



Report to Cabinet

Subject: Housing Stock Option Appraisal

Date: 13 January 2005

Report of: Portfolio Holder for Housing

1. Purpose of the Report

To update Members on the outcomes of the Housing Stock Option Financial Appraisal and the consultation carried out by the Independent Tenant Advisers.

To propose that officers be asked to further investigate the possibility of Stock Transfer

2. Background

Housing Stock Option Financial Appraisal

As part of the government's monitoring of Housing Revenue Performance and Delivering Decent Homes all stock holding Local Authorities are required to undertake a Housing Option Appraisal of the future management, maintenance and ownership of their housing stock. This appraisal must be carried out in accordance with Government guidance, published in June 2003, and to the satisfaction of the Government Office and the Office of the Deputy Prime Minister's Community Housing Task Force by July 2005.

HACAS Chapman Hendy were appointed by the council to undertake a financial appraisal of the options available to the council to secure sufficient resources for investment in Council Housing in order to meet the government's Decent Homes Standard by 2010 and beyond that to meet the aspirations of the tenants.

The Decent Homes Standard requires the property to meet the fitness Standard, to be in a reasonable state of repair, to have reasonably modern facilities and to provide a reasonable degree of thermal comfort. The Decent Homes Standard relates to the physical

condition of the properties but work on dwellings must be combined with improvements to services and the local environment which deliver places where people want to live as part of the Option Appraisal process. Stock holding Local Authorities are required to consider alternative management arrangements and the potential of increased investment in the stock through an Arms Length Management Organisation, the Private Finance Initiative or transfer of ownership to a Housing Association.

The government has made extra resources available nationally to enable the Decent Homes Target to be met but has made it clear that authorities opting for Stock Retention cannot expect to receive additional funding beyond that available from the Housing Investment Programme.

The Office of the Deputy Prime Minister's guidance requires the Council to establish assessment criteria to objectively compare the different investment options. The guidance states, "a key part of the option appraisal is to establish the broad objectives for the service, in terms of improvement to the stock and action to improve the quality of service provided to tenants." These objectives need to reflect:-

- Delivery of the Decent Homes Target and other national/regional priorities;
- Tenants and leaseholders aspirations and priorities;
- The council's statutory housing duties;
- Wider housing market and supply and demand issues and Neighbourhood Renewal/Regeneration Strategies.

The Housing Services Review Group has overseen the Stock Option Appraisal process. The role of this group has been to ensure that the process is well managed and that tenants are involved throughout the process. This group was made up of 4 members and 4 tenants.

In considering the above objectives the Services Review Group established a set of Key Aims for the Stock Option Appraisal. These are:-

- To ensure all homes meet the Decent Homes Standard by 2010;
- To provide safe secure homes, which are sustainable with regard to ability to let, condition of the property and the local environment;
- To ensure tenants continue to receive a high standard of service which will improve, give Value for Money and has a strong future;
- To ensure as much Affordable Housing as possible is available within the borough;
- To ensure tenants choice with regard to the future management and maintenance of their homes;

- To make as many resources as possible available to the council to invest in its housing.

The HACAS Chapman Hendy Stock Option Financial Appraisal Report

The consultants of HACAS Chapman Hendy have submitted their final report. The Executive Summary Report is attached at Appendix 1. A copy of the full report can be obtained from the Head of Housing Services on request.

The report considers:-

- The consultation process
- Housing needs
- The level of investment needed in the stock
- Stock retention
- Arms Length Management
- The Private Finance Initiative
- Stock Transfer

Summary

The Consultation Process – The consultation process with tenants and leaseholders has been carried out in accordance with government guidance. The council, in agreement with Tenant Representatives, appointed an Independent Tenant Adviser, PS Consultants, to carry out this role. There has been an extensive programme of consultation, which has included training, Focus Groups, meetings, Road Shows, newsletters and questionnaires. As part of this process the Service Review Group established a Communication and Consultation Strategy and a Tenant Empowerment Strategy in consultation with the Tenant Consultation Panel to guide and monitor the process. The Community Housing Task Force and Government Office have agreed and signed off these documents.

Housing Needs

Gedling is facing an ever reducing stock through Right to Buy sales, which is changing the overall profile with smaller properties making up an ever increasing percentage of the stock. There has been a reduction of two and three bedroom properties, for which there is the highest demand and the borough is facing an ever-increasing demand for social housing. The increase in house prices is excluding many from entry in to the private housing market.

The Level of Investment Needed in the Stock

The report considers 3 levels of investment:-

- The Decent Homes Standard – equates to an estimated £16.7m up to 2010

- The Stock Condition Survey Standard – equates to an estimated £20.8m up to 2010 and £161.0 over 30 years
- The Gedling Standard, established in consultation with tenants – equates to £27.2m up to 2010 and £170.3m over 30m years

Stock Retention

The council can meet the Decent Homes Standard and the Stock Condition Standard by 2010. It cannot, however, meet the investment required to meet the Gedling Standard.

The long-term investment needs of both the Stock Condition Standard or the Gedling Standard cannot be met from within existing resources, with predicted shortfalls of £37.6m and £45.9m respectively over the 30 year business plan.

The Housing Revenue Account will maintain adequate balances over the 30 years based on the Decent Homes Standard but to achieve the Stock Condition Standard or the Gedling Standard would require substantial annual savings after 2010, which would have an impact on service delivery.

Arms Length Management

Government funding for Arms Length Management Organisations is only available to assist local housing authorities to meet the Decent Homes Standard by 2010.

As the council can achieve the Decent Homes Standard from within existing resources, its bidding position may be relatively weak when compared to other authorities that are unable to meet this standard without additional resources. This was not, therefore, considered to be a viable option to pursue within the consultation process.

