

# REPORT TO CABINET

REPORT OF: Corporate Head of Finance and Resources and Director of Tenancy Services

REPORT NO. CHFR11

DATE: 10<sup>th</sup> July 2006

<b>TITLE:</b>	Large Scale Voluntary Transfer
<b>FORWARD PLAN ITEM:</b>	Yes
<b>DATE WHEN FIRST APPEARED IN FORWARD PLAN:</b>	16 <sup>th</sup> November 2005
<b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b>	Policy Framework Proposal
<b>COUNCIL AIMS/PORTFOLIO HOLDER NAME AND DESIGNATION:</b>	Organisational Development and Housing Cllr F Cartwright Finance Cllr T Bryant
<b>CORPORATE PRIORITY:</b>	Priority A - Affordable Housing
<b>CRIME AND DISORDER IMPLICATIONS:</b>	None
<b>FREEDOM OF INFORMATION ACT IMPLICATIONS:</b>	This report is available via the Local Democracy link on the Council's website <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>
<b>BACKGROUND PAPERS:</b>	Housing Stock Options Appraisal report by EBWNL – May 2005 Report DRS24 - 5 January 2006 Report LSVTPM01 - 25 May 2006 Report CHFR6 - 12 June 2006

## 1. Introduction

This report is split into two separate parts:

- Part A deals with the financial implications of the proposed LSVT prepared by Corporate Head of Finance and Resources
- Part B deals with the Offer to Tenants prepared by the Director of Tenancy Services.

The Cabinet is asked consider and approved the recommendations in part A first, as the Offer to Tenants contained in part B incorporates the assumptions regarding potential use of the LSVT receipt made in part A. Subject to the Cabinets decision in relation to Part A, the Cabinet is then requested to approve the recommendations in Part B of the report.

## **PART A – FINANCIAL IMPLICATIONS**

### **1. INTRODUCTION**

In May 2005, the Council identified Large Scale Voluntary Transfer as the preferred option for the future ownership and management of the Council's Housing Stock. This report provides an analysis of the potential financial implications of Large Scale Voluntary Transfer and the residual impact on the General Fund. This report should be read in conjunction with the report on the Offer to Tenants. The Offer to Tenants and the financial implications of LSVT have been considered by the LSVT member group and subject to pre-decision scrutiny by the Resources Development and Scrutiny Panel.

### **2. RECOMMENDATIONS – PART A**

It is recommended that the Cabinet recommend to Council that:

- a. the impact of the diseconomies of scale from LSVT are managed out over a five year period.
- b. the General Fund be protected by utilising interest receipts generated from LSVT capital receipts based on phased capital programme
- c. the capital programme be phased over:
  - i. 5 years for Affordable Housing utilising 50% of the net useable receipt and
  - ii. 10 years for Developing Sustainable Communities utilising 50% of the net useable receipt,

with an annual review of the Capital Programme to ensure that the Council remains protected from the impact of the LSVT

### **3. FINANCIAL IMPACT OF LARGE SCALE VOLUNTARY TRANSFER**

The Enterprise Beha Williams Norman Ltd (EBWNL) Report on Housing Options Appraisal which was presented to Cabinet on 9<sup>th</sup> May 2005 included details of the potential financial impact of LSVT. The key areas of potential impact may be summarised as:

- Valuation of the Housing Stock
- Set up costs

- Estimated capital receipts
- Statutory Housing Services
- Diseconomies of scale
- Housing benefit costs
- VAT
- Impact on Revenue Support Grant
- Interest Receipts

Appendix A to this report summarises an initial assessment of the potential impact on the General Fund post LSVT (subject to ballot of tenants and a decision to proceed with the transfer). More detailed comments relating to the appendix are set out below.

#### Valuation of the Housing Stock

A separate appendix (B) to this report will be circulated to members at the meeting containing details of the current estimated tenanted market valuation. The report is based on the Principles of Valuation report which was presented to the last Scrutiny Panel meeting.

