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A yellow graphic element consisting of a horizontal line that curves upwards at its right end, resembling a stylized 'J' or a bracket.

SOUTH KESTEVEN DISTRICT COUNCIL

HOUSING OPTIONS APPRAISAL

FINANCIAL VALIDATION

REPORT

BASE CASE AND ANALYSIS OF THE AVAILABLE OPTIONS

March 2005

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1 INTRODUCTION

- 1.1 In August 2004 the Council appointed Beha Williams Norman Ltd to assist in carrying out an appraisal of the strategic housing options that are available to the Council. The Communities Plan placed a requirement on all local authorities to carry out a housing options appraisal and for the appraisal to be signed-off by the Regional Government Office.
- 1.2 The terms of reference for the work to be carried out by BWNL included the following:-
- Carrying out a critical review of the Council's HRA business plan financial projections with the intention of developing the 'base case' long term position of the HRA.
 - Assessing the Council's ability to meet the Government's decent homes target and to deliver high standards of repair and improvement to the housing stock.
 - Reviewing relative advantages and disadvantages of the other main strategic options that are available to the Council for the future management and ownership of the housing stock.
- 1.3 The report has been prepared in respect of the work outlined above. It considers:-
- Key elements of the Government's Social Housing Policy.
 - The base case position for South Kesteven (i.e. the situation if the Council continues to own and manage the housing stock).
 - An analysis of the other main strategic options and the implications for the Council.
 - An assessment of the ways in which the options meet key criteria.

2 THE BASE CASE

2.1 The Financial Position

The following sections of the report show an analysis of the estimated financial position if the Council continues to own and manage the housing stock.

The projections are based on latest stock condition information and latest budgets, using the HRA business plan financial model to project the long-term position.

2.2 The Condition of the Council's Housing Stock

During 2004 the Council commissioned Rand Associates, a specialist firm of Chartered Surveyors, to carry out a validation of the requirements for expenditure on the Council's housing stock over the next 30 years. The results of this exercise were expressed in four alternative ways as follows:-

- Expenditure required to solely meet the Government's decent homes standard ('Decent Homes').
- Expenditure required to meet the Government's decent homes standard and also carry out other essential works ('Decent Homes Plus Essential Repairs').
- Expenditure required to modern day standards (Industry Standard)
- Expenditure required to meet the Decent Homes Plus standard plus the costs of meeting aspirations identified by the tenants and expressed at the following three levels:

“Tenant Priority Aspirations”
“Highly desirable aspirations”
“Desirable aspirations”

The results of the survey are shown in the tables below. These underpin the projections contained in the 30 year HRA business plan.

Table 1 – Decent Homes Standard

	Years 1-5 £m	Years 6-10 £m	Years 11-30 £m	Total £m
Future major works	15.6	13.3	75.8	104.7
Improvements	2.1	2.0	8.0	12.1
Contingent major repairs	0.9	0.6	2.2	3.7
Cyclical maintenance	18.6	15.9	86.1	120.6
Disabled adaptations	4.2	4.2	16.9	25.3
Response and void repairs	1.7	1.8	7.0	10.5
	8.7	8.7	34.6	52.0
	33.2	30.6	144.5	208.3

Table 2 – Decent Homes Plus Essential Repairs

	Years 1-5 £m	Years 6-10 £m	Years 11-30 £m	Total £m
Future major works	17.3	15.5	84.6	117.4
Improvements	9.4	8.2	13.5	31.1
Estate works	0.1	-	0.2	0.3
Contingent major repairs	0.8	0.6	2.3	3.7
	27.6	24.3	100.6	152.5
Cyclical maintenance	4.2	4.2	16.9	25.3
Disabled adaptations	1.7	1.8	7.0	10.5
Response and void repairs	8.7	8.7	34.6	52.0
	42.2	39.0	159.1	240.3

Table 3 – Industry Standard

	Years 1-5 £m	Years 6-10 £m	Years 11-30 £m	Total £m
Future major works	21.3	15.5	83.6	120.4
Improvements	20.8	14.8	0.8	36.4
Estate works	0.2	0.1	-	0.3
Contingent major repairs	2.1	1.8	7.1	11.0
	44.4	32.2	91.5	168.1
Cyclical maintenance	4.2	4.2	16.9	25.3
Disabled adaptations	2.1	1.8	7.0	10.9
Response and void repairs	8.7	8.7	34.6	52.0
	59.4	46.9	150.1	256.3

2.3 Difference between the Three Standards

The main differences between the four different standards are as follows:-

DECENT HOMES COMPARED WITH DECENT HOMES PLUS ESSENTIAL REPAIRS

In the first 5 years the Decent Homes Plus Standard includes the following over and above that included in the Decent Homes Standard.

	£m
Kitchens	1.3
Heating	6.0
Car parking	1.1
Estate improvements/footpaths	0.5

DECENT HOMES PLUS ESSENTIAL REPAIRS COMPARED WITH INDUSTRY STANDARD

As above the Transfer Standard includes further additional expenditure in Years 1-5.

	£m
Energy conservation	5.4
Car parking	2.3
Estate improvements	0.5
Other tenant aspirations	2.2
Increased contingencies	1.2

Tenants' Aspirations

A schedule of tenants' aspirations and the potential cost is attached as an appendix to the report.

The aspirations cover both service delivery improvements and additional capital investment.

In total the additional expenditure required to meet the tenants' aspirations is estimated as follows.

	30 year expenditure requirement	
	Service Delivery	Capital Investment
	£m	£m
'Tenant Priority Aspirations	2.6	27.0
'High Desirable Tenant Aspirations	14.9	20.2
'Desirable Tenant Aspirations	6.1	6.0
Total	23.6	53.2

2.4 Resources for investment in the housing stock

The table below shows the level of resources that are projected as being available to support the major repairs and improvements programmes.

As part of the options appraisal process the Council's HRA business plan financial model has been updated to reflect 2004-05 budgets and has been used as the basis for assessing the future position of both the Housing Revenue Account and the Housing Investment Programme.

	Years 1-5 £m	Years 6-10 £m
Borrowing	3.2	2.7

RTB receipts	4.5	3.3
Major repairs allowance*	26.9	18.3
HRA contributions	9.4	4.0
	44.0	28.3

* Years 1-5 include £9.7 million unspent balance brought forward from the Major Repairs Reserve.

In line with Council policies it has been assumed that all supported borrowing and the full 25% usable portion of receipts from RTB sales will be available to support HRA expenditure.

2.5 Comparison of Investment Needs with Resources

As described earlier the HRA business financial model has been used as a means to test the Council's ability to meet investment needs.

Capital investment projections are based on the figures contained within the stock condition survey but have been adjusted to take account of:-

- future build cost inflation
- an allowance for fees
- reductions in stock numbers through continuing RTB sales

After making the above adjustments the position is as follows:-

Decent Homes Standard	Years 1-5 £m	Years 6-10 £m
Resources available	44.0	28.3
Capital investment required	21.3	17.2
Potential Surplus Resources	22.7	11.1

Decent Homes Plus Essential Repairs Standard	Years 1-5 £m	Years 6-10 £m
Resources available	44.0	28.3
Capital investment required	29.8	25.7
Potential Surplus	14.2	2.6

Industry Standard	Years 1-5 £m	Years 6-10 £m
Resources available	44.0	28.3
Capital investment required	41.3	40.0
Surplus/(Shortfall)Shortfall	2.7	(11.7)

Fit for Tenant Priority Aspirations	Years 1 – 5	Years 6 – 10
	£m	£m
Resources available *	43.1	27.6
Capital investment required	44.4	34.0
Shortfall	(1.3)	(6.4)

Fit for Tenant Priority Aspirations/ Highly Desirable Standard	Years 1 – 5	Years 6 – 10
	£m	£m
Resources available *	39.9	24.4
Capital investment required	50.5	38.5
Shortfall	(10.6)	(14.1)

Fit for Tenant Priority Aspirations/ Highly Desirable / Desirable Standard	Years 1 – 5	Years 6 – 10
	£m	£m
Resources available *	38.7	24.3
Capital investment required	50.8	42.9
Shortfall	(12.1)	(18.6)

*In the three Aspirations scenarios the level of resources reduces as a result of additional expenditure on service improvements affecting the amount that the HRA can contribute towards capital expenditure.

