraisal Financial Analysis amended Final report June 2005, copy available from Steve Hampson, Housing and Environmental Services Director

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