



## **Report to Cabinet**

**Subject: Housing Stock Option Appraisal**

**Date 25 August 2005**

**Author: Senior Management Team**

### **1. Purpose of the Report**

To update members on the outcomes of the update of the Housing Stock Option Financial Appraisal for the financial year 2005/6.

To propose that the council works towards a submission to the Office of the Deputy Prime Minister for inclusion in the Annual Disposals Programme, subject to further analysis of the Corporate cost implications and further consultation with tenants.

### **2. Background**

Members will be aware from previous reports and presentations that all stock holding Local Authorities are required to undertake a Stock 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 of the East Midlands and the Office of the Deputy Prime Minister's Community Housing Task Force.

Tribal HCH (formerly HACAS Chapman Hendy) were appointed by the council to undertake the financial appraisal of the options available to the council to secure sufficient resources to meet the government's Decent Homes Standard by 2010 and beyond that to meet the aspirations of 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 properties only but work must be combined with improvements to services and the local environment that deliver places where people want to live as part of the Stock Option Appraisal Process. Stock holding Local Authorities are required to consider alternative management arrangements and the potential to increase investment in the stock and services through the following options:

- An Arms Length Management Organisation
- Large Scale Stock Transfer, or
- The Private Finance Initiative

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 criteria to objectively compare the different investment options. The guidance states, "a key part of the option appraisal process is to establish broad objectives for the service, in terms of improvement to 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.

In considering the above objectives the Services Review Group, which has now been replaced by the Stock Option Working Party, established a set of Key Aims for the Stock Option Appraisal process. 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 Cabinet resolved that officers be asked to further investigate the possibility of Stock Transfer in the meeting of 13 January 2005. Following this decision the Stock Option Appraisal Working Party was established, which comprises 4 members, 4 tenants, 1 leaseholder, Unison and officer representatives. The working party agreed that the Stock Option Financial analysis should be updated with data from the current 2005/6 budgets and an appraisal should be carried out with regard to the options for the council's Low Demand Sheltered Housing Schemes that are mainly bedsits.

This work has now been completed and has been reported to the Stock Option Appraisal Working Group, who have given their support to the recommendation to progress towards a submission to government for inclusion on the Annual Disposals

programme for Stock Transfer, subject to more analysis of the corporate cost implications and further tenant consultation.

Members are also reminded of the results of the survey work carried out by the Council's appointed Independent Tenant Advisers, PS Consultants, which 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 Stock Option Appraisal process;
- 274 respondents indicated that they would like to become more involved;
- 53.8% of respondents who expressed a preference favoured Stock Transfer;
- 46.2% of respondents who expressed a preference favoured Stock Retention
- 198 respondents either did not express a preference of 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 of the Stock Option Appraisal process and would expect support to grow following the provision of further information relating to such issues as:-

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

### **The Tribal HCH Stock Option Financial Appraisal Report (updated August 2005)**

The report enables the council to evaluate alternative approaches to fulfilling its housing roles, duties and responsibilities, and within the context of Best Value, to ensure it makes best use of resources. The report takes account of the current and predicted financial resources as at the current financial year. It also contains some assumptions of the investment required to remodel certain Low Demand Sheltered Schemes, in order to try to ensure sustainability of the stock for the future.

#### Housing Need

There is an affordability problem within the borough with regard to first time buyers.

The borough has a shortfall of 314 affordable units per year. The supply of new developments is approximately 266 per year, leaving a shortfall of 48 units.

#### The Level of Investment Needed in the Stock

##### Decent Homes Standard

The council can meet the investment of £14.1m needed to achieve the Decent Homes Standard by 2010 and over the 30 year business plan from within existing predicted resources.

It is accepted, however, that this is a minimum standard, which does not include many of the priorities and initiatives that the council and its tenants have outlined during the Stock Option Appraisal process.

### Stock Condition Survey Standard

The Stock Condition Survey Standard is the standard to which the council is currently working to in accordance with its stock condition survey standard carried out by Property Techtonics.