Based on the above analysis the Council will be able to comfortably meet both the 2010 Decent Homes and the 2010 Decency Plus standards.

However there would be insufficient resources to meet the three different levels of tenant aspirations as follows.

Aspiration Standard	Shortfall	
	Next 10 years	Next 30 years
	£m	£m
Tenant Priority Aspirations	7.7	47.2
Tenant Priority Aspirations/Highly desirable	24.7	84.0
Tenant Priority Aspirations/ Highly Desirable /desirable	30.7	93.7

2.6 Meeting the Decent Homes Standard

As mentioned above, the projections indicate that the Council should be able to comfortably achieve both the 2010 Decent Homes Target and to carry out other essential work to achieve the Decent Homes Plus Standard.

2.7 Future Position of the Housing Revenue Account

The future projections of the HRA using the HRA business plan financial model show the following picture for each of the four scenarios:-

- **Decent Homes Standard**

The HRA would remain in surplus throughout the 30 year period covered by the financial model.

- **Decent Homes Plus Essential Repairs Standard**

The financial model shows that the HRA would remain in surplus for the next 28 years.

- **Industry Standard**

The financial model indicates that the HRA would remain in surplus for the next 18 years. Thereafter increasing deficits would be likely to occur.

- **Aspirational Standard**

The financial projections indicate that the HRA would fall in deficit as follows

Tenant Priority Aspirations	Years 18
Tenant Priority Aspirations/Highly desirable	Year 12
Tenant Priority Aspirations/ Highly Desirable /desirable	Year 9

In all three scenarios the position further deteriorates in later years.

As can be seen from the above the HRA would remain viable for a considerable period of time for each of the first three scenarios. However varying increases in expenditure on service delivery in the aspirational scenarios would bring the HRA into deficit within a range of 9 to 18 years.

2.8 Service Delivery

Appendix A to the report sets out the tenants aspirations for improvement in service delivery.

As a separate issue the Council is experiencing increasing difficulty in both retaining and recruiting key staff to manage its housing services. There is concern that this will act as a major constraint to the Council's key objectives of maintaining and improving performance standards within the housing service.

2.9 Rent Restructuring

In December 2000 the Government issued more detailed guidance on the proposals for rent restructuring within the social housing sector as a whole. The main objective of this is to create the situation where all tenants within the sector pay a similar rent for a similar property.

The proposals contain details of the formula that will be applied in calculating the target rent which local authorities and RSLs will be expected to achieve within a ten year period. This formula is based on the following principles:

- 70% of the target rent will be based on regional wage levels compared with the national average.
- 30% of the target rent will be based on local house prices compared with the national average.

Existing rent levels in South Kesteven are on average a little below the target rent and therefore annual increases in actual rents will be above the level of increase in the target rent.

	Average Rent 2004/05	Annual Increase to 2011/12	Annual Increase from 2012/13 onwards
	£ p.w.	%	%
Bed sit	39.37	3.0	3.0
One bed	46.15	4.01	3.0
Two bed	50.12	4.62	3.0
Three bed	54.33	4.45	3.0
Four bed	55.06	5.06	3.0

The above table shows that annual rent increases will vary depending on property size. There will also be variations in the level of rent increase for individual tenants although this is subject to an overall maximum of RPI + 0.5% + £2 per week for any individual tenant in any individual year.

2.10 Conclusions

In considering the base case position for South Kesteven we have reached a number of initial conclusions.

Investment in the Housing Stock

The projections indicate that the Council will have more than sufficient resources to be able to achieve the 2010 Decent Homes Standard and to carry out other essential works (to meet the Decent Homes Plus Standard).

There would however be a significant shortfall in the level of investment needed to meet the tenants' aspirational standards. This shortfall ranges from £8 million to £30 million over the next 10 years and £47 million to £94 million over the next 30 years.

Housing Revenue Account

The projections indicate that the Council should be able to maintain a viable HRA for the foreseeable future under both the Decent Homes and Decent Homes Plus Standards.

The Housing Revenue Account would however be placed under increasing pressure if expenditure was to be increased to meet tenant's aspirations for service delivery improvements.

Depending on which of the scenarios is considered the HRA would fall into deficit in the next 9 – 18 years.

Rent Projections

Current Council rents are a little below the Government's target rent for the area. In order to comply with the rent restructuring regime, Council rents will need on average to:-

- increase by between 3.0% - 5.60% per year up to 2011/12;
- increase by RPI + 0.5% thereafter.

3 ARM'S LENGTH MANAGEMENT ORGANISATIONS (ALMOs)

3.1 Various policy documents have consistently emphasised the Government's commitment to strengthening the role of local authorities and raising the standard of social housing and that there should be greater separation of local authorities' strategic housing and management roles. This latter objective could be achieved by setting up arm's length management organisations.

3.2 It is perceived that by adopting the arm's length approach local authorities will be able to establish a clear focus on the management role, to involve a diverse range of people (including tenants) in the decision making process and to adopt a more business like approach concentrating on delivering high quality management services.

3.3 Structure

3.3.1 The key features of an ALMO are as follows:-

- Ownership of the housing stock will remain with the local authority.
- The local authority will remain the legal landlord.
- Tenants will retain their existing tenancy rights.
- The arm's length body will be appointed to manage all or part of the stock.

3.4 Constitution

3.4.1 The Government envisages that an ALMO length body will be:-

- 100% owned by the Council;
- established on a 'not for profit' basis, usually as a Company Limited by Guarantee.

3.4.2 The Board of Directors will comprise:-

- Tenants
- Council representatives
- Independent specialists.
- No one of these groups should have a majority.

3.4.3 Because the Company is owned by the Council, changes to the Constitution of the Company could only be made with the agreement of the Council.

3.4.4 In practice it is envisaged that a number of strategic objectives will be embodied in the Company's constitution and that these could only be changed with the support of the Council.

3.4.5 In principle, it is not expected that more than 12,000 dwellings will be managed by a single arm's length company.

3.5 Tenant Consultation and Involvement

- 3.5.1 A local authority must ensure that it has the support of the tenants for any proposal to establish an ALMO.
- 3.5.2 Whilst a formal ballot of tenants is not a specified requirement the Government will only approve proposals for setting up an ALMO if tenants have been fully consulted and their support can be demonstrated.
- 3.5.3 In setting up the ALMO the local authority will be expected to:-
- Continue with any existing TMO arrangements.
 - Ensure that tenants' wishes continue to be taken into account.
 - Honour any agreements made between the Council and tenants in Tenant Participation Compacts.

3.6 Relationship with the Local Authority

- 3.6.1 The relationship between the Council and the ALMO will need to be defined in an agreement which covers:
- The functions to be delegated to and carried out by the company;
 - The standards to which they are to be carried out;
 - Arrangements for reporting on and monitoring performance;
 - Requirements for involvement of tenants in decision making;
 - The financial relationship and obligations of each party (including liability for claims from events before the setting up of the company);
 - Arrangements for liaison and consultation between the authority and the arm's length company;
 - The role of the company in helping deliver the authority's housing strategy;
 - The length of the agreement (either an initial period of 5 years, renewable, or 10 years, renewable, with provision for a break after 5 years is suggested);
 - Any warranties to be given to the directors;
 - The actions to be taken where there is non-compliance or failure;
 - Arrangements for termination.

3.7 Government Approval

- 3.7.1 Local authorities have powers under the Local Government Act 2000 to establish arm's length companies. However, the delegation of the housing function will require the approval of the Secretary of State under S.27 of the Housing Act 1985.
- 3.7.2 In considering an application the Secretary of State will need to be satisfied that the proposals are consistent with the role envisaged for an ALMO. The interests of tenants, staff and the Council must be properly protected and the ALMO must be able to operate in a viable, business-like manner.

