

**Full Council**

Date 27th June 2005

Item No.

Author:

Mairi McLean
Chief Executive
Ext 7726

HOUSING OPTION APPRAISAL

Recommendations

That the Council fully debates the options available in order to determine its preferred option for the future of the housing stock and the associated landlord service that best delivers its commitment to the Corporate Plan priority, “ Ensure the availability of decent and affordable homes for all”.

Purpose of the report

To confirm that the audit work on the postal and door-knocking survey of tenant views on the options in the Housing Option Appraisal has now been completed. Errors were originally found in the input of data and those led to our need to check all information. Following this work, the findings from the data provided by the Independent Tenant Advisor, Birmingham Cooperative Housing Association have now been validated. An independent investigator has also confirmed that the housing options appraisal process has been conducted in a proper and satisfactory manner.

To provide a summary of the Housing Options Appraisal process and to provide key information which will enable the council to determine a preferred option for the future of the housing stock and the associated housing management service.

Two of the four possible options have been identified as the basis for the decision making process, Large Scale Voluntary Transfer or Stock Retention.

An examination of the two remaining options, Arms length Management Organisation and Private Finance Initiative has indicated that neither will assist the Council with the achievement of its objectives.

1. INTRODUCTION

- 1.1 This report sets out a summary of the Housing Options Appraisal process and provides information concerning the financial and strategic aspects of the different housing management options potentially available to the Council.
- 1.2 This report was originally on the agenda of the Council meeting of 16th May. Information raising serious concerns about the quality of the data in the Birmingham Cooperative Housing Services door knocking survey of tenant's views was received by the Council on 16th May. A decision was made to delay the Council discussion pending an immediate investigation. The detail of the investigation and follow-up action can be found in Appendix H.
- 1.3 A cross-party group has been overseeing the investigation. The group is satisfied that the data is valid and that no further survey work is necessary. Another cross-party group commissioned an independent investigator to undertake a broader review of the housing options appraisal process. The investigator has confirmed that the process has been conducted in a satisfactory and proper manner.
- 1.4 The Government Office for the East Midlands has confirmed that in their view it was right that the Council discussion was delayed and investigation instigated. They have also confirmed that they are satisfied with the audit work that has been completed and that they would not support further survey work being undertaken. GOEM are of the view that the Council is now in a position to complete this stage of the process and to make a recommendation about the future of the housing stock by the end of July.
- 1.5 The Chief Executive and the leaders of the three political parties had a positive meeting with the Housing Minister Yvette Cooper on 9th June to give an update of the council's progress on the housing options process. She encouraged the Council to provide specific information to tenants about what the options will mean for them, using practical examples.
- 1.6 To ensure that Councillors have a comprehensive understanding of all aspects of the Options Appraisal process, there are a number of documents appended to this report which merit careful consideration

These appendices are:

Appendix A: The executive summary of a financial report produced by the Council's financial consultants Tribal HCH, on the options available to Northampton Borough Council.

Appendix B: A report produced by the Independent Tenant Advisor, Birmingham Co-operative Housing Services, on the consultation carried out with tenants and leaseholders.

Appendix C: A report from the council's communications consultants, IPB Communications Limited, in relation to the consultation that was carried out as part of the appraisal.

Appendix D: Responses from external stakeholders in relation to the options appraisal, including the Northampton Borough Council Trades Unions.

Appendix E: The results of the employee survey.

Appendix F: A copy of the slides presented at the Councillor briefing on Monday 9 May 2005, by Birmingham Co-operative Housing Services (Independent Tenant Advisor).

Appendix G: A copy of the slides presented at the Councillor briefing on Monday 9 May 2005, by TRIBAL HCH (formerly HACAS Chapman Hendy) the Council's financial advisors on the Housing Option Appraisal process.

Appendix H: Housing Options Appraisal- Complaint about the Consultation Survey

2. PROJECT ADMINISTRATION

In order to administer the Housing Options Appraisal, a Project Board was established to act as a steering group. This was composed of Council employees, elected councillors from the three political groups, tenants, the Independent Tenant Advisor and representatives from external consultants appointed by the Council.

A Project Team was also set up, to manage the process on a day-to-day basis. Membership included an external Project Manager, Council employees, tenants, the Independent Tenant Advisor, an independent auditor and consultant representatives.

The Council appointed Tribal HCH (formerly HACAS Chapman Hendy) to carry out a financial appraisal of the Council's future capacity for delivering the housing management function and to assess the possibilities for future investment in the housing stock.

A communications consultant, IPB Communication Ltd., was appointed by the Council in order to assure the quality of stakeholder communications. Tenant representatives of the Customer Panel appointed an Independent Tenant Advisor (ITA), Birmingham Co-operative Housing Services, in accordance with the requirements of the Government's Option Appraisal process. This organisation was independent in the sense that it was chosen by tenants rather than the Council and assisted tenants with the role of scrutinising the integrity of the Option Appraisal process.

During 2003, the Council commissioned a Stock Condition Survey. This survey provided the basic data required to assess the position of the Council's residential housing stock in relation to the Government's Decent Homes Standard. It also provided a profile of the future investment levels required to support a maintenance programme that would prevent future deterioration of the housing stock. This information was used by the Council's financial consultants in arriving at the conclusions summarised in this report.

3. BACKGROUND

The Government has set a target for all social housing to reach the Decent Homes Standard by 2010. Local authorities which own residential housing stock are required to produce plans to show how they will achieve this objective and also how they will maintain the standard thereafter.

Councils which are able to meet the Decent Homes Standard, using their existing resources, may request the Government Office to endorse their plans for continuing to manage the housing stock under the current arrangements.

However, the Government has been very clear in stating that if these retention arrangements subsequently prove to be inadequate, *no additional investment funding will be made available from Government.*

If councils require additional finance in order to meet the Decent Homes Standard by 2010, the Government has specified a number of available options which could provide the necessary investment. These options are:

- Setting up an arms length management organisation (ALMO)
- Entering into a Private Finance Initiative contract (PFI)
- Carrying out a large-scale voluntary transfer to a registered social landlord

Regardless of current circumstances, every Council is required to carry out a Housing Options Appraisal by the end of July 2005.

