DURHAM COUNTY COUNCIL

ECONOMY AND ENTERPRISE OVERVIEW AND SCRUTINY COMMITTEE

At a Meeting of the **Economy and Enterprise Overview and Scrutiny Committee** held in **Committee Room 2 - County Hall, Durham** on **Friday 15 July 2011 at 10.00 am**

Present:

Councillor J Moran (Chair)

Members of the Committee:
Councillors A Naylor, J Armstrong, B Arthur, A Barker, B Graham and M Wilkes

Co-opted Members:
Mr T Batson, Mr A Kitching and Mr D Lavin

Apologies:
Apologies for absence were received from Councillors C Carr, J Cordon, J Hunter, P Jopling, R Liddle, Andy Turner, M Williams, A Willis and Mrs O Brown and Mrs A Harrison

Also Present:
Councillor A Cox

A1 Minutes of the meeting held 2 June 2011

The minutes of the meeting held on 2 June 2011 were agreed by the Committee as a correct record and signed by the Chair.

The Chair noted that Councillor M Wilkes had a matter he wished the Committee to note in respect of Minute A7, 2 June 2011. Councillor M Wilkes thanked the Chair and explained that he had been informed that 180 acres of green belt on the outskirts of Durham had been sold to a Developer for £10 Million. Councillor M Wilkes added that if this was indeed the case, why had Members not been made aware and also why was consultation on green belt deletions scheduled for September 2011. Councillor J Armstrong, Chair of Overview and Scrutiny noted that it was important to find out if indeed this was in fact the case. Councillor M Wilkes informed the Committee that he was scheduled to meet with the Corporate Director of Regeneration and Economic Development to discuss this matter. The Chair asked if Councillor M Wilkes would feed back to the Committee as regards this matter, Councillor M Wilkes agreed that he would be happy to do so.

The Overview and Scrutiny Officer, Diane Close reminded Members that in relation to Minute A7, 2 June 2011 a Special Joint Meeting of the Economy and Enterprise and Environment and Sustainable Communities Overview and Scrutiny Committees was held 6 July 2011 to allow Members to feed into the consultation on the County Durham Plan. Councillors were asked to note that in relation to Minute A8, 2 June 2011, Members had chosen the topic of Young People and Unemployment to be looked at by a Working Group of the Economy and Enterprise Overview and Scrutiny Committee. The Overview and Scrutiny Officer explained that a Special Meeting of the Committee had been arranged for 29 July 2011 to start a review on the topic of Young People and Unemployment, looking at the national picture, local priorities, schemes, funding and working with partner organisations.

A2 Declarations of Interest, if any

There were no Declarations of Interest.

A3 Items from Co-opted Members or Interested Parties, if any

There were no items from Co-opted Members or Interested Parties.

A4 Media Relations:

The Chair introduced the Media Relations Manager, Assistant Chief Executive's, Vanessa Glover to speak to the Committee as regards Media Relations. The Media Relations Manager noted the recent prominent articles and news stories relating to the remit of the Economy and Enterprise Overview and Scrutiny Committee, namely Durham City Homes (DCH) having achieved the Decent Homes Standard through an investment of £20 Million over 5 years. Members were also informed that Barnard Castle Vision and Barney Guild were hoping to have all of the empty shop units in Barnard Caste filled by Autumn of this year.

The Media Relations Manager highlighted the "Buy Local, Buy Durham" scheme where the Council would have to accept at least one tender from a local firm in relation to contracts between £5,001 and £50,000. The Committee were reminded of workshop sessions relating to tendering on 19 and 22 July 2011 and asked to inform any local businesses of these opportunities.

Councillor J Armstrong added that perhaps a circular from the Organisational Development section to all Members would help to promote the sessions. Councillor M Wilkes noted that a previous Economy and Enterprise Scrutiny review had recommended that the scheme to encourage local tendering have an upper limit of £75,000 and perhaps this could be revisited by Overview and Scrutiny.

Mr T Batson asked if there was any guidance or mechanism for liaising with the Press. Councillor J Armstrong noted that this was the role of the Media Relations Team and the Media Relations Manager added that the Team had met with Journalists in order to explain that the Council wished to be open and transparent and asked for reporting to be fair and balanced, though accepting that reporting may not necessarily always be positive.

Resolved:

That the presentation be noted.