The council can meet this standard by 2010 but there is a shortfall of £4.9m over the 30 year business plan.

### Gedling Standard

The Gedling Standard is the standard developed in accordance with tenant aspirations.

The council cannot meet the Gedling Standard, either by 2010 or over the 30 year business plan. There is a shortfall of £5.8 by 2010 and £10.8m over 30 years.

The council would not, therefore, be in a position to meet tenant aspirations as outlined in the Stock Option Appraisal process from within existing resources.

### Appraisal of the Options

#### Stock Retention – Arms Length Management

Extra funding is available to councils, which cannot meet the Decent Homes Standard on the formation of an Arms Length Management Organisation and the achievement of 2 stars in accordance with Audit Commission criteria.

As the council can achieve the Decent Homes Standard and the Stock Condition Standard by 2010, it is unlikely that the council would be successful in a bid for this option.

#### Private Finance Initiative

The Private Finance Initiative can be a solution for small pockets of stock but would not be a whole stock solution.

#### Stock Transfer

This is a key option available to the council, as it would enable it to achieve tenant aspirations outlined in the Gedling Standard. This would involve the transfer of all the council's housing stock to either a new or existing Housing Association, within a group structure.

It is likely that for the 2006 transfer programme the council would need to submit an expression of interest by November 2005, with a full application by December 2005.

The attached Executive Summary (Appendix 1) outlines this option in detail.

The estimated value of the stock, based on the Tenanted Market Valuation is £5.288m or £1519 per unit. This is based on investment of £152.4 m to meet the Gedling Standard and conversion costs of bedsit accommodation of £4.4m.

This would give the council a useable receipt of £0.8M.

The net impact on the General Fund is illustrated on Table 9 (para. 8.5.2) of the Executive Summary (Appendix 1).

These implications are indicative only and more work would need to be done with regard to reducing the Residual Corporate Costs in the period leading to transfer.

### Stock Retention

The stock retention option has been modelled in line with the council's current business plan. The council is required to prepare a balanced Housing Revenue Account Business Plan annually.

Within the Stock Retention option the council can meet the investment required to achieve both the Decent Homes Standard and the Stock Condition Standard by 2010. It cannot, however, meet the investment required to achieve either the Stock Condition Standard or the Gedling Standard over the 30 year business plan, with shortfalls of £4.9m and £10.8m respectively. The council would need to make revenue savings of the above amounts in order to meet these standards over the long term.

A detailed analysis of this option is outlined in the attached Executive Summary (Appendix 1).

In order to make savings of the above amounts the council would have to consider some or all of the following options:-

1. Reduction in the costs of management and maintenance;
2. Reduction in the level and provision of services;
3. Use of unsupported borrowing, but this would increase the need for revenue savings to meet the cost of repayments.

The council cannot, therefore, meet the long-term investment requirements of either the Stock Condition Standard or the Gedling Standard, without finding substantial revenue savings to fund the investment shortfalls.

### **3. Proposal**

To propose that the council works towards a submission to the Office of the Deputy Prime Minister for inclusion within the Annual Disposals Programme, subject to further analysis of the Corporate cost implications and further consultation with tenants.

As previously mentioned, it is likely that for the 2006 transfer programme the council would need to submit an expression of interest by November 2005, with a full application by December 2005.

The further work with regard to the Corporate Cost implications and the tenant consultation will need to be complete before the decision is taken to submit a full application in December 2005.

### **4. Resource Implications**

As outlined in this report and the Executive Summary (Appendix 1)

