

COMMITTEE:	CABINET
DATE:	7TH NOVEMBER 2002
SUBJECT:	HOUSING MANAGEMENT STOCK OPTIONS
REPORT OF:	DIRECTOR OF HOUSING, HEALTH & COMMUNITY FINANCE
Ward(s):	All
Purpose:	To report progress in relation to existing Stock Options feasibility work and seek Cabinet approval for revised recommendations.
Contact:	Neil Fuller, Director of Housing, Health & Community Finance, Telephone 01323 415301 or internally on extension 5301.
Recommendations	<p>a) That Cabinet note the suspension of applications for Large Scale Voluntary Transfer (LSVT) and / or Arms Length Management Organisation (ALMO) programmes until January 2003, pending the outcome of key government reviews.</p> <p>b) That the outcome of LSVT feasibility investigations contained within this report be noted.</p> <p>c) That, subject to tenant consultation, Cabinet agree that Officers develop an action plan and commence working towards ALMO application, based upon the results of LSVT feasibility work undertaken to date.</p>
1.0	<u>Background</u>
1.1	<u>Best Value Review</u>

1.1.1	Part I of the Housing Management BVR involved a fundamental review of options for the future ownership / control of Eastbourne Borough Council's housing stock. The review was conducted in line with Government guidance and in the context of the Housing Strategy and Housing Revenue Account (HRA) Business Plan submissions to the Government Office. It incorporated briefings / seminars with Tenant Representatives, Councillors and all Housing staff.
1.1.2	The BVR report received support of all review team members and was endorsed by Cabinet on the 31 October 2001. Recommendations were based upon the following key factors and reflected consultation feedback to the effect that `stand still / no change` was not seen as a viable option for maintaining existing service standards and securing long-term investment, both for Council housing stock and new affordable homes:
	<ul style="list-style-type: none"> § Long-term viability of managing a portfolio being reduced by Right To Buy (RTB) § Impact of falling resources at a time of increasing costs § Inability to meet known repairs backlogs and associated Decent Homes targets § Increased resources required to meet the need for affordable housing in the future
1.1.3	An external appraisal (conducted by PricewaterhouseCoopers) was commissioned as part of the review process. This was reported to Cabinet together with a revised Action Plan on the 6 March 2002.
1.2	<u>Cabinet Recommendations</u>
1.2.1	<u>31/10/01:</u>

	<p>§ That Officers establish the feasibility of LSVT (either to a newly formed Eastbourne based Housing Association or to an existing Housing Association) and produce a draft timetable for implementation, focussing upon formal consultation requirements associated with such an approach.</p> <p>§ Feasibility to include a detailed examination of financial implications of potential transfer in terms of both stock valuation estimates and general fund revenue.</p> <p>§ That, subject to feasibility and the findings of an external options appraisal exercise, Officers prepare a detailed consultation and implementation strategy.</p>
1.2.2	<u>6/3/02:</u>
	<p>§ That (in light of the findings of the external appraisal report concerning stock options) resultant changes to the timetable for establishing LSVT set out in the report are agreed.</p>
1.2.3	Our external appraisal praised the rigorous nature of our BVR exercise but (in line with our original action plan) emphasised the need for more accurate and detailed information prior to progressing the recommended LSVT option for our stock.
1.2.4	It should be noted that the performance based ALMO option was also considered in detail and supported as a potential option by the BVR Team. Indeed, an initial expression of interest was made with the DTLR. Whilst potentially able to generate significant additional investment in our housing stock, ALMO was not ultimately preferred to LSVT on the basis that it was hoped that Stock Transfer might additionally be able to address our need for further investment in new affordable homes.
2.0	<u>Feasibility Progress</u>
2.1	§ <u>HRA Business Plan</u>
	<p>We have updated our HRA Business Plan with stock data that gives us a more accurate picture of our ability to meet the Government's Decent Homes Standard.</p> <p>Whilst the HRA revenue position is clearly more favourable than anticipated last year, our HRA Business Plan has confirmed</p>