A5 Quarter 4, 2010/11 Performance Management Report:

The Chair introduced the Customer and Services Intelligence Manager, Graham Tebbutt who was in attendance to speak to Members regarding the Performance Management Report for Quarter 4, 2010/11 (for copy, see file of minutes).

The Customer and Services Intelligence Manager reminded Members that the report was specific to the Altogether Wealthier theme, linked to the Regeneration and Economic Development (RED) Directorate. Members were informed that there was only slippage on 6 of the Council Plan Actions, with 67 out of 73 being on track. Councillors noted that the establishment of stopover sites for gypsies and travellers was rescheduled for December 2011 and the action to attract more people to the library service was as per Quarter 3 reporting, due to the demise of the Active People Survey. Members heard that the action regarding the Thriving Durham City Action Plan was rescheduled for January 2012 and the Employment Land and Premises register, the connectivity between towns through infrastructure improvements, were now linked together for completion in June 2011, rather than March 2011.

The Committee heard that the key risk to delivering the objectives of the Altogether Wealthier theme was the loss of Area Based Grant (ABG) funding, namely the objective to narrow inequality and deprivation.

The Customer and Services Intelligence Manager explained to Members that the RED service, with the exception of the Housing Service and Care Connect, had been issued with Section 188 letters as part of ongoing restructure process. Councillors noted that consultation would be until 8 August 2011, with the agreed new structure to come into effect September/October 2011. The Committee was informed that there was the addition of several core functions to the RED service, including the transfer of rent collection staff from Resources to Durham City Homes (DCH) and staff from Assets to Economic Development and Planning. Members also learned that the Tourism function now sat with the RED service, under the Head of Economic Development, Sarah Robson.

Councillors were reminded of the successful bid by the consortium “Agility Trains” to construct the trains for the inter-city express programme and the decision by Hitachi to have the assembly plant at Amazon Park, Newton Aycliffe.

Members learned that the World Heritage Site Visitor Centre was now completed and that the Council was continuing to liaise with Partners regarding support for cultural events such the Brass Festival and Lumiere.

The Committee noted that a draft Development Brief for the North Road area of Durham City would be available from June 2011 and a web-based driver information system, updating the public on traffic congestion in the City, would now be piloted in September 2011.

The Customer and Services Intelligence Manager explained that the extension to the Park and Ride at Belmont was at the design stage, with construction anticipated to begin December 2011. Members were asked to note that feasibility studies were being undertaken as regards a proposed rail station on the east coast and the redevelopment of Seaham Dock was progressing well.

The Committee noted that Local Transport Plan 3 (LTP3) had been published on time and that the Local Enterprise Growth Initiative (LEGI) as operated by Be-Enterprising had funding through until September 2011, with final reports from the scheme expected by early 2012. Members learned of the Regional Growth Fund (RGF) bids for the North East with 2 being from the County, Cumbrian Holdings, Seaham and Durham County Cricket Club, Chester-le-Street.

The Customer and Services Intelligence Manager gave Members an overview of the performance highlights including:

- The number of affordable homes increasing from 87 in Quarter 3 to 369 in Quarter 4, noting that this was as a result of better data capture
- The number of new homes completed in Durham City had increased from 151 in Quarter 3 to 281 in Quarter 4
- The Decent Homes Standard had been achieved for DCH, with Dale and Valley Homes (DVH) being at approximately 95%, whilst East Durham Homes (EDH) was 77%. Members were reminded of the differing “standards” across the three organisations and that EDH had met their target of making 600 homes decent within the year
- The overall employment rate for the County had increased to 66.6%, equal to the regional average, though still less the national average of 70.4%
- The number of people claiming Job Seekers’ Allowance (JSA) had decrease by 999, giving 13,199 or 4% which is lower than the regional average of 5%, though higher than the national average of 3.8%.
- The number of 18-24 year olds claiming JSA was 4,715, 35.7% of the total JSA claimants. Members noted concern as regards the discontinuation of the Future Jobs Fund (FJF) which focuses on JSA claimants within this age group.

