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**HOUSING OPTIONS APPRAISAL**

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**Responsible Cabinet Member(s) - Councillor Bill Dixon, Housing Portfolio**

**Responsible Director(s) - Cliff Brown, Director of Community Services**

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**Introduction**

1. To advise Council of the Housing Option Appraisal Process and the proposed recommendation to be made to Council in respect of the future management of the housing stock following a full options appraisal.

**Information and Analysis**

2. The process of option appraisal has been driven by the following statutory requirements:-
  - (a) Decent Homes Standard
  - (b) Option Appraisal Sign Off by ODPM
  - (c) Best Value

Within these broad statutory requirements there are further individual requirements in terms of processes, timescales and tenant involvement.

3. It is the interaction between the Decent Homes Standard, the requirements of the Option Appraisal process, in particular the ability/inability of local authorities to meet the Decent Homes Standard by 2010 and quality of housing management and repair services, that in many cases influences tenant choice, an essential and statutory requirement in the process. This ultimately helps determine the choice between options available for future management of the housing stock.

**Background**

4. The Communities Plan, Sustainable Communities, Building for the Future, was launched by the Deputy Prime Minister in February 2003. It covered a range of issues in respect of sustainability and included a review of the policy framework and delivery mechanisms in place for meeting the Decent Homes Standard, requiring compliance with the standard by 2010.

5. The Decent Home Standard is a Government initiative to ensure all social housing reaches the required standard by 2010 involving the following criteria:

- The statutory minimum fitness standard for housing
- Has reasonably modern facilities and services.
- It has a reasonable degree of thermal comfort.

The type of works to meet the standard include, kitchen and bathroom renewal, roof improvements, external structures, window and door renewals, internal finishes, electrical rewiring, communal living areas and affordable warmth.

6. Responsibility for delivering the Decent Homes target rests with individual local authorities or housing associations and this must be an integral part of any Housing Business Plan.

These plans must set out:-

- (a) The current position including the condition of the stock, costs of renovation work and the services provided to tenants.
- (b) The priorities for investment and the service improvements agreed with tenants.
- (c) An analysis of likely resources available.
- (d) An action plan for delivering the identified properties.

7. An essential element of business planning is an option appraisal of possible alternative ways of meeting the identified objectives. For council housing the Government requires us to consider the alternative management arrangements. Members, tenants, leaseholders, and staff must play a major part in the option appraisal. In particular it is seen as essential that tenants and leaseholders are engaged at the outset in defining objectives and priorities for the future improvement of the stock, delivery of service. Whilst the work of the Council's staff in consulting, training and capacity building of tenants is recognised as crucial there is also a requirement for an Independent Tenant Advisor (ITA) to be appointed by tenants to provide good quality independent advice to tenants. This is in addition to the consultants appointed by the Council to assist in the financial and technical aspects of the Housing Option Appraisal as well as the consultation and communication aspects of the process.

8. All stock holding local housing authorities are required to look at the costs and benefits of these options and those who cannot meet the cost of delivering the Decent Homes Standard without additional resources need to consider, with their tenants, the costs and benefits of the options considered before deciding which of them to pursue. In managing this process a Steering Group comprising elected members, tenants and staff representatives in line with Government guidance needs to be established to oversee the review.

9. Every authority still with stock must complete an option appraisal for sign off by the Government Office by July 2005. Guidance on the criteria includes the need to:

- (a) Develop proposals to meet the Government's key objectives.
- (b) Appraise all options equally, consistently and impartially.

- (c) Maximise the meaningful participation of tenants in the decision making process and arriving at the preferred option.
  - (d) Consider the prospects for service delivery and improvement under the different options.
  - (e) Consider the varying approaches to tenant involvement and influence in any future housing organisation.
10. Throughout the process, the Government Office North East (GONE) and the ODPM's Community Housing Task Force (CHTF) are actively engaged in developing and agreeing appropriate mechanisms to ensure that councils engage with stakeholders and place tenants at the heart of the process.
11. In Darlington, the options appraisal was commenced in September 2003 and because of the complexities of the process, consultants, Housing Quality Network (HQN), were engaged to assist in the technical and financial aspects of the process and to generally assist in the management of the Option Appraisal. A Steering Group comprising 3 Council Officers, the Cabinet Member with responsibility for Housing, the Chair for Social Affairs and Health Scrutiny Committee and three representatives from the Residents Panel was established to manage the process.

