

CABINET - 6TH SEPTMEBER 2001

LARGE SCALE VOLUNTARY TRANSFER OF THE COUNCIL'S HOUSING STOCK

1. INTRODUCTION

- 1.1 In September 1999, the Housing Stock Transfer Review Sub-Committee considered a report which outlined the strategic financial impact to the Council of a transfer of its housings stock to an independent arms-length company (LSVT).
- 1.2 At that meeting, the decision was taken that the Council would not make an application to the DETR for inclusion on the transfer programme for 2000/01, but further consideration would be given to a new application for 2001/02.
- 1.3 In March 2000, Members of the Sub-Committee agreed in principle to ballot tenants on the transfer of the housing stock in June 2001, subject to a favourable financial forecast.
- 1.4 Since that time, the potential financial position has been monitored and re-evaluated, reflecting the impact on this Council of a framework of new policies and initiatives on local authority finance and housing which the Government have been recently promoting.
- 1.5 To ensure that the Council's financial position would be optimised in the event of a future decision to transfer its housing stock, a financial strategy was developed and implemented. The strategy included the early redemption of debt of £14 million and the adoption of a short-term rent strategy
- 1.6 In recent months, the Government, within the context of their modernisation agenda for local government, has issued a number of consultation papers. The most relevant of these have been:
 - the Housing Green Paper ('Quality and Choice: A decent Home for All'), which members of the Housing Committee considered in June 2000, and,
 - the Finance Green Paper, which members considered in December.
- 1.7 Both of these documents contain proposals which will influence the position of this Council when considering the most effective solution for the future delivery of housing services, within the overall resources available, both for housing and other services. These factors are outlined below.

2. ISSUES FOR CONSIDERATION

- 2.1 The Government has acknowledged that previous framework which regulated the voluntary transfer of housing stock to arms-length Registered Social Landlord (RSL), created obstacles that prevented some local authorities from considering a transfer. To an extent, the government has gone some way to rectifying this position by the introduction of a number of proposals. These are outlined briefly:
- Stamp duty will be exempted for any transfers to RSL's, irrespective of whether the company has charitable status
 - Transfers may be extended over a 2 year period;
 - No levy payable on a local authority's future Right to Buy receipts;
 - No change in the levy of 20% for the 2000/01 programme, but likely to increase for subsequent years);
 - Rent rebates will become a General Fund cost, with subsidy transferred from the Housing Revenue Account (this will need primary legislation and unlikely to materialise before 2003/04);
 - Rent levels between local authority and Registered Social Landlords (RSL) are to converge over a 10 year period, and from 2002, rent increases in RSL's will be restricted to inflation only plus 1/2%;
 - Introduction of a Major Repairs Allowance which will enable local authorities to keep their stock in a good state of repair.
- 2.2 The government's overriding philosophy is to promote a mix of housing providers within the public and private sector; wishing to encourage local decisions which reflect the best solution for local circumstances, no pressure will be put on local authorities to transfer their housing stock.
- 2.3 The Government are continuing to support a transfer programme of at least 200,000 homes each year, but have changed the focus for the selection criteria to reflect their wider objectives of tackling social exclusion and urban regeneration.
- 2.4 In any future proposal for transfer of housing stock, it will be a requirement to demonstrate good value for money for both taxpayers and tenants, evidence of open competition for transfer (price and services provided), and fully supported by tenants. This would make it very difficult for the Council to sponsor a company, thereby protecting the interests of Tenants and the Council.

3. IMPLICATIONS FOR NEW FOREST DISTRICT COUNCIL

3.1 Major Repairs Allowance

- 3.1.1 The most significant factor for consideration is the Major Repairs Allowance, which the Council will receive from 2001/02. The settlement for 01/02 is £3.091 million, which equates to £558 per dwelling. This sum, together with further resources of £5,633 million, allocated from the Housing Revenue Account for repairs and maintenance of the housing stock, will help the Council to catch up on its identified backlog of improvements, provided this level of funding continues.
- 3.1.2 The programme will potentially enable the Council in future years to reduce ongoing repairs and maintenance costs in the Housing Revenue Account, which will impact on rents levels.
- 3.1.3 The major reason for considering an LSVT was the generation of money to enable an improvement programme to be carried out. Now this money is available through the major repairs allowance, the Tenants' believe it is not in their best interests to vote for a stock transfer.
- 3.1.4 Whilst the Major Repairs allowance will enable the backlog to be remedied, there has been some impact on the overall finances of the Council and its ability to invest resources into the provision of new housing through social housing grants to RSL's. This will create a shortfall in available social housing in this area, and increase the costs to the General Fund for homelessness.
- 3.1.5 The strategic target set for the provision of new homes by all providers within the district, is currently 200 each year; the potential shortfall for 2000/01 is 2, and for 2001/02, around 50.

3.2 Capital Receipt

- 3.2.1 The policy of the government in restricting future rent increases to inflation plus 1/2%, will materially affect the valuation of the housing transfer at this stage, and reduce the overall resources available to the Council for future investment.
- 3.2.2 Based on future rent increases for inflation only, the estimated net capital receipt from the transfer of housing stock, would be in the region of £59 million.
- 3.2.3 Investment of this capital receipt would generate additional interest earnings for the General Fund; this will be partly offset by the loss of other resources that are currently available, and, additional expenses which are currently charged to the Housing Revenue Account.
- 3.2.4 At this stage, a forecast of the net financial effect of a capital receipt has not been included with this report, as significant additional resources and budget provision will be required to update the key information required.