Councillors noted that 4 performance indicators (PIs) were behind, with 8 being on track. The Customer and Services Intelligence Manager explained that National Indicator (NI) 154, the net additional number of homes provided was behind target, though revocation of the Regional Spatial Strategy (RSS) meant that new targets would be developed via the County Durham Plan (CDP). The Committee noted NI 155, number of affordable homes delivered, was above target, as was REDPI 10, the number of affordable homes as a percentage of the total completed. Members recalled the figures relating to Decent Homes Standard, NI 158 and REDPI 3 the number of new homes completed in Durham City. The Customer and Services Intelligence Manager reiterated the figures regarding REDPI 7, the number of 18-24 year olds claiming JSA in contrast to the figures for REDPI 8, the number of 18-24 year olds claiming JSA for one year or more which had reduced.

Members were informed this could be for a number of factors, including changes in eligibility for claims.

Councillors noted those PIs that had no change in the last period, together with exceptions from the Council Plan that were within the Altogether Wealthier theme, as previously mentioned within the summary.

The Chair thanked the Customer and Services Intelligence Manager for the report and asked for clarification as regards the Section 188 letters given to RED staff. The Customer and Services Intelligence Manager explained that these were a statutory requirement, a letter issued to Unions notifying them when a section or department are proposed for restructuring.

Councillor J Armstrong noted that in general performance was encouraging though the issue of 18-24 year olds claiming JSA was a concern, and reminded Members that the topic of Young People and Unemployment had been chosen as a topic for a Scrutiny review by a Working Group of this Committee.

Councillor M Wilkes noted that he would be keen to have figures relating to the number of empty homes and felt that it would be preferable to bring empty homes back into use rather than simply building new homes. The Customer and Services Intelligence Manager noted he had figures relating to empty homes and that work was ongoing as regards around 200 empty homes, 158 within regeneration areas, 40 outside of regeneration areas. Councillors noted that the latest figures showed that 48 properties had been brought back into use against a target of 50 for Quarter 1, with the 2011/12 target being 80 properties. Councillor M Wilkes asked of the 48 properties brought back into use, what was the spilt between Local Authority properties and those in private ownership. The Customer and Services Intelligence Manager noted 14 were Registered Social Landlords, 13 were landlords operating under the licensing scheme, and 21 not registered. The Stock Option Appraisal Manager, Marie Roe noted that turnaround of empty housing stock owned by the Authority was relatively straightforward, with private landlord being more difficult. Members noted that there was some grant funding available to support this which could be combined with work by the Council's Under-occupancy Officer.

Councillor M Wilkes asked whether the turnaround figures relating to empty homes was available for the Local Authorities housing stock, Officers noted they were not within the information to hand, however, could be sought out for Members.

Councillor B Arthur noted with disappointment that local people were not necessarily guaranteed jobs through schemes that were grant funded to boost businesses and employment. Councillor J Armstrong agreed, noting that employers were able to choose those they felt would prove to be the best employees.

Mr T Batson asked for clarification on the definition of "affordable homes". The Customer and Services Intelligence Manager explained that the definition was changing and would provide Members with updates accordingly. Members were reminded that currently, those properties designated as "affordable" through the planning process retain that definition in perpetuity. Officers explained that future definition would be for a "median average rent for an area" as being the "affordable" criteria.

The Customer and Services Intelligence Manager added that “social housing” was another set of criteria and was in itself different to “affordable housing”.

Councillor B Graham asked whether there had been any problems in families in the area getting access to mortgage rescue funding. The Stock Option Appraisal Manager added that she did not know of any expressions of interest to access the scheme. The Customer and Services Intelligence Manager added that it may be useful to speak to the Social Inclusion Team and report back to Members regarding the uptake of the Government scheme within the County.

Councillor E Tomlinson noted concern that in some cases, Developers were looking to give a capital sum in place of a number of properties being designated as affordable homes.

Resolved:

That the report be noted.

A6 Outturn 2010/11:

The Chair introduced the Finance Manager, Azhar Rafiq who was in attendance to take Members through the summary report relating to the Outturn 2010/11 for the RED Service Grouping, together with a presentation giving the main highlights (for copies, see file of minutes).

The Finance Manager explained that there were 3 separate budget accounts in relation to RED, the General Fund Reserve, Capital Budget and the Housing Revenue Account (HRA) and they together formed the RED budget, 27% of the total Council budget.
Members learned that the gross General Fund was around £95 Million, the HRA around £54 Million and the Capital being approximately £121 Million. Councillors noted that RED was the largest spending Service Grouping, and the Finance Manager added that this was encouraging in relation to the regeneration ambitions of the Authority.