Detailed guidance has been produced by the Office of the Deputy Prime Minister, which sets out the process to be followed for options appraisals. (Delivering Decent Homes – Option Appraisal, Guidance for Local Authorities, ODPM, June 2003)

The Housing Options Appraisal represents the first stage of a two-stage process. Details of the Council's decision on the preferred option must be communicated to the Government Office for the East Midlands (GOEM), by no later than 31 July 2005.

Once GOEM has agreed with, and signed off, the Council's decision, the second stage of the process will begin. The duration and complexity of this stage will depend upon the option chosen.

4. RESPONDING TO STRATEGIC ISSUES

The decision on the future of the Council's housing stock and the associated housing service must take into consideration issues relating to the wider strategic housing context and the local growth agenda.

In this regard, Section 6:13 of the above-mentioned Government guidance states:

“Where improvements to the stock can be funded from existing resources, it is still necessary for work to be done to assess the impact of these options, as they deliver more than additional investment and, in the case of transfer, can fund improvements beyond the Decent Homes Standard. This assessment should cover the impact on the authority's wider housing objectives, for example, the contribution that stock transfer can provide to addressing shortages of affordable housing.....”

Northampton is situated within one of the five major growth areas of the country, as identified within the ODPM Sustainable Communities Plan. The option chosen should therefore be capable of delivering a sustainable solution for the future maintenance of the existing social housing stock and, where possible, contribute towards the provision of additional affordable and social housing for future generations.

The East Midlands Integrated Regional Strategy, of which the Council's Housing Strategy is a part, has a clear objective of “ensuring that the existing and future housing stock is appropriate to meet the housing needs of all parts of the community”. One of the sixteen priorities of the Regional Strategy is for “Decent Homes in the Social Sector”.

The Council commissioned a Housing Needs Survey during 2002. The results indicated the need for 736 new affordable homes within the borough, per year, for each of the five succeeding years. To date, using the development resources at its disposal, the Council has not been able to achieve this target.

5. THE CHALLENGE OF MAINTENANCE STANDARDS

Throughout the Housing Options Appraisal process, reference has been made to three separate maintenance standards for the housing stock. These standards, the Decent Homes Standard, the Stock Condition Survey Standard and the Northampton Standard, are explained below.

5.1 The Decent Homes Standard

As stated above, the Decent Homes Standard is a Government standard. It is described as a minimum standard for all social housing which must be achieved by 2010. The standard must be maintained thereafter.

A dwelling will fail the decent homes standard if it does not meet the following criteria:

- a. It is fit for human habitation
- b. It is free from major disrepair
- c. It has reasonably modern facilities
- d. It has a reasonable standard of thermal comfort

The government has said that the Decent Homes Standard should not simply be a target for implementation. It is seen as a basic minimum that should be a 'trigger for action' rather than an aspiration to be aimed for.

To illustrate this fact, the Decent Homes Standard is based on four criteria. Criterion b, "free from major disrepair", states the following:

"Components that are old, but in good condition, or in poor condition but not old would not, in themselves, cause the dwelling to fail the standard".

Compliance with this criterion is based upon a stated life span for each major building element and a relevant definition for the expression "in poor condition".

Thus, for example, house windows that have achieved less than the expected life span of 40 years would not cause the home to fail the standard even if they were assessed as being in poor, or extremely poor, condition.

Similarly, a kitchen that is less than twenty years old but in poor condition may not necessarily require replacement under the Decent Homes Standard.

Councillors will note that the Decent Homes Standard is property based and therefore does not attempt to address estate-based issues or those associated with security and the general environment. We may consider these issues to be essential.

5.2 The Stock Condition Survey Standard

The council commissioned a stock condition survey in 2003. The survey, which was carried out by NBA Consortium Ltd, identified that 30 percent of the council's housing stock currently fails the Decent Homes Standard, mainly due to poor thermal comfort and poor state of repair.

The report also concluded that a sustainable maintenance programme would require investment beyond the levels required to meet the Decent Homes Standard. The term "sustainable" describes a maintenance regime that would avoid a backlog of repairs and the associated deterioration of the housing stock.

The survey report made a number of recommendations for a 10-year programme of investment in the housing stock that, if applied, would achieve the following objectives associated with sustainability:

- Complete all 'catch-up' repairs: by replacing or repairing life expired elements (e.g. life-expired kitchen fittings, corroding cold water tanks, etc). The programme's implementation would catch up on basic fabric repair and upgrading requirements.
- Improve the standards of accommodation and amenity: by the upgrading of facilities, services and amenities to meet present day aspirations.
- Improve energy efficiency and conservation: by further reducing inefficiencies in the use of fuel (thereby reducing CO2 emissions and the cost of heating) that are a consequence of poor insulation and inefficient heating systems and controls.
- Halt the accelerated deterioration of building elements: the programme would effectively halt the 'slippery slope' of deterioration in building elements that results from the 'knock-on' effects of other elements failures. For example, life expired rainwater goods result in costly deterioration of fascia timbers and underlying brickwork.
- Remove inherent problems: the programme would rid the stock of remaining inherent 'maintenance hungry' components, including life expired roof claddings.
- Prevent future failure: the preventative maintenance embodied within the programme would avoid much costly and widespread failure that would otherwise arise at a later date, (e.g. the application of protective toppings to concrete canopies).
- Reduce the 'responsive repair' workload: by addressing all defective elements during the programme period, and by concentrating on the most urgent fabric repairs early on, escalating growth of costly, low productive 'emergency' maintenance will be halted.
- Reduce decoration and pre-decoration repair bills: through the continued replacement of windows, and in some cases, other softwood components, with low maintenance materials.