The Private Finance Initiative

The Private Finance Initiative has limited attractions for small pockets of stock but would not be a solution that would address the borough wide issues that face Gedling in the future.

Stock Transfer

Stock Transfer could deliver the investment needed across the whole stock and this would achieve investment far beyond the Decent Homes Standard and meet the requirements of the Stock Condition Standard and the Gedling Standard and has the potential to enhance service delivery.

The council would benefit from a useable Capital Receipt of £1.543m. The transfer of stock would have financial implications for the General Fund. The report concludes that these financial implications would be broadly cost neutral but more detailed work will be required in this area if the council decides to pursue a transfer strategy.

The Independent Tenant Adviser, PS Consultants – Outcomes of the Consultation Process

Stage 1

The objectives of Stage 1 of the consultation process were:-

- To inform tenants about the Stock Option Appraisal process and the key government policies that influence it, namely the Decent Homes Standard, Rent Convergence and the implications of the Sustainable Communities Plan;
- To advise tenants with regard to the four options for the future management and maintenance of the housing stock, which are:
 - Stock retention with existing arrangements
 - Stock retention with Arms Length Management Arrangements
 - The Private Finance Initiative
 - Stock Transfer to a Housing Association (Large Scale Voluntary Transfer)
- To offer an opportunity to tenants to discuss and ask questions about the process and the issues involved;
- To conduct a survey of all council tenants to establish a 'Gedling Standard' which would give a clear idea of priorities for:
 - Investment in homes and the environment beyond the Decent Homes Standard
 - Improvements in the housing service

In order that these multiple objectives could be achieved a consultation programme was proposed and agreed by the Service Review Group, the Tenant Consultation Panel and PS Consultants, which gave regard to both the Tenant Empowerment and the Communication and Consultation Strategies.

The consultation programme was designed to engage actively and openly with all tenants and to ensure that all sections of the community were given the opportunity to participate. The programme contained a number of different elements; a newsletter, a series of 'Road show' type information events, information sessions at the council's sheltered housing schemes, fact sheets and a survey of all tenants.

Outcomes

The survey carried out by PS Consultants yielded 1280 responses, representing 36% of tenant households.

The response to the consultation programme was positive both from the perspective of those responding to the survey and those attending the 'road show' sessions.

The findings are that tenants see an improved repairs service, the tackling anti-social behaviour and the provision of affordable housing as being of high importance.

With regard to the type of improvements that tenants would like to see to their homes the survey demonstrated a clear desire for improvements to be undertaken that exceed the requirements of the Decent Homes Standard and the Stock Condition Standard. These were:-

- Double glazed windows and doors
- Home security, including lighting and locks
- New kitchens
- External maintenance and improvements, including painting, fencing and parking provision
- New bathrooms
- Central heating
- Insulation

These findings have been used to work with tenants to establish the 'Gedling Standard'

In terms of the options under consideration, the survey showed that there was a clear distinction between the improvements available to homes and services under Stock Retention and those possible through Stock Transfer.

Stage 2

The objectives of Stage 2 of the consultation programme were:-

- To provide detailed information with regard to the ability of each of the four options to provide the investment required to meet the aspirations identified in Stage 1, that were measured in the form of the 'Gedling Standard';
- To provide tenants with a range of easily accessible opportunities to obtain further information about the Option Appraisal process and the implications of the different options;
- To test the findings of Stage 1 of the consultation process;
- To determine through consultation, tenants' views with regard to their preferred option.

The second stage also comprised a newsletter and questionnaire to all tenants to ensure that all tenants were given an opportunity to comment.

The newsletter described the work carried out to date and details of the 'Gedling Standard'. It also provided, on the basis of the report provided by HACAS Chapman Hendy, a brief analysis of the ability of each option to meet the investment requirements of the Decent Homes Standard and the Gedling Standard. In addition, it encouraged tenants to obtain further information by advertising road shows, the free-phone number and an e-mail address, where information could be obtained both verbally and in the form of fact sheets.

The newsletter explained that of the four options only Stock Retention or Stock Transfer provide realistic solutions for the council.

A further series of consultation sessions were also held at all the sheltered schemes and other key locations within the borough.

Outcomes

A total of 945 completed questionnaires were received which represents approximately 25.5% of tenanted households and is in excess of the Community Housing Task Force's benchmark response rate of 10%.

The survey showed:-

- 89.9% of respondents considered the Gedling Standard to be a good standard;
- Nearly 90% of respondents considered that they had received sufficient information about the process;
- 274 respondents indicated that they would like to become more involved
- 53.8% of respondents who expressed a preference favoured Stock Transfer
- 48.2% of respondents who expressed a preference favoured Stock Retention
- 198 of respondents either did not express a preference or favoured either option by selecting both categories.

The Independent Tenant Advisers' point out that in their experience it is unusual to obtain results indicating support for a change option, such as Stock Transfer at this stage in the process and would expect this support to grow following the provision of further information relating to issues such as:-

- Who the landlord would be
- Rents
- Tenancy conditions
- What improvements would be offered
- Levels of investment.

3. Proposal

The Service Review Group met on 30 November 2004 to consider the above outcomes and as a result agreed to recommend to the Portfolio Holder for Housing that officers be requested to further investigate the possibility of Stock Transfer and to establish a Working Group to oversee this process.

4. Staffing Implications

Staff have been involved throughout the process and have been kept informed via Briefing Sessions, meetings and newsletters. This will continue throughout this next stage of the process.

There has also been Unison Representation on the Service Review Group. Staff and Unison will be involved in the Working Group, which will be set up to progress the investigation of Stock Transfer.

If the council decides to progress Stock Transfer there will be a transfer of staff under TUPE regulations and any proposals will ensure that this protection is given.