In relation to the General Fund Revenue budget, Members learned that the RED General Fund represented 12% of the Council’s total General Fund and set out the summary for RED by Head of Service for 2010/11:

Head of Service	Cash Limit £’000	% variance
Policy, Planning, Performance	-11	-1%
Economic Development	-1,098	-4%
Housing	-424	-8%
Planning	-411	-6%
Transport	-35	-
Central	-412	-8%
Total RED	-2,391	-4%

The Finance Manager explained the variances as set out on pages 37 and 38 of the agenda papers set out the major issues associated with each Service. Members were asked to note that the Economic Development service included ABG/Working Neighbourhood Fund (WNF) monies that would be ending this year.

In relation to Transport, the Finance Manager explained that the concessionary fares scheme was a large part of the Service, £10.5 Million.

The Committee noted that the HRA related to the revenue expenditure and income relating to the Council's housing stock of 18,854 properties across 3 areas managed by the Council via Durham City Homes (DCH), and also the two Arms Length Management Organisations (ALMOs) Dale and Valley Homes (DVH) and East Durham Homes (EDH) with 6,106, 4,245 and 8,503 properties respectively. Members noted that this represented 45-50% of all social housing in the County. The Finance Manager noted that the current housing debt at 31 March 2011 was £152 Million, however, with the implementation of "self-financing" the debt would be in the order of £204 to £216 Million.

Councillors noted that the adjusted surplus for the HRA 2010/11 allowed for £400,000 to be allocated to improvements for Durham City and £474,000 to be allocated to the Capital Programme for Housing.
The Finance Manager noted that the average rent for a Council owned property was approximately £55 per week, £10 less than the regional average of around £65 which was encouraging as a service to the public. The Committee learned that the volatile budgets that were highlighted as having an overspend in the 2010/11 were Housing Repairs, Building Control Fees and Planning Fees, and noted all these elements were linked to the housing market still being depressed.

The Finance Manager explained that the Capital Programme was a series of "one-off" non-recurring expenditures relating to enhancing existing assets; acquiring, constructing new assets and that resources were limited in relation to grants and borrowing. Members noted the largest schemes were those relating to Durham City Vision, Disabled Facilities Grants and Housing Renewal. Councillors were informed that £31.8 Million of the Capital Budget for 2010/11 was for Council Housing, details of which would be found within the 3 Council Housing Organisations' Annual Reports which would come to the Committee for Members' information in due course. Members also noted that there was significant investment in infrastructure, including the Local Transport Plan.

The Committee were made aware of the Earmarked Reserves for the General Fund and HRA and noted the fall from approximately £20 Million to £7 Million over 2010 to 2011 for the General Fund was largely as a consequence of the loss of ABG/WNF and the reserves being called into use to support schemes. Members noted the slight increase in the HRA reserve would be fed back into improvements in the Council's housing stock, noting that there was an item relating to the Stock Option Appraisal later on the agenda for this meeting.

The Chair thanked the Finance Manager for the report and presentation and asked Members whether they had any questions.

Councillor M Wilkes noted that there was large amount of good news within the report and asked whether the approximate underspend of £2.4 Million would be allocated to the RED Service Grouping, or rather used across the Authority and fed into any savings required. The Finance Manager explained that the Council's Financial Framework allowed for the amount to be carried forward to the 2011/12 Budget for RED. Councillor M Wilkes asked whether there were any obvious pressures in the 2011/12 Budget that would absorb or eat into the £2.4 million significantly.

The Finance Manager explained that it was very early within the 2011/12 Budget and any pressures may be highlighted in Service Plans from the individual services themselves.

Councillor M Wilkes noted the figure previously reported of 77% of EDH being at the Decent Homes Standard and asked whether it would be possible to redistribute funding now that DCH had achieved the Decent Homes Standard in order to help get those properties in the East of the County up to the standard. The Finance Manager explained that DCH was "in-house" and therefore the Council was able to allocate accordingly to reach the Decent Homes Standard and that separate funding was available from central Government to help with the Decent Homes backlog.
Councillors noted that there was £70 Million over 4 years to get those properties within EDH and DVH to the Decent Homes Standard. Members were reminded that the "standard" was slightly different for each organisation and that some improvements such as double glazed windows did not necessarily form part of the standard.