### **5. Recommendation**

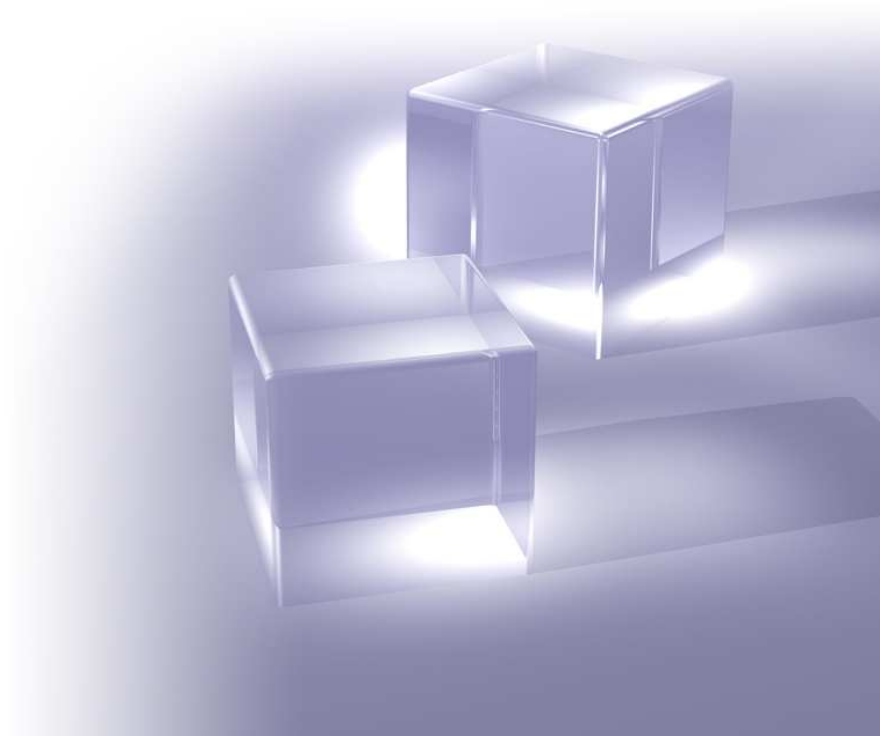
To recommend that the council works towards a submission to the Office of the Deputy Prime Minister for inclusion in the Annual Disposals Programme, subject to further analysis of the Corporate cost implications and further consultation with tenants.

**GEDLING BOROUGH COUNCIL**

**HOUSING STOCK OPTIONS APPRAISAL**

**FINAL EXECUTIVE SUMMARY**

**AUGUST 2005**



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## 1. **INTRODUCTION**

### 1.1 **Background**

1.1.1 Tribal HCH were appointed by the Gedling Borough Council to update the 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.

## 3 **HOUSING NEEDS**

3.1 Gedling Borough Council commissioned a Housing Needs study, the outcomes of which were reported in July 2004.

3.2 The average price for a house in Gedling was taken as £85,000. A lower figure of £70,000 was used for flats for emerging households. 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.

- 3.3 Affordability is a problem for the first time buyers, but the indications are that this is not due to the housing market structure in Gedling itself but to national trends.
- 3.4 Gedling has a shortfall of 314 affordable units flow per year. The supply of new developments is about 266 a year, so the overall need is 118% of total new supply.
- 3.5 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 represents a greater proportion of the overall stock.

#### 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 updated an independent stock condition survey in June 2005 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 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 £11.7m. By taking future inflation, prelims, fees and the impact of RTB sales into account, it is estimated that to meet the Decent Homes Standard will require an investment of **£14.1m.**

## Stock Condition Survey

- 4.5.2 The stock condition survey has identified the need to spend £97.0m 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, future inflation, fees and conversion costs on bedsit schemes. When considering the stock retention options, these costs have been adjusted to reflect future inflation, fees, the impact of RTB sales and the conversion costs on bedsit schemes. 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	97.0
Add adjustment on RTB sales, inflation, fees and conversion costs on bedsit schemes	4.9	56.3
<b>Total Capital Investment Needed</b>	<b>20.2</b>	<b>153.3</b>

## 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 **£26.1m** by 2010 and **£159.2m** 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;  
 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 2005/06 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 **£20.3m** by the government's deadline for meeting the decent homes standard. The split of resources is given below:

<b>Table 2 : Capital Resources</b>	<b>2010 £M</b>	<b>%</b>
Major Repairs Allowance / Reserve	9.9	48.8%
RCCO	5.6	27.6%
Other Resources / Borrowing	4.8	23.6%
<b>Total</b>	<b>20.3</b>	<b>100%</b>

