

Economy and Enterprise Overview and Scrutiny Committee

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Housing Stock Options Appraisal Project



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Purpose of the Report

- 1 To provide Members of the Economy and Enterprise Overview and Scrutiny Committee with a further update in relation to the progress of the Stock Option Appraisal Project.

Background

- 2 The Economy and Enterprise Overview and Scrutiny Committee have received regular update reports on the progress of the Stock Option Appraisal project during 2011/12. In addition at a special meeting of the Committee arranged for the 28 September 2011, Members were given the opportunity to respond/comment upon progress to date and potential options with the comments made by Members at this meeting being fed into the consultation exercise.
- 3 The most recent update was provided to Committee on the 19 November 2012, when Members received further information on the consultation undertaken, the shared vision for council housing, delivery of the vision through eight key objectives and issues to be addressed by the County Council when selecting options.
- 4 The Council has landlord responsibility for almost 19,000 homes across County Durham and currently uses a variety of housing management arrangements to deliver services to tenants. Arrangements include two Arms Length Management Organisations (ALMOs) and one in-house management organisation.
- 5 The Council initiated a Housing Stock Option Appraisal process in 2010 to:
 - Address the key barriers to the achievement of its vision for housing;
 - Determine the long term sustainability and affordability of existing housing management arrangements within the context of changes to the existing housing subsidy system;
 - Consider how it can address a developing two speed housing economy in the area and mitigate the effects of welfare reform on households and communities; and

- Identify options for the future ownership, financing and management of its homes.

Current Position

- 6 The Council faces significant and deepening disparities in the social housing economy in County Durham. There has been sustained investment in improvements to Council owned homes since 2004, but these improvements have often been prioritized over investment in neighbourhoods, related assets, community regeneration and value added services. Changing tenant aspirations and a need to keep pace with the improvements and services delivered by other local Registered Providers (RP) mean that a two speed social housing economy is gaining traction in the county, which has major social and economic consequences for communities. The Council also needs to prepare for the impact of imminent welfare reform on households and communities.
- 7 In April 2012 the Government introduced a system of self financing that allows the council to retain its rental income in exchange for a one off debt allocation to settle existing HRA subsidy arrangements. Durham's debt allocation was £240 Million. The Government also capped the council's ability to borrow to £245 Million to control public sector borrowing. All of the Council's £18 Million borrowing head room is allocated between 2012/13 and 2013/14.
- 8 Financial analysis of the Council's self financing housing business plan highlights a shortfall of capital resources (to invest in improving homes, and the living environment) against spending needs of £66 Million over the first nine years of the business plan. The deficit is exacerbated by the Council's inability to borrow above the debt cap to supplement the business plan.
- 9 The Council has attempted to improve the prospects of the business plan by prioritising investment into sustainable housing stock; achieving £1.35 Million of efficiency savings and devising a plan to achieve an additional £1.65 Million of savings in 2013/14; and increasing rent and other service charges. However, the central issue continues to be that a limitation on the Council's ability to borrow is incompatible with the investment needs of its homes. This provides a compelling reason to support the Council's exploration of alternative ownership options to access the level of borrowing required to maximise investment in homes, neighbourhoods and services in the future.
- 10 The Stock Option Appraisal process explored the implications of the council's retention of its housing stock in the context of tightening fiscal constraints and alternative ownership options to alleviate financial pressure and ensure tenants needs and aspirations are met in the future.

The process included extensive consultation and partnership working with all stakeholder groups including tenants, staff, Board members, Councillors and other key local partners to examine options and discuss the affect they could have on each stakeholder group. The appraisal identified stakeholder's preferred option as being the transfer of the housing stock to a group structure of the Council's existing housing management organisations. This option would:

- Allow the new RP to maximise capacity in the business plan and borrow to invest in homes, neighbourhoods and services.
- Achieve a positive solution for all of the council's homes.
- Join local housing services up and make them more consistent.
- Preserve existing organisational identities and their relationships with their local communities.
- Achieve wider stakeholder support and demonstrate to stakeholders that their views have been listened to.
- Provide an opportunity for future growth – possibly bringing other RPs into the group structure at a later date.