Mr T Batson raised concern as regards making sure any future housing being designed and built in order to be able to cope with rising fuel prices and be energy efficient to benefit both the environment and Tenants.

The Stock Option Appraisal Project Manager explained that when planning Decent Homes works the Stock Condition Survey would be essential in order to identify which properties required the most time and investment. Members were asked to note that the Council was working with a range of social housing providers to contribute to the green agenda with technology such as solar panels and air source heat pumps, and not simply beautifying homes.

Councillor B Graham noted figures relating to those receiving benefits in the three areas where the Council retained properties and asked whether figures for her local area, Sedgefield were available. The Finance Manager explained that figures were only given as relating to the HRA, therefore only the areas that represented DCH, DVH and EDH however, it should be possible to obtain the information and report back to Members.

Councillor A Barker noted that within Easington, specifically the Wembley area, a scheme had been in operation for 2 months to try to encourage private landlords to sign up to the licence/accreditation scheme though only 61% had signed up and the area had several doors damaged and gates hanging off the hinges. The Finance Manager noted that this was a concern and explained he would make the Housing Regeneration Delivery Manager, Dianne Hedley aware of the situation. Councillor M Wilkes informed the Committee he had learned of a scheme by Burnley Council to paint curtains and plant pots on to shutters on empty properties in order to improve the environment in problem areas and that figures had shown that this had generated a positive effect.

Resolved:

That the report and presentation be noted.

A7 County Durham Economic Assessment - Update:

The Chair introduced the Principal Economic Analyst, David Usher, who was in attendance to give Members an update on the County Durham Economic Assessment (CDEA), entitled "How can County Durham be more Economically Competitive?" (for copy, see file of minutes).

The Principal Economic Analyst explained that he would update Members on the position given by the Independent Chair of the County Durham Economic Partnership (CDEP), Ken Jarrold, at the last meeting of the Committee held on 6 June 2011.

The Committee learned that in developing the CDEA, a wide range of in-depth research had been undertaken, with several documents currently going through the RED Service Group approval processes, and noted that the Economic Regeneration Manager, Graham Wood, would be in attendance at a future meeting of the Committee to speak about worklessness. The Principal Economic Analyst noted that the CDEA was linked to the Altogether Wealthier framework.

Councillors noted that there were several challenges including recognising the issues of economic scale and specialisation faced by the County.
There are 165,000 employees within County Durham and there is a need to develop high level skills to give the County a competitive advantage in securing high value jobs. Members also learned of the need to develop ties with the wider region, including Tyne and Wear and Tees Valley, and to the automotive industry supply chain associated with Nissan as well as with the opportunities presented by the Hitachi site at Newton Aycliffe.

The Principal Economic Analyst explained that 37% of employment within the County was in knowledge industries, lower than the national average of 44% and that the growth of employment in the County in recent years had been driven by health, education and other public services. When knowledge based jobs in the public sector are removed from the overall figure the proportion of knowledge based jobs in the private sector falls to 18%.

Members learned that the major sources of new jobs within the County created over the period 2000 to 2007 were mainly in the health and wellbeing, finance and business services and tourism sectors. The major areas of knowledge based employment were clustered around East Durham, notably Peterlee and, elsewhere, in Durham City.

The Principal Economic Analyst noted that there were opportunities to drive economic growth and to diversify the economy in the County. Members were advised that there needs to be a spatial dimension to economic plans in terms of recognising growth potential in Durham City and the A1 and A19 corridors and, also, to focus upon maximising the impact of Durham University in relation to knowledge transfers that generate more businesses and employment for the County. Councillors heard that there had been a 14% increase in the number of "start-up" businesses from 2009-10, as recorded by Bank Search data, though during the first half of 2011 the level of start up activity has slowed.
Members also learned that the level of "homeworking" had increased from around 17,472 to 23,364 over the period 2000 to 2007 representing a 33.7% increase.

Some higher managerial professionals may have taken early retirement or been made redundant from the public sector and there could also be an increase in the number of “silver” entrepreneurs which might explain part of the increase in both start up activity and homeworking.

Skill levels are also a significant issue within the County. Around 20% of the people within the County are not qualified to level 2. At the higher end of the skills spectrum graduate retention from Durham University is also a problem. Councillors also noted that the attitudes of young people towards training and employment need to be addressed to raise aspirations.