3.8 Staffing

- 3.8.1 It is expected that those staff who spend the majority of their time in carrying out the service which will be delegated to the ALMO will also transfer to the ALMO.
- 3.8.2 The Transfer of Undertakings (Protection of Employment) Regulations (TUPE) will apply to such staff transfers. This will ensure that transferring staff enjoy terms and conditions of employment which are at least as beneficial to those which applied at the Council.
- 3.8.3 The ALMO will also have the option to engage other staff to carry out its functions and to procure services externally. Subject to best value criteria, the ALMO, for example, would be able to contract with the Council for the provision of support services.

3.9 Functions of the ALMO

- 3.9.1 Local authorities can decide what functions will be delegated to the ALMO. However, the functions considered to be appropriate for delegation include:-
- Rent collection, dealing with arrears, debt counselling;
 - Tenant information and consultation on matters which are the responsibility of the company;
 - Tenant participation, including involvement in monitoring and review of service standards;
 - Enforcement of tenant conditions;
 - Similar functions for leaseholders;
 - Stock investment decisions and repairs ordering;
 - Managing lettings, voids and underoccupation;
 - Estate management, caretaking and support services under 'Supporting People';
 - Environmental protection and improvement.
- 3.9.2 It is thus envisaged that the Council will retain direct responsibility for housing policy and strategy and for statutory housing services such as homelessness and housing advice.

3.10 Financial Arrangements

- 3.10.1 As the stock would continue to be owned by the Council the existing financial arrangements would also continue, e.g. the Council would have to:
- Maintain a Housing Revenue Account
 - Claim Housing Subsidy
 - Submit HIP returns
 - Prepare HRA business plans
- 3.10.2 The ALMO will be required to prepare the equivalent of an HRA business plan. In addition to the costs of carrying out the management role the Plan must show proposed levels of investment in the housing stock and the impact of any additional resources which are made available.
- 3.10.3 The key principles which local authorities will be expected to follow in setting up an ALMO are:-

- They should be clear and transparent and set out in an agreement which is a contract, or of a contractual kind, which sets out the obligations of each party;
- They should leave the ALMO the greatest possible autonomy to take decisions about the stock;
- The ALMO should receive the full benefit from any additional resources available to the authority as part of this initiative and the agreement should specify how the appropriate share of the other resources available for housing to the authority is to be determined;
- The agreement should cover mechanisms, through the HRA business planning process and otherwise, for ensuring that the company takes account of and fully contributes to the authority's strategic housing and other objectives;
- The agreement should enable the authority to perform its legal obligations in relation to the HRA (for example preparing and setting a balanced budget, monitoring it throughout the year, providing information in connection with subsidy claims);
- The agreement should in particular enable the authority to ensure that the company's rent policy is consistent with policy restructuring.

3.11 The Additional Resources

3.11.1 Initially, Government allocated £460 million over a two year period to provide additional resources to arm's length companies. These funds were intended to enable additional investment of about £5,000 per dwelling for approximately 90,000 dwellings.

3.11.2 The Government through the Communities Plan indicated that it would continue to support the establishment of Arm's Length Management Organisations by local authorities.

3.11.3 In order to be eligible for Government support under the ALMO programme the following criteria must be met:-

- The local authority must first obtain a place on the Government's annual programme.
- The local authority must set up the ALMO.
- The ALMO must then obtain at least a 2* (good) performance rating from the Best Value Inspector.

3.11.4 Government however have now made it abundantly clear in the latest ALMO guidance for bids for the 2005 programme that additional funding will only be given to the extent that this funding is needed to enable the Decent Homes targets to be met. A small tolerance – 5% of the bid – would be considered in respect of other works which improve sustainability.

3.11.5 Eligibility will also depend on:-

- The local authority having developed a comprehensive HRA business plan which fully justifies the decision to establish an ALMO and is consistent with other local and national housing objectives.

- Demonstration that the company will fully involve and consult tenants consistent with Tenant Participation Compact principles.
- Demonstration that the Company will help deliver Government policies on rents and lettings.

3.12 Mechanism For Providing Additional Resources

3.12.1 The housing subsidy system is used to provide additional resources to those authorities which make successful bids to Government. The process operates as follows:-

- Government will grant additional borrowing powers of up to the approved amount per dwelling to the local authority via a Supplementary Credit Approval.
- The loan charges related to the additional borrowing will rank for housing subsidy.
- The additional resources will be passed to the ALMO for investment to an agreed programme of works to the housing stock.
- The ODPM will monitor the process to ensure that resources are used effectively.

3.13 The Next Steps

3.13.1 If a local authority believes that there is strong justification for setting up an ALMO and that the necessary criteria can be met, it should assess the amount of additional resources required and then bid for a place on the ODPM programme for the following year.

3.13.2 For Round 5 detailed applications are required by 28 January 2005 and the announcement of successful bids and conditional funding allocations made in May 2005.

3.13.3 If a local authority is successful in obtaining a conditional allocation of funds it will be expected to:-

- Consult tenants in accordance with Section 105 of the Housing Act 1985;
- Consult staff likely to be affected;
- Apply for approval to delegate functions;
- Set up the company;
- Conduct a Best Value Review and invite an inspection by the Housing Inspectorate;
- Receive the Inspectorate report;
- Submit a final application for additional resources with supporting material, normally at the same time as the HIP material.

3.14 The Implications for South Kesteven

3.14.1 *Potential Benefits*

Because of the strong financial position of the Council (i.e. both the Decent Homes and Decent Homes Plus standards can be comfortably achieved from within existing resources) it is extremely doubtful that the ALMO route could be used to access additional Government funding.

The Council could however decide to adopt the ALMO approach:

- to give tenants a much stronger role in the control and management of the housing service;
- to reinforce the separation of the housing management and strategic roles.

The ALMO approach would not however address the issue of maintaining and improving service delivery as described in Section 3 of the report.

3.14.2 *Staffing Implications*

If the Council decided to set up an arm's length management company the staff who currently provide the housing management services would transfer to the Company. The transfer would be governed by the TUPE Regulations which would ensure that the interests of staff would be fully protected.

Other staff who provide support services to the housing management function could also transfer by agreement or alternatively the Council could contract to provide support services to the Company.

Provided that the necessary arrangements can be made for provision of support services from the Council there would be little impact on other Council departments. However, the guidance on arm's length companies emphasises that the procurement of such services is subject to best value criteria and that it will be up to the Company to decide on the most cost-effective way in which these should be provided.

3.14.3 *Impact on the General Fund*

Provided that arrangements can be put in place enabling the Council to provide services to the Company there should be little impact on the General Fund.

3.14.4 *Impact on Existing Tenants*

Existing tenants would potentially benefit as follows:-

- Their role in the management of the housing service would be enhanced.

Establishing an arm's length company would be unlikely to affect rent levels or tenancy rights as ownership of the stock and housing policy would remain with the Council.

3.14.5 Prospective Tenants

Establishing an ALMO would not increase the overall provision of affordable homes and therefore would not enable those in housing need to be housed more quickly. However, once prospective tenants are housed by the Council they would benefit in the same way as existing tenants.

3.14.6 Setting up costs

It is estimated that the costs involved in setting up an ALMO would be in the order of £250,000 (this relates mainly to staff time, consultancy fees and the costs of consultation with tenants). However the major part of this expenditure would only be incurred if the Council received a provisional allocation of funding from ODPM earmarked for this purpose. The key tasks involved in the setting up process include:-

- Extensive consultation with tenants on the rationale proposed, including the provision of independent advice to tenants.
- Selection and training of Board Members.
- Agreement of the Company's constitution and policies.
- Extensive consultation with staff who would transfer to the Company and those remaining with the Council who are affected by the transfer.
- Preparation of staffing structures, staffing and operational budgets and longer term financial projections and the ALMO's business plan.
- Liaison with ODPM and the Housing Corporation.
- Preparation and agreement of the housing management contract.
- Preparation and agreement of contracts for the provision of services from the Council to the Company.
- Staff assimilation and recruitment (if necessary).
- Preparation and agreement of a detailed strategy for achieving 'excellent' performance.

