

**STEVENAGE
BOROUGH COUNCIL**

Housing Strategy Group

**REPORT ON THE HOUSING OPTIONS
APPRAISAL 2003 - 05**

June 2005

CONTENTS

Executive Summary

1	Introduction
2	Background
3	Stevenage Borough Council's approach to Option Appraisal
4	Capacity Building for the Housing Strategy Group
5	Independent Tenant Advisor
6	Communications
6.2	Communications Strategy
6.3	Newsletters
6.4	Enquiry Points
6.5	"Drop-in" Sessions
6.6	Survey Forms
6.7	"Visioning" Days
6.8	Consultation on outcome of Option Appraisal
6.9	Briefing for staff
6.10	Briefing for Members and Chief Officers
7	Tenant Empowerment Strategy
7.2	Aims of Tenant Empowerment Strategy
7.3	Expected results of Tenant Empowerment Strategy
8	Demand for housing
8.1	Introduction
8.2	Housing Needs Study
9	Wider Strategy for Neighbourhood Renewal
10	Aspirations
11	Decent Homes
12	Stock Condition Survey
13	Local Authority Finance
14	Private Finance Initiative, Arms Length Management Organisation. Stock Retention and Stock Transfer
15	Financial Analysis and consideration of options
15.3	Consideration of options
15.2	Stock Condition and investment
15.3.1	Stock Retention
15.3.2	Private Finance Initiative
15.3.3	Voluntary Transfer
15.3.4	Arms Length Management Organisation
16	Recommendation

ANNEXES

- A List of the members of the Housing Strategy Group
- B Stock Condition Survey – Validation Report (June 2005): prepared by Ridge and Partners LLP
- C “Stevenage Standard”
- D Financial analysis of the options: prepared by Housing Quality Network

EXECUTIVE SUMMARY

This is the report of the work of the Housing Strategy Group set up by Stevenage Borough Council to undertake an Options Appraisal of the Council's housing stock.

Housing Strategy Group considered, over a period of 18 months, all of the relevant issues stipulated in the guidance on Option Appraisal issued by the Office of the Deputy Prime Minister. This consideration took the form of critical examination and analysis of a lot of detailed material.

The purpose of this report is to provide an overview of all of the criteria that had to be addressed by the Housing Strategy Group. It summarises the considerations and conclusions of the Group and it provides support for the recommendation.

The main body of this report summarises, but does not duplicate, other reports that had a direct bearing on the considerations of Housing Strategy Group. Those that were directly relevant were the stock condition surveys and the financial analysis. The reports of the stock condition surveys are available separately although the validation report on the surveys is annexed to this report. The financial analysis is also annexed.

Housing Strategy Group gathered the aspirations of tenants and the wider community, as was required, for consideration of the way forward for the housing service for the next 30 years. However, it became clear at a late stage in the process (once the stock condition and financial analysis were received) that the investment needed in the stock, when measured against the financial options available, left two possible options: Stock transfer and an Arms Length Management Organisation. Of these, only stock transfer would address most of the tenant's aspirations. However, both options could potentially tackle a few of the aspirations; namely those that affect the local environment and include tackling anti-social behaviour. Stock retention "as is" would not address any of the aspirations.

Housing Strategy Group concluded that stock retention was unlikely to be a deliverable option given that it would require the Council to allocate ALL of its available capital resources to housing for the next few years in order to deliver Decent Homes by 2010. This would have consequential affects, possibly leading to degeneration of neighbourhood areas and would not be

sustainable. The Trades Unions wanted the stock to remain with, and be managed by, the Council on the same basis at present.

Stock Transfer was supported by four of the tenants' representatives, as it would deliver all of the aspirations. However two tenants' and one leaseholders' representatives and all Council Members present supported an Arms Length Management Organisation, which would provide for Decent Homes to be achieved by 2010 and allow for some neighbourhood renewal activity. It would also mean that the Council remained the landlord: a desire that had been expressed in a number of ways by tenants. One of the tenants' representatives abstained.

There was support for greater tenant empowerment in whatever option the Council determined and this is reflected in the recommendation from the Housing Strategy Group. The underlying principles in "Empowering Communities – The Community Gateway Model" was cited as the basis for further consideration.

The demand for additional affordable housing for rent was recognised as very important but, of the two possible options that the Housing Strategy Group considered in its final analysis, only stock transfer has the potential to deliver this. The Housing Needs Survey is not annexed to this report although the contents have been taken into consideration.

This report will form the centre of the submission to the Government Office for the sign-off, which is the final, but essential, aspect of the process. At that stage it will be supplemented by a significant amount of supporting material.

Housing Strategy Group recommendation to Council:

- **It was agreed that the Council should be informed that the Housing Strategy Group's preferred housing option was for an Arms Length Management Organisation, subject to the formula used to calculate the Minimum Revenue Provision to the General Fund being amended to negate any impact, on the General Fund, and that this option should take into consideration greater tenant empowerment based on the principles of the Community Gateway Model.**

1. INTRODUCTION

1.1 This is the report of an Options Appraisal (OA) of Stevenage Borough Council's (SBC) landlord responsibilities in respect of its housing stock. The OA was undertaken by a Housing Strategy Group (HSG) from November 2003 and concluded with this report in June 2005. It was undertaken in accordance with criteria issued in guidance by the Office of the Deputy Prime Minister (ODPM) in June 2003.

