

Executive

13th October 2016

Report of the Assistant Director of Housing and Community Safety

Council Housing
New Operating Model Options - Stock Options Appraisal

Summary

1. As part of the council's wider review of its overall future operating model, all service areas within the council have been asked to undertake a review of their operating model and to consider if there are alternative approaches that, in light of the wider changes to the local government sector, would result in improving service delivery, reducing delivery costs and transferring future risk away from the council.
2. A key focus of any work to review the operating model for the council's landlord service needs to place tenants at the heart of the review and in considering any potential changes to ensure the future sustainability of the service to tenants.
3. This report recommends that we undertake a full housing stock options appraisal and at the same time develop tenant and staff panels and establish an ad-hoc cross party member scrutiny panel to consider the long term sustainability of the service and assess the different organisational governance models to support the final decision making process.

Recommendations

4. Executive are asked to:
 - a) **Agree Option One**, appoint an independent body to undertake a full housing stock options appraisal, establish a project budget, agree the project governance structure as outlined in Para 31 to recommend back to Executive a preferred option for the future management of the Housing Revenue Account (HRA) housing stock, including building services and where appropriate recommendations for management and operational delivery of the any other service that should be aligned to the housing and building service.

Reason: To ensure that the council, as part of the review of its corporate operating model, is able to make an evidenced based decision for the future management and ownership options for the HRA housing stock.

- b) To note the financial implications set out in para 49 and to approve an allocation of £100,000 from the General Fund Contingency towards the Stock options report.

Reason: To ensure that the review can be funded from council resources.

Background

5. The housing landlord service is about people and whilst the focus of the service can often be seen on the physical condition of the homes, which in itself is very important, the core principle of the whole service is about the people who live in these homes. The council has approximately 7,750 properties which it directly owns and manages and 400 leasehold properties where the property has been sold but the council still owns the freehold of the land, these leasehold properties are predominantly flats
6. The delivery of the housing landlord service is a significant part of the council's overall service delivery and was last subject to a full stock options appraisal in 2002. Over the last 14 years the operating environment, both locally and nationally has changed significantly.
7. There are approximately 150 members of staff employed who directly deliver the provision, management, maintenance and improvement of the housing stock. Additionally there are a number of staff in other directorates who work supporting the housing landlord service. For the financial year 2016/17 the landlord service has an annual income of £33.5m.
8. Annual expenditure includes the delivery of the housing management service (estate management, allocations and support to tenants), maintaining and improving the housing stock, interest payment for HRA debt, depreciation and corporate recharges result in a net operating cash flow for the year of £3.6m. However, when considering this net in year surplus, it has to be looked at within the long term financial projections for the business plan which in some years shows an in year deficit, and is therefore needed to ensure that the business plan balances financially over the long term.
9. When considering this level of income, it is vitally important to ensure that any decision regarding alternative operating models is fully

evaluated to ensure that the best solution for tenants in term of quality and sustainability of the service and the wider council is reached.

10. The HRA Business Plan, which was approved by Executive in February 2016 sets out the priorities for the business over the next 30 years and demonstrates the challenges for the council in maintaining its housing assets, delivering a high quality customer focused service as well as improving its homes and neighbourhoods. A key focus of the document is how the council will continue to meet the needs of present and future tenants whilst ensuring the long-term financial viability of the plan.
11. The Council's housing stock is well managed and maintained with significant investment over many years, in both people to support and deliver the service and through a structured programme of maintenance and upgrading along with a range of ongoing improvement programmes. The service performs well when benchmarked against other housing providers both regionally and nationally and has customer satisfaction of 89% with the overall service that the council provides.
12. However, there has been a number of recent changes nationally that fundamentally affect the financial viability of the business plan and remove the flexibility built into previous iterations of the plan. Key changes that will have the potential to affect the financial viability of the business plan are:
 - a) The announcement in the July 2015 budget statement that social housing rents will reduce by 1% a year for the next 4 years which will result in a reduction in income over the 4 year period of £12.8m and of approximately £240m over the lifetime of the business plan.