3.15 Overall Conclusions

3.15.1 In summary we have concluded that the ALMO option could potentially:-

- increase levels of tenant involvement in the management of their homes;
- retain existing tenancy arrangements;
- have minimal impact on the Council's finances (subject to satisfactory procurement arrangements);
- protect the interests of staff.

- 3.14.2 However, the level of influence which the Council has over day to day management of the stock would reduce.
- 3.14.3 The relative attractiveness of the ALMO is however somewhat reduced as it is unlikely that an ALMO in South Kesteven would be able to access additional Government funding, given the current strength of the Council's HRA.

4. HOUSING MANAGEMENT PARTNERSHIP

4.1 As a variation to the ALMO option the Council could consider entering into partnership arrangements with an existing social landlord for the provision of housing management services to the Council.

4.2 The main advantages of this approach would be:-

- to address the Council's concerns about its ability to deliver a high quality housing management service;
- to reinforce the separation of the management and strategic housing functions;
- to provide opportunities to involve tenants at the heart of the decision making process.

4.3 Constitutional Arrangements

Whilst the constitutional arrangements would depend on the agreement with the preferred partner, we envisage something along the following lines:-

- a new landlord body would be set up as a subsidiary of an existing social landlord;
- it would be managed by a Board comprising tenants, Council representatives and independent specialists.

4.4 Arrangements with the Council

The potential arrangements with the Council would be similar to those relating to an ALMO as described in paragraph 3.6.1.

4.5 Tenant Consultation

The Council must be able to show that it has consulted with its tenants and has the support of the tenants for any proposal to delegate the housing management service.

However, a formal ballot of tenants would not be required.

4.6 Government Approval

Delegation of the housing management function would require the approval of the Secretary of State under S.27 of the Housing Act 1985.

4.7 Staffing

It is expected that those Council staff who spend the majority of their time in carrying out the services that will be delegated will transfer to the management organisation.

The TUPE regulations will apply to such staff transfers and thus the terms and conditions of transferring staff will be protected.

4.8 Functions to be Delegated

The functions that are included within the scope of the management agreement will be the subject of detailed discussions between the Council and its partner organisation.

However, it is expected that these would be consistent with the ALMO arrangements as set out in paragraph 3.9.1.

Under the proposed arrangements, it is expected that the Council would retain a number of core activities. Typically these would include:-

- All matters of housing policy
- Maintaining the Housing Revenue Account
- Preparation of the HRA business plan
- Housing subsidy claims
- HIP returns
- Performance monitoring and reporting

4.9 The Financial Arrangements

The Council and the management body would normally agree a fee for carrying out the specified services. This would be subject to annual review.

The principles that the Council will be expected to follow would be consistent with those applying to a proposed ALMO (paragraph 3.10.3).

4.10 Choice of the Partner Organisation

Best practice indicates that the tenants should be at the heart of the process for selecting the partner organisation. More specifically, it is proposed that the tenants should be heavily involved in:-

- Drawing up the initial specification for the services to be provided
- Selecting a short list of potential partners
- Agreeing criteria against which prospective partners can be judged
- Interviewing and making site visits to potential partner organisations
- Drawing up the detailed management agreement

4.11 Impact of the Housing Revenue Account

It is expected that there would not be a significant impact on the Housing Revenue Account as a result of the delegation arrangements.

On the one hand the new organisation should be able to benefit from economies of scale but on the other hand there may be some additional costs associated with running a new organisation that is independent from the Council and in maintaining or improving the standard of delivery of housing management services.

4.12 Impact on the General Fund

The new organisation is likely to have its own central services functions and hence it is likely that central services will no longer be required from the Council in respect of the functions that are delegated.

It will therefore be necessary for the Council to make commensurate reductions in central service costs to avoid additional expenditure falling to the General Fund.

4.13 Impact on Tenants

Existing and prospective tenants would benefit through higher standards of service and the opportunity to participate in the management of the new organisation.

Tenancy rights and rent levels would remain unaffected as ownership of the housing stock and housing policy would remain with the Council.

4.14 **Setting up Costs**

It is expected that the costs of setting up the arrangements would be shared between the Council and the management organisation. The Council would however be involved in additional work and possible consultancy costs. Key tasks involved would include:-

- Consultation with the tenants on the proposals, including the provision of independent advice to the tenants.
- Conducting the process for the selection of the partner organisation.
- Consultation with staff who would transfer and with those who are affected by the proposals
- Liaison with ODPM
- Preparation and agreement of the housing management contract
- Setting up the arrangements for the strategic housing service.

4.15 **Overall Conclusions**

In summary we have concluded that delegation of the housing management function to an existing social landlord could potentially:-

- ensure that standards of service are maintained and improved;
- increase tenant involvement in the management of their homes;
- retain existing tenancy rights;
- reinforce the separation of the management and strategic roles.

The Council would retain responsibility for housing policy but would lose some influence over the day to day management of the housing stock. The Council would also need to ensure that any additional costs that might fall to the General Fund are avoided.

5 THE PRIVATE FINANCE INITIATIVE (PFI)

- 5.1 As mentioned earlier in the report the Government has set aside funding to support a number of schemes undertaken jointly by the public/private sector under the Private Finance Initiative (PFI). Government support had previously been given to eight pathfinder schemes some of which are now underway.
- 5.2 Housing PFI is available to support both development of new affordable homes and for the refurbishment of existing Council housing. The main features of a typical scheme for refurbishment of existing properties are set out below:
- Responsibility for managing and maintaining part of a local authority's housing stock would be contracted out to a housing management agent.
 - The management agent would, for example, be an existing RSL or a Special Purpose Vehicle (SPV) set up specifically for this purpose. (An SPV might comprise an RSL, a construction company and a private sector funder).
 - The local authority would draw up a detailed specification with defined outputs, required performance standards etc., which would form the basis of the agreement between the two parties.
 - The fee that would be paid by the local authority would be determined via a competitive process through which suitable organisations would be asked to bid for the management contract.
 - The contract would normally run for 25 or 30 years and would only be varied for RPI or changes to the specification.
 - There must be sufficient transfer of risk to the private sector with the local authority retaining the ability to impose financial penalties if defined outputs and performance standards are not maintained throughout the contract period.
 - Depending on current responsibilities within the Council staff might transfer to the contractor (i.e. under the TUPE regulations those staff who spend the majority of their time on the transferring service would be entitled to transfer).
 - The new landlord would raise sufficient finance by private sector borrowing to carry out the required level of repairs and improvements to the housing stock.
 - Provided that the Council could demonstrate that value for money is being achieved then the scheme would be eligible for Government support. In practice this support would be given via the housing subsidy system - by allowing the full management fee to rank for subsidy.
- 5.3 The pathfinder schemes for refurbishment of Council housing have encountered a number of difficulties and delays and it is only now, after some 3 years, that the works have commenced. The pathfinder schemes included, on average, some 1600 Council-owned properties with Government support of £16,000 per dwelling. All relate to only a small proportion of the host local authority's housing stock. It appears that future PFI schemes will be developed on a similar basis and generally include stock which is in relatively poor condition and has a low or negative value (TMV). The PFI scheme also appears to be appropriate as part of wider regeneration and redevelopment proposals.
- 5.4 There are a number of other factors which restrict the use of PFI as a means to attract investment into a local authority's housing stock, for example:

- There is a finite amount of Government support available and consequently there is likely to be fierce competition.
- In order to secure Government support (PFI credits) a local authority will need to demonstrate that value for money is being achieved. This, for example, could involve comparison with housing transfer in terms of value for money.
- Borrowing by the management contractor would normally be secured against the incoming cash flows (i.e. the management fee from the Council). Borrowing without 'bricks and mortar' as security would result in higher interest charges (typically an additional 0.75% - 1.00%). However this additional borrowing cost might be avoided if the contractor is an existing RSL that has the capacity to secure the borrowings against its existing housing stock.
- Contractors are concerned about the level of risk to which they will be exposed. For example, the allowances for expenditure on major repairs and improvements may prove to be inadequate over a 30 year period or there may be changes in the pattern of demand for social housing. If an RSL owned the stock the normal way of addressing these issues would be to increase rents or to defer expenditure on major repairs. Under a PFI contract neither course of action would be available to the contractor.