1.2 This report describes the way in which the HSG undertook the task, addresses the ODPM criteria and records its conclusions and recommendation.

1.3 HSG received many papers and presentations but the most significant were those on the stock condition surveys and the financial analysis. The stock condition reports are far too substantial to annexe to this report. Relevant summaries are included in this report together with a validation report – annexe B - from an independent firm of surveyors. Key aspects from the financial analysis are included in this report. The full financial analysis is at annexe D.

1.4 Copies of all minutes, the majority of reports and all presentations are on SBC's web site www.stevenage.gov.uk. Any questions on this report should be addressed to Maureen Herdman at SBC.

2 BACKGROUND

2.1 In February 2003, the ODPM published the Communities Plan (Sustainable Communities: Building for the Future) identifying the Government's approach to housing provision and housing standards for the future. The Communities Plan contains comprehensive policy statements on housing provision, neighbourhood regeneration and mechanisms for delivery. But it is that part of the Communities Plan that relates to ensuring that all housing, in particular social housing, is to a standard of decency by 2010 that was the principal concern of the HSG and of this report. The need to achieve the decency standard – the DHS (DHS) – had been a requirement since 2001. Because of concerns that DHS might not be delivered on time the Government

undertook a “Decent Homes Plus Review”; the report of which was published in March 2003.

2.2 The Communities Plan and the DH Plus Review provided considerably increased importance to the issue and refined the DH standard. One of the requirements placed on local authorities was that they undertook an OA to ensure that they can deliver DH by 2010 and that they can sustain the stock in the longer term. The guidance specified the criteria for undertaking the OA and the need for the exercise to be “signed-off” by the appropriate Government Office by July 2005.

2.3 The principal criteria that the OA had to address were:

- Engagement of tenants and leaseholders
- Consultation with all stakeholders
- Financial Appraisal
- Stock Condition Survey Data
- Analysis of Demand
- Mixed solutions (if appropriate)
- Tenant Management and Tenant-Led Solutions (if appropriate)
- Wider strategy for neighbourhood renewal
- Objective robust evaluation of options
- Decision making process (with tenants being at the heart of the process)
- Change management process
- Management of the process

The way in which these issues were to be addressed was left to individual local authorities.

3 STEVENAGE BOROUGH COUNCIL’S APPROACH TO OPTION APPRAISAL

3.1 At its meeting on 15 October 2003 the Executive agreed to

the OA and to the, then, Joint Councillor Tenant Representative Housing Strategy Group being expanded and overseeing the process reporting to Executive as appropriate.

3.2 Progress at that stage included the commissioning of a new Stock Condition Survey (SCS), a new Housing Needs Survey and visits to authorities that were considering their options.

3.3 It was agreed that a Project Manager, communications consultant and Independent Tenants Advisor (ITA) were to be commissioned with requirements to produce an Action Plan, Communications Strategy and a Tenant Empowerment Strategy. These were key documents requiring ODPM approval.

3.4 The need for the analytical and considerative process to be undertaken impartially with all appropriate parties being actively engaged was recognised.

3.5 The HSG core membership was to comprise:

- Chair: Project Manager
- Councillors including Portfolio holder
- Tenants including a sheltered housing tenant
- Leaseholder
- Staff side representatives
- Director of Community Services
- Officers from Housing
- Senior officers representing other Service Departments
- ITA
- Other stakeholders the group considered necessary (the could be on an ad hoc basis)

3.6 The names of the members of the HSG are at Annexe A.

3.7 Although there were no formal terms of reference, the work of HSG had to cover:

- Delivery of the Decent Homes target
- Tenants and Leaseholders aspirations and priorities
- Statutory housing duties
- Housing market supply and demand issues

- Neighbourhood renewal strategies
- As well as dealing with capital investment it should also include service improvements such as tackling anti-social behaviour

3.8 In evaluating the options the following were to be considered:

- Tenancy terms, conditions and rights
- Opportunities to enhance tenant involvement
- Future governance of the housing service
- Corporate housing objectives including homelessness
- The impact on the General Fund
- Resources for other capital programmes
- The impact on staff – both housing and corporate
- Deliverability

3.9 HSG, at one of its early meetings, considered the detailed OA criteria issued by ODPM and agreed to integrate the above requirements into their considerations of the appropriate criterion from ODPM. In this way, both the criteria and the issues listed above would be considered.

3.10 HSG has met 25 times and considered the following issues:

- Background to OA
- OA process in Stevenage
- ODPM Guidance on OA
- Capacity Building
- Communications and Communications Strategy (CS)
- Tenant Empowerment Strategy (TES)
- Housing Needs Study
- Provision of Affordable Homes
- Decent Homes (DH)
- Stock Condition Surveys (SCS)
- Aspirations
- Local Authority Finance

- Private Finance Initiative (PFI), Stock retention with continued direct management by the Council, Arms Length Management Organisations (ALMO) and Stock Transfer
- Financial Modelling of the Options

These are discussed in this report.

4. CAPACITY BUILDING FOR HSG

4.1 At the outset, members of the HSG had differing levels of understanding of the wide range of issues that they would be considering. One of the paramount concerns was to ensure that everyone on HSG had access to the same, and essential, level of detail in order for all members to be able to contribute equally to making informed decisions on the issues. It was agreed that it was essential that all members of the HSG received the same briefing to ensure a consistency of approach and comprehensive understanding of the issues. This was achieved by inviting specialists to make presentations, submit papers and be questioned. At subsequent meetings, all members of HSG had opportunities to revisit the topics to ensure that no issues were left unanswered or misunderstood. In addition the ITA arranged for specific training for tenants' representatives, some of which was also made available to other members of the HSG.