The Principal Economic Analyst explained that there would need to be a co-ordinating role relating to the strategic priorities of the recently established Local Enterprise Partnerships (LEPs) for the North Eastern and Tees Valley areas. There would also need to be a response to the public sector expenditure cuts to assist and support workers who are displaced from the labour market.

Members were reminded of the “breaking the cycle” diagram as shown previously to the Committee and the need to ensure that there was sufficient “critical mass” to drive investment in infrastructure and skills development.

The Chair thanked the Principal Economic Analyst for the report and presentation and asked whether there were any incentives for new business start-ups relating to business rates. The Principal Regeneration Strategy Officer, Glenn Martin noted that this was an issue that could be looked at further and Members be informed in due course.

Mr T Batson noted that he agreed that it was vital to address the attitudes of young people and to help provide them with the skills to gain high value sustainable employment. Councillor M Wilkes agreed and added that the monthly CDEA Updates circulated to Members were very informative. Councillor A Barker agreed that youth skills were important and reminded Members of the success of the Esh Group in securing apprenticeships and linking in with local schools to give young people an understanding of opportunities in different sectors of employment.

Councillor M Wilkes asked whether there were mechanisms to get information relating to National Insurance “holidays” for new businesses employing staff into the public domain, perhaps via road shows in the major towns and possibly via Durham County News.

Mr A Kitching noted the emphasis on creating jobs linked to the “low carbon economy” and asked how many jobs had been created as a result of this focus.

The Principal Economic Analyst explained that some existing sectors had held up, such as advanced manufacturing but that new sectoral opportunities would take time to emerge and that there was a need to ensure that the County was well placed to take advantage of emerging opportunities including low carbon industries, charging infrastructure for electric cars, biomass and other renewable energy. The Customer and Services Intelligence Manager added that the CDEA served as an evidence base that allowed informed service planning issues such as the feed-in tariff with regard to energy generation.

Mr A Kitching noted that there was also mention of developing the broadband network to provide high speed internet across the County and asked whether this could also be evaluated in terms of jobs created. The Customer and Services Intelligence Manager explained that in some cases it was not necessarily related to new jobs created but rather involved investment in existing businesses to help to keep them competitive and sustainable in the longer term.

Mr D Lavin expressed some concern with regard to the focus on Durham City. Whilst acknowledging that it was an economic driver for the County as a whole, the County was more than simply the City. Mr D Lavin added that he felt that there was not a sufficient East-West highways link akin to the A1 and A19 running North-South. The Chair noted that this was perhaps more a CDP issue and indeed such comments had been captured at the Special Joint Overview and Scrutiny meeting held 6 July 2011.

Councillor A Naylor agreed skills were required to be tailored to both existing and emerging industries. However, it was noted that in some areas issues of generational worklessness needed to be tackled further to help break the cycle.

Councillor B Graham added that job opportunities for young people were important and that apprenticeships were an excellent way of engaging young people to provide them with skills and training whilst enabling them to earn money, citing examples linked to housing, Durham Gate and the new Hitachi site. The Principal Regeneration Strategy Officer agreed and noted that in the National Apprenticeship week in February there was a regional target of “100 jobs in 100 days” and over 13,000 apprenticeships were created, with over 100 in the County over the last year. Members noted that Durham County Council could plan to build upon this success for the Apprenticeship Week in 2012.

Councillor M Wilkes noted that welfare reform and changes to the benefits system would force changes in the County and that the Council needed to help encourage training to cater for the types of jobs needed for the County. Councillor M Wilkes added that the Council needed to be clear with regard to Government changes to business rates and what the Council would do to help businesses. Mr T Batson agreed, noting that it was not just new businesses that could benefit from clarification and help regarding the business environment, existing businesses could also benefit.

Resolved:

That the report and presentation be noted.

A8 Stock Options Appraisal - Update:

The Chair introduced the Stock Option Appraisal Project Manager who was in attendance to give Members an update on the Stock Option Appraisal Project (for copy, see file of minutes).

The Stock Option Appraisal Project Manager noted that this meeting was not the only opportunity for Members to feed into the process, there were Member Surveys and Focus Groups in addition. The Chair added that there would be a Special Meeting of the Committee in September specifically looking at this.