The survey concluded that:

"Failure to carry out the works that have been identified by the survey, within the time-period indicated, will...result in a growing backlog of repair and upgrading demands, an escalating level of uneconomic reactive maintenance activity; a decline in the standards of accommodation offered to tenants and, consequently, an increasing burden on the resources of the Council" (NBA Stock Condition Survey Report, 2003, p28)

5.3 The Northampton Standard

The Government guidance on Housing Options Appraisals states that councils should consult with their tenants in order to identify their aspirations for the future of the housing stock and the housing service.

The council has worked very closely with a group of tenants, the Housing Investment Action Group (HIAG), throughout the options appraisal process. With the support of the Independent Tenant Advisor (ITA), the HIAG considered the Stock Condition Survey and made suggestions for improvements that were not expressly referred to therein.

The property improvements that were identified included the provision of walk-in showers within sheltered housing dwellings, an increased frequency of bathroom replacements and the installation of security fencing and lighting.

The environmental and management issues, that tenants are seeking improvements in, include greater attention to anti-social behaviour and increased opportunities for tenant participation.

These proposals were also considered by a tenant workshop, before being agreed as a local requirement. When the local requirement was added to the requirements identified within the Stock Condition Survey, the composite was given the title of the Northampton Standard.

In monetary terms, the aspirational improvements identified by tenants represent a relatively small (six percent) addition in expenditure compared to the level identified by the Stock Condition Survey.

6. THE FINANCIAL CHALLENGE

The total cost of achieving each of the above maintenance standards, over a ten-year period, is set out in the table below. Councillors will note that the total investment required for achieving and maintaining the Decent Homes Standard is approximately £63 million and the totals for the full Stock Condition Survey and the Northampton Standard are £194 million and £206 million respectively.

With regard to the achievement of the Decent Homes Standard, the target date of 2010 falls within the ten year period covered by the table. The table indicates that the funding required by 2010 is approximately £52 million with no further investment then being required until 2013, when the balance of £11 million will be required.

<u>COMPARISON OF SURVEY RESULTS WITH DECENT HOMES and NORTHAMPTON STANDARD</u>			
	Decent Homes Standard only £'000	Full Survey results £'000	Northampton Standard £'000
2004.05	10,224	10,224	10,224
2005.06	7,284	14,002	14,002
2006.07	7,612	15,089	16,460
2007.08	7,954	16,704	18,136
2008.09	8,312	15,974	17,471
2009.10	8,686	21,769	23,332
2010.11	1,862	29,285	30,919
2011.12	0	24,499	26,174
2012.13	0	21,427	23,144
2013.14	11,125	24,752	26,512
Total	63,059	193,725	206,374

For the equivalent period of ten years, the financial report by Tribal HCH indicates that the Council will have investment resources of no more than £92 million available to meet this challenge. Only the Decent Homes Standard requires investment at a level below £92 million.

The table below illustrates the impact of these limited resources when the investment requirements associated with the Stock Condition Standard and the Northampton Standard are considered.

Impact on the Base Position of the three Maintenance Standards						
	Scenario 1 Base position – Decent Homes		Scenario 1a Base Position – Stock Cond.Standard		Scenario 1b Base position – Northampton Standard	
	HRA Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	HRA Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	HRA Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd
	£'000	£'000	£'000	£'000	£'000	£'000
2004.05	2,017	0	2,017	0	2,017	0
2005.06	4,016	0	2,017	(4,762)	2,017	(5,061)
2006.07	7,211	0	2,037	(9,059)	2,037	(11,035)
2007.08	9,590	0	2,058	(15,889)	2,058	(19,554)
2008.09	11,214	0	2,079	(22,311)	2,079	(27,737)
2009.10	12,107	0	2,100	(34,933)	2,100	(42,196)
2010.11	13,387	0	2,121	(55,738)	2,121	(64,916)
2011.12	14,199	0	2,152	(72,293)	2,142	(83,425)
2012.13	15,143	0	2,183	(85,591)	2,183	(98,748)
2013.14	16,235	0	2,215	(102,009)	2,215	(117,233)

The term “Base Position”, used throughout the above table, relates to the current financial framework in which the Council now operates.

It is clear, from all of the above scenarios that the Housing Revenue Account (HRA) is sustainable up to, and beyond, the next ten years, with a minimum annual balance of approximately £2 million and significantly higher annual balances with the Decent Homes scenario.

However, Scenario 1a. highlights the fact that, in attempting to meet the investment obligations identified within the Stock Condition Survey, a capital shortfall of £102 million will accumulate by the end of the ten year period. Additional funding will therefore be needed if this maintenance standard is to be achieved.

Scenario 1b. indicates that, if tenants’ aspirations are also considered, as described in the Northampton Standard, this shortfall will increase to approximately £117 million - again reflecting the need for additional funding.

Finally, Scenario 1. indicates that, if only the requirements of the Decent Homes Standard are met, the HRA balance increases and there is no capital investment shortfall. This latter scenario demonstrates, quite conclusively, that the Council can achieve the Decent Homes Standard without requiring additional funding.

This section of the report has highlighted only key information derived from the report produced by Tribal HCH (formerly HACAS Chapman Hendy).

An executive summary of the report can be seen at Appendix A.

Copies of the full report have previously been circulated to members.

7. THE AVAILABLE OPTIONS

The Council must decide which maintenance standard it wishes to achieve. The Decent Homes Standard is achievable using existing funds. Neither the Stock Condition Standard nor the Northampton Standard is achievable without utilising one of the Government approved options for introducing additional financial resources. The sections, below, summarise the key benefits and risks associated with each option.

An assessment of the viability of each option, for this Council, is also included.

7.1 Private Finance Initiative (PFI)

Under this option, the housing stock would remain under council ownership, but the management of the stock and the housing service would be delegated to a private consortium (not a private landlord) that would enter into a long-term contract with the Council, typically of 30 years duration. The contract would include the provision of landlord services and would include a schedule

of property improvements that the consortium would need to complete in accordance with the Council's requirements.

7.1.1 Potential Benefits

The potential benefits arise from the following:

- Access to additional private sector funding.
- A shift of financial risk away from the Council.