5. INDEPENDENT TENANT ADVISOR

5. 1 Another key aspect of the OA, and one that had to be undertaken at the initial stage, was the appointment of an ITA. LIBRA were selected by a panel of tenants and leaseholders following a competitive process.

5.2 The ITA worked closely with the tenants and leaseholders and their representatives on HSG. They have provided independent advice, run drop-in sessions, workshops, and consultation events and have also been full participants in HSG. By virtue of their membership of HSG, the ITA has seen all communications from HSG in draft. They have also issued their own publications providing impartial advice.

6. COMMUNICATIONS

6.1 This section describes the way in which the HSG communicated with all stakeholders and identified their housing issues and concerns.

6.2 Communications Strategy

At an early meeting the HSG considered the need for a communications strategy. The HSG recognised that this important issue required specialist skills and they received and approved proposals from Broadgate Strategic Communications Consultants. The guiding principles for consultation and the communications strategy - were that they had to be:

- Honest
- Clear
- Open and accessible
- Inclusive
- Accountable
- Impartial
- Consistent

The strategy was agreed by Community Housing Task Force (CHTF) in ODPM. It was intended as a living document and changes were incorporated as the work progressed.

6.3 Newsletters

After an initial newsletter from the Council – in which it passed ownership of the OA process to the HSG - four subsequent newsletters were issued by the HSG with a *fifth* to follow once the Council's decision on the HSG recommendations is known. These covered the work of the HSG, detailed the options, sought views and answered questions.

6.4 Enquiry Points

The Council and the ITA each provided Freephone facilities for anyone to ask questions about any aspect of the OA. The minutes

of HSG and associated papers have also been posted on the Council's web site.

6.5 "Drop-in" sessions

The ITA and Tenants Representatives held many open sessions at an early stage in the process. This enabled people to ask questions about OA, comment on the options and, more generally, use the opportunity to express what they thought about the housing service provided by the Council. Some sessions, arranged by SBC, were also for those in sheltered housing schemes. At all of these sessions those attending were also asked to explain their likes and dislikes about living in Stevenage.

6.6 Survey Forms

In April 2004, Survey Forms were issued by HSG to all tenants and leaseholders to seek their views on the standards of service and of their aspirations for the future of their housing and neighbourhoods. About 16% of the forms were returned. The results of the survey were independently analysed by the ITA. The findings were weighted to give a more balanced view of the different age groups. The information gathered was considered as one of several parts of obtaining views, opinions and aspirations. Over 50% of those who replied stated that it was most important that the Council owned their home and only 6% felt that there will be enough affordable rented homes for future generations. The overall conclusions of HSG, obtained from these component parts, are identified later.

6.7 Visioning Days

HSG held three Visioning Days to explain what they were doing and sought views from those attending. The attendees (over 150 of them) were asked to identify the issues (aspirations) that they thought important in so far as they related to their housing and their neighbourhood. Providing more new affordable housing (for rent) was a top priority.

Presentations were made on DHS, and the financial principles of the four options as well as the advantages and disadvantages of the four options. Following this, the attendees were asked if they wished to reconsider their lists of aspirations.

These events were attended by a wide cross-section of the community.

The main issues identified by the attendees were considered as another part of assessing overall aspirations and priorities.

6.8 Consultation on outcome of OA

Prior to the final decision by HSG on the options, but after the financial modelling had indicated limited options, HSG undertook two consultation events facilitated by LIBRA. Detailed presentations were made on the process, the stock condition and the financial modelling. *The events ended with a test of opinion. In the opinion of the ITA, the results were inconclusive.*

6.9 Briefing for staff

Briefing sessions *on the following dates and at the following venues* have been undertaken in the Housing Division through the Senior Managers' Group cascading briefing to their teams:
8th June, 11am in the Council Chamber, 15th June, 2pm in the Council Chamber, 16th June 10am in the Council Chamber, 16th June, 3pm at London Road. A questionnaire to all housing staff to establish knowledge of the OA process was issued in April *2004* and the results show that a good level of understanding exists. *Further staff sessions were to be arranged.*

6.10 Briefing of Members and Chief Officers

Three briefing sessions have been given to Council Members: on the Option Appraisal process; on Stock Condition and on the Financial Modelling. Members also received two progress reports. Progress reports have also been presented to Strategic Management Board (consisting of Strategic Directors). The Council will consider this report on 29 June.

7. TENANT EMPOWERMENT STRATEGY

7.1 A significant issue in the ODPM criteria is that tenants are to be at the heart of the OA. The Tenant Empowerment Strategy (TES) – a requirement in the criteria – sets out at the start of the

process how this should be achieved. The TES has been agreed by CHTF.

7.2 Aims of TES

The TES set out how the Council would:

- Raise awareness of the OA process and of the meaning of each option for the Council
- Maximise the number of tenants involved
- Empower and inform all tenants
- Link in with the existing Tenant Participation Structures
- Work with the ITA so resources are maximised, any gaps are “plugged” and the Council and the ITA’s approach complement each other
- Promote an unbiased and clear appreciation that appraising the options for the Council’s housing stock is a positive and essential exercise
- Maximise publicity for this important process
- Ensure that tenant representatives, who play a role in disseminating information, are given comprehensive knowledge
- Ensure the OA process is used to encapsulate the broader concerns of stakeholders about the quality and delivery of the housing service for example regeneration and community safety
- Foster a sense of co-operation and understanding amongst all parties involved.