Current guidance suggest that for business planning purposes we should revert back to Consumer Price Index (CPI) +1% for rent increases, post the 4 year reduction. However, officers believe that to continue to plan on this basis would not be prudent as there is much speculation within the housing profession that it is highly unlikely that we will revert back to CPI+1%. If this is the case, the impact over the lifetime of the business plan will be greater than outlined above.

- b) The new Housing & Planning Bill received Royal Assent on 12th May 2016 and introduces an extension of the Right to Buy to Registered Providers (Housing Associations) tenants with the cost of this being cross subsidised by Local Authorities selling their higher value stock when it becomes vacant to compensate the Registered Providers for the discounts. The Bill sets out that:

- (1) *The Secretary of State may by regulations make a determination requiring a local housing authority in England to make a payment to the SoS in respect of a financial year.*
- (2) *The amount of the payment must represent an estimate of:*
 - (a) *the market value of the authority's interest in any higher value housing that is likely to become vacant during the year, less*
 - (b) *any costs or other deductions of a kind described in the determination.*

In the weeks leading up to the final reading of the bill a government amendment was tabled which stated that the sum of money required from a local authority will be based upon the value of their vacant "higher value stock". This replaced the phrase "high value stock". The change in wording has been seen as significant because it allows a more subjective measure of which council homes should be sold off. It therefore could increase the quantity of council homes that needs to be sold off. Regulation setting out what will constitute 'higher value' homes has not been published.

The financial impact of this the high value sales (pre change of wording) were estimated to be in the region of £100m on a best case scenario and £214m on a worst case scenario, post change of wording this could increase. However, the exact cost of this will not be known until the regulations are set by government.

- c) The impact of further welfare reform on the income management of the HRA. This will reduce the level of income some tenants have and is likely to have a significant impact on some tenants and directly affect their ability to pay rent.
13. The combined impacts of these changes (pre recent amendments) mean that the revenue income to the authority will significantly reduce from that projected in the last iteration of the business plan. It is likely that over the life of the business plan that income will, at best be reduced by £340m, and at worst £455m.
 14. Whilst a number of financial interventions can be put in place to help mitigate the impact of this, what is clear is that the impact of this reduction will see a reduction / curtailing of our ability to provide services in the future. The exact nature of any changes / service reduction is not known, however it is likely to significantly reduce if not stop any future council house building programme, it will also mean

reduction in service levels at some point, however the nature of these will need to be agreed with members as part of any revised business plan.

15. The balance on the HRA at April 2017 is currently forecast to be £21m. This balance is being built up in order to repay borrowing when it becomes due. The current approved business plan has taken into account the 1% annual reduction in rents up to 2019/20 as well as increased levels of Right to Buy sales and an assumed level of sales of properties to fund the high value sales levy. These combined impact of these changes by 2019/20 will be an annual reduction in forecast rental income of £7m which equates to a reduction of 19% from the previously forecast level.
16. The graph in fig.1 shows the forecast year end HRA balance for the next 20 years. A rising graph means that in-year surpluses are being generated and a falling graph means that there is forecast to be an in-year deficit due to large debt repayments being made in that year. The balance on the HRA reserve is forecast to increase over the next seven years while surpluses are set aside to repay debt. Loan repayments start to become due in 2023 causing the graph to fall as repayments are made. As debt is repaid, the interest payments will fall which is why the graph begins to level off after 2028 and then rise again after 2034.
17. Savings of £685k have already been approved as part of last year's budget process with a further £815k to be identified over the next 3 financial years in order to ensure that the HRA maintains a sustainable cash flow and is able to repay the current loans in full (the solid line on the graph). If the balance of savings are not made or if additional council house building programmes were introduced the HRA balance may dip below minimum recommended levels and potentially go into deficit (as shown by the broken line in the graph below).