7.1.2 Risks

- Concerns exist about the practicality of the model's wider application.
- It is not easy to demonstrate value for money
- It may not be possible to achieve the level of risk transfer, to the private sector, that would justify this option.
- The Council is unlikely to obtain any financial benefits from this option, as the Decent Homes Standard can be delivered using existing resources.

The ODPM is clear that PFI is not a whole stock option and is only suitable for smaller geographical areas or property portfolios that demonstrate particular investment needs.

The majority of the Council's stock can be described as traditionally built. This scenario differs markedly from some councils that may, for example, manage a high number of non-traditional "system built" properties which require either extraordinary levels of future investment or which may require redevelopment at the estate level.

7.1.2 Summary

The characteristics of the local housing stock profile suggest that PFI is unlikely to be an appropriate vehicle for gaining additional investment resources.

7.2 Arms Length Management Organisation (ALMO)

The Council may choose to delegate the landlord function to an Arms length Management organization. The characteristics of an ALMO are:

- The housing stock would remain under council ownership
- The ALMO would operate as a separate organization, at 'arms length' to the council.

- The organization would be wholly owned by the council and would operate under a long-term management agreement (usually 10 years).
- An annual fee would be paid to the ALMO in return for the delivery of a full housing management service. The contractual relationship would be subject to a performance framework.
- Tenants would remain council tenants with no change to their tenancy agreement. Housing employees would transfer to the ALMO under the regulations, Transfer of Undertakings – Protection of Employment (TUPE).

Any council currently deciding to pursue the ALMO option will need to apply for a place on round six of the ALMO programme. The timetable for this has not yet been announced, but it is expected that it will be launched towards the end of 2005. The ODPM has stated that they do not envisage any further rounds of the ALMO programme.

In addition, it will be necessary to obtain formal approval from the ODPM in order to delegate the housing management service to an Arms Length Management organisation.

Additional funding, under this option, will only be available to Council's which meet the Audit Commissions two star rating for the quality of the housing management service. The Council's service currently holds a one star rating.

7.2.1 Potential Benefits

- Additional finance is available to those ALMOs that achieve a two star rating for the quality of the housing management service. The additional resources are made available in the form of supported borrowing, which is an element of the HRA subsidy arrangement that effectively covers the debt charges incurred.
- However, additional funding is available only to the extent required to compensate for any shortfall in the funding already available to the Council for achieving the Decent Homes Standard by 2010. A small amount of additional funding to address environmental issues is also potentially available.
- The organisational separation from the Council may allow the ALMO to focus more effectively on the delivery of the landlord services whilst allowing the Council, itself, to focus on the town's strategic housing issues.
- By streamlining the organisational structure and reviewing the supply of support services, it may be possible to achieve cost savings that can be redirected towards an enhanced portfolio of services.

7.2.2 Risks

- This Council is able to achieve the Decent Homes Standard up to, and well beyond, the year 2010 without recourse to any additional funding. Since additional resources for ALMOs are limited to the achievement of this objective, it seems unlikely that a bid for extra money would be successful.
- In order for any additional funding to be made available, it is necessary for an ALMO to receive a two-star or three-star rating from the Housing Inspectorate. There is a risk that the landlord function may not achieve this standard.

Inspections are carried out after the new organization has been operational for at least six months and only at this point would it become certain whether additional funds are available. The recent inspection of Northampton's housing service achieved a one-star rating with uncertain prospects for improvement.

- There is a cost associated with the establishment of an ALMO that the scope for projected benefits may not justify. Experience indicates that this may be in the region of £0.5 million.

7.2.3 Summary

As a one star authority, it seems unlikely that Arms Length Management will offer significant benefits for either the future administration of the Council's housing stock or the associated service provision.

7.3 Retention

Under this option the Council would continue to own and manage the housing stock, although the Government would expect to see an organisational framework within the Council that clearly identifies the landlord function as distinct and separate from the strategic housing role.

7.3.1 Potential Benefits

- There would be no significant impact upon the Council with regard to the General Fund (see the following section on Large Scale Voluntary Transfer for the comparative impact).
- To the extent that the alignment of the housing landlord function impacts upon the issue, the shape of the Council would remain unchanged.
- Tenants would not be required to change their landlord.

- Employees would continue to work for the Council, although an organizational restructure would be necessary in order to create a clear separation of the landlord and strategic housing functions.

7.3.2 Risks

- No further investment resources would be forthcoming under the retention option. The council would have sufficient resources to meet, and possibly slightly exceed, the Decent Homes Standard, but this would fall far short of achieving the standard that has been recommended by the Stock Condition Survey as a sustainable maintenance regime.

Retention would therefore indicate a standard of property maintenance that would be relatively low and falling.

- As the prime objective for the council would be to meet the Decent Homes Standard by 2010, almost all available resources would have to be directed towards works associated with meeting this standard. This would focus resources on the 30% of properties already identified as non-decent and on those that will become potentially non-decent before 2010.

This may mean that other improvement programmes that are not specifically related to meeting the Decent Homes Standard, e.g. proactive double-glazing and security improvements, may have to be curtailed. Estate based and environmental works will not be possible.

- The uncertainties of the housing subsidy system mean that the long-term sustainability of the Housing Revenue Account cannot be guaranteed.

With reference to this fact, it should be noted that, for the last financial year, total rent income from the Council's tenancies exceeded £36 million but the Council paid more than £8 million of this back to the Government under the terms of the Housing Subsidy arrangements.

7.3.3 Summary

In view of the fact that the Council would be able to meet the Decent Homes Standard by 2010 without the need for additional investment, retention of the housing stock under council ownership and control is an option that is available for further consideration.

7.4 Large-Scale Voluntary Transfer

This option would involve the transfer of the freehold of the council's housing stock to a Registered Social Landlord (RSL). Council tenants would become

tenants of the RSL and would have an assured tenancy instead of a secure tenancy. The terms of these two types of tenancy are broadly similar.