5. Resource Implications

The resource implications for both the Housing Revenue Account and the General Fund with regard to each option have been fully appraised by HACAS Chapman Hendy, details of which are contained in Appendix 1, the contents of which have been fully discussed and considered by officers from both the Finance and Housing Departments.

6. Recommendations

That members note the outcomes of the Housing Stock Option Financial Appraisal and the consultation carried out by the Independent Tenant Advisers

To recommend that the option of Stock Transfer be further investigated

To establish a Working Group to oversee this process

HACASChapmanHendy

GEDLING BOROUGH COUNCIL

HOUSING STOCK OPTIONS APPRAISAL

FINAL REPORT

EXECUTIVE SUMMARY

SEPTEMBER 2004

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1. INTRODUCTION

1.1 Background

1.1.1 HACAS Chapman Hendy were appointed by the Gedling Borough Council to carry out an appraisal of the options available in respect of the Council's housing service, considering the implications of each option on the Council, its tenants, and the wider community of the Borough.

1.1.2 The decision to review options will enable the Council to evaluate alternative approaches to fulfilling its housing roles, duties and responsibilities, and within the context of Best Value, to ensure that it makes best use of resources. Consideration is also given to current and projected housing need in Gedling and the Council's requirement as landlord to ensure that properties are maintained to at least the Government's decent homes standard.

1.1.3 The options considered were as follows:

Stock retention by the Council under existing arrangements;
Stock retention under Arms Length Management arrangements;
The Private Finance Initiative (PFI);
Stock transfer to a Registered Social Landlord.

2. CONSULTATION PROCESS

2.1 As part of the options appraisal process, the Council was fully committed to engaging in meaningful consultation with tenants and leaseholders in accordance with the ODPM guidance. The council has also appointed an Independent Tenants Advisor (PS Consultants) to assist tenants in understanding the options appraisal process and to provide support, training and advice. The Council has sought to develop several of the initiatives detailed within its Communication plan to develop tenant participation and enhance formal tenant input into the decision making process. A Stock options Steering Group has been set up to oversee the options appraisal process the group comprises members, officers and tenants.

3 HOUSING NEEDS

3.1 Gedling Borough Council commissioned a Housing Needs study, the outcomes of which will be reported in August 2004.

- 3.2 Gedling is facing the problem of reducing stock numbers through increased Right to Buys. The overall stock has reduced by 8.2% since April 2001. This is changing the overall profile of the stock with the smaller properties i.e. Bungalows, flats making up an ever increasing percentage of the stock.
- 3.3 Gedling has seen a reduction in three and two bedroom properties of 10% and 6% respectively. Houses only account for 45% of the overall stock. Sheltered accommodation is represents a greater proportion of the overall stock.
- 3.4 In line with the national picture, increasing house prices in Gedling are creating a greater demand for social housing and impacting on the number of right to buy sales within the Borough.
- 3.5 The average price for a terraced house in Gedling based on 2003 sales was £84,293. This represents a 44% increase when compared to the March 2002 data. The current level of house prices is effectively excluding many from entry to the private housing market when measured against average earnings for the Borough.

4. **THE LEVEL OF INVESTMENT NEEDED IN THE STOCK**

- 4.1 This section considers the level of investment needed in the stock at Gedling. Three levels of investment have been considered: **the decent homes standard** – a standard defined by the government as part of the social housing policy, the level of investment identified following an independent **stock condition survey**, commissioned by the Council and **the Gedling standard** - a standard which includes tenant priorities and sets the decent homes standard within the context of the Council's housing stock and the level of investment.

4.2 **Decent Homes Standard**

4.2.1 The government has set a target for all local authorities to meet the decent homes standard by 2010 and to consider options available to achieve this objective.

- 4.2.2 There is a clear distinction between the decent homes standard, which the Council must achieve, and the investment needed to meet the Council's full requirement which includes expenditure to address the long-term sustainability of the housing stock. This type of expenditure is not included in the Decent Homes Standard.

4.2.3 The decent homes standard is strongly focused on building components and does not take account of expenditure like environmental works that may be needed to ensure that communities are sustainable in the long term. A property will fail the decent homes standard if it:

is unfit as defined by s604 of the Housing Act 1985, as amended by the 1989 Local Government and Housing Act; or
is not in a reasonable state of repair; or
does not have reasonably modern facilities and services; or
does not provide a reasonable degree of thermal comfort.

4.2.4 In the Gedling context, simply meeting the decent homes standard will not include many priorities and initiatives that the Council and its tenants wish to undertake. Examples of these include:

environmental improvements including pavements, ramps and retaining walls;
community safety initiatives including estate lighting, the installation of smoke detectors and replacement of warden call equipment;
communal lighting and door entry system;
Double Glazing across whole stock;
provision of Kitchen and Bathrooms
provision of central heating.

The tenants have had a key role in defining the additional priorities and the Council has for the most part been guided by their wishes where this was appropriate.

4.2.5 In summary, the decent homes standard can be defined as a minimum standard of stock condition, although it is fair to say that meeting the Decent Homes Standard will satisfy the current government policy.

4.3 Stock Condition Survey

4.3.1 Clearly the decent homes standard is a relatively low standard and there is a strong case to recommend that social landlords should be aspiring to reach higher standards to ensure sustainability and tenant satisfaction.

4.3.2 The Council commissioned an independent stock condition survey in November 2003 by Property Techtonics, to establish the level of investment to meet not only the decent homes standard but also to meet future elemental failure outside the scope of the Decent Homes Standard.

The Council continually updates its investment profile to take account of the annual capital investment programme and the impact of reductions in stock numbers. The spending is aimed at ensuring the long-term sustainability of the stock and to provide the investment required to address initiatives outlined in paragraph 4.2.4.