5.5 PFI in South Kesteven

Section seven of the report considers the options of transferring the Council stock of sheltered dwellings and also the stock of defective dwellings

As a purely hypothetical exercise we have considered the implications of using the housing PFI scheme for each of these options.

Based on our analysis we estimate that a PFI scheme would enable investment to be increased in the housing stock as follows:

Sheltered stock - Overall increase in investment of £4 million

Defective dwellings – overall increase in investment of £1 million.

We would however expect that there would be a relatively small negative impact on the Councils Housing Revenue Account and/or General Fund as a result of some diseconomies of scale.

5.6 Strengths and Drawbacks of a Typical PFI Scheme

The typical situation that has applied in existing PFI schemes is as follows:-

- Strengths
 - Would meet the objective of separation of strategic and management roles.
 - Could attract significant additional investment.
 - Particularly appropriate for negative value stock and as part of broader regeneration initiatives.
 - Requires the contractor to meet agreed output specifications and links payment to performance.
 - Allows the Council to retain ownership and strategic control.
- Drawbacks

- Costs/disruption linked to setting up the arrangements and delegating management.
- Strong competition for limited Government resources.
- Possible protracted timescale.
- Loss of control of day to day management.
- Relatively small negative impact on the HRA/GF.
- Does not address the needs of the stock outside the PFI scheme.

5.7 **Implications for South Kesteven**

South Kesteven is untypical of the local authorities that have so far participated in Housing PFI schemes for refurbishment of existing Council stock.

Whilst, in theory, it would be possible to bid for additional resources to enable aspirational standards to be met, it is extremely doubtful that such a bid would be successful given the strength of the financial position within the Council's HRA.

It has therefore been concluded that Housing PFI is not an appropriate option for inclusion in the future housing strategy.

6 STOCK TRANSFER

6.1 Since 1988 some 180 local authorities have transferred all or part of their housing stock to independent landlords. This has involved the transfer of over 600,000 properties. In the following paragraphs we have analysed the implications of a possible housing transfer in South Kesteven.

6.2 Stock transfer can only proceed if the majority of the tenants are in favour of the proposals. Tenant opinion must be measured in a postal ballot. The Council can decide whether or not a ballot takes place, but if a ballot is held and tenants vote in favour of the transfer proposals then we find it difficult to envisage the result being disregarded by the Council.

6.3 The promises to be made to transferring tenants usually cover six key areas:

- Rents
- Major Repairs and Improvements
- Service Levels
- The Tenancy Agreement
- Representation and Consultation
- Additional Housing Provision

6.4 Each of these areas is discussed in detail below.

6.5 RENTS

Historically, new landlords have entered into a legally binding guarantee through the new assured tenancy agreement with all tenants individually, and with the Council through the Transfer Agreement, that rents for existing tenants at the date of transfer, will be increased at no more than 1% over the rate of inflation for the first five years after transfer.

Following the introduction of the Government's rent restructuring proposals it is unlikely there will be any significant variation in rents charged whether tenants transfer or whether they remain with the Council.

The valuation is also based on the assumption that new tenants will immediately be charged the target rent as per the Government's formula.

6.6 MAJOR REPAIRS AND IMPROVEMENTS

The fundamental requirement of the stock transfer process, which as discussed in detail below is reflected in the calculation of the transfer price, is that the receiving body must commit itself to bring the properties up to a defined standard within 5 to 10 years of transfer, and then to make full provision for future routine, cyclical and major repairs, so to maintain them in that condition. Therefore a full transfer of the stock would enable the properties and the environment to be brought up to higher standard that would encourage tenants to support the transfer proposals.

Thus the Council would be able to give firm undertakings on level of investment in the housing stock for a defined period (typically 5-7 years) following completion of the transfer.

In practice this would mean that housing transfer in South Kesteven would enable up to an additional £6 million to £27 million to be spent on major repairs and improvements over the next ten years and £47 million to £94 million over the next 30 years.

In addition to the understanding that a very extensive programme of catch-up repairs and improvements would be carried out, the new landlord would also be able to give specific guarantees, for example they may state that within 5 years of transfer properties would be as follows:

- Full central heating systems would be installed in all properties.
- All properties would be double glazed.
- All properties would have a modern kitchen.
- All properties would have a modern bathroom.

The Council would also have the option to introduce other improvements into the proposed work programmes. This would, however, be likely to have a negative impact on the stock valuation.

Of equal, if not greater importance is the requirement that the new landlord must keep the stock in good condition. This will be a requirement included within the transfer agreement and it will be insisted upon by the new landlord's funders who will be anxious to retain the long-term value of their security.

6.7 SERVICE LEVELS

A critical part of the tri-partite negotiation between the Council, tenants and the new landlord will be the assurances given that the new landlord will improve the quality of service delivery. The calculation of the transfer price will take into account the current service levels and any enhancements agreed by the Council (and thus paid for by the Council) or offered by the new landlord (and thus funded from their Business Plan). Again these commitments will be included within the transfer agreement and service delivery and quality will be directly managed by the new landlord's Board, including tenants and Councillors.

6.8 THE TENANCY AGREEMENT

The other key factor within any stock transfer relates to the nature of the tenancy and the tenancy agreement. When a stock transfer takes place all the tenants of the new body, including the transferring tenants (who up to the point of transfer are secure tenants of the local authority) become assured tenants.

An assured tenancy is a contract between the landlord and the tenant, the terms of which can only be changed in accordance with the terms of that agreement which would normally require the consent of both parties. The normal course of events in an LSVT is for the tenancy agreement to be negotiated between the Council and the new landlord with the involvement of an independent advisor to the tenants. In all the transfers that we have been involved with, the tenancy agreement has been agreed to provide both transferring and new tenants with security of tenure which is effectively the same as a secure tenancy agreement. This has been done by providing preserved personal rights for transferring tenants on such issues as the rent guarantee, the continuation of their existing right-to-buy on the same terms and, where appropriate on such issues as succession rights. Aside from these preserved rights it is normal for the landlord in such cases to contractually waive some of the statutory rights available under an assured tenancy. A key role of the independent tenants' advisor is to provide clear guidance to tenants on this issue.

The only rights which cannot be mirrored in the new tenancy agreement are:

- The right to participate in the rent to mortgage scheme;

- The right to establish a tenant management organisation (although a new RSL could agree to consider favourably any proposal from its tenants).

The tenancy agreement is enforceable by tenants individually and crucially, because it is incorporated into the transfer contract between the local authority and the landlord, it is enforceable by the Council. The powers of the Council under the transfer agreement should be seen as a key element in the long-term protection of tenants' interests. They cover a wide range of issues including the commitment of the new body to the completion of the works programmes, the governance arrangements for the body, including tenant and Council representation and the long term affordability of rents.

The Government is currently formulating proposals that will seek to harmonise tenancy agreements for all types of social housing landlord. The introduction of a common tenancy agreement would clearly remove any concern that tenants may have about perceived loss of tenancy rights.

6.9 REPRESENTATION AND CONSULTATION

Tenants generally view their direct involvement in the decision making process on an equal footing to the Council representatives and the independent expert Board members as a key benefit of stock transfer. Our advice is that tenants should be encouraged and provided with the necessary financial support to develop their own preferred structure for consultation and representation. Our experience is that once tenants realise that they can really "make a difference" by becoming involved, the possibilities for expanding involvement increase considerably.