A secure tenancy includes the Right to Buy. An assured tenancy includes the Right to Acquire. The discount arrangements and qualifying periods for the two arrangements differ. Tenants who transfer to an RSL would have the Right to Buy preserved, although this would not be true of new tenants. They would have the Right to Acquire.

A secure tenancy includes the Right to Manage, an assured tenancy does not. The Government recommends that new RSLs give consideration to the Gateway Model, which is a constitutional arrangement that provides a framework for increasing tenant participation in the management process. As with the Right to Manage, the level of tenants' aspirations strongly influences the extent to which these opportunities may be exploited.

There are three different models of transfer:

- A new 'stand-alone' RSL could be set up by the council specifically for the purpose of receiving the council's housing stock.
- A new RSL could be set up specifically for the purpose of receiving the council's housing stock, but which would then become part of the group structure of an existing RSL.
- A transfer could be made, directly to an existing RSL.

In the event of a transfer, the Council would need to prepare a prospectus for the new organisation. A bid for the purpose of being included in the Government's transfer programme would need to be submitted in January 2006.

Details of the offer would then need to be presented to tenants and a consultation period of approximately nine months would then culminate in a tenant ballot. A transfer could only take place if a majority of tenants who vote, are in favour of the transfer.

If a transfer did take place, there would be no opportunity for the housing stock to return to council ownership. However, there would be a clear and enforceable requirement for the housing stock to remain as social housing in perpetuity.

Transfer of the housing stock would have a significant impact upon the future shape of the Council. This effect would extend beyond the existing landlord function and would include support services. Employees affected by the change would transfer to the new organisation under the appropriate employment regulations – Transfer of Undertakings, Protection of Employment (TUPE).

The Audit Commission monitors the performance of RSLs in the same way that it monitors local authorities and uses the same system of star ratings to reflect the level of performance and service.

RSLs are closely regulated by the Housing Corporation – a government body that also provides funding for new social housing. The Housing Corporation can place RSLs under supervision arrangements if they are seen to be failing.

7.4.1 Benefits

- The major financial advantage to carrying out a stock transfer is that RSLs are not governed by the same financial restrictions as local authorities, and have the freedom to borrow the resources necessary to invest in improvements to the housing stock. Unlike the Council, RSLs are able to retain all rental income and are therefore better placed to service debt.
- A further potential advantage is the release of an initial capital sum that the Council could reinvest in the provision of additional housing. The table below, entitled ‘Calculation of Net Capital Receipt’, indicates that this could be approximately £9 million.

Northampton has been identified as one of the major growth areas of the country, with 30,000 new homes proposed by 2021.

- The Housing Needs Survey has identified a significant shortage of social and affordable housing within Northampton and the creation of a new RSL, with the capacity to build such homes, could be seen as part of the Council’s response to this challenge.
- Following transfer, the Council would continue to receive income from ongoing Right to Buy sales. The amount would depend upon the level of sales.
- The Council would no longer be required to maintain a Housing Revenue Account.

7.4.2 Risks

- The transfer of the stock may not realise any initial capital sum for the benefit of the Council. This fact is illustrated by the table below, which demonstrates the impact of meeting the Northampton Standard of maintenance as opposed to the Stock Condition Standard.

The underlying principle dictates that a higher maintenance standard will cost more to deliver, over time. With higher future investment, the initial valuation will be lower. In the projection, below, the shortfall of £5.7 million would be the subject of negotiation with the Government for write-off as “overhanging debt”.

TABLE CALCULATION OF NET CAPITAL RECEIPT		
	Stock Condition Survey Indicative Valuation (£m)	Northampton Standard Indicative Valuation (£m)
Total Receipt	24.4	7.2
Setting up Costs	(2.2)	(2.2)
ODPM Levy	(2.3)	Nil
HRA Debt	(10.7)	(10.7)
Net Receipt	9.2	(5.7)

- This option would have an impact on the General Fund. This fact is illustrated in the tables below, which contain projections that cover both the Stock Condition Standard and the Northampton standard, respectively. In each table, the first total shows the cost or saving for the specified year. The second total shows the cumulative effect.

By year ten, the General Fund shows a cumulative surplus in both scenarios, although certain of the earlier individual years, following transfer, reflect a net cost.

Stock Condition Standard						
Post Transfer General Fund Cost/(Saving)						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 to 10
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Residual Corporate Costs	1,710	1,629	1,551	1,477	1,407	6,090
Capital Financing Costs	(550)	(550)	(550)	(550)	(550)	(2,750)
Superannuation backfunding	350	350	350	350	350	1,750
VAT – partial exemption	200	200	200	200	200	1,000
Income						
Interest on all receipts	(921)	(1,062)	(1,245)	(1,430)	(1,618)	(10,678)
HRA Balances	-	(2,017)	-	-	-	-
Total Cost/(Saving)	789	(1,450)	306	47	(211)	(4,588)
Cumulative Cost/(Saving)	789	(661)	(355)	(308)	(519)	(5,107)

Northampton Standard

Post Transfer General Fund Cost/(Saving)						
	Year 1 £'000	Year 2 £'000	Year 3 £'000	Year 4 £'000	Year 5 £'000	Year 6 to 10 £'000
Expenditure						
Residual Corporate Costs	1,710	1,629	1,551	1,477	1,407	6,090
Capital Financing Costs	(1,193)	(1,193)	(1,193)	(1,193)	(1,193)	(5,965)
Superannuation backfunding	350	350	350	350	350	1,750
VAT – partial exemption	200	200	200	200	200	1,000
Income						
Interest on all receipts	(48)	(189)	(372)	(557)	(745)	(6,313)
HRA Balances	-	(2,017)	-	-	-	-
Total Cost/(Saving)	1,019	(1,220)	536	277	19	(3,438)
Cumulative Cost/(Saving)	1,019	(201)	335	612	631	(2,807)

The above financial projections inevitably involve some assumptions and the conclusions drawn are therefore sensitive to any changes in those assumptions. Due to this fact, it is not possible to quantify, with certainty, the level of impact. The report by Tribal HCH states that, “these implications are indicative only and should be treated with caution”.