7.3 Expected results of TES

At the conclusion of the OA it was intended that:

- Tenants had been at the heart of the process and their views had been properly incorporated into the decision making process
- An agreement had been reached on priorities for investment in both the Council stock and its management, beyond the DH Standards

- A consensus was reached on the importance tenants place on the provision of social housing in the future
- Priorities for improvements in all housing services were identified
- An understanding of the implications of each option for Stevenage was to be achieved which would enable tenants to plan the way forward in partnership with the Council

7.4 Tenants' representatives and a leaseholder representative have been actively engaged and have contributed significantly to the work of HSG. All of these objectives have been met by the tenants' engagement in the HSG, although some of the aspirations will not be addressed by the chosen option.

8. DEMAND FOR HOUSING

8.1 As part of the OA it was essential that HSG had a clear understanding of the demand for existing housing and for additional housing. They considered these issues over several meetings. It was increasingly evident throughout the OA, and from the feedback that the HSG were receiving from the communications exercise, that additional affordable housing was an important aspiration.

8.2 Housing Needs Study

A Housing Needs Study was undertaken by David Couttie Associates from September to December 2003. This was carried out in accordance with the Basic Needs Assessment Model as recommended by ODPM. The estimated shortage of affordable housing is 435 dwellings for all tenures in a year.

8.3 There had been very low levels of development in recent years although it was anticipated that there would be an upswing between 2005 and 2008. There was a long-term shortage of sites and it was anticipated that proposed housing development West of Stevenage would make a significant difference.

8.4 HSG found the case for additional affordable housing for rent compelling.

8.5 HSG recognised that should the Council acquire additional funds through a stock transfer these could be, and in their view should be, used for funding additional affordable housing provision after meeting the other aspirations set out in the Stevenage Standard (see Annexe C) However there was some recognition that there was a shortage of development sites.

9. WIDER STRATEGY FOR NEIGHBOURHOOD RENEWAL

9.1 HSG took the view throughout the process that the principal outcome from the OA was the delivery of DH embracing sustainability within neighbourhood areas. With this in mind they examined the need for existing and additional social housing across the Borough and by type (e.g. general needs by differing sizes and sheltered). It came as no surprise that there is a continued need for the existing stock and a substantial additional need for general needs homes. They concluded that, irrespective of any funding that might occur from the stock transfer option, this need must be addressed through Regional Housing Board investment and S106 provision.

9.2 HSG also concluded that there was no major issue with long-term social housing voids that could lead to problems of neighbourhood degeneration.

9.3 Awareness of the OA was raised with partners in the Local Strategic Partnership, by their occasional representation at HSG and by a specific briefing at one of their meetings. Registered Social Landlords (RSLs) were engaged through presentations and discussion at their liaison meetings, on the work of the HSG and progress of the OA.

9.4 HSG held three Visioning Days and representatives of the community stakeholders were present at these events. With anti social behaviour, vandalism and tackling crime featuring as important issues, the presence of a representative of the uniformed services was welcomed. Health Service & Social Care colleagues also attended.

9.5 As the stock condition data and the financial modelling developed, it became clear that DH was going to be the driver for the OA and HSG took the view that once they understood the financial implications of this they would then explore how much

attention could be given to other issues. Stock transfer would be expected to address more issues than an ALMO. However, if ALMO is the choice of the Council, HSG are eager for the Council to secure the additional 5% allowed in the bidding process for regeneration aspects. HSG took the view that the detail of this needs to form part of an ALMO delivery plan.

9.6 HSG would also anticipate that the ALMO would promote neighbourhood renewal and contribute to the Council's corporate objectives.

9.7 HSG would expect the Council to pursue this once there is clarity of the likely level of resources and consequential commitments that can be negotiated with all partners and that contribute to the aspirations of stakeholders — particularly tenants and leaseholders.

10. ASPIRATIONS

10.1 The process of identification of tenants' aspirations for their housing service and housing stock together with their aspirations for the wider neighbourhood generally has already been discussed in this report. It is these aspirations that had to be considered against the various options to see what each could deliver.

10.2 Having considered the range of aspirations collected from different communication arrangements, HSG determined that the issues were divided between capital and revenue expenditure for both housing and non-housing aspects. To reiterate, it was clear, from the stock condition surveys that the major driver was the capital expenditure required to meet the DH criteria and which will address some of the tenants' aspirations – where these are linked to DHS.

10.3 Many of the aspirations relating to the housing stock were in excess of the DHS (e.g. smoke detectors, additional security measures, or enhanced specifications).

10.4 It was also paramount that tenants agreed the assumptions in the stock condition survey. For example assumptions related to life cycles and unit costs for individual components have significant bearing on the survey outputs. By way of example there is also a trade-off between installing cheaper kitchen units and the consequential increase in day-to-day maintenance. These

issues were directly related to tenants' aspirations. HSG accepted the assumptions.