One critical element of the transfer agreement is the Minority Protection Agreement (MPA) which effectively provides each of the three groups within the tri-partite structure with a veto in relation to changes in the key governance arrangements. For example, in a typical new landlord structure the shareholding membership consists of:

- 1/3 : the Council
- 1/3 : the Tenants
- 1/3 : Independent members

The MPA which is embodied within the new landlord's constitution requires a 75% majority to approve any changes to key governance arrangements. This prevents the type of problem that arose some years ago in West Kent Housing Association where the Association decided to eliminate local authority representation.

It is important that both the Council, in the first instance, and the New Landlord, after transfer, provide financial support to allow for training for both tenant representatives and for other tenants who wish to become involved. There are many positive examples of strong tenant involvement arrangements being developed by stock transfer RSLs.

Increasing tenant involvement is a significant feature of the "best value" arrangements and is thus encouraged by the ODPM.

6.10 VALUATION OF THE HOUSING STOCK

The transfer price of the stock to be transferred is determined through a process, the main elements of which are set by the ODPM, although the actual price to be paid by the new landlord is the subject of detailed negotiation between the parties in each case.

Tenanted property transferring under the Voluntary Transfer arrangements is valued on the basis of Tenanted Market Value (TMV). This is essentially an accountancy exercise, rather than a professional valuation process. The value is determined by projecting the streams of income and expenditure generated by the properties over a thirty-year period and then discounting these projections back to a net present value. The projections of income and expenditure reflect the commitments made to tenants in the consultation process leading up to their decision on transfer.

The complex financial model which is used to calculate TMV takes account of the following assumptions:

- the new landlord will be obliged to retain all the properties for letting at affordable rents;
- the new landlord will have to honour all the undertakings which have been given to transferring tenants;
- the new landlord will have to provide high standards of management and maintenance.

In recent years housing transfer valuations have averaged about £10,000 per dwelling although there is evidence of much lower valuations being achieved where investment requirements in the housing stock are relatively high.

The Government has recognised that, in some cases, the value of the housing stock will be below the outstanding debt related to the stock and has introduced measures to deal with this situation (which is known as 'debt overhang').

Gap Funding

Very recently the Government has also indicated that it will be prepared, in principle, to provide 'Gap' Funding where the valuation of a local authority's housing stock is negative.

Valuation of the Council's housing stock

That ranges between £18 million to £45 million based on the three alternative improvement levels for the 'tenant aspiration' scenarios. In the following financial analysis we have used the "Tenant Priority Aspirations" scenario which generates an estimated valuation of some £45 million for the purposes of illustration. We would however expect that any offer to be made to the tenants would include some additional items of expenditure, with a corresponding reduction in the stock valuation.

VAT Saving Scheme

In recent years a scheme has been developed to reduce the impact of VAT on a new landlord receiving stock via housing transfer. Adoption of this approach would have the potential to both increase the stock valuation and to strengthen the financial viability of the new landlord.

Setting up costs

Housing transfer involves considerable time and effort in preparation, detailed consultation with tenants, valuation and business planning and preparing and agreeing the contract which embodies the terms of the transfer.

Based on experience of other stock transfers we have estimated that overall setting up costs would be in the region of £3.5 to £4.0 million. Of this about £0.5 million would be incurred pre ballot and would therefore be at risk if the tenants did not support the proposal.

Normally these setting up costs would be written off against the capital receipt.

6.11 ESTIMATED CAPITAL RECEIPTS

As described above it can be seen that the value of the housing stock could vary significantly depending on key assumptions used.

Government Levy

The Government requires local authorities to pay the Exchequer a levy of 20% of the capital receipt generated by the sale of the housing stock after allowing for the setting up costs and any existing debt.

The estimate of the net capital receipt generated by the transfer and the Government levy payable is shown in the tables below:-

	£m
Calculation of Government Levy	
Stock valuation	45.0
Less: Element relating to non-housing assets*	3.0
HRA outstanding debt	1.0
Setting up costs	4.0
	37.0
Levy at 20%	7.4
Estimated Capital Receipts	
Stock valuation	45.0
Less: Setting up costs	4.0
Government Levy	7.4
Debt repayment	1.0
Usable receipt	32.6

*Garages

Use of the Capital Receipt

Receipts from housing stock transfer are outside the scope of the pooling arrangements that were introduced from April 2004. Therefore the capital receipts from stock transfer could be used by the Council to fund any legitimate capital expenditure.

Right to Buy Sharing Agreement

It is usual for the receipts from RTB sales that occur post-transfer to be shared between the new landlord and the Council.

As an approximate guide to the way in which this arrangement would operate we have shown an example in the table below:-

		RTB Receipts £m	RSL Share £m	Council Share £m
Year 1	80	3.6	1.6	2.0
Year 2	75	3.4	1.5	1.9
Year 3	70	3.1	1.4	1.7
Year 4	65	2.9	1.3	1.6
Year 5	60	2.7	1.2	1.5

Investment in additional affordable homes

Historically it was usual for a local authority involved in stock transfer to invest any usable receipts in supporting the provision of additional affordable homes via local authority social housing grant (LA SHG). Under the LA SHG rules expenditure by the Council would have been reimbursed by the Housing Corporation.

However the recent withdrawal of the LA SHG scheme has meant that this is no longer possible. The Council does retain powers to give grants to private landlords although any such expenditure would be a direct cost to the Council.

6.12 THE IMPACT ON THE COUNCIL & COUNCIL TAX-PAYERS

Because housing transfer would involve the transfer of one of the Council's major services there are also potential implications for the Council, its staff and the Council tax payer. These are discussed in the following paragraphs.

Statutory Housing Services

It is essential that the Council recognises the resource requirements for the statutory housing services for which it would retain responsibility, i.e.

- Housing Strategy
- Homelessness
- Housing Advice
- Private Sector Housing
- The Enabling Role
- Supporting People

The Council has the option of retaining these functions in-house or contracting with the new landlord or another provider. Regardless of the method of delivery the Council must ensure that it has sufficient in-house staffing and budgetary resources.

In assessing the overall impact of housing transfer we have assumed that there would be the need for a further £100,000 per year to meet additional costs arising from the separation of the strategic and management roles. This is based on our experience in other stock transfers where there has been a consistent need to strengthen the strategic role after stock transfer has taken place.

We have discussed with officers the potential impact on the General Fund of the reallocation of costs that are currently being charged to the Housing Revenue Account to the extent that this is no longer possible. South Kesteven, in common with many other local authorities, faces a particular problem in this respect, in that the

great majority of these allocations represent partial allocation of staff time and related overheads and thus there are not whole units of staff available for transfer under TUPE. As a consequence it is inevitable that the amount of staff time and other overheads which is charged against the General Fund will increase as a result of the transfer. It is estimated that this will amount to around £500,000 per annum at the point of transfer. We would, however, expect the Council to seek to reduce this amount over time.

Housing Benefit Costs

Following the removal of the costs of housing benefit from the HRA there should not be any significant impact on the General Fund, with the exception that there may be a short period of data-lag' which may affect the Council's entitlement to Housing Benefit Admin subsidy for a one year period.

Value Added Tax (VAT)

Currently the Council can reclaim VAT paid in respect of exempt services such as property and some leisure activities provided that the VAT in respect of the exempt services does not exceed 5% of the total VAT reclaimed by the Council.

Stock transfer will result in a reduction in the total VAT but the Council expects that it will continue to be able to meet the 5% criteria in respect of VAT on exempt services.

We have therefore assumed that stock transfer would not affect the Council's VAT position..

Estimated Impact on the General Fund

The table below illustrates the potential annual impact of a stock transfer on the local authority.