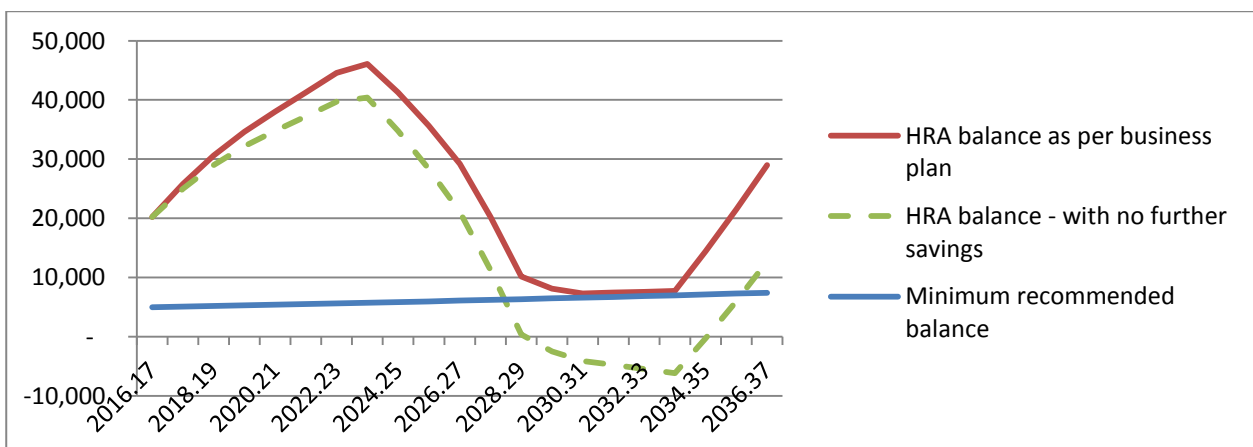


Fig. 1 Projected year end HRA balance

18. There are also still considerable uncertainties around the full financial impact of some of the forthcoming policy changes including the amount that will be payable for the high value sales levy and what levels of rent increase will be allowable after the end of the current rent reductions. Should these changes result in further income reductions for the HRA, the business plan would need to be revised and further savings identified if needed.
19. It should be noted that the current business plan includes provision for repayment of debt in full when the loans become due but that this is not compulsory. The repayments can be re-profiled and debt can be refinanced to give more flexibility over when and if the debt is ultimately repaid. But even taking this into account, it is important that all projections are regularly reviewed to ensure they are still valid and to take into account new policy details as they are released. It is also important to review all options in relation to ownership and management of the stock in order to assess the best way for the council to deal with the significant challenges facing the HRA, to maintain a sustainable balance and to continue to invest in its housing.
20. The requirement to reduce rents by 1% per year for another three years applies to all providers of social housing and the reduction would therefore need to be applied even if a decision were taken to transfer the council's stock to another social housing provider. In addition, the council would have to pay the levy in respect of assumed high value sales even if the stock were transferred so the financial impact of this policy would remain the same regardless of any potential stock transfer.

New Operating Models

21. The council as a whole is reviewing its operating model and considering what is the most appropriate governance and delivery models for the services that we provide. The core operating models / service delivery structures that housing services are reviewing their existing arrangements against and considering which fit best with the future aspirations and needs of the service users are:
 - Transformation of the in- house service
 - Partnerships / shared services
 - Alternative ownership / management
 - i. Social/Community Enterprise / Mutual / Trust
 - ii. Arms Length Management
 - iii. Traditional transfer

22. As part of the early review of the options, discussion has taken place with neighbouring landlords to gauge the appetite for shared services. Whilst there is some potential for sharing at the edges of the service, at the time (early 2016) there was no appetite for the level of whole scale shared services that would be necessary to deliver the economies of scale that this approach can bring that would be needed to help mitigate the future financial challenges the service faces. However, as part of any stock options analysis, this area should be tested again to see if in the intervening period there has been any change.
23. It is therefore proposed that a Housing Stock Options Appraisal is undertaken to consider the advantages and disadvantages of different options set out in Para 21.
24. Any proposed changes to the ownership/governance and management arrangements for the council's housing stock should be developed with full tenant and leaseholder involvement in an accountable and transparent process. The review process needs to have a clear focus on the establishing the impact and benefits of all the options on tenants. Any proposal that leads to a change in the ownership of the housing stock will need to be put before tenants in a ballot.

