

**STOCKTON-ON-TEES BOROUGH COUNCIL**

**CABINET RECOMMENDATIONS**

**PROFORMA**

Cabinet Meeting .....14th September 2009

1. Title of Item/Report

Housing Futures (Options for Future Investment)

2. Record of the Decision

Consideration was given to a report that provided members with information to assist them in deciding upon their final ('preferred') option for the future ownership, management and maintenance of the Council's housing stock. In the event of stock transfer being approved the report also proposed next stage actions to assist in successful delivery

Members were reminded that in August 2007 a report was presented that explained that, whilst the establishment of Tristar Homes Limited (THL) as the councils Arms Length Management Organisation had ensured investment of circa £120million in capital funding (to achieve the decent homes standard), it was now timely to consider how the Council could build on this investment to ensure appropriate resources were available for on-going property and service improvements. Cabinet subsequently granted approval to undertake a stock option appraisal.

A number of criteria were developed, in consultation with tenants and members. Each of the potential options available to the Council were evaluated against them:-

- Secure appropriate investment to fund property and external environmental investment works i.e. stock improvements, car-parking provision, property and estate security improvements.
- Regenerate and rejuvenate our neighbourhoods.
- Meet the housing needs of the Borough (improve and increase the supply of affordable housing options for our tenants and residents).
- Meet the key national and local agendas (i.e. social inclusion, economic regeneration and the 'green agenda).
- Rents to provide value for money (for both new and existing tenants).
- Tenants rights to be protected.
- Provide a 'local' management and presence.
- Ensure good communication structures with tenants.
- Deliver opportunities for 'real' tenant involvement, participation and

influence at all levels

- Ensure continuous service and quality improvement.

To inform the option appraisal the Council undertook a stock condition survey i.e. to identify the future repairs and maintenance liabilities of the housing stock over a 30-year period..

The report concluded that stock investment needed over the next 30 years totalled £593,767,930 amounting to an average per property of £56,404

Members were reminded that the options appraisal had highlighted that if the Council retained the housing stock there would be a significant shortfall in necessary capital investment. In view of this unless the Council, on behalf of tenants, were prepared to accept a much lower standard of investment than was required, the only viable option available to the Council at that time was stock transfer.

However as Communities and Local Government was at that time undertaking a review the housing finance system, Members asked that an update report detailing the implications of this review be brought back to Cabinet before a final decision on stock transfer was made.

In June 2009 the Housing Minister, John Healey announced the findings of the Housing Revenue Account Review. A consultation paper was issued on 21st July 2009 and Members noted the main proposals, all of which were less advantageous than the current terms of stock transfer. Members were therefore asked to confirm stock transfer as their preferred investment option.

Following earlier Cabinet approval to explore stock transfer a number of workstreams had commenced. They included:

#### Financial modelling/stock transfer valuation

Additional work had been undertaken to establish a more detailed stock valuation. Valuation modelling included the need to improve the housing stock in accordance with the stock condition survey requirements, undertake some environmental improvements (this could include fencing, additional external lighting, footpath repairs etc), plus the provision of limited funding to deal with non-sustainable properties. The valuation was a unique valuation only used for the purpose of stock transfer.

The final valuation had to be agreed with the Homes and Communities Agency (HCA) as it would affect the amount of debt the Government had to write off in a transfer situation. In summary, the Council had housing

debt both before and as a result of the borrowing for the ALMO. The Council received subsidy on an annual basis from Government to pay this debt. At the point of transfer, any positive capital receipt from the valuation (less admissible costs incurred by the Council and the set up costs of establishing the new transfer organisation) would be paid to Government to offset the debt owed. On this basis the HCA were very strict about what could be included in a valuation and the Council had been in consultation with them to determine the detail of the valuation. Communication was ongoing with the HCA and future meetings were programmed for late September 2009.

### Landlord Selection

An elected member reference group had been established, initially to work alongside the already established Homes for the Future Tenants Group. The two groups quickly decided they would come together to work on the landlord selection process. The Joint Reference Group (JRG) was established with a remit to consider options for landlord choice before making a recommendation back to Cabinet for their consideration.

Cabinet noted the process followed by the JRG and the short list of potential landlords. Following assessment of the landlords all JRG members agreed that the report to Cabinet would state there was "majority support for Housing Hartlepool and Tristar Homes in a new Group structure"

### Non-sustainable housing stock

It was explained that this work highlighted that two specific estates would require significant additional investment. The options for non-sustainable properties needed to be further explored and it was proposed (pending Cabinet approval) to commence consultation with tenants of the estates and for tenants to work with the Council on area regeneration proposals.