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

<b>Table 3</b>	<b>Decent Homes Standard 2010 £m</b>	<b>Stock Condition Survey 2010 £m</b>	<b>Gedling Standard 2010 £m</b>
Spending Need	14.1	20.2	26.1
Less Capital Resources	20.3	20.3	20.3

<b>Surplus/ (Shortfall)</b>	<b>6.2</b>	<b>0.1</b>	<b>(5.8)</b>
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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 £5.8m 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 are set out below:

- 5.2.1 If the Council were able to employ the useable part of all future RTB receipts on the HRA capital programme, the investment gap to meet the Gedling standard could be reduced by £1.2m, leaving a shortfall of £4.6m by 2009/10. However, the ability to divert these resources into the HRA will depend upon the Council's other competing priorities.

Table 4	Decent Homes Standard	Stock Condition Survey Standard	Gedling Standard
	£m	£m	£m
	Surplus / (Shortfall)	Surplus / (Shortfall)	Surplus / (Shortfall)
Base Position	6.2	0.1	(5.8)
Base Position with all RTB Receipts	7.4	1.3	(4.6)
Base Position with New Services	4.8	(1.3)	(7.2)
Base Position with Fee rate at 8% on capital works	5.9	(0.4)	(6.4)
Base Position with 1% real growth in building costs	6.1	(0.1)	(6.1)

- 5.2.2 If the Council decided to use some of its revenue resources to either provide new services or to improve existing services there would be a consequential reduction in the potential revenue resources available to support the capital programme. For example, if management costs were to increase by £250k per year, there would be a reduction in capital resources of £1.4m by 2010 as the ability of the HRA to provide Direct Revenue Funding (DRF) would be restricted. Consequently, the Council will fall £1.3m and £7.2m short of meeting the stock condition survey standard and Gedling standard by 2009/10 respectively.
- 5.2.3 If the Council were to use fee rate of 8% on capital works over 30 years, the Council would not meet the stock condition survey standard by 2009/10 and the investment shortfall would be £0.4m.
- 5.2.4 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 1% per year over 30 years, there would be an investment shortfall of £0.1m to meet the stock condition survey standard and £6.1m to meet the Gedling Standard.
- 5.2.5 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.

<b>Table 5</b>					
<b>Stock condition Survey over 30 Years</b>			<b>Gedling Standard over 30 years</b>		
Resources available	Costs	Shortfall/ (Surplus)	Resources available	Costs	Shortfall/ (Surplus)
<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
148.4	153.3	<b>4.9</b>	148.4	159.2	<b>10.8</b>

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 2005 were £707k. 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. 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 and Gedling standard investment, it requires the revenue savings of £4.9m and £10.8m respectively over 30 years. In order to make savings of this magnitude the council would have to consider some or all of the following options:

- Reduction in the cost of management and maintenance;
- Reduction in the level and provision of services;
- Use of unsupported borrowing, but it would increase the need for revenue savings due to the additional interest of borrowing.

5.3.2 Clearly, 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 £4.9m and £10.8m 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 revenue 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 sets 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. The ODPM published in October 2004 new guidance on ALMO's announced two further rounds (5 and 6) of bids will be invited.

## 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 probably need to submit an expression of interest to ODPM by October 2005 with a full application by January 2006.

## 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 and stock condition survey 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 £1.22 billion available in PFI credits under the 2004 Spending Review. 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 October 2004 and 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 3 of the HRA PFI pathfinders, Manchester, Islington and Reading 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 2006 Disposals programme. The Deputy Prime Minister in 2003 completed a thorough review of progress in delivery of the government's decent homes standard. Guidance for the 2004 transfer programme was issued by ODPM in October 2004, which involved the submission of a full application required by 28 January 2005 for the 2005 transfer programme. For the 2006 transfer programme, expressions of interest are likely to be required in early November 2005 with full applications due by January 2006.