Housing Stock Options Appraisal

25. To enable the council to effectively consider the benefits and implication of each of the options, it is proposed that a full Housing Stock Options Appraisal is undertaken to analyse how the different management and/or ownership options could deliver the objectives set out within the HRA Business Plan, how any new arrangements sit alongside the council's changing operating model and how any of the options mitigate against the impacts of current and any future changes to national policy.
26. The key focus of any review should be to consider the long term future for the city's council housing stock and consider the options against a set of core principles. Suggested principles are:
 - Deliver improved outcomes for tenants and leaseholders;
 - Ensure the long term financial viability of the business plan;
 - Facilitate the building of new affordable homes;
 - Be co-designed and have communities and neighbourhoods at its heart, creating social value;
 - Safeguard and prioritise the needs of vulnerable residents;
 - Be agile in decision making and fully accountable to a governance structure that includes tenant and councillor membership;
 - Transfer ongoing liabilities and risks away from the council;

- Is resilient to future changes in funding and national affordable housing policy;

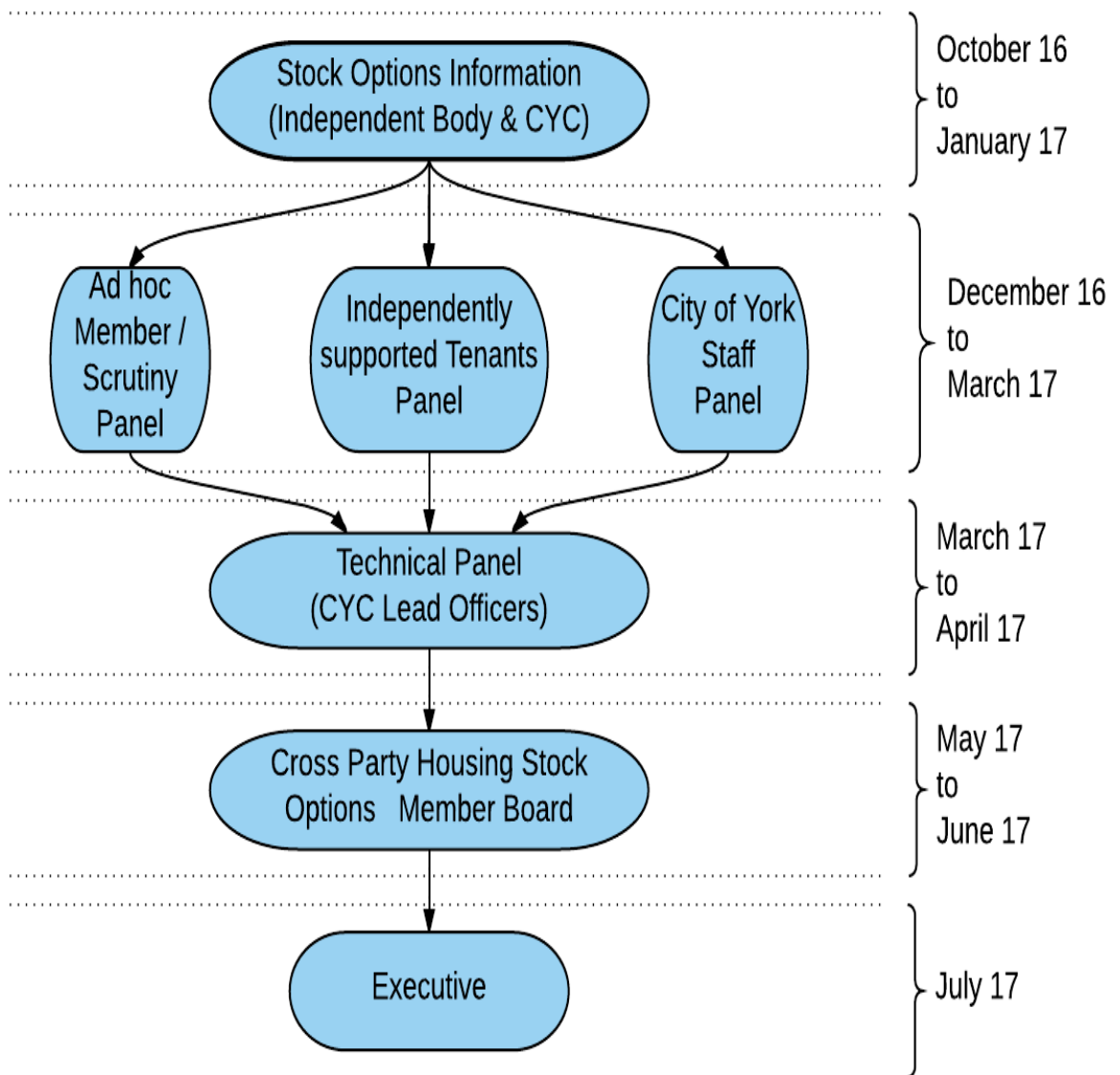
The Proposed Approach

27. Given the council's housing stock is a significant resource that plays a major role in the functions of the council and wider communities, any recommendation to change will need to be carefully considered and evidenced. There will be a number of professional services which need to be procured to support the financial, legal and asset analysis. There will also be considerable resourcing requirements to ensure meaningful tenant, leaseholder and staff engagement throughout this process. The results of this extensive work will enable the Council to work more effectively with residents to devolve more control and achieve value for money in the significant ongoing investment in Council homes.
28. The supporting evidence required to enable a sound judgement to be reached includes:
 - An independent assessment of the three options set out in Para 21, considering the advantages and disadvantages of each from the tenants and leaseholder perspective, a financial and legal HRA perspective and the wider council perspective including staff who work in the provision of the housing landlord service;