- Pre and post ballot costs of setting up a new RSL would be in the region of £2.2 million. The new RSL would, however, be responsible for a significant part of these costs, with the Council’s portion amounting to £440,000 and £300,000 respectively. In the event of a “no” vote the projected full pre ballot costs, including those of the RSL would be at risk. In this instance the Council’s liability would increase from £440,000 to £1.053 million.

7.4.3 Summary

Large Scale Stock Transfer would allow for the introduction of additional investment into the maintenance of the housing stock and would also create the potential for improved landlord services. This option would allow for the achievement of the Stock Condition Standard, as a minimum, and may also make the Northampton Standard attainable.

The sustainability of the existing housing stock would be assured and the potential for the development of new homes would also be created.

The transfer of the stock may, or may not, create an initial capital receipt for the Council. The Council will continue to receive capital receipts from the sale of transferred properties.

The above tables indicate a positive impact on the General Fund, over time.

The future shape of the Council organisation will change significantly.

8. CONSULTATION

The government guidance on options appraisals requires that detailed consultation be carried out with a wide range of individuals and organisations in relation to the options appraisal.

In accordance with the Government's requirements, the council produced a Communications and Consultation Strategy and a Tenant Empowerment Strategy.

These documents identify who is to be consulted and the methods to be employed. They also outline the process for ensuring that a body of tenants are sufficiently well trained and well informed to be able to scrutinise the integrity of the Option Appraisal process. In the case of Northampton, the Housing Investment Action Group are "the body of tenants".

The principal consultees in the process are tenants, leaseholders, elected Members, employees and strategic partners.

It is important that the consultation process is not seen as a ballot. It is intended to inform the council's decision-making process by providing an insight into the climate of tenant opinion.

The full outcome of the tenant consultation can be seen within the report of the Independent Tenant Advisor, at Appendix B.

The various aspects of the consultation process, as applied to the different stakeholder groups, are detailed below:

8.1 Tenants

ODPM guidance on the appraisal process states that tenants must be 'at the heart' of the process. Considerable attention has been paid to this issue.

The Independent Tenant Advisor has worked closely with the Housing Investment Action Group (HIAG), which began as a sub-group of the Customer Panel and which has played a leading role in monitoring the progress of the options appraisal.

The capacity of the HIAG to scrutinise the process has been developed in the following ways:

- Tenants from the Housing Investment Action Group (HIAG) have been represented on the Options Appraisal Project Board and Project Team,

and have thus been able to contribute towards the overall strategic and operational progress of the appraisal.

They have participated in the decision-making process through their involvement in the selection of objective assessment criteria and in the scoring of the options against the criteria.

- The HIAG has received specific training on a wide variety of subjects relating to the options appraisal, including:
 - Housing finance
 - What do you know about registered social landlords?
 - The role of the Housing Corporation
 - Differences between secure and assured tenancies.
 - How to choose a landlord
 - The Community Gateway Model
 - Being a board member
 - Different forms of stock transfer organisations
- The HIAG has taken part in study visits to other organisations that have previously undertaken similar exercises. They have also attended high profile conferences and training events.

The ITA has also communicated with the wider tenant body through newsletters and specific meetings. The full report of their communications activity is attached to this report, as Appendix B.

Tenants have also been consulted through two telephone surveys, a postal survey and an intensive period of home visits. These sought to ascertain tenants views on the options available to the council and also tested levels of understanding of the actual options appraisal process.

Exactly half of all tenants declared that their preferred option was for the Council to retain the ownership and management of their homes. Half of the tenants manifested by their responses that they were not so committed.

The full results of the final tenant survey can be found in the document at Appendix B. The key results of the question, "Which Option did tenants feel most positive about?" are as follows:

Stay as we are – retention	50%
Stock Transfer	30%
ALMO	5%
PFI	1%
Don't know	7%

No reply (to this specific question)	7%
Total	100%

The results were collated by an independent statistician retained by the Independent Tenant Advisors, Birmingham Co-operative Housing Services.

Councillors should note that the last two categories, “don’t know” and “no reply” should not be discounted from the results. They are a valid indication of the respondents feelings at this time and demonstrate a susceptibility to change. This viewpoint has been confirmed by the statistician.

8.2 Leaseholders

Leaseholders have also been consulted on the options appraisal. This has been undertaken by including leaseholders in all mailings that have been sent to tenants, including all council and ITA newsletters. In addition, the ITA produced an information leaflet specifically aimed at leaseholders, and arranged a meeting to which all leaseholders were invited.

8.3 Employees

Employees have been consulted at key stages of the options appraisal. A variety of methods have been used, including a series of employee briefings designed to explain the process and provide periodic updates, a number of employee drop in sessions and a specific briefing to inform employees about the decision-making process.

A workshop, facilitated by Tribal HCH, was held for managers of all housing-related services, in order to discuss the wider issues associated with the options appraisal.

Trade unions have also been consulted throughout the process, with two specific briefings taking place, together with an invitation to express their opinion in relation to the options. Trade unions were also represented on the Project Team during the earlier stages of the process.

An employee survey was also carried out at the end of the Options Appraisal process. One hundred and seventy five responses were received and the findings can be seen at Appendix E.

8.4 Elected Councillors

It has been vital that elected Councillors were kept informed and consulted throughout the duration of the options appraisal process. In order to achieve this, consultation material has been routinely distributed to Councillors and two

Councillors' briefing sessions have been held, both facilitated by HACAS Chapman Hendy.

A third briefing took place in advance of the council meeting on 16th May. In addition, the housing spokespersons from each political party have been represented on the Options Appraisal Project Board. This has enabled members to be kept fully informed of the options appraisal process.

8.5 External Stakeholders

The ODPM guidance on options appraisals recommends that external organisations that work in partnership with the council should also be consulted during the options appraisal stage.

