

# REPORT TO CABINET

REPORT OF: Corporate Director of Regulatory Services

REPORT NO: DRS14

DATE: 9<sup>th</sup> May 2005

<b>TITLE:</b>	HOUSING STOCK OPTION APPRAISAL
<b>FORWARD PLAN ITEM:</b>	YES
<b>DATE WHEN FIRST APPEARED IN FORWARD PLAN:</b>	16 <sup>th</sup> November 2004
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	PFP

<b>COUNCIL AIMS/PORTFOLIO HOLDER NAME AND DESIGNATION:</b>	CLLR PETER MARTIN-MAYHEW – HOUSING PORTFOLIO HOLDER
<b>CORPORATE PRIORITY:</b>	PRIORITY B – HOUSING MANAGEMENT
<b>CRIME AND DISORDER IMPLICATIONS:</b>	NONE
<b>FREEDOM OF INFORMATION ACT IMPLICATIONS:</b>	This report is publicly available by the Council's website at <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a> under Council's meetings.
<b>BACKGROUND PAPERS:</b>	Previous reports to Council, minutes of Stock Option Appraisal Commission and supporting papers. Reports and minutes to the Development and Scrutiny Panels for Community and Capacity and Resources.

## **1. INTRODUCTION AND PURPOSE OF REPORT**

This report details the recommendations of the Stock Option Appraisal Commission. The Commission was established in September 2004, comprising of four tenant representatives drawn from the Tenant Option Appraisal Group together with four elected members and has carried out a work programme as approved by the Council on 28<sup>th</sup> October 2004. The programme has addressed the Government requirement for local housing authorities to undertake an appraisal of the options for service delivery improvements of the housing landlord function in terms of service and property related improvements whilst also addressing the decent homes standard.

Members will recall that the Council is required to obtain Government Office sign off of this process by July 2005. This report seeks Cabinet endorsement of the Stock Option Appraisal Commission's recommendations to Council for the 26<sup>th</sup> May 2005.

## **2. RECOMMENDATIONS**

It is recommended that the Cabinet:

Endorses the Stock Option Appraisal recommendation to identify large-scale voluntary transfer as the preferred option for the following reasons:-

- i) To provide the opportunity to secure investment for tenant priorities
- ii) To also provide an opportunity to invest in improving housing services
- iii) To provide opportunities for enhanced tenant involvement
- iv) To provide the opportunity for investment in affordable housing
- v) To provide the ability for the Council to focus on its strategic housing function.

## **3. DETAILS OF REPORT**

The Stock Option Appraisal Commission has undertaken a programme of work, which was approved by Council on 28<sup>th</sup> October 2004. This work has been carried out in accordance with the terms of reference approved by the Commission at its inaugural meeting of the (16<sup>th</sup> September 2004) and has also undertaken the appraisal process by reference to the "Criteria for considering Stock Options" which was subject to a consultation process with Cabinet, the Community Development and Scrutiny Panel, staff, and approved by the Commission.

A detailed report, prepared in consultation with the Council's lead consultants Beha Williams Norman Ltd, will follow. However, the supplementary

appendices to that report are attached at Appendix A. This appendix provides the detailed, information and a summary of evidence required for submission to Government Office East Midlands as part of the sign off process, this is supported by two further reports from external consultants. The first being the "Base Case Position" as validated by Beha Williams Norman Ltd together with the report of the Independent Tenant Advisor provided by Libra.

Throughout the work programme the Stock Option Appraisal Commission considered various sources of evidence and data provided by the Council, Independent Tenant Advisors and other external consultants who have validated both the financial position and the stock condition assumptions (the latter has been undertaken by Rand Associates Ltd). The key areas of evidence considered by the Commission may be summarised as follows:

- A review of the Council's Base Case position of the Housing Revenue Account (HRA) business plan over a 30-year period as required for the appraisal process.
- The results of the validation of the Council's housing stock condition.
- The 30-year planned improvement programme including proposals for achievement of Decent Domes standard by 2010 together with on going requirements for further improvements.
- The Priority Aspirations for improvements as identified by tenants.
- Feedback from the tenant consultation initiatives undertaken during the six-month period.
- The housing needs of the district as identified in the Housing Needs Survey undertaken by Fordhams in 2002.
- The opportunities for enhanced tenant involvement and empowerment in the future management of the housing service.
- Consideration of the four options identified by the Government:-
  - Stock Retention with improvements to service and properties
  - Private Finance Initiative (PFI)
  - Arms Length Management Organisation (ALMO)
  - Large Scale Voluntary Transfer (LSVT)

The Stock Options Appraisal Commission, having considered the evidence presented during their work programme, undertook an objective assessment of the preferred option using the scoring matrix as defined at Appendix B. The purpose of undertaking an assessment of the preferred option using this matrix is to provide for an objective evidenced based decision with supporting evidence for the reason for the recommendation.

#### **4. THE BASE CASE POSITION**

Beha Williams Norman Ltd (BWNL) presented the Commission with a first draft of the Base Case position in January and finalised the report in March following further tenant consultation on Priority Aspirations.

BWNL's conclusion of the base case were that if the Council was to continue to own and manage the Housing Stock:-

- "The Council will be able to maintain a viable HRA 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 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 aspirational standards."