 - An tenant assessment of the information provided above and supported by an Independent Tenant Advisor;
 - Asset Analysis information to compare the level and timing of expenditure on the properties with the income stream from rents;
 - A revised baseline analysis of the Council's current Housing Business Plan;
29. A refreshed stock condition survey is to be carried out as part of our normal business planning. Should the outcome of the option appraisal be stock transfer, the refreshed stock condition survey will meet the requirements for any transfer purpose.
30. To ensure that the above can be delivered it is critical the resources are made available to facilitate this work. It is estimated that the project costs to deliver the above to reach the point of an evidenced based options paper to Executive will be in the region of £200k. Whilst this figure may initially seem high, when considering the financial context of the decision, it is 0.6% of the annual income to the HRA that would be spent to determine the long term future of the business. When considered against the business plan projected income over the 30 year life span, it represents a cost of just 0.017% of income.

Project Governance

31. When considering a project of this scale and the potential long term impacts, it is vitally important that there is full and effective stakeholder engagement; it is therefore proposed that a project governance structure is established to oversee the work which includes elected members, tenants & officers.
32. Alongside this needs to be a clear communications strategy that supports the work and set out how tenants can be involved and influence the review.
33. It is proposed that all information is considered by each of the three groups and that the views of each group be used to score the options. A final decision paper will then be brought to Executive.

Visual depiction of proposed governance structure and timeline



34. Essential to the process of reviewing the stock options is effective consultation and engagement with all stakeholders. The proposed governance includes three key panels that will review and consider the technical information arising out of the stock options analysis; a tenant panel, a staff panel and a member scrutiny panel.
35. To ensure a full understanding of all the options it is proposed to undertake a range of visits for panel members to organisations who have changed their organisational models so that they get a first hand perspective from the organisations and their tenants.