4.4 **Gedling Standard**

4.4.1 In order to establish the priorities and aspirations of its tenants. The Council undertook a process of consultation with its tenants through a number of road show's and a tenant's survey.

4.4.2 The tenants identified a range of priorities for inclusion in the Gedling standard and the findings of the survey are given below:

- Double Glazing - 70%
- Home Security - 57%
- New Kitchens – 40%
- External Maintenance and improvements e.g. fencing, Parking – 39%
- New Bathrooms – 35%
- Central Heating – 30%
- Insulation – 15%

4.4.3 The tenant's panel considered the results of the consultation and drew up a list of requirements. The revised priorities together with proposed timescales are given below:

- Double Glazed windows – Wholesale replacement across stock;
- Kitchens replacement every – 15 years;
- Bathroom replacement every - 25 years;
- Floor entry showers for Sheltered accommodation;
- Security lights;
- Security Doors.

4.4.4 Property Techtonics has assessed the requirements and provided a summary of the additional cost up to 2010. It should be noted that the majority of the costs are in addition to those included in the stock condition survey. Items such as floor entry showers, security lights and doors were not included in the original survey.

4.5 Summary of Costs

Decent Homes Standard

- 4.5.1 Property Techtonics were requested to undertake some additional analysis to establish the investment required to meet the specific requirements of the Decent Homes standard. They estimated the cost of meeting the decent homes standard by 2010 at £13.6m with current failures amounting to £5.8m and the potential for newly arising failures of £7.8m. By taking future inflation, fees and the impact of RTB sales into account, it is estimated that to meet the Decent Homes Standard will require an investment of **£16.7m**.

Stock Condition Survey

- 4.5.2 The stock condition survey has identified the need to spend £99.9m on capital investment in the housing stock over the next 30 years with £15.3m of the expenditure required in the period up to March 2010 excluding responsive and cyclical, which coincides with the ODPM target for achievement of the decent homes standard. The expenditure requirement includes works consisting of catch-ups repairs, future major works and improvements to the stock as well as some estate works and environmental improvements.
- 4.5.3 These costs are based upon a snapshot in time and do not take account of stock reductions due to either movement in stock numbers since survey date, Right to Buy Sales or fees. When considering the stock retention options, these costs have been adjusted to reflect future inflation, fees and the impact of RTB sales. A summary of the investment needed to meet the investment costs identified in the stock condition survey is set out below:

Table 1	Expenditure to 2010	Expenditure over 30 years
	£m	£m
Stock Condition Survey Costs	15.3	99.9
Add adjustment on RTB sales, inflation and fees	5.5	61.1
Total Capital Investment Needed	20.8	161.0

Gedling Standard

- 4.5.5 In order to take account of the tenant's priorities and the additional cost, a further model was completed. The model comprised the Decent Homes Standard plus the tenant's priorities. The total spending required to achieve Gedling Standard would be **£27.2m** by 2010 and **£170.3m** over 30 years.

5. STOCK RETENTION OPTIONS - FINANCIAL ANALYSIS

5.1 Introduction

We have modelled the HRA under the stock retention option, in line with the Council's business plan.

5.2 Capital Programme

The Council currently plans to finance its capital investment programme for the HRA:

- Major repairs allowance;
- Revenue Contribution to Capital outlay;
- Other Receipts i.e. retention pooled RTB's receipts due to debt free status.
- Borrowing

Base Position – Continue with the Current Level of Resources

This assumes that the capital programme and revenue expenditure will continue at the current levels. The target management and maintenance allowances will increase in line with the 2004/05 HRA subsidy determinations until 2011/12, and by inflation only thereafter.

On the basis of the current policy, we estimate that the Council would be able to invest **£21.3m** by the government's deadline for meeting the decent homes standard. The split of resources is given below:

Table 2 : Capital Resources	2010 £M	%
Major Repairs Allowance / Reserve	11.9	56%
RCCO	3.9	18%
Other Resources / Borrowing	5.5	26%
Total	21.3	100%

A summary of the investment at different levels measured against the available resources is shown below:

Table 3	Decent Homes Standard 2010 £m	Stock Condition Survey 2010 £m	Gedling Standard 2010 £m
Spending Need	16.7	20.8	27.2
Less Capital Resources	21.3	21.3	21.3
Surplus/ (Shortfall)	4.6	0.5	(5.9)

On the basis of the estimated investment levels the Council will be able to comfortably achieve the decent homes standard and the stock condition survey standard by 2010, but would not be able to fully address all of its local priorities and tenants' aspirations – Gedling Standard. In terms of the Gedling's standard, the Council will fall £5.9m short of meeting the investment need by 2009/10.

Sensitivities Analysis

We have also undertaken some sensitivities analysis to assess the impact on the changes from the assumptions. Details of the calculations are attached in Appendix I. A summary of the results is set out below:

Table 4	Decent Homes Standard	Stock Condition Survey Standard	Gedling Standard
	£m	£m	£m
	Surplus / (Shortfall)	Surplus / (Shortfall)	Surplus / (Shortfall)
Base Position	4.6	0.5	(5.9)
Base Position with No Real increase in M&M Allowance	3.5	(0.6)	(7.0)
Base Position with all Supported Borrowing	7.5	3.4	(3.0)
Base Position with 3% real growth in building costs	3.7	(0.9)	(7.7)

5.2.1 With no real increase in management and maintenance allowance for the period 2005 through 2012 would mean a reduction of £1.1m in resources by 2010. This has created a deficit of £0.6m on the stock condition survey by 2010.