3.3 Arms Length Management Company

- 3.3.1 In the green paper 'Quality and Choice: A decent home for all', the government put forward a proposal for the separation of the housing strategic role from the landlord role.
- 3.3.2 Under these proposals, the ownership of the housing stock will remain with the local authority, whilst the management of the housing stock would be carried out by an arms length housing company.
- 3.3.3 Under this arrangement the Council, as landlord, will continue to receive the subsidies and credit approvals and maintain a Housing Revenue Account. Any expenditure incurred will be treated as the Council's and subject to the capital finance regulations. Therefore, any investment proposals for housing will continue to be considered within the overall financial resources and corporate strategy.
- 3.3.4 The proposals also indicate that the company should retain any operational surpluses generated, including the retention of capital receipt from Right to Buy sales, take investment decisions within the resources available, and determine rent levels within an overall framework set by the local authority.
- 3.3.5 The Government has indicated that additional resources will be available for authorities who set up arms length arrangements and achieve high standards of performance. The resources will be allocated through supplementary credit approvals, assuming local authorities will borrow to finance additional expenditure by the housing company.
- 3.3.6 The additional resources are specifically for improvements to existing housing stock and not for the provision of new homes.

4. CONCLUSIONS

- 4.1 The Major repairs allowance has provided the Council with a significant additional resource, which will enable a programme of improvements to be undertaken to the housing stock.
- 4.2 As this will achieve one of the key objectives of providing good quality homes for tenants, there are no real tangible benefits in giving further consideration to the creation of an arms length company, particularly as the proposed financial arrangements would, in effect, ring-fence a significant proportion of the Council's resources for housing expenditure and restrict the flexibility currently available in the allocation of resources to achieve its overall objectives.
- 4.3 The preparation of a new financial forecast of the effect on the Council's overall resources will require a significant amount of work to

be undertaken, and the engagement of external consultants. Even if the Council would benefit financially from an LSVT, a transfer of housing stock cannot proceed without the agreement of the tenants. With the current level of investment in improvements, the incentive no longer exists for tenants to agree to a stock transfer, the majority of whom have a preference for the Council as a Landlord.

- 4.4 A recent discussion paper issued by the Government has indicated that additional resources may be made available to local authorities to address concerns about the shortfall in provisions for the homeless.
- 4.5 The potential requirement for this Council to consider transfer of housing stock through a competitive tendering process would make it much more difficult for the Council to sponsor its own arms-length company, thereby ensuring the protection of its own and the tenants' best long-term interests.
- 4.6 The position outlined in this report is based on the current housing strategy being promoted by the Government and the Council's continued ability to finance the improvements and repairs to its housing stock, through the allocation of specific resources for this purpose. To ensure the optimum position continues to be maintained both for the Council and its tenants, these issues will be kept under review, and any material changes identified and reported to members.

5. FINANCIAL IMPLICATIONS

- 5.1 The total resources available to the Council for 2001/02 to improve and maintain its existing housing stock amounts to £8.722 million; this equates to around £1,590 per dwelling. The Government has indicated that these levels of resources will be maintained in future years.
- 5.2 Although the Council will not benefit from the investment of a substantial capital sum from the disposal of an asset, it will continue to benefit from capital receipts from Right to Buy sales, which are in the region of £4.4 million per annum currently.
- 5.3 A budget of £400,000 was approved by Policy and Resources Committee to meet expenses of the Council pursuing a transfer of its housing stock; to date expenditure of £170,000 has been incurred.
- 5.4 It is unlikely that the Council will benefit from the award of additional resources by the management of its housing stock by an arms length management company. The Council would still be required to maintain a Housing Revenue Account.
- 5.5 The requirement to set out a clear financial framework of investment for the company, and the ability of an arms length company to retain operational surpluses and capital receipts, will result in the Council having less flexibility in the utilisation of its total resources.

6. TENANTS COMMENTS

- 6.1 The Tenants appreciate the impact the availability of the major repairs allowance will have on the Council's ability to undertake a programme of improvements to the housing stock. This will enable the Council to retain its housing stock in the foreseeable future, and this is the favoured option for tenants at the present time.
- 6.2 However, should the Council wish to consider transfer of the housing stock at some time in the future, the Tenants would like to be fully consulted at the start of the process with a full and balanced appraisal of all of the options available at that stage.

7. EMPLOYEE SIDE COMMENTS

- 7.1 Whilst appreciating that the Council was required to consider all options available for the future management and financing of the housing stock, the Employee side support the recommendation that the Council retain ownership of the housing stock as the best option at this stage. This will be a contributing factor to improving the morale of employees who would have been directly affected by this move.

8. ENVIRONMENTAL AND CRIME AND DISORDER IMPLICATIONS

- 8.1 The availability of substantial additional resources will enable the Council to undertake improvements and maintenance of the housing stock that will have a beneficial impact on the standard of housing and immediate living environment of its tenants.

9. RECOMMENDATIONS

- 9.1 No further application is made by the Council to the DETR for inclusion on a programme for the transfer of its housing stock to a Registered Social Landlord at this stage.
- 9.2 No further consideration be given at this stage to the creation of an Arms-length company for the management of the Council's housing stock, and that the advantages and disadvantages of this are reviewed annually, in full consultation with the Tenants, as part of the review of the Housing Revenue Account Business Plan.
- 9.3 The impact of the additional resources now available on the backlog of improvements and maintenance is monitored.
- 9.3 No further consideration is given to holding a Tenants' ballot on the transfer of the housing stock to a RSL.

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Background Papers:

Housing Stock Transfer
Sub Committee - 30.9.99
and 2.3.2000
Housing Green Paper - Quality
and Choice - a decent Home for
All (DETR)