Tenant Panel

36. At the heart of any project governance structure and decision making process needs to be the tenants who reside in the homes that are subject to the stock options analysis. It is proposed to establish a tenants' panel with the remit to review all the technical evidence/information brought forward as part of the review and to work with the Council and its advisers to make sure the Council's Stock Options Review considers:
 - The things that matter most to tenants and leaseholders
 - All relevant information and all aspects of the appraisal are communicated to tenants and leaseholders and that tenant and leaseholder views are articulated to the proposed Stock Options Member Board.
37. To ensure that the tenants' panel is representative of our tenant and leaseholder base it is proposed to appoint an Independent Tenant Advisor (ITA) who will support the tenant panel to develop their understanding of the technical information coming out of the options analysis and be in a position to critically assess the options and reached an informed decision having considered all the evidence.

Staff Panel

38. The staff who deliver the service are also critical to the review process and need to be fully engaged from the outset. They deliver the service to tenants and any change to the current arrangements could see them transfer under TUPE from being employed by the council to a new organisation.
39. It is proposed that a staff panel be established with staff from all sections and levels of the housing service and support services where individuals' primary role is supporting the housing landlord function. This panel will consider all the technical information from the review and consider the

impacts of the review from a staff perspective and feed in their views to the final assessment and scoring of the options.

Ad-hoc Member / Scrutiny Panel

40. As part of the council's overall governance model we have member policy and scrutiny committees that have, as part of their remit, the ability to engage in any future policy review. There can be no single bigger change to the councils housing service than the potential change in ownership and management arrangements of its housing stock. It is envisaged that Scrutiny Members may wish to establish a specific task group to review the technical data and consider the impacts of any change and feed in its views to the Housing Stock Options Members Board.

Housing Stock Options Member Board

41. It is proposed that the Member Board is a cross party board with the lead housing spokespersons from the all political parties, chaired by the Executive Member for Housing & Safer Communities. The Housing Stock Options Member Board will receiving all the technical information, the information from all the three panels and be responsible for commissioning the final stock options report recommending the proposed future governance / management arrangements to Executive.

Options

42. Option one – to undertake a full housing stock options appraisal, establish a project budget, agree the project governance structure including establishing tenant and staff panels and invite Scrutiny Members to establish a specific scrutiny panel to support the decision making process and recommend back to Executive a preferred option for the future management of the Housing Revenue Account (HRA) housing stock, including building services and where appropriate recommendations for management and operational delivery of the any other service that should be aligned to the housing and building service.
43. Option two – to not undertake a full housing stock options appraisal.

Analysis

44. Given the size and nature of the Housing Landlord Service, the only way to truly understand the advantages and disadvantages of the different governance and operation models is to undertake what is known as a full Stock Options Appraisal.

45. Undertaking a Stock Options Appraisal is not a decision to change the current arrangements but one to consider all the options, including keeping the current one. It will consider all the options against each other and identify the advantages and disadvantages of each option, from both the tenants' perspective and long term financial viability.
46. A decision not to undertake a stock options appraisal would result in the council not subjecting this important and critical service to challenge.
47. Whilst not a part of any stock options appraisal it is important to note that should the outcome of any appraisal suggest changing the governance/ownership and management arrangements, this would be subject to further Executive consideration and crucially subject to a tenant ballot.

Council Plan

48. The good management of existing housing and any opportunities that help to increase the housing stock supports the Council Plan priority for 'a prosperous city for all – where local businesses can thrive and residents have good quality jobs, housing and opportunities'. Similarly, the proposal to actively engage tenants in the review supports the council commitment to 'listen to residents – to ensure it delivers the services they want and works in partnerships with local communities'.