5.2.2 The Council could improve the level of investment in the housing stock by making all of its supported borrowing available from the General Fund. Whilst this would be an option to increase investment, it would not be a viable option in reality because it would put the Council in a position whereby it would not be able to meet its statutory requirement to meet Disabled Facilities Grant payments or alternatively it would have to reduce its non Housing Capital Programme. The use of supported borrowing would also increase the need for revenue savings due to the additional cost of borrowing. In our view, this is unlikely to provide a realistic option for the Council.

5.2.3 In addition to the Council’s resource position we have also considered the impact of building cost inflation. For other building costs such as catch ups, improvements etc, the financial projections assume real growth of 0.5% per year. If we assume that real growth rises to 3% per year for the next 5 years there would be an investment shortfall of £0.9m to meet the stock condition survey standard and £7.7m to meet the Gedling Standard.

5.2.4 The data and tables above provide analysis up to 2010 i.e. the Governments target date for meeting the decent homes standard. The HRA Business plan model profiles the investment required over a 30 year period. The table below details the investment requirement over 30 years for the stock condition survey and the Gedling standard.

Table 5			Gedling Standard over 30 years		
Stock condition Survey 30 Years		over			
Resources available	Costs	Shortfall / (Surplus)	Resources available	Costs	Shortfall / (Surplus)
£m	£m	£m	£m	£m	£m
123.4	161.0	37.6	124.4	170.3	45.9

Although the Council can achieve the stock condition survey by 2010, the table above highlights that Gedling has insufficient resources to meet the investment required by both stock condition survey and the Gedling standard over a 30 year period.

5.3 Housing Revenue Account

5.3.1 The actual HRA balances held in reserve as at April 2004 were £542k. The Audit Commission requires Councils maintain adequate balances although it does not stipulate a level or method of calculation. A general rule of thumb is to maintain balances at a level that equates approximately to two weeks rental income i.e. £400k in April 2005 for Gedling. The Business plan assumes this level of reserve and is adjusted for annual inflation. Based on the decent homes standard investment, the HRA will maintain adequate balance over the 30 years but to achieve this based on the stock condition survey investment

requires the identification of annual revenue savings as indicated below:

Table 6		
Years	Years	Average Annual Saving Required £000
1 – 6	2004 – 10	-
7 – 12	2010 – 16	1,041
13 – 18	2016 – 22	1,331
19 – 24	2022 – 28	1,615
25 – 30	2028 – 34	2,106

5.3.2 Clearly the above table reflects to the stock condition survey investment and since Gedling standard requires even higher investment, there would be greater annual savings required for Gedling standard.

5.4 Summary

5.4.1 Gedling can meet the decent homes standard and stock condition standard by 2010. However it cannot meet the investment required by the Gedling standard.

5.4.2 Gedling cannot meet the long-term investment requirements of either the stock condition survey or the Gedling standard. Projections indicate shortfalls of £37.6m and £45.9m respectively over 30 years.

5.4.3 The HRA will maintain adequate balance over the 30 years based on the decent homes standard investment but to achieve that based on the stock condition survey and Gedling standard investment would require annual savings.

6 **STOCK RETENTION – ARMS LENGTH MANAGEMENT**

6.1 Introduction

6.1.1 This section evaluates the option of the Council's retaining its housing stock, but putting Arms Length Management arrangements in place, with a view to attracting additional investment.

6.2 **Government policy**

- 6.2.1 The ODPM Consultation Paper "A New Financial Framework for Local Authority Housing: Resource Accounting in the Housing Revenue Account", published early in 1999, gave an early indication of the Government's interest in the possibility of local housing authorities managing housing at arms length:

"The Department believes that the proposed (Resource Accounting) changes should assist authorities to consider moving to a more arms-length management of council housing, i.e. a separation of an authority's housing management functions from its strategic housing duties."

The desirability of a separation of landlord and strategic housing roles remains a central Government tenet.

6.3 **Audit Commission guidance on the expectations of ALMOs**

- 6.3.1 Additional funds will be made available only to authorities whose ALMOs achieve 2* or 3* in Housing Inspection. This Inspection, which will only be undertaken after an ALMO has been in operation for at least 6 months, addresses not only the quality of services delivered by the ALMO, but the standard of governance by the ALMO Board and the clarity and viability of the partnership framework between the ALMO and the local authority. The Audit Commission published in June 2002 an advice note entitled *ALMO Inspections: Housing Inspectorate advice for local authorities and their ALMOs*, which set out the expectations, which will be applied.

6.4 **The financial implications and benefits**

- 6.4.1 In bidding for additional funds, the authority is expected to analyse its stock condition, existing programmes of work and identified demand for Council housing, together with existing available resources. Based on the Building Costs Model, which ODPM require with ALMO applications, the bid should be focused on investment programmes, which will enable the decent homes standard to be achieved earlier than would otherwise be feasible. Up to 5% of the proposed investment may relate to environmental or other work designed to ensure the sustainability of housing brought up to the decent homes standard. Although there is not a fifth bidding round on the table at the moment, we expect the ODPM to invite applications in December 2004. The resources available for the next bidding round will depend upon the outcome of the next government spending review.

6.5 **The possible role of Arms Length Management in Gedling**

6.5.1 In considering whether to proceed with Arms Length Management the authority will wish to consider the benefits, risks and costs of such a course of action, in comparison with other potential approaches to meeting its objectives and the Decent Homes Standard. If the Council wanted to pursue this course of action, it would need to submit an expression of interest to ODPM by October 2004 with a full application by December 2004.

6.6 **Costs of implementation**

6.6.1 The financial and other costs of pursuing this strategy would need to be compared with the potential benefits and risks, bearing in mind that, in addition to the ongoing revenue costs of joint Council/ALMO management, the additional resources generated through the Arms Length Management Allowance are not intended to, and would not address issues around the financial viability of the Housing Revenue Account.