A wide range of external organisations – including members of the Local Strategic Partnership, voluntary organisations, the Crime Reduction Partnership, parish councils, other local authorities and registered social landlords - were contacted. They were sent copies of newsletters and information leaflets that had been produced and were invited to respond with any comments that they had concerning the options appraisal.

Seven written responses were received to this consultation. Copies of the responses can be seen at appendix D to this report.

9. DECISION-MAKING PROCESS

In arriving at a decision on the future of the housing service, the council must take into account a wide range of issues.

In order to provide a model that could assist the council's decision-making process, the Project Board and the HIAG have conducted an objective assessment based on a set of agreed criteria.

The set of criteria is intended to reflect the key issues and has been used elsewhere. The Government Office has acknowledged them.

Details of the criteria are provided in the centre column of the table below.

9.1 The Modelling Process

Each Project Board representative of the three political groups independently ranked the nine criteria, in order of importance. The three results were then integrated by an independent facilitator from Tribal HCH and the outcome of this process is represented in the left hand column of the table.

The three Project Board representatives then mutually agreed a percentage weighting for each criterion. Sixteen members of the HIAG mirrored this process and the two sets of results were then aggregated by the independent

facilitator from Tribal HCH, giving a 60:40 weighting in favour of the tenant results.

The right hand column of the table records the agreed weightings.

Criteria	Comment	Weighting
Housing Need and Improving Choice	Which option provides additional social housing? What effect would the options have on homelessness and other people in housing need?	18%
Homes and Investment	What level of investment will each option make available? Which option(s) will meet the Decent Homes Standard, the Stock Condition Survey Standard and the Northampton Standard?	17 %
Tenant Involvement and Accountability	How will tenant involvement operate under each option?	16%
High Quality Housing Services	Which option is likely to lead to improvements in housing services?	14%
Tenants' Rights and Responsibilities	What effect does each option have upon tenants' rights?	13%
Employee Issues	What effect would each option have on employee rights and conditions?	6%
Set-up Costs, Uncertainty and Risks	What are the set-up costs of each option? What are the risks associated with each option?	6%
Rents and Service Charges	What effect will each option have upon rent and service charge levels?	5%
Wider Council Issues	Which option best meets the requirements of the Corporate Plan? What is the effect of each option on the General Fund? What would be the impact on wider community issues?	5%

The Project Board representatives and the HIAG then conducted the scoring exercise independently, with each criterion being awarded a score out of 10 for each option. The results from each team were then averaged and multiplied by the percentage weightings in order to arrive at a score for each team.

Finally, 60% Of the HIAG score, for each option, was added to 40% of the Project Board score in order to arrive at a final figure for each option. These results are displayed in the table below with the order of preference indicated in brackets.

The Project Board scoring exercise was facilitated by Tribal HCH and the HIAG scoring exercise by the ITA.

The ITA also verified the calculations that led to the results set out below.

OPTION	WEIGHTED SCORE
Retention (2)	5.13
PFI (4)	2.97
ALMO (3)	5.27
Transfer (1)	8.25

The objective scoring exercise demonstrates that it was the collective view of the political representatives of the Project Board and the HIAG that stock transfer is the option that would enable the issues within the assessment criteria to be most effectively addressed.

10. SOCIAL IMPACT

10.1 Equalities

The local community needs to benefit from an adequate supply of affordable homes that can meet the needs of an increasingly diverse population. In some cases, the format of currently available accommodation does not meet the requirements of family life styles favoured by ethnic minorities. The capacity to build new affordable homes that meet relevant design criteria is therefore important.

The concern of ethnic minorities is evident in the fact that the consultation process associated with the Housing Option Appraisal was able to capture the views of a wide range of nationalities. The full list can be found in Table 3, Appendix 5, of the report by Birmingham Co-operative Housing Services (Appendix B of this report).

Meeting the needs of those people with disabilities, or those requiring supportive environments, is also a challenge that cannot easily be responded to in some of the existing housing stock. The Decent Homes Standard addresses disability issues to a limited extent, through attention to the communal areas of multiple dwelling units, although the application of the specification by landlords is subject to site feasibility.

The creation of a new RSL would provide the town with another development vehicle for the creation of social and affordable housing that meets current design criteria.

10.2 Sustainability

10.2.1 Local Agenda 21

The Decent Homes Standard addresses Local Agenda 21 issues to a limited extent. Criteria d. *it provides a reasonable degree of thermal comfort*, encourages landlords to fit energy efficient central heating boilers, when replacing existing systems. It also specifies loft and cavity insulation where practical. Double glazed windows are not specified.

The Stock Condition Survey investment profile accounts for the installation of full double glazed windows to all properties and takes a more rigorous view of

issues associated with the efficiency of heating systems and the installation of loft and cavity insulation.

10.2.2 General environmental impact

The Decent Homes Standard recommends the use of double glazing as a remedy for situations where external noise is a cause of concern to residents. Apart from this instance, the scope of the standard is restricted to property based issues and does not seek to address environmental concerns.

The Stock Condition Survey Standard extends beyond the dwelling to include paths, boundaries, outbuildings and hard standings within the curtilage of the property.

The Northampton Standard highlights key tenant concerns within the estate and environmental contexts and establishes an investment profile to meet them.

10.3 Community Safety/Crime and Disorder reduction

The maintenance standards described in this report have a variable impact on the issues of community safety and crime and disorder.

Our Corporate Plan Priority, *“Working with partners to reduce crime and disorder across Northampton”*, highlights the requirement to, “Reduce domestic burglaries” and “reduce the number of distraction burglaries”.

The Decent Homes Standard does not seek to address these issues.

The Stock Condition Standard specifies security measures including door viewers, chains, deadlocks, window locks etc. It also specifies mains operated smoke detectors in all properties.

In addition, the Northampton Standard addresses other environmental issues such as external security lighting and security fencing.

10.4 Employee Relations

If the Council decides to retain the landlord function and the associated housing stock, any impact on employee relations will be linked to the Council’s future plans for the organisation as a whole. The Government also requires that adjustments will be made within the organisational environment to ensure a clear separation between the landlord function and the housing strategic role.

