

CABINET ITEM COVERING SHEET PROFORMA

AGENDA ITEM

REPORT TO CABINET

2 AUGUST 2007

**REPORT OF CORPORATE
MANAGEMENT TEAM**

CABINET DECISION

Housing and Community Safety – Lead Cabinet Member – Councillor Nelson

HOUSING FUTURES AND REVISED HOUSING CAPITAL PROGRAMME

1. Summary

To seek Member approval to undertake a comprehensive option appraisal of the Councils housing stock and in view of this to review the Tristar managed capital programme in line with existing resources.

2. Recommendations

1. Cabinet endorse the proposal to undertake an option appraisal of all council owned housing as detailed in this report.
2. Members endorse the draft objectives as detailed within the body of the report, to be followed by detailed consultation with all Members and tenants/leaseholders.
3. Members endorse the establishment of a Tenant Housing Futures Group.
4. That delegated authority is given to the Corporate Director of Development and Neighbourhood Services in consultation with the Cabinet Member for Housing and Community Safety to sign-off the objectives following a Member seminar and consultation with tenants and leaseholders.
5. Members support the appointment of the Project Team to deliver the option appraisal process.
6. Members support the appointment of an Independent Tenant Advisor.
7. A further report be brought back to Cabinet following completion of the option appraisal progress outlining key findings and the preferred investment options (measured against the pre-determined objectives).
8. Members note the impact of the option appraisal on available capital funding and approve the revised 2007/08 and 2008/09 Tristar managed capital programme.
9. Members recommend to Council short-term prudential borrowing of £5.5 million is secured to move resources across financial years to ensure early completion of decent standard works thereby saving overheads.

10. That expressions of interest may be submitted to CLG relating to the identified options available

3. Reasons for the Recommendations/Decision(s)

To secure long term funding that will ensure the provision of quality, appropriate accommodation in sustainable neighbourhoods, accommodation that will meet the needs the housing needs and aspirations of current council tenants and future generations of the Borough.

4. Members Interests

Members (including co-opted members with voting rights) should consider whether they have a personal interest in the item as defined in the Council's code of conduct (paragraph 8) and, if so, declare the existence and nature of that interest in accordance with paragraph 9 of the code.

Where a Member regards him/herself as having a personal interest in the item, he/she must then consider whether that interest is one which a member of the public, with knowledge of the relevant facts, would reasonably regard as so significant that it is likely to prejudice the Member's judgement of the public interest (paragraph 10 of the code of conduct).

A Member with a prejudicial interest in any matter must withdraw from the room where the meeting is being held, whilst the matter is being considered; not exercise executive functions in relation to the matter and not seek improperly to influence the decision about the matter (paragraph 12 of the Code).

Further to the above, it should be noted that any Member attending a meeting of Cabinet, Select Committee etc.; whether or not they are a member of the Cabinet or Select Committee concerned, must declare any personal interest which they have in the business being considered at the meeting, and if their interest is prejudicial, they must also leave the meeting room during consideration of the relevant item.

AGENDA NO

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DETAIL

Background

1. In 2000 the Council undertook an initial option appraisal of its housing stock. The key drivers for undertaking the study at that time included:
 - The Housing Green Paper: which introduced the Governments target to ensure all social housing, meets the decent homes standard by 2010.
 - Poor stock condition: a comprehensive stock condition survey had recently been undertaken which estimated the stocks total investment needs over a 30-year period at £232.1million.
 - Significant numbers of long void and difficult to let properties: in the region of 1,000 properties were empty each week.
 - Limited Housing Revenue Account and General Fund resources: with rising financial pressures.

The stock options study undertaken in 2000, evaluated the strategic options open to the Authority and its tenants against a number of pre-determined criteria and judged each options ability to:

- Secure adequate investment in the housing stock ensuring all properties are brought up to a decent standard within 10 years.
- Extend quality and choice for tenants and potential tenants.
- Keep tenants rent affordable.
- Ensure an adequate supply of social housing to meet local demand in line with current research on local housing needs.
- Tenant and resident involvement in the governance of the organisation and
- Deliver high quality management and maintenance services, which are accessible to a wide range of groups and available locally.