6.7 **Summary**

Government funding for ALMOs is only available to assist local housing authorities to meet the decent homes standard by 2010.

As the Council can already achieve decent homes standard from within its current resources, its bidding position may be relatively weak when compared to other authorities that are unable to meet the decent homes standard without additional resources.

7. **THE PRIVATE FINANCE INITIATIVE**

7.1 **Introduction**

This section considers the use of the Private Finance Initiative in social housing and in particular its applicability to Gedling regarding its current review of the strategic options available for its housing stock.

7.2 **The arrangement for PFI schemes**

The Council remains the owner of the stock and the private sector provider would potentially be responsible for repairs and improvements. A Special Purpose Vehicle, the SPV (the provider of the PFI service) would be set up. Its role could be to manage and maintain the

properties and to finance the catch up repairs and improvements of the stock by raising private finance.

This would be achieved through the agreement of a service contract between the SPV and the local authority. This contract would necessitate an annual payment by the local authority to the SPV. The authority would retain ownership of the stock and tenants would continue to be tenants of the Council paying rent to the Council.

7.3 **Overview of PFI**

7.3.1 The Government is clearly committed to extending the use of PFI in social housing and has made a further £685m available in PFI credits. The outcome of the PFI pilot projects will shape the way in which Authorities can best take forward PFI. The ODPM issued indicative guidance for future PFI schemes in September 2003 and recently announced details of the third bidding round.

7.3.2 PFI may prove, through the pathfinder projects, to be a solution for relatively small regeneration type projects in areas of low demand and/or where the value of the stock is low and where there is significant overhanging debt. None of the projects, to date, however are being tested as a whole stock option. In Gedling it may be appropriate for refurbishment schemes or the re-provision of sheltered accommodation.

7.3.3 However, the limited numbers of schemes that have progressed to date have proved to be time-consuming and fraught with difficulty. Projects need to be sufficiently large (we suggest probably at least 1000 units) to warrant the time and effort. There will also be a likely detrimental impact on the residual service if a PFI scheme is pursued.

7.3.4 To date only 4 of the HRA PFI pathfinders, Manchester, Islington, Reading and Leeds have actually signed PFI contracts.

7.4 **Summary**

PFI has limited attractions for small pockets of stock but would not be a solution that would address the Borough wide issues that face Gedling in the future.

It could provide a partial solution for regeneration or re-provision of sheltered accommodation. However, the size of any project or regeneration may not be sufficient to attract the investment required.

8. STOCK TRANSFER – FINANCIAL ANALYSIS

8.1 Introduction

8.1.1 A key option available to the Council in terms of addressing the Council's housing and non-housing objectives is large-scale voluntary transfer (LSVT) of the Council's entire housing stock.

8.1.2 This section examines the impact that LSVT would have on the authority and reviews the following aspects, in particular:

the Office of Deputy Prime Minister (ODPM) rules;
stock Valuation;
application of Receipt;
Impact on General Fund.

8.2 ODPM Rules

8.2.1 Stock transfers are subject to the ODPM consent and its regulations and guidelines, which are issued periodically. If the Council wished to proceed with full-scale transfer, it would need to apply for a place in the annual disposals programme. The next programme that the Council could apply for is the 2005 Disposals programme. Usually applications require an Expression of Interest to be submitted in September followed by a full submission in December. The Deputy Prime Minister recently completed a thorough review of progress in delivery of the government's decent homes standard. Guidance for the 2003 transfer programme was issued by ODPM in March 2003, which involved the submission of an expression of interest by 21 March 2003 with a full application required by 16 April 2003. For the 2005 transfer programme expressions of interest are likely to be required in October 2004 with full applications due before Christmas 2004.

8.2.2 The new landlord would have to be a 'Registered Social landlord' (RSL) as defined by the Housing Corporation. If the Council wished to set up a new organisation this would need to be registered before transfer could take place.

8.2.3 The Housing Corporation's criteria for RSLs broadly reflect the rules which have previously been set for housing associations

(which are themselves RSLs) and the changes introduced by the Housing Act 1996.

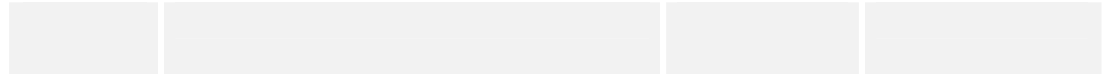
8.2.4 As well as applying for admission to the Disposals programme, work would need to be undertaken to set up the new landlord (as appropriate) and prepare for consultation with tenants on the proposals, prior to going to a ballot. The consultation process with tenants must meet the ODPM's requirements (as set out in its guidelines), as the ODPM will scrutinise the consultation process before consent to the transfer would be given.

8.3 **Valuation Methodology and Assumptions**

8.3.1 The methodology for determining the Tenanted Market Valuation (TMV) or purchase price of the stock is also laid down by the ODPM in its guidelines. This method of valuation assumes that the stock is sold as a going social housing concern and, in simple terms, equates to the income the RSL is likely to receive in the form of rents less the estimated expenditure necessary on repair and improvement works, maintenance and supervision and management over 30 years. The proposed sale price should accord with and be able to support the prospective new landlord's business plan.

8.3.2 **On this basis, we have estimated the value of the stock to be £9.561m. (Based on the investment required by the Gedling Standard).** We indicate below the impact on the valuation of changing some of the key assumptions:

TABLE 7 – VALUATION SENSITIVITIES			
<u>TESTS</u>	<u>DESCRIPTION</u>	IMPACT ON BASE £m	REVISED VALUATION £m
	BASE INDICATIVE VALUATION		9.651
TEST A	Mgmt Budget = HRA + 10% (not HRA + 15%)	+1.514	11.165
TEST B	Mgmt Budget = HRA + 20% (not HRA + 15%)	-1.695	7.956
TEST C	Reduction in void rate of 1%	+ 1.368	11.019
TEST D	Discount rate of 7%	- 2.189	7.462



The above table demonstrates that the valuation is extremely sensitive to changes in the key assumptions. If the Council were to consider LSVT in more detail further work would be required to ensure the validity of the valuation assumptions.