10.5 A "Stevenage Standard" was agreed by HSG. This agreed "Stevenage Standard" is at Annexe C.

11. DECENT HOMES

11.1 The delivery of DH by 2010 is the key driver for OA.

11.2 Ridge and Partners, the property and construction consultancy employed for the validation of the stock condition survey data, undertook detailed presentations to the HSG and other stakeholders on the DH criteria. It was pointed out that whilst the DH standard was a useful catalyst for improvements to housing stock it should be recognised it was a minimum standard. The recommendation from Ridge was that prudent property asset management required all works forecast by a properly constructed, robust stock condition survey be undertaken. Any aspirations required by tenants might be additional to this and would be the basis of a "Stevenage Standard". HSG understood that the DH standard would not deliver improvements in some of the areas that might be considered important by tenants (e.g. smoke detectors, addition security measures or enhanced specifications).

11.3 The stock condition surveyors have calculated that 32% of the Council's housing stock is currently non-decent and that 99% will be potentially non-decent by 2010: therefore almost all of the stock needs some work in order to achieve the DH standard.

12. STOCK CONDITION SURVEY

12.1 This important element in the process has been the subject of many discussions by the HSG. The stock condition survey was undertaken in 2005 by Savills who were commissioned and project managed by Ridge who in turn have validated Savills work as it progressed. The Council intended to use the 2005 survey to enhance the data already held and to take account of the Government's DHS reporting requirements. They also wished to place greater emphasis on the collection, management and use of housing stock condition information as part of their wider asset management strategy. At the same time, SBC accepted that there

was value in having an independent review of the data held. As a result it was agreed that Ridge and Partners be commissioned to undertake the review.

12.2 When originally reviewing the Council's survey data Ridge noted that the Council's stock contained a significant proportion of high-rise and non-traditionally constructed stock. The data held in respect of the structural condition of these units was variable and in some instances in need of updating. The Ridge role was therefore expanded to commission and project manage a specialist structural engineering appraisal of these 'potentially high cost' units. A specialist engineering appraisal was commenced in 2004 by Curtins Consulting Engineers: the completion of this specialist exercise coincided with the provision of the Savills survey data; these two data sources have been combined to provide a single, robust source of data.

12.3 As part of the appointment the Council requested that Ridge evaluate and validate stock condition survey information for use in the housing stock options appraisal process. Their validation report is at Annexe B. This report confirms that the Savills and Curtins reports will be supported by a Trowers and Hamlins form of agreement, complete with warranties.

12.4 The stock condition surveys have been structured to represent a modern methodology and have been carried out in accordance with the recommendations of government guidance (Collecting, Managing and Using Housing Stock Condition Information - A Good Practice Guide, DETR 2000).

12.5 The sample of 15% (from a stock of 8,500) is of a sufficient size, and the method of stratification suitably robust, to provide the required level of accuracy for a whole stock assessment.

12.6 The accuracy of the Savills sample was further enhanced by the inclusion of external and common parts surveys to flat blocks (i.e. in addition to the count of dwellings surveyed internally); also a detailed cloning process followed an informed (local knowledge) officers review.

12.7 The engineering appraisal provided an additional sample (100% screening/impressionistic survey plus detailed evaluation of a selected sample) to give comfort in respect of the structural

condition and requirements for the high-rise and non-traditional stock.

12.8 The Council has confirmed that the rates and life cycles used are an accurate reflection of current local conditions in the context of a defined standard.

12.9 The total forecast expenditure (the Survey Base figure) of £444,446,404 gives a cost per unit of £51,458 for the thirty-year plan period for a total recorded stock of 8,637 dwellings (excluding 923 leaseholders, the external and common parts costs for which are shown on the summary reporting table). This figure is within an expected benchmark for a stock of this type (of £48,000 to £52,000); this, however, reflects the 30 year re-investment requirements of an ageing stock, with a high proportion being of high-rise or non-traditional construction. The £444.4 million profile, if fully funded and delivered, will allow the DHS and tenants' aspirations to be met and for essential landlord's functions to be maintained.

12.10 It should be noted that the HRA is not currently responsible for garages and, with the exception of a single sewerage pumping station, that no related assets are included within the survey predictions. The Council will need to determine its responsibility in the HRA for unadopted roads and footpaths. Until this review is completed it is not possible to confirm whether or not the current assumption is reasonable. If related assets are identified the expenditure requirements may increase accordingly.

12.11 Following a series of presentations and discussions the HSG were satisfied with the methodology of the stock condition surveys and the validation process.

12.12 The Council recognise that having accumulated the stock condition data it is imperative that it is captured on the database held by the authority and that it is maintained.

12.13 The stock condition data and likely levels of resources are the two key elements that the HSG had to get to terms with.

13. LOCAL AUTHORITY FINANCE

13.1 HSG received presentations on the principles and detail of the Housing Revenue Account and the General Fund. This included an overview of the central recharges to and from the HRA.

13.2 An overview of the HRA subsidy process and a basic illustration of how it applied to the Council were given to HSG.

13.3 HSG also received reports on the HRA Business Plan and an exemplification of the plan over 30 years.

13.4 There was extensive discussion about changes in the provisions of housing services and the potential implications of the options on the General Fund and on the levels of other services and of the Council Tax. HSG were particularly mindful of these issues in weighing-up the housing options available to the Council. The financial analysis at Annexe D contains the details.

14. PFI, ALMO, STOCK RETENTION AND STOCK TRANSFER

14.1 HSG received detailed briefings on the financial principles and the other key – non- financial - characteristics of these options. These briefings were deliberately detached from the options modelling and were part of the process of developing the knowledge of HSG in readiness for the financial analysis.