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 £5.288m, £1,519 per unit, based on the investment required by the Gedling standard of £152.4m and conversion costs on bedsit schemes of £4.4m.** We indicate below the impact on the valuation of changing some of the key assumptions:

<b>TABLE 7 – VALUATION SENSITIVITIES</b>			
<b>TESTS</b>	<b>DESCRIPTION</b>	<b>IMPACT ON BASE £m</b>	<b>REVISED VALUATION £m</b>
	BASE INDICATIVE VALUATION		5.288
TEST A	Mgmt Budget = HRA + 15% (not HRA + 12.5%)	-0.784	4.504
TEST B	Fees rate of 8% (not 5%)	-1.959	3.329
TEST C	Discount rate of 7%	-1.029	4.259
TEST D	Increase in void rate of 0.5%	-0.649	4.639

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 normally measured by the mid year subsidy capital requirement (MYSCFR) at the time of transfer and this is estimated to be £1.9m. There are estimated transfer costs of £2.4m. The capital receipt must cover the transfer costs to make LSVT a workable option for the Council and on the basis of a £5.3m valuation, LSVT would leave the Council with a useable receipt of £0.8m as illustrated below:

<b>Table 8</b> <b>Summary of Overhanging Debt</b> <b>Position</b>	<b>£m</b>	<b>£m</b>
Gross Capital Receipt		5.3
Less Transfer Costs	(2.4)	
Less LSVT Levy	<u>(0.2)</u>	
Total Reduction		<u>(2.6)</u>
<b>Net Receipt</b>		<b><u>2.7</u></b>
Provision for HRA Debt		1.9
Usable Receipt		<u>0.8</u>
<b>Total Receipt</b>		<b><u>2.7</u></b>

#### 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:

<b>Table 9</b>	<b>Year</b>	<b>Year</b>	<b>Year</b>	<b>Year</b>	<b>Year</b>
	1	2	3	4	5
	£'000	£'000	£'000	£'000	£'000
<b>Expenditure</b>					
Residual Corporate Costs	583	583	583	583	583
Capital Financing Costs	(54)	(127)	(127)	(127)	(127)
<b>Total</b>	<b>529</b>	<b>456</b>	<b>456</b>	<b>456</b>	<b>456</b>
<b>Income</b>					
Interest on all receipts	(69)	(124)	(170)	(211)	(247)
Mortgage Interest	(5)	(3)	(2)	(1)	(1)
HRA Balances	-	(800)	-	-	-
<b>Total</b>	<b>(203)</b>	<b>(1,054)</b>	<b>(298)</b>	<b>(337)</b>	<b>(372)</b>
<b>Total Cost/(Saving)</b>	<b>455</b>	<b>(471)</b>	<b>284</b>	<b>244</b>	<b>208</b>
<b>Cumulative Cost/(Saving)</b>	<b>455</b>	<b>(16)</b>	<b>268</b>	<b>512</b>	<b>720</b>

The above table shows the cost implications to the Council over years 1 to 5. However, these short term costs could be offset somewhat by the savings on the residual corporate costs.

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 useable receipt (£0.8m in 2005/06 as indicated in Table 8) and RTB receipts to generate interest for the General Fund.

## 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 stock condition survey or the Gedling standard over 30 years. There are projected shortfalls of £4.9m and £10.8m respectively.
- 9.6 Given that approximately 28% 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 In addition, the Council's policy on the investment in the housing stock is by making all of its supported borrowing available from the General Fund to the Housing Revenue Account. Whilst this would increase investment, it could put the Council in a position whereby it could not be able to meet its statutory requirement to meet Disabled Facilities Grant payments or alternatively it could have to reduce its non Housing Capital Programme.
- 9.8 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 or Gedling standard. 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.