Implications

49. The implications arising from this report are:
 - **Financial** – The current HRA housing stock is a business that has income of in excess of £34m per annum. The current business plan has highlighted the impact of national changes that will result in a reduction in income of between £340m & £455m over the lifetime of the plan.

Any option that sees the service move out of the local authority has potentially significant financial implications, which will need to be assessed in detail over coming months. These include the operational efficiency of any potential new organisation, and opportunities for efficiency and increased investment, and the implications of potentially "closing" the HRA and the consequent significant financial matters that then will need to be considered should this happen, including any implications for other Council services.

The HRA pays for a number of services it receives from other services of the Council, including housing and community staff,

professional services (finance, legal), ICT service and infrastructure, and property/facilities. Should the service move out of Council control, the new service could choose to buy back some/all of those services, or consider its own arrangements. This has happened with other services that developed different operating models e.g. libraries. Should any new service not buy back such services then the respective services are expected to deal with the implications and reduce their costs. However, in some cases, e.g. ICT infrastructure costs, there may be difficulties in the service making any reduction in its fixed costs, and the review will need to consider any impacts on the wider Council.

The costs of undertaking the review, including the commissioning of the work outlined in Para 28 is expected to be in the region of £200k. Guidance (DoE Circular 8/95 paragraph 29) sets out that the in working up LSVT proposals and balloting tenants majority of costs incurred as part of any are expected to be funded from the General Fund. There will be costs that are able to be charged to the Housing Revenue Account particularly in relation to tenant engagement. The exact breakdown of what will be charged to each account will be determined by the actual work undertaken and the tender returns.

Dependant upon the outcome of the review, if a different ownership / management options is presented, it is expected that the set up costs of any new organisation will be in the region of £1m. However, the costs of any set up will be considered as part of the option analysis and considered against any savings in operating costs as a result of any new operating model.

It is proposed that the Housing Revenue Account funds the elements of the review which can be rightly charged (assumed to be £100k). This will reduce the overall budgeted surplus of the account which is currently forecast to be £21.1m at 31 March 2017. Those costs not attributable to the Housing Revenue Account (assumed to be £100k) are proposed to be funded from the council contingency. The contingency currently stands at £1,340k and should Members accept this proposal it will reduce to £1,240k available for future use.

- **Equalities** – There are no direct equalities implication arising from this report, however that stock options appraisal will consider the equalities implication of the different options as part of the analysis.
- **Legal** – There are no direct legal implications arising from this report, however it is critical that any legal implications arising out of the options analysis are considered and addressed in future any recommendation.

- **HR** – To support the work it will be necessary to appoint a Project Manager to coordinate the work set out in the report. The cost of this will be met from the project budget.

Longer term, should any decision be reached to move away from stock retention and in house management, this would result in staff involved in directly delivering the housing landlord service, and potentially some support staff who work predominantly for the HRA, transferring to any new organisation under Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE). The details and impacts of this, should it occur, will be considered as part of the next phase.

- **Crime and Disorder** – None
- **Information Technology (IT)** – None
- **Property** – None

Risk Management

48. Considering the future ownership and management arrangements for the councils housing stock recognises the very significant potential risks to the Council of standing still and doing nothing. There are clear risks that there is a significant cost to do a full and comprehensive review of options, but this is considered critical to identifying the most effective long term solution. As with any potential major change in operating model, the impacts on the rest of the Council will need to be properly considered.
49. It is also important to understand that in considering the future of the council's housing stock, we are not just talking about housing units, we are talking people's homes, and by the very nature of the review, this will cause anxieties for some of those tenants. To minimise the risk of this it is important that alongside the review and the tenants' panel, we have a communication plan to keep all tenants informed of why we are proposing to undertake this review, what it means in reality and how they can engage and be part of the review.

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Corporate Director – Health & Wellbeing

Report
Approved

Date

28th Sept 2016

All

Wards Affected: List wards or tick box to indicate all

For further information please contact the author of the report

Background Papers:

HRA Business Plan