- 11 The transfer of the housing stock will require a considerable amount of work with the Department for Communities and Local Government (DCLG) Homes and Communities Agency (HCA) and all key stakeholder groups. The process will be difficult as the council will enter into detailed negotiations with the Government for the write off of housing debt. The process will also be relatively lengthy, taking up to two years to complete. The transfer can only take place if tenants approve the proposal at a legally required ballot. The consultation and ballot and legal issues associated with the transfer mean that the process may also be expensive, with similar transfers costing the Housing Revenue Account up to £7 Million to deliver.
- 12 Government policy on stock transfer and the provision of funding for debt write off remains unclear and no stock transfers have been completed since the introduction of self financing arrangements in April 2012. However, the DCLG and HCA continue to engage with the council and are encouraging the authority to work up detailed proposals for a transfer of its homes.
- 13 The Council has also worked with key stakeholder groups to identify an alternative option for the housing stock, should the Council's transfer proposal be rejected by the Government, or by tenants at a ballot. Stakeholders have selected the establishment of a single ALMO with area based services as their preferred alternative option because it would:
- Allow housing services to continue to operate as a business at arm's length from the authority.
 - Achieve further efficiency savings through reductions in overheads and the joining up of services.
 - Provide a possible transfer vehicle for the future.

- Preserve area offices so tenants can access services locally.
 - Safeguard local accountability.
 - Simplify the council's existing housing management arrangements.
- 14 The creation of a single ALMO with area based arrangements would take significantly less time to complete than a stock transfer and would not be as expensive, potentially costing up to £200,000 to deliver. The creation of a single organisation is likely to be met with opposition from stakeholders who value the brands of the Council's existing organisations (Dale & Valley Homes, Durham City Homes and East Durham Homes). However, consultation on alternative options found that stakeholders understand that the continuation of existing housing management arrangements is unrealistic given the deficit in the business plan.
- 15 It is important to note that should the council retain the housing stock and establish a single ALMO with area based arrangements:
- The Council will continue to face restrictions on its ability to borrow. The option will not provide sufficient funding to deliver the full range of works identified by the stock condition survey when they are required. Investment in homes, neighbourhoods and services will be delayed.
 - Further efficiencies will be required that will eventually impact on front line services.
 - The two speed social housing offer will not be adequately addressed as the council will not be able to invest at the same pace as other local RPs.
 - There will be little financial capacity for the delivery of new build homes and the council's ability to stimulate the economy through construction will be limited.
 - The Council will not be well placed to deal with the affects of welfare reform on tenants. This may cause pressure on other services and budgets as neighbourhood deprivation and inequality gaps worsen.
- 16 The findings of consultation on options for the future ownership, financing and management of council homes were combined with the outcomes of detailed financial analysis of the self financing housing Business Plan. A final report on the conclusions of the stock option appraisal was submitted to the council's Cabinet on the 12 December 2012.
- 17 It was agreed by Cabinet at the meeting on the 12 December 2012 to select the large scale voluntary transfer of the council's homes to a group structure of the Authority's existing housing management organisations as the Council's preferred option for the future of its homes.

Cabinet also approved recommendations to:

- Prepare a proposal (prospectus) for stock transfer and submit it to the Homes and Communities Agency as an application for a place on the stock transfer programme.
- Select the establishment of a single ALMO with area based services as an alternative option for the future of Council homes should the Authority's application for a place on the stock transfer programme not be responded to, or be refused or rejected at a future tenant ballot.
- Receive a further report in summer 2013 to provide an update on the Government's response to the prospectus and request for admission to the stock transfer programme; and makes recommendations on the next steps the Council should take to deliver a stock transfer or the establishment of a single ALMO with area based arrangements.