Following extensive financial modelling, consultation and a tenant ballot the Authority opted to establish an Arms Length Management Organisation (ALMO) and following acceptance onto the Round 1 ALMO Programme, Tristar Homes Limited (THL) was established in April 2002.

The ALMO successes

2. The establishment of an ALMO enabled the Authority to attract an additional £63million in capital funding which it would otherwise not have secured.
3. With these additional resources progress in achieving the 'decent homes' standard has been significant for example as at 1st April 2007 only 2642 of the 11,108 housing stock remained non decent. These remaining properties will be brought up to decent standard in advance of the 1st March 2011 deadline.
4. Other key successes measured against the initial option appraisal criteria have included:
 - The ALMO option has ensured that rents have continued to remain 'affordable'.
 - Housing investment has been focused on 'sustainable' housing stock, with non-sustainable housing stock demolished and replaced with new quality housing.
 - Significant progress has been made by THL to involve their tenants and leaseholders in the decision making progress through the establishment of a network of Customer

Groups and Panels. In addition the governance structure of THL ensures tenants are equal partners on the Board and occupy 6 of the 19 Board seats.

- Improvements in the quality of the management and maintenance of the housing stock as evidenced in the recent Best Value inspection of THL. The Audit Commission awarded THL 2 stars (good service) with promising prospects for improvement.

Current Issues

5. As more and more stock condition information is gathered, works which are not classed as decent standard but nevertheless are urgent works such as replacement lifts, emergency lighting and smoke alarms in multi storey blocks have emerged. This has created significant additional financial pressure as some of the works require completion within the next couple of years therefore reducing the resources we have available for decent standard plus works. Members will recall that previous Cabinet approval has been given for some of the urgent health and safety works for example lift replacement at multi storey blocks to commence following health and safety reports.
6. Members will note that the decent standard definition as detailed at **Appendix 1** of this report is very basic and in Stockton we have historically been enhancing the decent standard works providing in most cases new bathrooms and kitchens and replacement heating. With limited resources we will only be able to carry out basic decent standard works hence the need to explore other options with some urgency. Clearly any future option will need to consider funding decent standard plus works as a priority to ensure all tenants receive equal levels of improvements to their home. Prudential borrowing has been considered as a means of continuing to carry out decent standard plus works but the Council cannot borrow with a view to paying back in the long term until it is clear about the results of the option appraisal. For example if large scale voluntary transfer was the chosen option at the point of transfer the councils resources (major repairs allowance, capital housing receipts etc) will cease and therefore the Council would be left with debts which could not be serviced by income. However prudential borrowing in the short term will be beneficial to the council as it allows us to accelerate the basic decent standard works so that the majority of remaining work is carried out in the current financial year thus saving overheads for the period 2008/09.
7. On the basis of the above information the Council have been working with Tristar to reprofile the Tristar managed housing capital programme over the next two years. At Cabinet on the 22nd February members approved an overall capital programme for the next three years. Members are now being asked to approve a revised two-year programme. The reason it is a two year programme not a three year is to reflect the period it is anticipated it will take to move forward the option appraisal and resulting conclusions in full consultation with our tenants. Until we have the chosen option in place it is not prudent to plan a capital programme beyond 2009 as we cannot be clear what resources we will have available at that time.
8. Members should note we have been working with Partners to accelerate the basic decent standard programme and save on costs. This will result in the majority of decent standard works to the remaining circa 2000 properties being completed in the financial year 2007/08. The revised Tristar managed element of the housing capital programme is attached at **Appendix 2**. The retained housing capital programme remains as it was approved in the 22nd February Cabinet Report Cabinet.

The future

9. While the establishment of THL has ensured significant inward investment, improved property condition and management of the housing stock it is now timely to consider the growing financial pressures we face as tenant aspirations have increased and we need to ensure we can respond to changing local and national issues. Some of the issues are as follows:

- Post decent homes standard: while we welcome the additional capital investment received to date, the aspirations of our tenants have changed. Tenants have clearly stated (through various consultation exercises) that they want:
 - Comprehensive window and door replacement programmes.
 - Improvements to the exterior of their properties (i.e. car parking, improvement security and environmental etc.).