**BWNL concluded that whilst the Council is not compelled to change the existing arrangements an alternative strategy appeared to be required if tenants aspirations are to be met.**

Following detailed evaluations of the four options BWNL concluded that:-

- ALMO – it was extremely doubtful that additional Government resources could be accessed by the Council as it would be difficult to substantiate a bid that would bring the stock up to aspirational standard. Furthermore, the ALMO would need to achieve at least a two star 'good' performance rating from the Housing Inspectorate for all services that would be delivered by the ALMO before being eligible for additional funding.
- PFI - Technically the Council could bid for funding under the Housing PFI scheme. 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. BWNL felt PFI would not be a suitable option in view of the above and also as result of the extremely lengthy process and high set up costs experienced by Pathfinder PFI schemes.

- Full Stock Transfer or a LSVT - Full Stock Transfer would involve the transfer of both the 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 would also provide resources for improvements in service delivery. However, Stock Transfer is entirely dependent on securing the support of tenants and there is a risk of failure with abortive costs. The Council would also be likely to receive financial benefits as a result of the capital receipt generated by Stock Transfer.

## **5. SOAC'S RECOMMENDATION ON THE PREFERRED OPTION**

Having completed its work programme and received evidence and data as described in section 3 above SOAC undertook an objective assessment of the preferred option for recommendation to the Council. The results of scoring exercise are attached at Appendix C and based on the consideration of the results of this exercise and all the evidence they had received during their work programme the Commission came to the following recommendation.

“That LSVT be identified as the preferred option for the following reasons:-

- i) To provide the opportunity to secure investment for tenant priorities.
- ii) To also provide the opportunity to invest in improving Housing Services.
- iii) To provide opportunities for enhanced tenant involvement.
- iv) To provide the opportunity for investment in affordable housing.
- v) To provide the ability for the Council to focus on its Strategic Housing function.”

## **6. CONSULTATION ON THE IDENTIFIED PREFERRED OPTION**

The February newsletter to tenants included a ‘Stop Press item and feedback form’ identifying the Commission’s preferred option. This consultation exercise was conducted to provide a ‘barometer reading’ of tenant’s current views of the option. Whilst information was sent to all 6,500 tenants and three preference events were held in Bourne, Grantham and Stamford response levels were disappointing, a further exercise of telephone consultation has been undertaken to improve response rates. Detailed analysis of the returns is attached at Appendix D and may be summarised as follows:-

<u>Responses Received</u>	<u>No</u>	<u>% of responses</u>
Agree with Commission’s recommendation	183	35.7%
Disagree with Commission’s recommendation	308	60.2%
No view Given	21	4.1%
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	512	100%
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Efforts to contact a further 188 tenants, to achieve at least a 10% response rate, resulted in no reply or commitment to return a feedback form.

It must be stressed that this consultation exercise was only intended to provide a 'barometer reading' of current views of tenants and should the Council resolve to identify LSVT as the preferred option, detailed consultation with tenants will be undertaken. A formal offer made to them upon which they would be able to take an informed vote in a formal ballot of all tenants. Any transfer could only proceed if the majority of tenants who vote in a formal ballot support the transfer.

## **7. PRE-DECISION SCRUTINY**

On the 8<sup>th</sup> April 2005 the combined Development and Scrutiny Panels of the Community and Capacity and Resources met to consider the work undertaken by the SOAC. The remit of the Scrutiny Panel was to consider the following:

- Has the Commission carried out its allotted task
- Does the evidence support the Commission's findings
- Is there anything in the evidence to suggest a different conclusion

Having considered the evidence supplied to the Commission by the Corporate Director (Regulatory Services), the Council's Lead Consultant, the Independent Tenant Advisor, the Stock Option Appraisal Commission, together with officers and staff, the Scrutiny Panel reached the following conclusion:-

The Panel concluded unanimously that:-

1. "The Stock Option Appraisal Commission had carried out its allotted task.
2. The evidence to support the Commission's findings was robust.
3. At the present time, there was nothing in the evidence to suggest a different conclusion by the Commission should have been reached.
4. The Commission be requested to give considerations to the following concerns of the DSP.
  - Any recommendation should include whatever option the Council decides to pursue; the final decision could be overruled by a subsequent vote by tenants.
  - That the different circumstances and needs of different area should be addressed.
  - Communication techniques should be better targeted."

## **8. OTHER OPTIONS CONSIDERED**

Throughout the Stock Option Appraisal the Commission were required to consider the most appropriate option for the future management and

ownership of the Council's Housing Stock against four defined options as outlined above in this report. The more detailed report attached to Appendix A identifies the reasons for not supporting the remaining three options.

**9. COMMENTS OF DIRECTOR OF FINANCE AND STRATEGIC RESOURCES**

I have been involved with this process throughout and the report reflects the financial position identified in the Independent Financial Advisor's reports.

**10. COMMENTS OF CORPORATE MANAGER, DEMOCRATIC AND LEGAL SERVICES (MONITORING OFFICER)**

I am aware that the Stock Option Appraisal Commission has been properly constituted and their deliberations have been the subject of pre-decision scrutiny. Until a formal resolution on the preferred option has been determined detailed legal implications cannot be specified. Legal Services will engage and advise when appropriate in the delivery of the preferred option.

**11. COMMENTS OF OTHER RELEVANT SERVICE MANAGER**

None

**12. CONCLUSIONS**

The Cabinet are asked to consider the evidence presented by the Stock Option Appraisal Commission in this report and its attachments and then endorse the recommendation of the Stock Option Appraisal Commission to be presented to Council on the 26<sup>th</sup> May 2005. Should members of the Cabinet believe that this is not the most appropriate option, then there will need to be supporting reasons for that decision identified by members of the Cabinet enabling an alternative view to be submitted to Government Office East Midlands, in a bid to seek sign off of the option appraisal process.

**13. CONTACT OFFICER**

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