Next Steps

- 18 Governance arrangements of the option appraisal project are being reviewed to ensure that all stakeholder groups continue to be provided with a variety of opportunities to be involved in delivering the Council's preferred option for the future of its homes. Key governance groups are likely to include:
 - An overarching Project Board;
 - Project Team;
 - Stakeholder Steering Group;
 - Customer Working Group; and
 - Workstream project groups.
- 19 All of the governance groups will work together to procure and appoint the necessary advisers to implement either of the Council's preferred options for the future of its homes and develop a detailed Communication and Consultation Strategy to guide consultation with key stakeholder groups.
- 20 The Economy and Enterprise Overview and Scrutiny Committee will continue to receive further updates in relation to progress in implementing the Council's preferred option for the future of its homes.

Conclusion

- 21 The option appraisal process has been completed since its progress was considered by Overview and Scrutiny Committee in November 2012. The project has now moved into the implementation phase of the Council's preferred option.

- 22 The project has engaged with stakeholders across County Durham and will continue to do so as the Council implements the preferred option for the future of its homes. This will help the council to ensure that the option it implements reflects the views and aspirations of its communities.

Recommendations

- 23 That the members of the Economy and Enterprise Overview and Scrutiny Committee note the information provided in the report identifying the preferred option for the future financing, ownership and management of the Council's homes.
- 24 That the Economy and Enterprise Overview and Scrutiny Committee continue to receive further progress updates in relation to the development, impact and delivery of new arrangements.

Background Paper(s)

Housing Stock Options Appraisal report (Economy and Enterprise Overview and Scrutiny Committee) 19 November 2012.

Information provided in member's seminar on 4 October 2012.

Stock Options Appraisal Project report - Conclusion and Next Steps (Cabinet) 12 December 2012.

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Appendix 1: Implications

Finance

Durham County Council was allocated a debt settlement of £240 Million by the Government to implement a system of self financing for council housing. Since April 2012 the Council has been able to use its own income from rents to invest in improving and maintaining its homes. Council owned housing in County Durham requires £785 Million of investment over the next thirty years. £406 Million is required in the first ten years of the business plan, but only £344 Million is available to the Authority. The Council must determine the most appropriate options for dealing with the shortfall in resources and in managing restrictions on its ability to borrow above the self financing debt level to ensure a sustainable future for council housing.

A transfer of the housing stock (to enable borrowing above the debt cap to maximise investment in homes, neighbourhoods and services) will cost up to £7 Million to complete. Retention of the housing stock will not address the shortfall in capital resources, improvement works will be delayed and deferred and the authority will be unable to invest substantially in value added services and the delivery of new build and regeneration. It will cost up to £200,000 to establish a single ALMO with area based arrangements.

Staffing

Staff are identified as being a key stakeholder in the option and the implementation of the Council's preferred option. This includes staff working for the council and for its two housing service providers, Dale & Valley Homes and East Durham Homes. Both preferred option allow the Council to consider implications for employment, terms and conditions and pensions.

Transfer of the housing stock will have major financial implications for the council. Stock transfer will result in the closing down of the HRA. In addition to service level agreements for the provision of specific services to the three providers, the Council currently recharges central support services from the HRA to the General Fund. It is unlikely that many of the Council's staff providing support services to the HRA will qualify for TUPE and will transfer to the new RP. There may be limited scope to mitigate the loss of charges to the General Fund and so the Council will receive further reports on the impact of stock transfer on service areas (including the Repairs and Maintenance Direct Labour Organisation) and the approach it should take to TUPE to determine the level of budget reduction likely to be incurred and implications for the council's workforce.

The Housing Directions Team will also require additional support from expert financial, legal and stock condition advisers to complete the transfer of the housing stock, or establish a single ALMO (should the transfer proposal be refused by the Government or rejected by tenants at a ballot). Funding to complete this work should be allocated from the Housing Revenue Account.

Risk

Financial analysis and the outcomes of consultation have underlined some clear risks for the Council when moving into the next phase of its option appraisal.