	Year 1
Revenue	
Interest on capital receipt	1.47
Diseconomies of scale	(0.5)
Strategic housing function (additional)	(0.1)
Annual additional benefit/(cost) to GF	0.87
Capital	
Share of RTB receipts	1.7
Less amount receivable under existing arrangements	(0.7)
Additional benefit to GF	1.0

It must however be stressed that if the Council chooses to spend the Capital Receipts then the benefits to the General Fund would reduce commensurately.

For example, if the Council decides to support the provision of some 300 additional affordable homes at a cost of £10 million the interest on the capital receipt would fall to a little over £1 million.

As an alternative the Council could decide to invest the receipts from the RTB sharing agreement described in paragraph 6.11 in the new affordable homes. Based on the figures in the table this would provide capacity to deliver approximately 260 homes over a five period.

Impact on Rate Support Grant

The experience of other local authorities who have transferred their housing stock confirms that neither the Capital Receipt nor the interest generated has affected their RSG entitlement.

Conclusions

Overall we estimate that the transfer would be likely to have an overall positive impact on the General Fund, although this would vary significantly depending on the assumptions used for calculating the value of the housing stock.

6.13 THE IMPACT ON STAFF

As far as staff are concerned, housing transfer would be covered by the Transfer of Undertakings regulations. Staff wholly or mainly engaged on housing work would be transferred, subject to the needs of the strategic function as defined, with terms and conditions being protected. In the transfers to date there have been very few staffing problems arising and it is usual practice for local agreements to be made so that staff who are affected receive the maximum levels of job security. In practice a transfer tends to lead to increased job opportunities with the Local Housing Company (LHC), both in terms of the significantly enhanced development and repair programmes and in relation to the separation of functions between the Council and the new landlord.

Thus we believe that there would be potential benefits to staff both in terms of increased job opportunities and improved job satisfaction.

6.14 LEASEHOLDERS

There are no statutory requirements for consulting long leaseholders (i.e. people who have purchased under Right to Buy on a long leasehold basis) as the terms of their lease would not change under stock transfer.

However leaseholders should be consulted on the transfer proposals particularly if transfer would result in them being asked to pay increased contributions towards repair and maintenance costs (e.g. for works to communal areas in flats).

Leaseholders should be kept informed of progress and told that they may make any objections to the transfer to the Secretary of State. Where significant numbers of leaseholders are involved the local authority should consider issuing separate leaseholder information.

6.15 THE OVERALL IMPACT OF TRANSFER

Our assessment is that the impact of stock transfer in South Kesteven on the various stakeholders would be as follows:

- Existing Tenants – would benefit from additional investment in their homes and greater involvement in decision making without significant loss to existing rights. Their existing 'Secure Tenancy' would be replaced by an 'Assured Tenancy' with additional contractual rights so as to minimise any change in the conditions of tenancy.
- Potential Tenants – Would also benefit from higher standards of accommodation.
- All tenants – would be charged a rent which complies with Government targets for the social housing sector.
- Staff – would be able to transfer on protected terms and conditions.

- Council and Council Taxpayers – transfer would result in financial benefits to the General Fund.

However, stock transfer would remove the housing stock from the control of the Council and is a time-consuming and costly exercise which can only proceed with the demonstrable support of the tenants with the risk of abortive costs if such support is not received.

6.16 THE CHOICE OF A NEW LANDLORD

If the Council decides that housing transfer is the preferred route forward there are then fundamental questions to be considered in relation to the form of the new landlord, i.e.

- An existing housing association
- A subsidiary of an existing housing association
- A new housing association
- A new local housing company

Further details on the stock transfer process are included in Appendix D.

Housing Association or Local Housing Company

A housing association or a local housing company (LHC) would have similar objectives and would both be 'not for profit' organisations. Housing Associations are set up and regulated under the Industrial and Provident Society Acts, whereas LHCs are governed by the Companies Act.

There are two main reasons why LHCs have become the preferred route forward:-

- The Companies Act is less restrictive and would give a LHC more freedom to undertake a wider range of activity.
- The ownership and management of the Company are more clearly separated. For example, some LHCs are owned in equal proportion between the Council, the tenants and the independent membership, but the composition of the Board of Management is in different proportions.
- The fact that the Council, as a legal entity, would always own a third of the Company provides protection against any constitutional change (which would require 75% support).

Charitable or Non-Charitable

One factor, which has a bearing on this aspect of the decision making, relates to the question of whether or not the body should have charitable status. The key fact is that charitable organisations are not subject to Corporation Tax. A non-charitable LHC will therefore be required to incur substantial Corporation tax liabilities once overall trading surpluses are achieved, because it needs surpluses to repay debt and surpluses attract tax liabilities.

In order to register as a charity the landlord will have to convince the Charity Commissioners that it is carrying a 'charitable' business. This may constrain the landlord in some areas. Charitable status also involves more onerous reporting requirements.

New or Existing

Historically most local authority stock transfers have been made to new stand-alone housing associations and, more recently, local housing companies. The reasons why this approach has been adopted are as follows:-

- The use of an existing housing association could be difficult to explain to tenants, particularly given that one of the key messages that is used in transfer is that “this is only a minimal change, most things will stay the same”.
- There is a partly perceived and partly actual difficulty in achieving the degree of influence that the local authority and tenants require over policies, rent levels etc., given that existing associations have existing policies and procedures and a resistance to change.
- There are a number of staff within the central services functions who would expect to transfer under the TUPE arrangements. Failure to achieve the transfer of such staff would result in additional costs being charged to the local authority’s post transfer General Fund position, as well as creating a potential source of staff discontent, which could undermine the possibility of a successful transfer.

Governance

As mentioned above, virtually all recent stock transfers have been made to new RSLs which in terms of both ownership and Board membership have been split:

- 1/3 Council
- 1/3 Tenants
- 1/3 Independent specialists

There are however some more recent transfers where the split of ownership between the three constituent groups is as above but where the levels of tenant representation on the Board of Management is higher.

With regard to governance, the key issue is to appoint a Board which has the necessary skills and experience to manage the organisation effectively. This will be an absolute pre-requisite to achieving Housing Corporation registration and private sector funding.

It is also important to recognise that the RSL will need to operate independently from the local authority, with any services provided by the local authority being subject to detailed scrutiny as to their value-for-money from the viewpoint of the RSL. The Housing Corporation will require that the RSL should have a code of governance which, inter alia, requires board members to be able to demonstrate that they are acting at all times in the interests of the RSL, rather than their constituency.

Choice and Competition

The Government is keen to introduce an element of competition into the process of selecting the new landlord. Latest guidelines stress the importance of informing tenants of the various options which are available and involving tenants in the process of choosing the most appropriate option.

Conclusions

If housing transfer is the preferred option there are a number of alternative forms which the new landlord could take.

The ODPM transfer guidelines indicate that the tenants should be consulted on the various options which are available and their views reflected in any stock transfer proposals.

7 MIXED OPTIONS

Consideration has also been given to the potential implications of a mix of options involving, for example, the transfer of part of the Council's housing stock.

In the following paragraphs two potential mixed solutions are examined as follows:-

- the transfer of the Council's stock of 1,433 units of sheltered accommodation;
- the transfer of the Council's stock of 871 defective dwellings.

In each case an analysis has been made of the potential implications for the following stakeholder groups:-

- existing tenants
- potential tenants
- tenants remaining with the Council
- Council staff
- the Council

Sheltered Stock

Currently the Council has a stock of sheltered accommodation as follows:-

	Bedsit	One Bed	Two Bed	Three Bed	Total
Bedsits	98				98
Flats		372	226	4	602
Bungalows		163	566	4	733
	98	535	797	8	1,433

Valuation of the Sheltered Stock

Using the 'stock transfer' stock condition data, the sheltered stock has a value of £2 million.

For the purpose of the evaluation it has been assumed that the stock would transfer at a Nil valuation to a specialist landlord who would invest to tailor the stock to meet the future needs of the community.