2.2	§ <u>Capital Investment</u>
	<p>Indicative valuations of our stock for transfer purposes have identified a negative valuation (based upon the scale of our existing debt and associated debt redemption penalties). As has been reported however, it is possible that overhanging debt could be funded by Government to facilitate a Transfer process.</p> <p>Further indicative Transfer valuation estimates secured by consultants assisting with our Business Plan production have confirmed this negative valuation scenario.</p> <p>In line with one of the determining requirements for our Best Value Review Team, we have been seeking to establish the extent to which Transfer could provide investment funding for new affordable homes in addition to that required for our stock. Advice sought via Treasury Management consultants and Community Housing Task Force (CHTF) however, has indicated that this would seem unlikely.</p> <p>It should also be noted that views expressed throughout the Best Value Review process were supportive of a Transfer to a new Eastbourne based Housing Association. We are advised that this would additionally impact upon the levels of borrowing able to be generated for this purpose via any lenders.</p>
2.3	§ <u>General Fund Revenue</u>
	<p>It has also been recognised and reported that there would be a significant General Fund revenue impact associated with LSVT. Whilst it is clear that approaches to the treatment of support services could reduce such potential costs, recent work has identified a ‘worst case’ revenue impact of £650,000 to this Authority.</p>
3.0	<u>Policy Context</u>

3.1	Officers have previously reported potential changes to the policy and financial framework for housing services that may impact upon our choice of housing management stock option. Such issues have related to the potential for borrowing relaxations in line with Local Government Bill proposals and additional Office of the Deputy Prime Minister (ODPM) support for ALMO identified as part of the July Spending Review.
3.2	It was also anticipated that a Government review of LSVT would have been conducted by November that could have served to inform a Cabinet decision on this issue.
3.3	We have been securing updates on any proposed changes from the Government's CHTF that has been set up to provide advice and support in relation to LSVT and ALMO stock options.
3.4	§ <u>July Spending Review</u>
	The ODPM are reviewing Stock Option investment options in line with 2002 Spending Review. Support has been indicated for ALMO however and a relaxation of performance criteria to 2* has been confirmed.
	A key focus of the Spending Review has been identified as the requirement to deliver more affordable housing in areas of greatest need.
3.5	§ <u>Housing Capital Finance Consultation</u>
	Consultation is currently underway on proposals to simplify the current housing capital finance regime. An element of this consultation process involves a 'blue skies' debate upon current rules for capital investment for housing stock. Attached, as <u>Appendix 1</u> is a copy of our response to the consultation document, submitted in conjunction with the Cabinet Spokespersons both for Housing and Finance. It should be noted however, that it is unclear as to how or whether the results of such consultation will impact upon stock options available for consideration.

3.6	§ <u>LSVT Studies</u>
	<p>The following reviews into LSVT are currently being conducted and are due for completion in January 2002. They will inform ODPM stock option investment plans.</p> <p>National Audit Office report into LSVT:</p> <p>It is anticipated that this may challenge the value for money achieved by LSVT processes.</p> <p>Audit Commission report into LSVT:</p> <p>Scheduled to report at the same time as the above. We understand that this will address and may criticise the extent to which Transfers have failed to deliver strategic housing objectives.</p>
3.7	§ <u>Right to Buy</u>
	<p>Members may also be aware that the ODPM is currently looking at RTB rules. Whilst it is unclear that any fundamental change will emerge, it should be noted that one of the potential benefits identified with LSVT related to it's ability to reduce long term levels of sales of council homes.</p>
4.0	<u>Community Housing Task Force</u>
4.1	<p>The CHTF is a government agency set up to provide advice / support for LSVT and ALMO options. We have been liaising closely with staff supporting this region. Our most recent meeting, involving both Housing and Finance staff, took place on the 10th October.</p>
4.2	<p>As indicated, we have additionally sought advice/information from Housing Quality Network (who assisted with our Business Plan) and EBC Treasury Management consultants.</p>
4.3	§ <u>Advice / Information received</u>
	<p>During initial discussions reported to Members, we were advised of potential support for LSVT (and payment of overhanging debt) subject to more detailed / reliable stock data and minimum valuation information.</p> <p>The following additional CHT information updates were provided in June of this year:</p> <p>§ July spending review - likely to</p>