## **Options**

12. There are four options prescribed by the Government which are available to councils in considering how their housing stock should be managed:-
- Private Finance Initiative (PFI)
  - Stock Retention by the Council
  - Arms Length Management Organisation (ALMO)
  - Large Scale Voluntary Transfer (LSVT)
13. The only option in which a Council transfers ownership of the housing stock is LSVT and for this option it is mandatory that there is a tenant ballot before proceeding. In the ballot a simple majority of voting tenants is sufficient to enable LSVT to proceed. Despite this, it has become custom for local authorities to ballot their tenants for other options and to decide not to proceed with a particular option where a negative vote is given by tenants.
14. Before considering each option, to set the Option Appraisal in context, the current position in respect of the Housing Stock in Darlington is that:-
- The Decent Homes Standard can be delivered through current Housing Business Plan investment of nearly £35m to 2010.
  - Investment over 30 years amounts to £124m.
  - Current programmes for major refurbishment comprise new kitchens and bathrooms on a 30 year renewal cycle, including rewiring and security. Central heating is renewable on a 20 year cycle.

15. Work with Council tenants during the consultation stages has, however, led to the development of a draft Darlington Standard, incorporating aspirations for investment above the Decent Homes Standard involving investment of up to £149m over 30 years. The development of this standard has tended to broadly equalise investment between options and the medium term impact upon this option appraisal after considerable tenant consultation, is summarised as follows:
- (a) Stock Retention with additional borrowing : £49.5m over 6 years to 2010.
  - (b) Arms Length Management : up to £54m over 6 years to 2010, but including an element of environmental and regeneration investment which, though able to be part of a bid, would be subject to Government support.
  - (c) Stock transfer : £52.5m over 6 years to 2010.
16. Each option will be described, current issues and the financial implications identified in the remainder of this section.

### **Private Finance Initiative**

17. PFI for Council housing is typically based on a 30 year contract between the council and a consortium, usually a Housing Association, Construction firm and a funder. The Consortium usually forms a company specifically for the purpose of operating the contract, borrows money up front on the private markets and recovers the investment and ongoing revenue in the form of annualised contract payments over 30 years paid by the Council. As the cost of additional investment and refurbishment is included in the contract, the contract payments are greater than the level of expenditure currently within the HRA and the Government pays subsidy to make the contract affordable.
18. The first round pathfinders have been developing their schemes for a long time. After nearly four and a half years from first application, Manchester City Council became the first council to sign a HRA PFI contract in February 2003. The London Borough of Islington became the second to sign in March 2003. After a gap of two and a half years, Round 3 Expressions of Interest were received by ODPM on 18 December 2003. A small number of large urban councils have expressed interest including Birmingham, Salford and Manchester.
19. The following are the current key issues for PFI schemes:-
- PFI is not self-financing and may require additional HRA funding at the expense of others areas outside the PFI area. To make it stack up financially, in really bad areas, the argument is that you are probably already spending higher than average levels of maintenance costs so it can be justified. This solution cannot therefore, be used for the whole stock and has tended to emerge as a favoured option for areas or stock types, which need significantly higher than average levels of investment to reach a modern standard. In the two rounds to date, only around 25,000 properties are involved.

- The involvement of so many parties in a negotiation process is extremely complex and the outcome is a performance contract, affecting partners in a consortium over a 30-year period. Interested councils generally need to be convinced of the unavailability of alternative private finance or regeneration funded options before commencing.
  - Scheme size tends to be upwards of 1,000 but less than 3,000 properties in very poor condition and / or comprising unpopular stock usually in areas requiring wider investment in regeneration.
20. In view of the good condition of the majority of stock in Darlington it was very quickly established by the Steering Group that this is not, therefore, an appropriate option for the investment in regeneration.

### **Stock Retention**

21. Broadly, this comprises continuation of direct ownership by the council with housing management provided by staff employed by the council. However both GONE and CHTF have made it very clear that if councils decides to opt for stock retention, this must involve change. In this case, therefore, proposals must show that real and significant change will be achieved.
22. In considering stock retention, to continue on the basis of existing business planning is not an option. In Darlington, tenants have therefore been keen to explore how change can be realistically achieved in order to fulfil their investment aspirations.
23. Currently, the Housing Business Plan profile shows investment at £34.6m (unadjusted for assumed stock loss) over 6 years from 2004-2010 and £124m over 30 years. In response to tenant aspirations arising from consultation during January 2004, officers developed a draft Darlington Standard investment profile which increased investment to £52.5m over the 6 year period to 2010.
24. This developing standard has been the subject of detailed consultation and investigation with tenants and comparative programmes, reflecting their priorities have been developed. While these are fully outlined in **Appendix 1**, the latest rounds of consultation did produce some reduction in the Standard, particularly around the frequency of replacement of kitchens and bathrooms from every 15 years to 20 years. This means that the 30-year investment profile of £148.8m should be treated only as the maximum financial implication and tenants are currently happy to move to potentially lower levels of investment in some areas of work.
25. Resource projections for capital include the Council's current forward plans for the use of Right to Buy capital receipts at the level of 25% of the total. Supported Capital Expenditure has been assumed to be utilised on other Housing Strategy priorities. The receipts allocated to the HRA are around £2.2m over 6 years to 2010.