Impact on the HRA

The transfer of the sheltered stock would have a relatively marginal positive effect on the Council's HRA.

As with the full retention options the Council would continue to be able to meet both the decent homes standard and the decency plus standard whilst maintaining a viable HRA for the foreseeable future.

It would also have the effect of reducing the shortfall in resources for the aspirational standard scenarios.

Impact on the Stock Valuation

The transfer of the sheltered stock would also have the effect of reducing the value of the stock remaining with the Council by about £7 million.

Conclusions

Transferring tenants – would potentially benefit from modernisation to their homes and from the services of a specialist landlord.

Potential tenants – would potentially benefit from a sheltered housing stock more appropriate to the needs of future generations.

Council staff – who are employed in the provision of the service would transfer on protected terms and conditions.

Tenants remaining with the Council – would benefit from a marginally stronger HRA.

The Council – may be affected by diseconomies of scale on central service departments and would need to manage the situation carefully.

Defective Dwellings

Currently the Council's stock of defective dwellings comprises the following:-

Type	1 Bed	2 Bed	3 Bed	4 Bed	Total
Airey		1	15		16
BISF			109		109
Cornish		3	44		47
Easiform		1	90	11	102
Orlit			11		11
Swedish		6	7		13
Unity Brickclad		15	13		28
Unity External Insulation		26	56		82
Unity Original Brick		25	11		36
Unity Original Concrete	2	23	11		36
Wessex			18		18
Wimpey		88	284	1	373
	2	188	669	12	871

Valuation of the Defective Dwellings

Using the 'stock transfer' stock condition data the defective dwellings have a valuation of £4 million.

For the purpose of the evaluation, we have assumed that the stock would be transferred at a Nil valuation on the grounds that over the next 30 years further investment will probably be required in the defective dwellings. It would also be necessary to carry out further, more detailed work as we would expect that different solutions would be adopted for each of the sites involving a combination of refurbishment and re-provision and that the inherent land values would compensate for the negative value of the stock.

Impact on the HRA

The projections indicate that the transfer of the defective dwellings would have a marginal positive effect on the HRA.

As with the full retention options the Council would continue to be able to meet both the decent homes standard and the decency standard whilst maintaining a viable HRA for the foreseeable future.

It would also have the effect of making a relatively small reduction in the shortfall in resources for the industry standard and the three aspirational scenarios.

Impact on the Stock Valuation

The transfer of the defective dwellings would also have the effect of increasing the value of the stock remaining with the Council by £4 million.

Conclusions

Transferring tenants – would potentially benefit from the certainty that their homes would be refurbished or that they would be re-housed in modern properties.

Potential tenants – would potentially benefit from access to refurbished properties. It would however be likely that the number of affordable homes would reduce.

Council staff – who are employed in the provision of the service would transfer on protected terms and conditions.

Tenants remaining with the Council – would benefit from a marginally stronger HRA.

The Council – would be certain that any future issues related to the defective dwellings are resolved. Redevelopment could contribute to the Council's other strategic objectives. The Council would however have to take action to avoid any impact of diseconomies of scale.

General Comment on the Partial Options

Given the relative strength of the Council's existing position there is no compelling reason to adopt a mixed approach.

If however the Council decided that this should form part of its future housing strategy then considerable further work will be required, probably involving a detailed analysis on a site by site basis for both the sheltered and/or the defective dwellings.

8. CONCLUSIONS

8.1 The Base Case

In considering the situation if the Council was to continue to own and manage the housing stock we have reached the following conclusions:-

- The Council will be able to maintain a viable Housing Revenue Account for the foreseeable future. Furthermore, in the short term the Council would be able to make substantial contributions from the HRA towards capital expenditure programmes if it so wishes.
- Current projections suggest that the Council will be unlikely to satisfy the needs of all those requiring affordable housing in the District. Nor is the Council likely to be able to meet the year on year increase in demand for affordable homes.
- The projections show that the Council will have more than sufficient resources to meet the 2010 Decent Homes target and to carry out other essential works.
- The Council does however face significant shortfalls in resources needed to bring the housing stock up to the aspirational standards.

Whilst the Council is not compelled to change the existing arrangements an alternative strategy appears to be required if tenants' aspirations are to be met.

8.2 Arm's Length Management Organisation

The ALMO approach is intending to, amongst other things, to assist local authorities to achieve the 2010 Decent Homes target. An ALMO would also meet the Government's objective of clear separation of the Council's management and strategic housing functions.

It is therefore extremely doubtful that additional Government resources could be accessed by the Council (i.e. it would be difficult to substantiate a bid that would bring the stock up to the aspirational standard). Furthermore, the ALMO would need to achieve at least a two star 'good' performance rating from the Housing Inspector for all services that would be delivered by the ALMO before being eligible for the additional funding.

8.3 PFI

Technically the Council could bid for funding under the Housing PFI scheme. This would enable investment to be made in part of the housing stock whilst retaining the stock in Council ownership subject to the Council being able to meet challenging value for money criteria.

However, housing PFI has so far been directed to areas where the investment need is extremely high and a relatively small number of properties have been included in each scheme. Implementation of the pathfinder PFI schemes has proven to be an extremely lengthy process and the set up costs have been high. We therefore question whether the PFI option would be a suitable option for South Kesteven.

8.4 Full Stock Transfer

Full stock transfer would involve the transfer of both ownership and management of the stock to an independent registered social landlord. It would enable the increased investment to be made in the housing stock and also would provide resources for improvements in service delivery.

However, stock transfer is entirely dependent on securing the support of the tenants and there is a risk of failure with associated abortive costs. The Council would also be likely to receive financial benefits as a result of the capital receipt generated by stock transfer.

8.5 Mixed Options

An initial analysis has been carried out to consider the potential impact of transferring part of the Council's housing stock. Two scenarios have been tested:-

- the sheltered housing stock of 1,133 dwellings and;
- the stock of 871 defective dwellings.

In both cases the partial transfers would have a marginally beneficial effect on the Housing Revenue Account and on overall housing investment. However, the partial transfers may well result in additional costs to the General Fund.

8.6 Criteria for Evaluation of the Options

In the table below we have compared the main strategic options against criteria that have typically been developed by the Council and its tenants

	ALMO	PFI	Retention	Transfer
Increased tenant involvement	Yes	Yes	Possible Yes	Yes
Enhanced service delivery	Possible Yes	Possible Yes	Possible Yes	Yes
Staff Recruitment and retention	Possible Yes	N/A	No	Yes
Increased provision of affordable housing	No	No	No	Yes
Attraction of external funding	No	Yes	No	Yes
Realisation of substantial capital asset	No	No	No	Yes
Set up costs	Yes	Yes	No	Yes
Complexity of process	Reasonable	Complex	N/A	Reasonable
Financial Impact on SKDC	N/A If managed	N/A In managed	N/A	Positive
Security of Tenure	Yes	Yes	Yes	Yes But change in tenancy Agreement

	ALMO	PFI	Retention	Transfer
Opportunities for greater partnership working	Yes?	Yes	N/A	Yes
Continued Government scrutiny	Yes	Yes	Yes	No
Achieve Decent Homes Standards	Yes	Yes	Yes	Yes
Achieve aspirational standards	No	No	No	Yes
Strategic and Landlord functions separated	Yes	Yes	No	Yes
Political will	?	?	Yes	Yes
Potential for conflict between Council and provider	Yes	Yes	N/A	Yes
Provides a partial stock solution	No	Yes	N/A	No
Issues affecting practicality of option	Unlikely to attract funding	Unlikely to be successful on bidding	N/A	Need tenant support
Proven track record	Yes	Very limited	Yes	Yes

9. THE NEXT STEPS

9.1 The results of the desk top review have been and should be further used as a key element of the consultation exercise with tenants and other key stakeholders.

The main objectives of this exercise are:-

- to ensure that there is a clear understanding of the Council's position;
- to explain the other options that are available to the Council and their relative advantages and disadvantages;
- to obtain feedback.