Members were reminded that the need for a Stock Option Appraisal (SOA) came from Government reform of the Housing Subsidy System and Debt Allocation, where a SOA would be the first step in deciding what Durham County Council would wish to do in the future. Councillors were reminded that currently the Government collect all the revenue from Council Housing and then redistribute to Local Authorities and in the case of Durham County Council the Authority pays in to Government £4.5 Million more than received back in grants, a negative subsidy.

The Stock Option Appraisal Project Manager explained that the Government proposals were for a new model based upon “self-financing” where Local Authorities were able to retain income from their housing stock, although there would be a need to have a settlement with Government regarding a one-off “debt”.

Members were informed that the settlement figure of £216 Million had been allocated by Government and that this did not take into account any money already “paid” by the Council in respect of the negative subsidy. The Committee noted that the there were differing limits on what Local Authorities and ALMOs could borrow and that Government placed a cap on Local Authorities’ borrowing. The Stock Option Appraisal Project Manager explained that there was the option of simply serving the debt, or to try to pay off the debt in full with advice being to repay the debt in full.

Accordingly, Members were informed that there needed to be a long term, 30 year plan relating to the housing stock and the SOA would be the process in order to ascertain what the Authority owned and how best to manage the stock. The Stock Option Appraisal Project Manager added that through consultation with partners 8 key objectives were identified in priority order those being:

1. Bringing long term funding to support the improvement and repair of high quality, affordable homes;
2. Protecting tenant’s rights;
3. Delivering a good return of new social housing;
4. Meeting regeneration needs;
5. Achieving comparable quality between council owned homes and those of housing associations
6. Improving communication between the owning organisation and customers;
7. Local presence and management of housing services; and
8. Strengthening customer involvement in services.

The Committee were reminded that a specialist company had been commissioned to carry out a Stock Condition Survey, Savills Commercial Limited, and that this was undertaken through a 10% representative sample of properties from DCH and DVH. Members noted that as EDH already had a large amount of stock condition data and accordingly Savills were simply asked to validate this data. The Stock Option Appraisal Project Manager also noted that Savills were also asked to provide the Authority with the necessary warranties in the event that a stock transfer was chosen as the preferred option. Councillors noted that the Survey identified that there was a need for £797 Million in the housing stock over the next 30 years, which was approximately £40,000 for each property in line with the national average.

The Stock Option Appraisal Project Manager explained that the Council had been awarded £70 Million to complete the Decent Homes Standard for EDH and DVH, and that once this had been completed, the need for maintenance and investment would equalise across the 3 Housing Organisations, albeit with a focus on EDH in years 1 to 5 of the 30 years.
Members noted that as there was differing times at which there was pressure on the budget, it was found that the required spend for years 1 to 10 would be £388 Million and the resources that are available would be £333 Million, a shortfall of £55 Million, £63 Million taking inflation into account.

The Stock Option Appraisal Project Manager explained that an option was to defer investment until Year 10+, however, that would mean only a basic business plan would be delivered with some homes having to wait longer for improvements; the debt would remain at around £100 Million; and efficiencies would need to be found in order to balance the plan to release resources for investment. Members heard that in order to deliver a sustainable business plan there would be a requirement to make £2 Million of efficiencies each year on top of Medium Term Financial Plan (MTFP) savings and to have a refresh of existing arrangements. Accordingly, Councillors noted that there needed to be some changes in order to "beat the borrowing cap" so the Council could borrow to continue to invest in homes and services. The Stock Option Appraisal Project Manager noted there were several options:

- Retain ownership of the housing stock, reabsorbing housing services back into the Council
- Reorganisation of existing arrangements
- Transfer of housing stock, a conventional Large Scale Voluntary Transfer (LSVT)
- An unconventional stock transfer to a Council owned Community owned organisation (CoCo)
- Or a mix of options.