5.0	<u>Arms Length Management Organisation</u>
5.1	The ALMO option was discussed and considered in detail by our Best Value Review team. In brief, it is characterised by the following key features:
	<ul style="list-style-type: none"> - Charitable / Not for profit Company - Managed by Board (involving tenants) but with EBC as sole Shareholder - EBC maintains Housing Revenue Account - TUPE / Secondments – arrangements for staff - Performance based option dependent upon securing a 2* Housing inspection rating
5.2	§ <u>Potential Benefits</u>
	Potential benefits include the following:
	<ul style="list-style-type: none"> - Ability to lever in additional investment resources to meet Decent Homes Target (circa. £5000 per property, which broadly equates to our investment shortfall) - Retention of LA control - Unlikely to involve major short-term revenue implications - Application requirements / criteria consistent with alternative options
	In addition, the following benefits have emerged following recent discussions with CHTF and emergence of tenant wishes in line with Part II of our Housing Management BVR:
	<ul style="list-style-type: none"> - Potentially flexible trading powers in relation to Housing Management opportunities - Consistent with BVR II outcomes (e.g. Tenant involvement on board of management)

6.0	<u>The Way Forward</u>
6.1	<p>In order to submit an application for ALMO we would need to proceed with Action Plan requirements associated with either option and in line with that prepared as part of our latest Business Plan.</p> <p>i.e.</p> <ul style="list-style-type: none"> - Development of 10 Year Capital Programme - Completion of Stock Condition profile - Tenant / Staff consultation - Performance Improvements to secure Inspection rating
	<p>It is anticipated that revised criteria will be made available in January 2003 and that, if successful, we would seek to establish ALMO by April 2004.</p>
7.0	<u>Financial Implications</u>
7.1	<p>It should be noted that there are financial implications associated with pursuit of this option, but as with LSVT, in the short term, such costs are consistent with our Business Plan findings and the steps needing to be taken as an effective Landlord. Such costs can, however be met via the HRA in line with existing increased balances.</p>
	<ul style="list-style-type: none"> - Staffing structures needed to deliver effective / planned Capital programme (See November Cabinet) - Stock Condition programme completion (See November Cabinet)
7.2	<p>Longer term, and subject to initial acceptance on ALMO programme we would be subject to additional HRA preparation costs which would need to include provision for:</p>

	<ul style="list-style-type: none"> - Senior level consultancy to facilitate completed application and creation of Management organisation - Additional Tenant Support role to assist with consultation requirements
8.0	<u>Consultations</u>
8.1	Staff and tenants have been consulted throughout the BVR process. This has continued with Part II of the Housing Management Review. Specific consultation events are planned in relation to consideration of this report by Cabinet.
9.0	<u>Environmental, Community Safety, and Anti-Poverty Implications</u>
9.1	Review team recommendations were developed in response to the need to maintain existing service levels and secure long-term investment for both Council housing stock and new affordable homes. It is recognised that decent, affordable housing and well designed / maintained housing estates can play a key role in addressing poverty, promoting community safety and securing environmental improvements.
10.0	<u>Summary / Conclusions</u>
10.1	Based upon the results of our BVR and our subsequent Business Plan investment analysis it is clear that `no change` is not a sustainable option for our Housing Stock.
10.2	As a result, it is important that we pursue available options to maximise investment resources and meet the Government's Decent Homes Target.
10.3	In light of advice and feasibility work undertaken concerning LSVT it is clear that Stock Transfer is unlikely to meet objectives identified by the BVR team. ALMO will provide a more effective vehicle for generating investment, subject to our meeting the appropriate inspection rating.

10.4	This option would also appear consistent with views emerging from Part II of our Housing Management BVR.
11.0	<u>Recommendations</u>
11.1	<p>a) That Cabinet note the suspension of applications for LSVT and / or ALMO programmes until January 2003, pending the outcome of key government reviews.</p> <p>b) That the outcome of LSVT feasibility investigations contained within this report be noted.</p> <p>c) That, subject to tenant consultation, Cabinet agree that Officers develop an action plan and commence working towards ALMO application, based upon the results of LSVT feasibility work undertaken to date.</p>
<p>Neil Fuller</p> <p>Director of Housing, Health & Community Finance</p>	
<p>Background Papers:</p> <p>The Background Papers used in compiling this report were as follows:</p> <ul style="list-style-type: none"> · Cabinet Reports –31 October 2001 & 6 March 2002 · HRA Business Plan 2002 · Best Value Management Committee report 23rd September 2002 <p>To inspect or obtain copies of background papers please refer to the contact officer listed above.</p>	
(document/jc.NAF/Cabinet/071102 - Stock Options)	