14.2 A presentation on the Community Gateway Model was also made to HSG and council employees.

14.3 The affect on staff in the event of stock transfer and ALMO options was covered. The Government is committed to ensuring that staff involved in all transfers are treated fairly and consistently and their rights respected in accordance with the Transfer of Undertaking (protection of Employment) Regulations 1981 (later amended, which are commonly known as “TUPE”).

14.4 These arrangements would mean that staff primarily involved with managing and maintaining the Council’s stock or providing support services to the Housing Department would, for the main part, have the right to transfer to an RSL or ALMO on comparable terms and conditions.

14.5 The new organisation will usually develop an organisational structure that enables it to undertake the majority of its housing and its business management functions in-house, and will need to recruit to its support functions in house.

15. FINANCIAL ANALYSIS AND CONSIDERATION OF OPTIONS

15.1 The full analysis is detailed in the report from Housing Quality Network (HQN) who were engaged to carry out the financial modelling. Their report is at annexe D to this report. Much, but not all, of the following section uses edited highlights from the HQN report.

15.2 Stock Condition and Investment

The current survey upon which the financial analysis is based was carried out in the winter of 2004 and spring of 2005. The outputs represent the need to spend in the following key areas:

- The need to meet the minimum DH Standard for all stock by 2010
- General planned maintenance and renewal works over 30 years
- Renewal and maintenance of non-housing assets
- The need to carry out specialist works relating to non-traditionally built properties and asbestos
- Ongoing recurrent, revenue funded, expenditure on cyclical maintenance and repair
- Tenants' preferred improvements

It did not consider investment required in most non-dwelling assets such as garages and shops because they are not held on the HRA.

Three standards were provided from the stock condition surveys:

15.2.1 Survey Base

The standard is the current stock condition survey outputs and includes the aspirations identified by tenants – the “Stevenage Standard”.

15.2.2 Reduced Standard

This standard is the stock condition survey outputs without the tenant aspirations where they are not a requirement for investment identified by the surveyors. This standard is only used for the stock transfer calculations.

15.2.3 Minimum Standard

This represents the investment requirement to meet all decent homes criteria and the responsibilities of a social landlord. Essential expenditure is required even though it falls outside the narrowly defined DHS. The Minimum Standard represents a sustainable investment strategy. Any investment below this level would not be sustainable in future years for the stock and the HRA. The financial analysis took into account changes in stock numbers between the survey date and 1 April 2005.

15.3 Consideration of options

15.3.1 Stock Retention

The base forecasts highlight challenges for the Council without additional resources for investment:

- The HRA is currently in surplus and the forecast suggests that the HRA will remain in surplus until 2010/11.
- There is however a shortfall against the stock condition survey investment profile (survey base) of £47.4m to 2010/11 (the deadline for achieving DH). Shortfalls rise over the 30-year period.
- The investment shortfall against the Survey Base would not be deliverable even with the allocation of all Council resources.
- The minimum standard has an investment shortfall of £20.1m to 2010/11 and £64,4m over 30 years. The

investment gap to 2010/11 could only be met through the use of all available Council capital resources and the use of Supported Expenditure. However the use of all Council resources would leave no funding for other Council capital expenditure.

HQN CONCLUSION: “The short to medium-term prospects for the HRA are positive throughout the remainder of the rent-restructuring period. This allows some level of flexibility in how resources are deployed, either for investment in the stock or service delivery or both. Conversely there are significant levels of shortfall against the Stock Condition Survey by 2010/11. More capital resources are needed to support a Retention Strategy at this level of investment. If the Council and tenants adopt the Minimum Standard, then the investment profile to 2010/11 is only affordable through the use of MRA, Supported Capital Expenditure and all other Council capital resources beyond those already planned to be used. This would have severe implications for the General Fund capital programme.”

HSG CONCLUSION: HSG understood that the retention option would not provide any additional funding to deliver DHS. Although DHS could be achieved by the Council diverting ALL of its capital funding, this would result in lack of investment in other important areas. This would lead to degeneration and unsustainability *associated with the local infrastructure and local neighbourhoods*. HSG were mindful of the concerns of Council Members in this respect. With the exception of the Trades Unions, HSG generally concluded that this option was not a deliverable option.

The Trades Unions were concerned that any option other than retention could lead to job losses *and changes in terms and conditions* for their members.

15.3.2 Private Finance Initiative

A PFI scheme typically applies to high cost, high investment need, and/or low demand stock in urban areas. The need for comparability with stock transfer and other forms of financing tends to result in PFI schemes working when other forms of private

finance might not, for example in areas of negative value for stock transfer or where there is a high element of “spend to save” in any redevelopment plans.

The main factors for a PFI to be worth considering are:

- Very high cost of investment
- Need for regeneration and wider investment in the area
- Need for some redevelopment
- Schemes sizes of between 1,000 and 3,000 properties
- The potential impact on the remaining HRA of the PFI scheme.

In Stevenage whilst there are some properties falling into the categories generally covered, the numbers are insufficient to secure affordability for Government, the PFI consortium and the remaining HRA. The up front costs associated with developing a PFI scheme are massive (up to £1m) and would not be affordable to SBC. In addition the average investment need across each stock archetype is relatively consistent across the Council and therefore there is no obvious stock that could be put into a PFI scheme that would reduce the overall average investment requirement for the remaining stock and therefore make other options more viable. Given the overall size of the Council’s stock, and the fact that it is reducing on an ongoing basis, HQN do not believe that a PFI scheme is either feasible or desirable in Stevenage.