The Committee noted that an advantage of retaining the stock in-house would be that services would be consistent across the County; efficiencies could be achieved; and Tenants' rights would be protected. Members acknowledged that disadvantages included borrowing above the Government cap was not possible; only a basic business plan would be delivered; and services would not be able to be brought back in-house unless there was a "demonstrable benefit to tenants".
The Stock Option Appraisal Project Manager added that if a traditional stock transfer was undertaken, the advantages would be that ownership would be transferred for an agreed valuation and there would be greater financial freedom outside of the public sector. Also, Councillors noted that investment could be made when required, more than a basic business plan and the transfer could be to an existing Registered Provider, or one or more of our existing Providers. The Committee noted that there were disadvantages to a LSVT transfer such as the fact valuations and debt write off would not stack up for all stock and also Government guidance on stock transfer is no completely clear. The Stock Option Appraisal Project Manager added that another disadvantage was that any partial stock transfer would leave the Council with low levels of income to service debts and maintenance costs. Members noted that for a LSVT, there would be a slightly higher cost for borrowing, albeit only above the debt cap.

Councillors noted with this option, the Council would ask Government to write off the £216 Million debt, however it was unlikely Government would agree to that.

Members learned that if an unconventional stock transfer to a CoCo was chosen there would be advantages including; the transfer would be financially viable for all housing stock; greater financial freedom outside of the public sector; and investment could be made when required. Councillors also noted that it would be advantageous to transfer to a CoCo in that the characteristics of ALMOs would be retained, locally owned and community based and also the HRA debt would stay with the Council, though it would be serviced by the CoCo. The Stock Option Appraisal Project Manager added that whilst further efficiencies would still need to be made, these would generate more headroom in the business plan.

The Committee noted that there were some disadvantages to transfer of the housing stock to a CoCo as the idea was new, not tried and tested and the initial set up costs were not clear. Members learned that whilst cited as an advantage, the HRA debt being retained by the Council could also be seen as a disadvantage, and Government thinking on unconventional stock transfer is still unclear. Councillors were made aware that a CoCo would also be liable to pay VAT and therefore Government would need to reduce the debt settlement to reflect this, by around £66 Million and that there would be a need for a “VAT shelter” for the first 15 years. The Stock Option Appraisal Project Manager added that similar to LSVT transfer, a CoCo would have a higher cost of borrowing above the debt cap.

Members noted that combinations of options were possible with:

<table>
<tr><th></th><th>EDH</th><th>DCH</th><th>DVH</th><th>Comments</th></tr>
<tr><td>1</td><td>CoCo</td><td colspan="2">CoCo</td><td>Debt write down £66m - £2m efficiencies needed – could be a Group (synergy)</td></tr>
<tr><td>2</td><td>CoCo</td><td colspan="2">ALMO</td><td>Debt write down £48m - £1m efficiencies CoCo/£1-2m ALMO and Council</td></tr>
<tr><td>3</td><td>CoCo</td><td>LSVT</td><td>CoCo</td><td>Debt write down £66m – receipt £50m - £2m efficiencies needed in CoCos and Council</td></tr>
<tr><td>4</td><td>CoCo</td><td>LSVT</td><td>LSVT</td><td>Debt write down £66m – receipt £64m - £2m efficiencies needed in CoCo and Council</td></tr>
<tr><td>5</td><td>CoCo</td><td colspan="2">LSVT</td><td>Debt write down £66m – receipt £64m - £2m efficiencies needed in CoCo and Council</td></tr>
</table>

The Stock Option Appraisal Project Manager concluded noting that EDH had asked specifically for a CoCo and DCH and DVH had noted that they would be comfortable working together if required.

The Chair thanked the Stock Option Appraisal Project Manager for the report and presentation and noted that Members should save their questions for the Special Meeting scheduled for September.

Councillor M Wilkes noted that if all the housing stock had solar panels and was operating on the feed-in tariff, there was a potential for £175 Million to be generated over the next 20 years.

The Customer and Services Intelligence Manager noted that options were being considered and the Finance Manager explained that the Chief Executive of EDH was leading on feed-in schemes and there should be around 3,000 panels in place by the year end. The Finance Manager did note that there was a need to try to lever in additional funding for the capital cost of the panels and the Legal Section were looking at procurement issues and a report would be going to Cabinet in due course.

Resolved:

1. That the report and presentation be noted.

2. That a Special Meeting of the Economy and Enterprise Overview and Scrutiny Committee be arranged for September to look at the Stock Option Appraisal Project allowing Overview and Scrutiny Members the opportunity to feed into the ongoing consultation process.

A9 County Durham Economic Partnership, Minutes of the meeting held 4 April 2011

The Minutes of the meeting of the County Durham Economic Partnership held 4 April 2011 were received by the Committee for information.