Cabinet was provided with details of the financial implications of stock transfer on the Council. Particular reference was made to overhanging debt and it was explained that the calculation for debt that was written off was usually calculated as a 'notional figure' (the capital subsidy financing requirement). This figure was usually higher than the 'actual housing debt', thereby giving a positive receipt to the Authority to help mitigate any potential costs and liabilities arising from the transfer. Discussions were ongoing with HCA to verify this position, if this were not to be the case it would create a revenue pressure of £600k per annum and seriously question the viability of the transfer. The clearing of debt would generate a saving to the Council's General Fund of £0.93m in the first

year, reducing thereafter by 4% per annum.

Cabinet also noted issues relating to the VAT shelter and it was explained that Local authorities were able to reclaim VAT spent on their housing stocks while RSLs were not. With the agreement of HM Revenue & Customs, the Council and the RSL are able to enter into an agreement over the amount of future improvement works required at transfer. Thereafter, the new landlord could reclaim VAT on major repairs and improvement costs covered by the agreement. The VAT shelter would usually last for 10 years although there were examples of 15-year arrangements. This could generate significant resources, which in other transfers had been shared between the council and the RSL. Early discussions with HCA indicated that they would expect 50% of the VAT shelter savings to be factored into the valuation, thereby reducing the level of 'overhanging' (outstanding housing) debt. Assuming agreement with the HCA on VAT sharing there would be a significant resource (potentially up to £10m) to feed into the negotiations with the new RSL. Failure to obtain an agreement on sharing the VAT benefit would impact on the viability of the transfer.

Members noted that if approval to move forward, with the stock transfer was granted, there were a number of key work streams to pursue:

An Offer Document detailing the offer being made by the Council, to its tenants, would have to be developed. It would set out to tenants a series of 'promises' in relation to property improvements and the standards of service they would receive should tenants vote in favour of stock transfer. The Offer Document would also detail the implications of a 'No vote'.

Prior to ballot the principles of the Offer Document would be brought back to Cabinet and Council for final approval. The ballot was expected to take place during the Spring 2010.

Prior to ballot the new RSL would need to begin the legal process of establishing a new shadow board. It was recommended in accordance with current practise the Board should consist of 12 members and offer equal representation: 4 representatives of the Council, 4 tenant representatives and 4 independent members. It is proposed the 4 Council representatives be elected members appointed by the Authority.

Once the shadow board was established it would act independently from the current ALMO Board. The current ALMO board would cease at the point the new RSL was legally established (at the point of transfer).

Members noted other arrangements associated with the governance of the new Registered Social Landlord.

RESOLVED that

1. the publication of the Communities and Local Government (CLG) consultation paper 'Reform of Council Housing Finance' and the likely financial implications of this review for the Council be acknowledged.
2. the transfer of the housing stock be supported as the preferred delivery option, to secure future stock and service investment needs, subject to financial assumptions regarding overhanging debt and the VAT shelter.
3. the work of the Joint Reference Group, and its suggestions for a new landlord structure be supported and that the option for the establishment of a new Registered Social Landlord (Tristar Homes), to form part of a new Group structure to be developed with Housing Hartlepool, be approved
4. In order to move forward with the options for housing stock, that is not sustainable, a programme of consultation with local communities be approved. Following this period of consultation, delegated authority be given to the Corporate Director of Development and Neighbourhood Services, in consultation with the Cabinet Member for Housing and Community Safety, to develop appropriate regeneration proposals in conjunction with Tristar Homes.
5. the development of the draft Offer Document to tenants be approved.
6. The principles of the Offer Document be presented to Council for final approval, prior to being issued to tenants.
7. the governance arrangements for the new Registered Social Landlord be approved

RECOMMENDED to Council that

8. it appoints four elected members, as Directors, to the Tristar Shadow Board, in accordance with the Council's political proportionality,

3. Reasons for the Decision

To secure long-term funding that would ensure the provision of quality, appropriate and affordable social housing in sustainable communities.

Accommodation that would meet the housing needs and aspirations of current council tenants and future generations of the Borough.

4. Alternative Options Considered and Rejected

See relevant parts of report submitted to Special Cabinet on 14 September 2009

5. Declared (Cabinet Member) Conflicts of Interest

None

6. Details of any Dispensations

Not applicable

7. Date and Time by which Call In must be executed

In respect of resolutions 1 – 7 only, midnight on Wednesday 23rd September 2009

Proper Officer  
17 September 2009