#### Set up costs

The Principles of Valuation report also addresses provides assumptions on set up costs. Set costs cover the time and effort in preparation for transfer, detailed consultation with tenants, valuation and business planning and preparing and agreeing the contract that embodies the terms of transfer. EBWNL identified in their original report that around £0.5million of the costs would be incurred pre ballot and therefore at risk if the tenants did not support the proposal. Following the decision to identify LSVT as the preferred option, the Council established a reserve of £1million to provide for this potential impact.

Appendix B to this report identifies that should the LSVT proceed the total estimated set up costs of £3million, both pre and post ballot costs, these costs would be met from the transfer receipt.

#### Estimated Capital Receipts

Subject to the outcome of the ballot and a decision to proceed with LSVT, capital receipts would be generated as a result of negotiations with South Lincolnshire Homes based on the Tenanted Market Value (TMV) of the housing stock, potential sale of any non housing assets and a Right to Buy sharing agreement. Appendix B addresses the potential valuation of the stock based on TMV and the Right to Buy sharing agreement, an assessment of any potential receipts from non housing assets will form part of more detailed work following the outcome of the ballot.

The Council has already made a resolution regarding the use of potential LSVT receipts as follows:

- a. Protect the general fund from the impact of transfer in the first instance and;
- b. 50% of the remaining net receipt be made available for Affordable Housing and the other 50% for the development of sustainable communities in line with Council Priorities
- c. 100% of any share of Right to Buy receipts be made available for Affordable Housing.

#### Statutory Housing Services

The following housing services would remain the responsibility of the Council post transfer:

- Housing Strategy and Housing Needs assessment
- Homelessness and prevention
- Housing Advice
- Private Sector Housing
- The Enabling role

The EWBNL report on Housing Options identified a need for a further estimated £100,000 post transfer to provide these statutory housing services (these services are funded by the General Fund). However, following identification of LSVT as the preferred option together with the results of the Inspection of Strategic Housing services an improvement plan for Statutory Housing services was put forward to Council.

The improvement plan provided for a restructuring of Housing and Associated Services, this took place during 2005/6 separate units for Housing Solutions and Tenancy Services were created. The creation of Housing Solutions (providing statutory housing services) was supported by additional Council investment. As a result, the impact on the General Fund of any transfer has been reduced because additional ongoing investment has already been provided for. Although the Council would need to provide for the maintenance of a Housing Waiting List (as part of the assessment of housing need), this could be done by procuring this service from the new landlord subject to consultation with other partner Registered Social Landlords or by the creation of one additional post.

Taking account of the above, together with the need to provide for a separate Housing software package, it is likely that residual costs to the general fund would be £50,000.

#### Diseconomies of scale

Although some of their work and a number of associated posts would transfer to the new landlord, there will inevitably be diseconomies of scale within Central Support Services, as a result of a number of factors:

- only part of the work of individuals transferring to the new landlord
- a reduced internal customer base for the recovery of the fixed element of internal support costs
- office accommodation freed up

The initial EWBNL report identified potential diseconomies of scale of £500,000. An initial evaluation of the diseconomies has been undertaken using available base data. The 2006/7 support service estimates have been used to provide this base data, however, the level and degree of time recording and transactional analysis has been variable historically, also current restructuring and other initiatives such as the move to a cashless office will affect these assumptions.

Plans are currently in place to introduce a corporate approach to time recording and central support recharges for the future which will enable more robust bases to be established. Therefore further work will be carried out on the impact of diseconomies of scale contained within section A of appendix A in due course. In the meantime, a contingent sum has been included in the schedule to reflect the experience at other LSVT sites of a similar size and nature, resulting in estimated diseconomies of around £450,000.

#### 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 Administration subsidy for a one year period.

#### 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. LSVT will result in a reduction in the total VAT, however, it is anticipated that the Council will continue to be able to meet the 5% criteria in respect of VAT on exempt services. It is recommended that an independent specialist review of this position is sought following the ballot of tenants.

#### Impact on Revenue Support Grant

The experience of other authorities that have transferred their housing stock is that there is no impact on their Revenue Support Grant.