HQN CONCLUSION: “There is little or no prospect of a PFI scheme applying to the council housing stock in Stevenage.”

HSG CONCLUSION: None of the HSG members considered that PFI was an appropriate solution for Stevenage, bearing in mind that it was only suitable for relatively small housing schemes with high costs and/or low demand. HSG acknowledged that PFI could not be a whole stock solution

15.3.3 Voluntary Transfer

Voluntary housing transfer offers the Council and tenants prospective benefits through enhanced services and investment in tenants' homes and estates.

The value of the stock for stock transfer purposes is based on a 30-year cash flow forecast called the "Tenanted Market Value" (TMV). The TMV seeks to capture the value to a landlord of future rents less future costs when sale of the properties on the open market is not possible. Future rents reflect rent restructuring. Future costs reflect current day-to-day management and repairs costs and the survey base capital expenditure profile. It is important to note that the assumptions made affect the valuation: more cost leads to a lower valuation.

An illustrative valuation of the stock (based on 1st April 2005 and at 2005/06 prices) is **£15.63m (£1,832 per unit)** based on the Baseline Standard. Allowing for set up costs and the levy the net receipt is estimated at £10.1m.

Estimated projections of the net possible impact of transfer on the General Fund (assuming transfer in 2007/08) are:

2007/08	2008/09	2009/10	2010/11
£1.0m cost	£0.5m	(£0.5m)	(£1.1m)

The detail of the breakdown of these is at Annex D to this report.

The HRA would have to be closed after transfer and there are around £2.3m support service recharges to the HRA in 2005/06. In practice some staff in support areas transfer to the RSL. It has usually proved possible to reduce support service costs by a half within three years through natural wastage etc. Any costs that cannot be lost will fall on the General Fund.

In the worse case scenario that support costs cannot be reduced in year 1, the net receipt and other income is not sufficient to generate enough income to cover the total £3.4m of residual costs. If, however, prior to transfer and depending on which posts transfer to the new RSL, costs could be reduced, then the net

effect on the General Fund could possibly be reduced to a broadly neutral position on transfer.

The Council would lose its supply of useable capital receipts but could receive a share of any preserved right to buy receipts posts transfer. This would have to be negotiated with the RSL at the time of transfer. Until 2010/11 the amounts received could be similar if the receipts are shared equally with the new RSL partner but over 30 years there will be at least 50% less capital resources available through preserved right to buy receipts than through the projected current sales.

Transfer Valuation using the Reduced Standard

If the Transfer calculation is undertaken using the Reduced Standard (i.e. with most tenant aspirations removed) then the gross valuation becomes £32.5m with an estimated useable receipt of £23.6m. A receipt of this amount would generate an additional £600k in interest income, reducing any potential General Fund costs on transfer.

Use of Receipt in the longer term

Once the residual support costs have been minimised on General Fund the net receipt and preserved Right to Buy sales are available for the Council to use. SBC would need to agree with ODPM how such receipts would be used but it is common for the net receipt to be used to grant fund the building of new affordable homes for rent.

Set Up costs

The costs of setting up a LSVT are charged against the Gross Capital Receipt. Should the transfer ballot fail pre-ballot costs (estimated minimum £480k) would be charged to the General Fund.

Summary of LSVT

In HQN's view stock transfer is financially viable. Transfer will enable the Baseline Standard (includes tenant aspirations) to be fully funded and with day-to-day spending at 2005/06 maintained throughout 30 years.

HQN CONCLUSION: "Stock transfer is financially feasible generating a net receipt of £10.1m. However the Council would

need to ensure that the residual costs of support services are reduced as soon as is possible to minimise the impact on General Fund.”

HSG CONCLUSION: Whilst recognising that this option would deliver all of the tenants’ aspirations, a formal ballot of tenants would be needed because a change in landlord would be involved. It would also need support of Council Members. The information gathered to date indicates that tenants wish the Council to remain as their landlord. There was some concern about the ability to deliver a ballot result in favour of Stock Transfer. Four of the FOSTA representatives were in favour of this option.

One FOSTA representative wished the HSG to consider a particular type of the Community Gateway model. Whilst HSG did not pursue this model, they agreed in the underlying principles of greater tenant empowerment that stem from the Community Gateway model.

15.3.4 Arms Length Management Organisation (ALMO)

Stevenage shares a typical profile with authorities which have adopted an ALMO strategy where:

- The minimum DH standard is not able to be met from Major Repairs Allowance by 2010/11,
- There is an absolute shortfall of investment resources against (Baseline) survey base expenditure profiles, both to 2010, over 10 years and rising in the longer term,

The combination of factors where there is an overall investment shortfall and where the DH standard cannot be reached with existing resources has been used as the basis for a credible bid for additional ALMO resources.

Before advancing any bid, the council would need to understand the requirement for an ALMO to achieve a 2* rating for all landlord services in order to release any additional government funding.

CHTF wish to see the Council develop an approach, which is able to meet the aspirations of tenants through the “Stevenage

Standard.” In these circumstances, it may be possible to develop an ALMO bid in excess of the minimum standard but not necessarily up to that indicated by the survey base in the stock condition survey. On the assumption that an ALMO bid is made at least up to the DH standard then a bid of at least £20.1m could be made. However it is unlikely that such a bid would reach the “Stevenage Standard” that has been developed so far.