Risks include:

- The Council's proposal to transfer the housing stock is rejected by the Government on the basis of value for money.
- The Council's proposal to transfer the housing stock is not responded to by the Government, in the absence of the revised Housing Transfer Manual.
- The Council's proposal to transfer the housing stock is rejected by customers at a ballot and costs of the abortive transfer fall onto the HRA and the General Fund.
- The Council has to establish a single Arms Length Management arrangement with area based arrangements and the proposal is met with opposition from stakeholders.
- The Council continues to face a deficit in its capital resources and is unable to invest substantially in homes, neighbourhoods and services in the long term. The affects of the two speed social housing offer becomes more pronounced and the Council is unable to achieve its ambitions for an "Altogether Better Durham".

The Council can undertake a series of actions to mitigate against these risks and reduce their likelihood. These actions include:

- Observe the guidelines set out in the existing Housing Transfer Manual and continue to work with DCLG and the HCA to prepare a prospectus for stock transfer proposal that meets Government requirements.
- Develop and implement a comprehensive communication and consultation strategy for stock transfer that explains the role of the council; the transfer option, offers and implications for all stakeholders. The strategy should be projected over a two year time frame and its central aim should be the achievement of a positive ballot.
- Continue to provide area based offices and the preservation of "local offers" (that allow services to be tailored according to local priorities) to reduce the risk of opposition to the establishment of a single ALMO.
- Ensure that any future consultation programme on the establishment of a single ALMO explains to stakeholders the reasons for the change, implications for different stakeholder groups and the benefits that could be achieved in establishing a single ALMO with area based arrangements.

Equality and Diversity

One of the appraisal's key objectives is to address inequity in the quality of the housing services and neighbourhoods currently provided by the Council. The project also aims to provide all individuals and organisations with an interest in the future of the council's housing stock with the best opportunities to contribute to the stock option appraisal process, if they wish to do so. This has been accomplished through the implementation of a communication and consultation strategy and a tenant empowerment statement.

According to the Equality Impact Assessment undertaken on the transfer and retention options, both options will impact on protected characteristics. The preferred transfer option meets the priorities set out by stakeholders at the beginning of the option appraisal project. Impacts in terms of stock transfer are positive, as accessing additional funding will improve housing, neighbourhoods and services and will stimulate the local economy. This may be particularly beneficial for women who have an increased demand for social housing and disabled and older people who require homes to meet specific housing needs. Younger people and people raising a family will also benefit from an improved social housing offer resulting from stock transfer. Transfer may also enable access to additional funding to strengthen and improve tenancy support services to mitigate the effects of welfare reform. Retention will have a negative impact as the Council will be unable to access additional resources to support capital spending in the first ten years of its business plan and investment needs will be deferred. Further efficiencies in management structures and services will result in the two speed economy becoming more embedded, with council tenants experiencing a different social housing and service offer to tenants living in a home owned by other local RPs. Restrictions on ability to afford the construction of new homes and remodel existing homes will impact on women, young people, disabled people and older people. The preservation of the ALMO model may have some positive impacts for local accountability and tenant involvement.

Accommodation

None

Crime and Disorder

A reduction in crime and disorder is reflected in the option appraisal's objectives. This ensures that potential options consider the reduction of ASB and the designing out of crime in homes and neighbourhoods.

Human Rights

None

Consultation

The option appraisal and the council's decision on the future financing, ownership and management of its housing stock has been fully informed by consultation with customers, staff, Councillors, board members and other key partners. The Council has developed a detailed Communication and Consultation Strategy, Tenant Empowerment Statement and has delivered an extensive consultation programme for each stakeholder group.

Procurement

Specialist financial (Consult CIH) and legal (Trowers and Hamblins) advisers and an independent tenant advisor (Open Communities) have been procured to support the formulation of potential options and the delivery of the project.

Disability Discrimination Act

None

Legal Implications

The Council currently has legally binding 'Management Agreements' with Dale & Valley Homes and East Durham Homes for the provision of housing services to its customers. Depending on the option that the Council ultimately selects, these management agreements may be subject to change or redevelopment. There are also significant legal implications if the Council selects the transfer of its housing stock. Trowers and Hamblins, the leading legal consultants in this area of work have been engaged by the Council.