If the decision is to transfer the stock, then all relevant employees will transfer to the new RSL under the appropriate employment regulations, Transfer of Undertakings – Protection of Employment (TUPE). This would

probably affect employees from the support services as well as those from the Council's landlord function – Housing Management Services.

It is probable that the majority, if not all, employees associated with the strategic housing functions, i.e. Private Sector Housing, Homelessness, Housing Enabling, Housing Advice, Needs Assessment and the Housing Register, would remain with the Council.

10.5 Economy

A supply of decent, affordable homes is a fundamental requirement for sustainable economic growth and, consequently, a priority within the Corporate Plan. It is defined as, *“Create and sustain an attractive economic environment for inward investment and regeneration”*. Within the action plan, linked to this priority, the Council undertakes to, “make sure that new investment delivers regeneration of Northampton”.

A sustainable housing strategy requires the capacity to deliver a supply of attractive homes that will satisfy the needs of the work force that will accompany inward investment in the town.

Northampton is situated in one of the Government's key development areas, the Milton Keynes and South Midlands area. It also falls within the area that will be subject to the West Northants Urban Development Corporation.

New housing is a significant agenda item under both initiatives, with the development of affordable key worker housing a priority for the sustained development of the town. The Housing Needs Survey has also clearly identified a significant shortfall in affordable and social housing, a situation that will need to be rectified in order to support the requirements of an expanding population.

10.6 Social Well-being

There is a direct link between adequate housing and social well-being.

Not all of the Council's existing housing stock is of a standard that would contribute positively to an atmosphere of well-being, nor is the design of some homes appropriate for the future needs of the local population. Significant levels of investment, beyond that needed for the Decent Homes Standard are required in order to fully address these issues and guarantee future sustainability.

Social well-being also requires that people feel safe in their homes and when they move about in the environment outside. Meeting this challenge will require that the Council continues to develop the capacity to deliver investment beyond that which can be met by the public purse

10.7 Leisure and Culture

Adequate housing and a stable local environment are fundamental components of social inclusion and cultural development.

Our Corporate Priority, *“Reduce deprivation in Northampton working with our partners”*, lists both, “Improving Housing Quality” and “Improving the environment in which we live” as focal points for the delivery of this objective.

As already stated within this section on Social Impact, the choice of option for the future of the housing stock and the housing service will directly influence the future capacity of the Council to deliver on this priority.

10.8 Health

There is a long established relationship between both mental and physical health and the quality of housing. This fact is reflected in the Corporate Plan Priority, *“Reduce deprivation in Northampton working with our partners”*, under the heading of, “Improving health”

The standard to which the local social housing stock can be raised will be directly influenced by the Council’s decision on the future ownership and management of the stock.

11. CONCLUSION

Our Corporate Plan lists one of “The Council’s Current Priorities”, in the following way – “Ensure the availability of decent and affordable homes for all”.

The objective assessment of the strategic housing issues that the Council is faced with, combined with the examination of the various maintenance standards, indicates that a transfer of the housing stock to a Registered Social Landlord would produce the closest match to the objectives expressed within the Corporate Plan.

It is also clear that the Council’s financial position is such that one of the Government’s core criteria for endorsing an application to retain council housing, that of the capacity to meet the Decent Homes Standard by 2010, is satisfied.

These two options, retention or transfer, would therefore appear to represent the focus of the decision making process. The other two options, Arms Length Management and PFI, are unsuitable for the reasons stated in the body of this report.

The consultation process has indicated that tenant opinion is currently divided. The report by the ITA, Birmingham Co-operative Housing Services, confirms this conclusion (page 21).

If the Council decides that its preferred option is to transfer the housing stock, then it must be understood that the final decision will rest with tenants, through the medium of a tenant ballot, to be conducted at a future time.

If the decision is to retain the stock, then the implications for the future delivery of the housing management service must be considered.

The documentation pertaining to the Option Appraisal Process and the subsequent Council decision must be submitted to the Government Office for the East Midlands by no later than 31 July 2005. Future action by the Council is then dependant upon sign-off by that body.

Councillors are requested to give full consideration to all of the options in order to determine the Council's preferred option.

12. CONSULTEES (Internal & External)

- Tribal HCH (Formerly HACAS Chapman Hendy) – Financial Consultants
- Birmingham Cooperative Housing Services – Independent Tenant Advisor
- IPB Communications Limited – Communications Consultants
- Community Housing Task Force
- Government Office for the East Midlands
- All Categories of Stakeholders specified within the Government Guidance on Housing Options Appraisals

13. BACKGROUND PAPERS

- Northampton Borough Council Stock Condition Survey 2003
- Financial Appraisal Report by Tribal HCH
- Report by Birmingham Cooperative Housing Services on the Consultation process with Tenants and Leaseholders
- Report by IPB Communications Limited on the Communication Process

- Government Guidance Document 'Delivering Decent Homes – Option Appraisal (Guidance for Local Authorities)' – June 2003
- Government Guidance Document ' A Decent Home – The Definition and Guidance for Implementation' – February 2004
- Northampton Borough Council Housing Needs Survey 2002.
- Housing Options Appraisal - Communication & Consultation Strategy
- Housing Options Appraisal – Tenant Empowerment Strategy

14. TRADE UNION SIDE DECLARATION

It is the view of the T.U. Side, Unison, GMB/MPO, Amicus, UCATT, that the process of consulting tenants over their views concerning Housing Options has now concluded, the majority of tenants having expressed their preference for Stock Retention. The Elected Members have stated that what is most important in this process is that tenants views are paramount. The tenants have spoken; it is important that their voice is not drowned out by the application of scoring and weighting exercises. Elected Members will be aware that the T.U. Side has had concerns over the fairness and accuracy of the consultation process, these concerns have been raised with Senior Officers. Tenants views must be respected and the Council's handling of this final stage of the process must be transparently fair and honest.