#### Interest Receipts

It is likely that the capital programme established to utilise the capital receipts from LSVT would be phased over a period of time, therefore, additional income from interest earnings will be generated for the purposes of financial modelling a prudent estimate of 4.5% has been used in the following section. Although it would be prudent to review the Capital Programme annually to take account of the various financial impacts on the Council including priority setting, interest rates, revenue impact of capital developments and changes to government grants and requirements.

Officers are currently seeking to formalise arrangements for external Treasury Management advice, which has previously been provided on ad hoc basis by Butlers Treasury Management. This will be particularly relevant should LSVT proceed as the Council will need to ensure that it is optimising its Treasury Management position.

## **4. OPTIONS FOR PROTECTING THE GENERAL FUND**

Options for the Council to consider to protect the General Fund are as follows:-

- a. Use of interest receipts generated from LSVT capital receipts, based on phased capital programme
- b. Top sliced sum from LSVT capital receipt
- c. Use of balances transferred from HRA
- d. Use of VAT shelter

#### Use of interest receipts generated from LSVT capital receipts based on phased capital programme

Appendix C to this report provides a model of an indicative capital programme and assumptions regarding investment receipts based on a phased capital programme. This illustrates that providing the estimated financial impact on the General Fund is managed out over a period time (say 5 years) then the anticipated receipts from a phased capital programme would be sufficient to protect the general fund. However, if this option was the preferred mechanism for protecting the General Fund, then it would be prudent to undertake an annual review of the capital programme to ensure that the General Fund remains protected by use of interest receipts.

The sensitivity of the assumption that the interest receipts from a phased capital programme has been tested by utilising number of different model Capital programme profiles. Each of the models would enable the General Fund to be protected providing the impact on the General Fund was managed out over a 5 year period.

#### Top sliced sum from LSVT Capital Receipt

The most cautious method of protecting the general fund would be to top slice a sum from the LSVT Capital Receipt. A worst case scenario based on interest rates of 4.5% and an estimated impact on the general fund of around £500,000, it is estimated that £11.15million would be required to protect the general fund, leaving a capital receipt for investment of £13.15million, also assuming that the impact on the general fund was not managed out over the five year period.

#### Use of balances transferred from HRA

The balance on the HRA would transfer to the general fund post transfer once Secretary of State Approval has been received to close the HRA. This could be utilised in part to protect the general fund, although the level of balances is likely to be insufficient to generate interest earnings to cover the financial impact on the general fund, therefore, the balance would also need to be drawn upon to fully protect the general fund. In addition, as the approval to close the HRA has to be sought from the Secretary of State, and this can only be sought a year after the last transaction on the account, this would not be a suitable option in the year following a LSVT.

#### Use of VAT shelter

A report on the potential for a VAT shelter has been prepared by the lead consultants EBWNL and is attached at appendix D. Whilst there is the potential for significant financial benefits from developing a VAT shelter the Council would need to obtain specialist VAT advice before proceeding. Any VAT Shelter scheme may be subject to future changes in legislation and until specialist advice has been received, it is considered that this is the least desirable option for protecting the general fund.

## **5. RESOURCES DEVELOPMENT & SCRUTINY AND LSVT WORKING GROUP RECOMMENDATIONS**

The LSVT Working Group of members was established to construct the Council's Offer to Tenants and the Community at large, based on a balanced offer to attract the support of the Tenants whilst protecting the interests of the Community. The remit of the group included making recommendations to Cabinet and Council. In addition, the Resources DSP undertook pre-decision scrutiny of the financial implications of LSVT which were analysed in report CHFR9.