Set up costs

Setting up costs have varied from less than £200,000 in the smaller ALMO authorities to over £600,000 in one metropolitan area. Costs may typically vary depending upon the level of consultation, whether a ballot is held, the number of sub-boards within the ALMO etc.

A key advantage many ALMOs have reported to date is the ability to renegotiate service agreements with other parts of the Council to achieve efficiencies, thereby enhancing the opportunities to achieve a balanced HRA into the medium term.

This would be unlikely to take place immediately. Any change to a service agreement and potentially to a new provider of services would be unlikely to take place during the initial period following its establishment as the ALMO would be pre-occupied with achieving 2* or better rating and planning and implementing the enhanced major works programmes. It would nevertheless be sensible to agree with the ALMO a joint Best Value programme to review support services and over a timescale that gives both parties time to adjust to change and in so doing minimise any impact on the General Fund.

Impact on the General Fund

Whilst there are some potential impacts resulting from the ALMO in time possibly sourcing services independently from the Council, the short-term implications on the General Fund have generally been found to be marginal. This is primarily as a result of the continuation of the HRA, which allows a longer-term financial strategy for dealing with recharges to be developed. Nonetheless, the creation of an ALMO has tended to increase transparency of the recharges between General Fund and HRA and highlight any anomalies, which may exist. A council wishing to pursue an ALMO is advised to review such issues at an early stage.

Currently Stevenage is debt free with a negative measure of debt on the HRA of £32m and a positive measure on General Fund debt of £24m giving an overall negative measure of debt of £8m. Currently ALMO capital investment is funded through additional supported capital expenditure. If this remains to be the case then the Council would go back into debt to the amount of £12m plus. The result of this should be neutral on the Council and not create an issue for General Fund. However, the formula used to calculate the Minimum Revenue Provision (MRP) figure for General Fund debt does not have the desired effect that was intended by Government and results in a cost to General Fund of up to £1m by 2010/11. ODPM have been consulted and have suggested that this should not be the case and if requested will seek to amend the formula to ensure that no such costs fall on to General fund.

The amount of investment available would not however cover the aspirational improvements by HSG. Nevertheless, ODPM guidance currently allows authorities to bid for an additional 5% to permit a degree of investment in environmental or sustainability works, so that an ALMO bid could include this to fund this type of work in addition to the Decent Homes investment gap itself.

HQN CONCLUSION: “A bid for additional resources under Arms Length Management could be made with a bid of at least £20.1m being possible with the a level of funding above this amount being a possibility. Stevenage will need to ensure that ODPM alters the formula that calculates how the MRP is applied to General Fund.”

HSG CONCLUSION: An ALMO would manage the landlord functions for the housing stock. It would bring additional funds to achieve DHS and 5% for regeneration activities. The position from 2011 onwards was not assured. The Council would remain as the landlord. The ALMO would be subject to a Management Agreement with the Council who would monitor progress. Staff would be subject to TUPE. The Support Services (unless subject to TUPE) would be provided by the Council in the first instance and subject to a Best Value review approach by the ALMO. If the Council services demonstrated value for money it was unlikely that the ALMO would look elsewhere for their support services. Three of the FOSTA representatives and all the Council Members supported this option.

16. RECOMMENDATION

Housing Strategy Group recommendation to Council:

- It was agreed that the Council should be informed that the Housing Strategy Group's preferred housing option was for an Arms Length Management Organisation, subject to the formula used to calculate the Minimum Revenue Provision to the General Fund being amended to negate any impact, on the General Fund, and that this option should take into consideration greater tenant empowerment based on the principles of the Community Gateway Model.

ANNEXE A

LIST OF MEMBERS OF THE HOUSING STRATEGY GROUP

Richard Bramley (Chair)	Project Advisor – RMB Consulting
Amanda Harper-Ives	Tenant representative
Mick Lamming	Tenant representative
Geoff Howes	Tenant representative
Dot Fidoe	Tenant representative
Bert Pokorny	Tenant representative
Rob Parsons	Tenant representative
Bill Whelan	Tenant representative
Kathleen Morrison	Leaseholder representative
Ann Webb	Executive Councillor for Housing
Tony Turner	Councillor
David Kissane	Councillor
Simon Speller	Councillor
Graham Clark	Councillor
David Cullen	Councillor SOC (from May 2005)
<i>Paul Thompson</i>	<i>Unison</i>
Peter Terry	Unison (up to March 2004)
Steve Kosky	Unison (from April 2004)
Ann Slade	Unison (from April 2005)
Gary Palmer	AMICUS (May 2005)
Jerry Whaley	ITA – Libra Housing Services
Valerie Corrigan	Director of Community Services (to March 05)
Celia Twomey	Assistant Chief Executive (Policy & Communications) (to March 2005) Strategic Director (from April 2005)
Pauline Coletta	Head of Finance
Debbie Rabot	Head of Housing
Jo Barrett	Head of Housing Technical Services
Maureen Herdman	Tenant Participation Coordinator
Lyn Dutton	TP Team
Gill Laurence	TP Team

STOCK CONDITION SURVEY – VALIDATION REPORT

RIDGE AND PARTNERS

THIS DOCUMENT WILL BE AVAILABLE SHORTLY

STEVENAGE STANDARD

SEE SEPARATE DOCUMENT

HOUSING STOCK OPTION APPRAISAL –

FINANCIAL ANALYSIS REPORT

PREPARED BY HOUSING QUALITY NETWORK

SEE SEPARATE DOCUMENT