8.3.3 Because stock transfer eliminates the financial penalties imposed on the local authority through the Housing Subsidy System and also enables the new landlord to borrow money privately, then stock transfer would enable the new company to meet the whole of the investment costs identified in the stock condition survey.

8.4 **Housing Debt and Capital Receipt**

8.4.1 Housing debt is measured by the mid year capital financing requirement (MYCFR) at the time of transfer and this is estimated to be £1.2m. There are estimated transfer costs of £2.3m. The capital receipt must cover the transfer costs to make LSVT a workable option for the Council and on the basis of a £9.7m valuation, LSVT would leave the Council with a capital receipt of £1.5m as illustrated below:

Table 8 Summary Of Overhanging Debt Position	£m	£m
Gross Capital Receipt		9.7
Less Transfer Costs	(2.3)	
Less LSVT Levy	<u>(1.2)</u>	
Total Reduction		<u>(3.5)</u>
Net Receipt		<u>6.2</u>
Set-a-Side (75%)	4.7	
Usable Receipt	<u>1.5</u>	
Total Receipt		<u>6.2</u>

8.5 **Impact on General Fund**

8.5.1 The main items to consider with regard to the impact on the General Fund are as follows:

Housing Benefit costs;

Whilst a stock transfer does not alter tenants' rights to Housing Benefit, technically this benefit would become a Rent Allowance, rather than a Rent Rebate. With effect from 1 April 2004, both Rent Allowances and Rebates are subsidised within the General Fund, using the same subsidy regime. There is one cost, which might arise for Rent Allowances, which will not arise for Rent rebates. This is the situation where a rent allowance cheque is reported not to have been received, and is therefore duplicated, and the original cheque is later cashed. This does not tend to be a large area of cost for Councils, and would be mitigated by encouraging tenants to agree to have their rent allowances paid direct to the landlord. It is therefore assumed that this will be neutral on the General Fund.

Working Balances:

Following the closure of the HRA any remaining balance is transferred to the General Fund.

partial exemption from VAT;

At present, the Council is able to recover input VAT paid on certain supplies acquired for exempt "business" activities, which are not normally recoverable. Local authorities benefit from this concession if the VAT on these supplies does not exceed 5% of all VAT paid on purchases. Following a stock transfer, and the consequent reduction in the Council's overall value of annual purchases, it is possible that the 5% proportion could be exceeded. In these circumstances none of the input VAT on supplies for exempt "business" activities is recoverable for the whole Council and there would be a need to finance the full purchase price. In practice, most transfer authorities are able to put arrangements in place to avoid this.

residual corporate costs;

In respect of residual corporate costs it is difficult to determine how much could be saved by the Council in the event of a transfer. If the Council were to pursue transfer, it would be necessary to undertake detailed work on this during the pre ballot period so as to have a more firmly based estimate when formally agreeing to proceed to ballot.

Receipts from Future Right to Buys Sales

Under current guidelines the stock valuation excludes any assumed benefit from future Right to Buy (RTB) sales. In reality there would be future sales and there would also be a contractual arrangement between the Council and the new landlord to ensure that the Council obtained a share of the financial benefit from these future sales. The value of RTBs to the Council will be subject to this negotiated agreement.

8.5.2 The net impact on the General Fund of the above analysis is demonstrated in the table below:

Table 9	Year	Year	Year	Year	Year
	1	2	3	4	5
	£'000	£'000	£'000	£'000	£'000
Expenditure					
Residual Corporate Costs	632	632	632	632	632
Income					
Interest on all receipts	(358)	(461)	(547)	(616)	(666)
HRA Balances	-	(542)	-	-	-
Total Cost/(Saving)	274	(371)	85	16	(34)
Cumulative Cost/(Saving)	274	(97)	(12)	4	(30)

The above table shows the cost implications to the Council over years 1 to 4, thereafter there will be annual savings. However, these short term costs are offset somewhat by the transfer of HRA balances.

These implications are indicative only and should be treated with caution. They are sensitive to the assumptions set out above. The model assumes that the Council is going to invest all of its capital receipt (£6.2m in 2004/05 as indicated in Table 8) and RTB receipts to generate interest for the General Fund. In addition, no account has been taken in assessing the General Fund implications of adjustments that may be applied to the Formula Spending Shares (FSSs).

8.6 **Summary**

8.6.1 Stock transfer could deliver the investment across the whole stock and this would achieve investment far beyond the decent homes standards and meet the requirements of the stock condition survey and Gedling Standard.

8.6.2 The transfer of stock would create the best opportunity, on financial grounds, to provide better quality homes and additional environmental improvements to create sustainable demand for the housing stock in the future.

9. **OVERALL SUMMARY**

9.1 Appendix 1 shows an overall narrative of the pros and cons of each of the options.

9.2 The preferred option will depend to some extent on whether the authority and its tenants wish to achieve the decent homes standard or would like to achieve the required investment identified in the stock condition survey or the Gedling standard.

9.3 All of the options, including stock retention under the current management arrangements, can deliver the decent homes standard by 2010.

9.4 The Council has sufficient resources to deliver the required investment in its stock to meet stock condition survey investment up to 2010 but cannot meet the investment required by the Gedling Standard over the same period.

9.5 Projections indicate that the Council has insufficient resources to deliver the required investment required by either the condition survey or the Gedling standard over 30 years. There are projected shortfalls of £37.6m and £45.9m respectively.