The LSVT Working Group and the Resources DSP made the following recommendations to Cabinet:

- d. The Council should manage out the impact of diseconomies of scale over a 5 year period post transfer.
- e. The net receipt from transfer should be utilised to deliver a phased capital programme based on 50% for Affordable Housing and 50% for developing Sustainable Communities in line with Council priorities, in line with the Council resolution in January. The Affordable Housing programme should be phased

over a 5 year period and the Developing Sustainable Communities programme in line with Council Priorities being phased over a 10 year period. The overall capital programme should also be subject to an annual review to take account of the impact on the General Fund and financial position.

f. Investment receipts generated from a phased capital programme should be utilised to protect the general fund from the impact of LSVT, to provide the most effective use of resources, whilst still protecting the financial position of the Council.

## **6. COMMENTS OF CORPORATE HEAD OF FINANCE AND RESOURCES**

My comments are contained within the body of the report.

## **7. COMMENTS OF THE MONITORING OFFICER**

My comments contained in part B of this report

## **8. CONCLUSIONS**

The financial impact of LSVT needs to be fully considered and understood by members prior to making strategic decisions to safeguard the Council's future financial position. Strategic decisions will need to be taken and developed within the Council's Budget and Policy Framework these may be summarised as follows:

- a. Approach to managing out the impact of diseconomies of scale – taking into account the recommendations of both the Resources DSP and the LSVT working group the Cabinet is advised to recommend to Council that the impact of diseconomies of scale are managed out over a five year period.
- b. Identifying the most appropriate option for protecting the general fund from the impact of LSVT – taking into account the recommendations of both the Resources DSP and LSVT working group, the Cabinet is advised to recommend to Council that the General Fund be protected by utilising interest receipts generated from LSVT capital receipts based on phased capital programme
- c. Size and phasing of Capital Programme and ongoing annual review to take account of the impact on the general fund – taking into account the recommendations of both the Resources DSP and the LSVT working group and subject to b above, the Cabinet is advised to recommend to Council that the capital programme be phased over 5 years for Affordable Housing utilising 50% of the net useable receipt and 10 years for Developing Sustainable Communities utilising 50% of the net useable receipt, with an annual review to ensure that the Council remains protected from the impact of the LSVT

## **9. CONTACT OFFICER - Part A**

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## **PART B – FORMAL CONSULTATION OF TENANTS ON LSVT OFFER**

### **1. INTRODUCTION**

In May 2005, the council identified Large Scale Voluntary Transfer as the preferred option for the future ownership and management of the council's housing stock. The Formal Consultation Document (also known as the Offer Document) is a key document as it explains, in detail, the council's proposals which the new landlord, South Lincolnshire Homes, would have to deliver. On 25 May 2006 the council resolved to hold this Extra-ordinary Meeting in order to agree the content of the Formal Consultation Document to be issued to tenants.

A copy of the Formal Consultation Document is attached at Appendix E.

### **2. RECOMMENDATIONS**

It is recommended that the cabinet recommends to council:-

- a) the approval of the content of the Formal Consultation Document and Offer to Tenants;
- b) that the Formal Consultation Document is then issued to tenants as explained in paragraph 3.4 of this report.

### **3. DETAILS OF REPORT**

#### **3.1 Development of the Offer**

The South Kesteven District Council Offer was initially based on a template produced by the council's legal advisors, Trowers & Hamblins, and was based on experience and best practice from previous stock transfers.

The template was then revised to reflect the situation in South Kesteven and service managers played a major part in this, as they did in developing draft policies for the Shadow Board. The Offer was then put under close scrutiny by many Working Groups. These were:-

#### **The Tenants Working Group**

This Group developed from tenants involved in the Options Appraisal but has since been expanded to include any tenant that wished to get involved. The Group spent many hours going through several versions of the Offer, trying to shape it to reflect the views of tenants and achieve the best deal possible. They also looked at the text from a tenant's perspective, advising upon wording that would be clear to tenants. Members of this Group, and others, also formed Policy Sub-groups to examine and pass comment on the various policies of South Lincolnshire Homes, which have helped shape the Offer by determining what sort of services the new landlord would deliver.

### **The LSVT Working Group**

This Member Group was responsible for production of the Offer based on a balanced offer to attract the support of tenants whilst looking after the council's interests, including protection of the General Fund from the impact of transfer. Members have gone meticulously through the content of the Offer, shaping it into its final form. The last meeting of the Working Group on 8<sup>th</sup> June 2006 resolved "that the Offer Document, and the recommended changes to be incorporated, be received and noted."