With no prospect of additional capital investment post 2010 the Council/THL will not be in position to deliver tenant aspirations for property enhancements and improvements and as outlined earlier in this report we will only be able to carry out basic decent standard works to remaining properties until new resources can be identified.

- Continued service improvements: tenants continue to prioritise tackling anti-social and measures to address as a key priority. Again with limited funding opportunities available THL's ability to respond will be limited.
- Sustainable Communities: the Governments drive is for Local Authorities to deliver communities that are 'sustainable' i.e. areas where people choose to live now and in the future. The Council has extensive experience of housing and economic regeneration programmes and wants to ensure they are continued into the future.
- Providing the right type of housing for both current and future generations: the majority of the current housing stock is family housing, however Members will already be aware of the changing profile of the Borough in terms of an 'aging population'. If we are to meet these tenants needs we will need to provide properties of lifetime homes standards, more elderly persons accommodation and continued investment into the housing stock in terms of 'future proofing' with appropriate aids and adaptations.

In addition demand for housing remains high yet total stock numbers are diminishing due to Right to Buys and selective demolition of obsolete housing stock it is therefore imperative that new quality social and affordable housing is re-provided.

- Addressing the issue of 'affordability' and access to the housing market: In December 2006 the Council published its updated Local Housing Assessment. As anticipated it identified significant changes to the housing market in the period since the publication of the previous study in 2000.

Average household earnings in the Borough have not kept pace with rapidly increasing house prices resulting in many our residents' inability to access the housing market. While the Housing and Planning services are working with private sector and Registered Social Landlords to enable the delivery of affordable housing, we anticipate that recent rises in interest rates, coupled with continued rising in house prices will inevitably result in an increasing affordability problem for many of our residents.

10. Giving due regard to changing local and national issues and priorities it is proposed that a future Option Appraisal is undertaken, in conjunction with THL and involving detailed consultation with tenants and all key stakeholders. The purpose of this exercise will be to appraise and evaluate potential investment options and ensure we are in a position to respond positively to the issues detailed above.

11. In summary the current options available are:

11.1 Transfer of the Housing Stock to an RSL

Stock transfer involves the transfer of ownership and management of the housing stock to a RSL regulated by the Housing Corporation. The Council would need to demonstrate tenant support for any transfer proposal through a ballot before stock transfer can take place.

Potential advantages:

- Can access additional private sector funds to deliver additional investment in the housing stock or provide new housing
- Potential to increase tenant involvement in the management of homes
- Potential for the Council to benefit from future Right to Buy sales and any VAT savings.

Potential disadvantages:

- The Council no longer owns the stock
- Once completed the transfer cannot be reversed.

11.2 Private Finance Initiative (PFI)

PFI for housing has primarily been used for the regeneration of specific estates or the provision of new build properties. It involves a long-term contractual commitment (typically 30 years), under which the contractor generally manages and maintains the properties in the scheme.

Potential advantages:

- Can access additional government funds to deliver additional investment in the housing stock or provide new housing
- The Council retains ownership of the housing stock.

Potential disadvantages:

- Concerns about value for money
- Can be expensive and time consuming to set up
- Not seen as a 'whole' stock solution.

11.3 Staying as we are (no change):

Potential advantages:

- The Council retains ownership of the housing stock
- Tenants are familiar with this option.

Potential disadvantages:

- No additional investment available for ALMOs
- Limited ability to respond to growing customer needs and aspirations.

11.4 Housing Revenue Account (HRA) Self Funding Model

HRA self-funding is linked to the current debate on future financial freedoms for high performing ALMOs. The Government is currently working with a small number of excellent local authorities and local authorities with three star ALMOs to examine the costs and benefits of operating their finances outside the HRA Subsidy System.

Potential advantages:

- Potential to retain any HRA surpluses
- Greater certainty for longer-term asset management.

Potential disadvantages:

- Cost of buy out or loss of future support
- Performance criteria – pilots have been with excellent LA's or three star ALMOs
- Currently only operated as a pilot.

It is also proposed that detailed consideration be given to the potential for structures that unlike the more 'traditional' options detailed above ensure housing is appropriately placed to both support and deliver the wider economic regeneration in the Borough.