- 9.9 As the Council can already achieve decent homes standard and stock condition survey 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.
- 9.10 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.
- 9.11 Large scale voluntary transfer could deliver all of the investment identified in the stock condition survey and Gedling standard and has the potential to enhance service delivery. The Council would benefit from a useable capital of £0.8m based on the Gedling standard.
- 9.12 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	14.1	20.3	6.2
Base Position with all RTB Receipts	14.1	21.5	7.4
Base Position with New Services	14.1	18.9	4.8
Base Position with Fee rate at 8% on capital works	14.4	20.3	5.9
Base Position with 1% real growth in building costs	14.2	20.3	6.1

### Stock Condition Survey Standard

	Investment	Resources available	Surplus/ (Shortfall)
	£m	£m	£m
Base Position	20.2	20.3	0.1
Base Position with all RTB Receipts	20.2	21.5	1.3
Base Position with New Services	20.2	18.9	(1.3)
Base Position with Fee rate at 8% on capital works	20.7	20.3	(0.4)
Base Position with 1% real growth in building costs	20.4	20.3	(0.1)

## Gedling Standard

	Investment	Resources available	Surplus/ (Shortfall)
	£m	£m	£m
Base Position	26.1	20.3	(5.8)
Base Position with all RTB Receipts	26.1	21.5	(4.6)
Base Position with New Services	26.1	18.9	(7.2)
Base Position with Fee rate at 8% on capital works	26.7	20.3	(6.4)
Base Position with 1% real growth in building costs	26.4	20.3	(6.1)

**Appendix II**  
**Comparison of Options**  
**With the Council's Key Housing Objectives Options**

<b>HOUSING OBJECTIVES – COMPARISON</b>			
	<b><i>Stock Retention</i></b>	<b><i>Stock Retention with Arms Length Management Company</i></b>	<b><i>Stock Transfer</i></b>
Maintenance of affordable rents	<b>Rents will converge over ten years to the formula rent based on the Government formula</b>	<b>Rents will converge over ten years to the formula rent based on the Government formula</b>	<b>Rents will converge over ten years to the formula rent based on the Government formula</b>
Ability to meet the Decent Homes standard by 2010 and to carry out the full required Repairs and Maintenance and Improvements Programme	<b>The decent homes standard and the investment required by the stock condition survey could be achieved by 2010.</b>	<b>The decent homes standard could be achieved by 2010. The Council could bid for an additional 5% to partially bridge the investment gap.</b>	<b>The Decent Homes standard would be met. The necessary expenditure to fully repair and improve homes over 30 years will be funded.</b>
Extent of preservation of Tenant's rights	<b>Tenant's rights will be protected and they will remain secure tenants of the Council.</b>	<b>Tenant's rights will be protected and they will remain secure tenants of the Council.</b>	<b>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.</b>
Extent of protection of staff interests	<b>The current position would continue.</b>	<b>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.</b>	<b>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.</b>
Extent of Local Accountability and tenant involvement	<b>The current position would continue.</b>	<b>Tenants and members would have the opportunity to have representation on the governing body of the new company. The Council would continue as landlord.</b>	<b>Tenants and members would have the opportunity to have representation on the governing body of the new landlord.</b>



<b>HOUSING OBJECTIVES – COMPARISON</b>			
Maintenance of the role of Councillors	<b>The current position would continue.</b>	<b>Councillors would have a presence on the Company board but would not form a majority.</b>	<b>Councillors would have a presence on the RSL board but would not form a majority.</b>
Impact on the general fund	<b>The current position would continue.</b>	<b>There could be a cost to the General Fund depending on where the new company decided to seek its support services.</b>	<b>There will costs to the General Fund but there may be ways to manage these effectively.</b>
Maintenance of Service to Tenants	<b>The impact on the revenue account &amp; services will depend on the level of management &amp; maintenance allowances in the subsidy calculation.</b>	<b>The impact on the revenue account &amp; services will depend on the level of management &amp; maintenance allowances in the subsidy calculation.</b>	<b>Services to tenants could be maintained or improved if built into the original proposals.</b>
Timeframe to achieve objectives	<b>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 the Gedling Standard.</b>	<b>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 6. Expressions of Interest are likely to be due in Oct 2005 with final bids on January 2006.</b>	<b>A stock transfer could be implemented by April 2008 and investment could commence at that stage Expressions of Interest are likely to be due in Nov 2005 with final bids due on January 2006.</b>