### **The Offer Review Working Group**

This Member Working Group was responsible for ensuring that the Offer was fair and balanced. They too have gone through every line of the Offer and made changes along the way. The last meeting of the Working Group on 23<sup>rd</sup> June 2006 also resolved "To conclude the Group discussed its function now that the OD has received the scrutiny required. It was felt that no further meetings would be necessary."

### **The Shadow Board of South Lincolnshire Homes**

It is, of course, the Board of South Lincolnshire Homes that has to deliver all the promises contained in the Offer if tenants vote in favour of transfer. The Shadow Board has so far adopted nine policies prior to the final version of the Offer and their content has had a big influence on the end result. One of the main policies approved was the new Assured Tenancy Agreement which now forms part of the Offer. Members of the Shadow Board saw the Offer at three stages including the final version and were happy to endorse the content.

The Independent Tenants Advisor, and their appointed accountants, have also scrutinised the Offer and the underlying financial assumptions and have indicated their acceptance of it as a fair and balanced Offer.

### **3.2 Format of the Formal Consultation Document**

The Offer is split into 14 sections, each introduced by a 60 second summary of the content of the section. Section 1 is in itself a summary of the overall document. These summaries are essential for making the content readily accessible for those tenants who are not inclined to read the whole of the text.

The Offer will be sent to all secure Council tenants, mostly one per household but a copy will be sent to each joint tenant where a joint tenancy exists. It will be accompanied by an Easy Guide newsletter, which again summarises the main points of each section and clearly shows tenants where in the Offer to find the further detail that they might require.

### **3.3 Summary**

The end result in South Kesteven is an Offer that is rather different from some previous Offers in other parts of the country. The District Council has always been in a position where it could meet the basic Government Decent Homes Standard so there is not the same emphasis on huge provision of fundamental large-scale improvements to things such as windows, doors and central heating. Nevertheless, there is much in it for

tenants to achieve improvements to their homes that the Council could not afford to provide. It is instead a more rounded Offer with other aspects meriting equal priority with improvements to homes, such as service improvements, greater tenant empowerment, benefits for sheltered schemes, dealing with anti-social behaviour and the provision of more affordable homes.

With the considerable input from tenants and the scrutiny by the Council there are advantages in it for tenants and the Council from every perspective, and it is recommended for approval for distribution to all tenants to commence the formal consultation stage.

#### **3.4 2006 Housing Transfer Programme**

The Department for Communities and Local Government (DCLG) announced the bidding round for the 2006 Transfer programme on 7 June 2006. The deadline for applications is 31 July with the outcome of the applications being formally announced at the end of September.

The Stage 1 consultation with tenants is scheduled to commence on 23 August and members have previously stated that it will be necessary to have an indication of DCLG's view on our application prior to then.

The Head of Decent Homes at DCLG has confirmed informally that the Council's application is likely to be successful as it will produce a positive valuation and is not dependent on gap funding. The council has, therefore, been advised to submit its application prior to the deadline in order for it to be evaluated quickly and for written confirmation of this informal opinion to be received. The timescales are very tight however, and this confirmation may not be received prior to the Extra-ordinary Meeting of Council on 20 July. However, if this is the case and informal confirmation of the council's place on the Transfer Programme is not received by 20 July, it is recommended that members agree to proceed with the ballot given this positive feedback from the DCLG.

#### **4. COMMENTS OF CORPORATE HEAD OF FINANCE AND RESOURCES**

My comments are incorporated within Part A of the report.

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

This report requests authority to proceed with the formal consultation of tenants with the issue to them of the formal consultation document. If the council's application for a place on the programme is refused, the council will not be obliged to proceed with the ballot of tenants. It is essential all work, which can be done, is done leading up to a ballot of tenants pending confirmation of a place on the programme.

#### **6. CONTACT OFFICER - Part B**

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