11.5 Regeneration special purpose vehicle (i.e. joint ventures/area specific vehicles etc).

A wide range of agreements or corporate vehicles could potentially be used to secure and take forward housing led regeneration development. We are aware that a number of the larger metropolitan authorities are beginning to move in this direction.

Potential advantages:

- Can provide focus and momentum around regeneration projects
- Can provide a delivery vehicle into which expertise and funding resources can be attracted
- Can (under certain models) recycle receipts allowing the public sector to share in and reinvest values associated with successful regeneration.

Potential disadvantages:

- Can be time consuming to establish
- Detailed consideration needs to be given to the range of public and private sector partners involved to ensure mutual interests are satisfied and not compromised.

It may be necessary to submit expressions of interest to CLG relating to these options so as not to delay progress once a decision is made. Any such expression of interest can be rescinded and does not commit the Council to any particular option.

Emerging thinking and opportunities raised within the housing green paper will also need to be factored into the detailed option appraisal.

Evaluating the options

12. As with the previous option appraisal it is essential that the options detailed above be judged against a number of pre-determined criteria. Members are asked to endorse the following draft objectives:

Objective 1: Secure appropriate investment to fund property and external environmental investment works.

- Physical stock improvements, stock remodelling, the external environment and future proofing.

Objective 2: Regenerate and rejuvenate our neighbourhoods (deliver sustainable communities).

Objective 3: Meet the housing needs of the Borough (improve and increase the supply of affordable housing options for our tenants and residents).

- Increase the supply of affordable housing, broaden the scope for mixed tenure estates and deliver a range on intermediate tenure options.

Objective 4: Meet key national and local agendas

- Social inclusion, economic regeneration and the 'green' agenda.

13. It is proposed that a series of consultation events are held with tenants and Members to develop and finalise these draft objectives.

Next Steps

14. Following approval by Members a number of initial steps will be taken to commence the option appraisal process:

- Appointment of a Project Team: it is proposed that 3 Officers from the Housing Service be seconded to deliver the option appraisal (a Project Manager, Project Officer and Administration Officer). These Officers recently delivered the successful Small Scale Stock Transfer of sheltered housing and therefore have experience of the option appraisal process. This team will report directly to the Head of Housing.
- Appointment of an Independent Tenant Advisor (ITA) – Option Appraisal Guidance clearly states that tenants must have a meaningful role during this process and should take ownership of the conclusions. Tenants are expected to be supported by ITA throughout the process.
- A Member seminar to be arranged for early September 2007 to discuss and firm up the optional appraisal objectives.
- Establishment of a Housing Futures Group (tenants and leaseholders) to commence the consultation of the draft objectives and the evaluation of potential options.
- Following the evaluation of the potential investment options (as outlined previously) a further report be made to Members detailing the appraisal process and preferred investment option.

FINANCIAL AND LEGAL IMPLICATIONS

Financial

An initial £600k has been earmarked from the HRA to enable the commencement of the option appraisal process.

It should however be noted that a number of the functions associated with the option appraisal are General Fund activities (and have been classified as such by the CLG). These potential costs have therefore been identified in the Medium Term Financial Plan. All financial implications will be assessed on an ongoing basis and reported back to members.

Legal

None specifically at this stage.

COMMUNITY STRATEGY IMPLICATIONS

The Option Appraisal process potentially contributes to the following Community Strategy Improvement Themes and priority objectives: -

Liveability

- Improving housing quality and choice
- Improving the condition of public sector housing
- Improve housing and support for vulnerable and older people

Healthier Communities and Adults

- Promote the independence of vulnerable older people and adults.

Community Safety

- Contribute to reducing both actual and the fear of crime and disorder.

RISK ASSESSMENT

The Option Appraisal process has been categorised as a low risk. Identified risks will be managed through existing management systems and daily routine activities, with lead responsibility assigned to the Head of Housing.

CONSULTATION, INCLUDING WARD COUNCILLORS

Consultation will be undertaken as detailed within the body of the report.

Corporate Director of Development & Neighbourhood Services

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Background Papers

Capital Programme Report to Cabinet 22nd February 2007

Education Related Item?

No

Ward(s) and Ward Councillors:

All