9.6 Given that approximately 18% of the resources required to fund the investment in the stock comes directly from contributions from the HRA. Any increases in expenditure on service delivery, in areas such as dealing with anti-social behaviour or other tenant priorities, will result in an equal reduction in the resources available to finance investment in the bricks and mortar. Therefore, under the retention option, there could be a direct trade off between improving service delivery on one hand and investment in the housing stock on the other.

9.7 Arms length management has the potential to provide some additional resources but it could not deliver the levels of investment identified in the stock condition survey. The key risks of an arms length strategy will be the achievement of the '2 star' performance standard and failure to secure sufficient resources to meet tenant expectations in the longer term.

- 9.8 As the Council can already achieve decent homes standard from within its current resources, its bidding position may be relatively weak when compared to other authorities that are unable to meet the decent homes standard without additional resources.
- 9.9 The private finance initiative could provide some additional resources for pockets of the Council's stock but is unlikely to provide a whole stock solution to the Council's investment needs.
- 9.10 Large-scale voluntary transfer could deliver all of the investment identified in the stock condition survey, the Gedling Standard and has the potential to enhance service delivery. The Council would benefit from a useable capital of £1.543m. Transfer of the housing stock will inevitably have financial implications for the General Fund. These financial implications are expected to be broadly neutral but more detailed work will be required in this area if the Council decides to pursue a transfer strategy.

APPENDIX I

Sensitivities Analysis

Details of the calculations on the changes of the assumptions are set out below:

Decent Homes Standard

	Investment	Resources available	Surplus / (Shortfall)
	£m	£m	£m
Base Position	16.7	21.3	4.6
Base Position with No Real increase in M&M Allowance	16.7	20.2	3.5
Base Position with all Supported Borrowing	16.7	24.2	7.5
Base Position with 3% real growth in building costs	17.6	21.3	3.7

Stock Condition Survey Standard

	Investment	Resources available	Surplus / (Shortfall)
	£m	£m	£m
Base Position	20.8	21.3	0.5
Base Position with No Real increase in M&M Allowance	20.8	20.2	(0.6)
Base Position with all Supported Borrowing	20.8	24.2	3.4
Base Position with 3% real growth in building costs	22.2	21.3	(0.9)

Gedling Standard

	Investment	Resources available	Surplus / (Shortfall)
	£m	£m	£m
Base Position	27.2	21.3	(5.9)
Base Position with No Real increase in M&M Allowance	27.2	20.2	(7.0)
Base Position with all Supported Borrowing	27.2	24.2	(3.0)
Base Position with 3% real growth in building costs	29.0	21.3	(7.7)

Appendix II

Comparison of Options
With the Council's Key Housing Objectives Options

HOUSING OBJECTIVES – COMPARISON			
	<i>Stock Retention</i>	<i>Stock Retention with Arms Length Management Company</i>	<i>Stock Transfer</i>
Maintenance of affordable rents	Rents will converge over ten years to the formula rent based on the Government formula	Rents will converge over ten years to the formula rent based on the Government formula	Rents will converge over ten years to the formula rent based on the Government formula
Ability to meet the Decent Homes standard by 2010 and to carry out the full required Repairs and Maintenance and Improvements Programme	The decent homes standard and the investment required by the stock condition survey could be achieved by 2010.	The decent homes standard could be achieved by 2010. The Council could bid for an additional 5% to partially bridge the investment gap.	The Decent Homes standard would be met. The necessary expenditure to fully repair and improve homes over 30 years will be funded.
Extent of preservation of Tenant's rights	Tenants rights will be protected and they will remain secure tenants of the Council.	Tenants rights will be protected and they will remain secure tenants of the Council.	Tenants of a new RSL landlord would be assured tenants but their rights would be enhanced by contractual arrangements in their Tenancy Agreement to be similar to secure tenancies. The main exception is that new tenants would not have the Preserved Right to Buy which existing tenants would have after transfer.
Extent of protection of staff interests	The current position would continue.	Transfer to a new Company would be carried out under TUPE regulations. Whether the Company seeks its support services from the Council or other sources will determine the full impact on the Council's staff.	Transfer to an RSL would be carried out under TUPE regulations. Whether this is to an existing or a new organisation will determine the full impact on residual staff.
Extent of Local Accountability and tenant involvement	The current position would continue.	Tenants and members would have the opportunity to have representation on the governing body of the new company. The Council would continue as landlord.	Tenants and members would have the opportunity to have representation on the governing body of the new landlord.

HOUSING OBJECTIVES – COMPARISON			
Maintenance of the role of Councillors	The current position would continue.	Councillors would have a presence on the Company board but would not form a majority.	Councillors would have a presence on the RSL board but would not form a majority.
Impact on the general fund	The current position would continue.	There could be a cost to the General Fund depending on where the new company decided to seek its support services.	There will costs to the General Fund but there may be ways to manage these effectively.
Maintenance of Service to Tenants	The impact on the revenue account & services will depend on the level of management & maintenance allowances in the subsidy calculation.	The impact on the revenue account & services will depend on the level of management & maintenance allowances in the subsidy calculation.	Services to tenants could be maintained or improved if built into the original proposals.
Timeframe to achieve objectives	The Council would be able to deliver the investment required to meet the decent homes standard and the stock condition survey by 2010 but would not meet either Stock Condition Survey Standard or the Gedling Standard over the 30 years.	An Arms Length Company could be implemented within 2 years but the timescale for additional funding if achievable will be longer. The Council could bid for round 5. Expressions of Interest are due in Oct 2005 with final bids in Jan 2006	A stock transfer could be implemented by July 2007 and investment could commence at that stage Expressions of Interest are likely to be due in Oct. 2005 with final bids due January 2006.