## Financial Implications of Stock Retention

26. The current Housing Business Plan shows that it is possible to meet the Government's Decent Homes Standard for all properties within the 2010 deadline.
27. Notwithstanding this, in the context of delivering an acceptable stock retention option, the investment shortfall of the expenditure profile of the current Business Plan against the draft Darlington Standard is £17.9m to 2010 and around £25m over 30 years. A scenario has, therefore, been modelled involving the Council utilising some of the surpluses available within the HRA, which are currently used to fund works within the Housing Business Plan, to fund unsupported prudential borrowing under the provisions of the new Local Government Act 2004 in order to achieve the draft Darlington Standard.
28. While the ODPM do not specifically identify this option both GONE and CHTF have confirmed that it is an appropriate approach to the Stock Retention option. It is not an option open to many local authorities due to the investment required in most local authorities to meet the Decent Homes Standard and reflects the investment in improving and repairing the housing stock over a long period of time and healthy position of our HRA with revenue contributions to capital outlay (RCCO) levels at around £2.2m per annum.
29. Based on current properties, the draft Darlington Standard has an investment profile of £52m reducing to £50.7m with stock loss in the period 2004 to 2010. On an illustrative basis, consultants HQN have calculated that borrowing of up to £20m might be prudent to finance this additional investment. This represents the maximum level of borrowing and as indicated earlier, the latest consultation shows a reduction in expectations for kitchen and bathroom replacement from 15 years to 20 years. The Council could, therefore, reduce its borrowing requirement accordingly or alternatively look to invest the savings in other tenant priority expenditure areas. The borrowing would be phased over the 6 year period, with interest rates assumed to rise to 5.5% (consolidated) towards the end of the decade with a prudent allowance of 7% of ongoing debt level set aside per year to cover principal repayments. As the new borrowing would be consolidated with existing HRA debt, there may be a small impact on the General Fund amounting to £3,150 (2005/06), £1,395 (2006/07) and £649 (2007/08)
30. This scenario suggests that the HRA can continue to be managed in surplus over the very long term although there would be a need for service expenditure reductions in the middle period, particularly after 2010/11. This is because there would still be shortfalls against the capital expenditure needs from 2011-2034 and these would need funding. One option would be to commit additional revenue contributions to fund the programme at the appropriate level to secure a 30 year investment total of £133m as required. Reductions in service expenditure of up to 20% might be required over the longer term to offset this, equivalent to £1m pa based on the current budget. However, with the introduction of recommendations from the Access to Services BV review involving the introduction of a Call/Contact Centre and the options for efficiencies in respect of Neighbourhood Houses, as well as the reductions in repair and maintenance spending from a forecast 30% plus reduction in housing stock over the same period, this is anticipated to be achievable.
31. For instance, based on a revenue budget of £5m after deducting RCCO's of £2.2m the proposed savings are shown in the following table:-

**Table 1: Proposed Savings**

<b>Budget Item</b>	<b>Annual Budget £'000's</b>	<b>Proposed Savings £000's</b>
Repairs	1,500	300
Cyclical Maintenance	500	100
Support Service Recharges (1)	855	125
Staffing costs	1,250	175
Other Management Costs (2)	895	300
<b>Totals</b>	<b>5,000</b>	<b>1,000</b>

Note: (1) Includes £227,120 Community Services Client Support Charges.

(2) Includes Warden Services, Building Cleaning and Grounds Maintenance.

32. It is proposed that rather than waiting until 2011 to make the savings that these savings are achieved over the next 10 years.
33. The repair and maintenance costs can realistically be cut by 20% to reflect the reductions in stock through time, although it should be noted that some types of cyclical maintenance relates to work predominately undertaken in sheltered housing schemes where no Right to Buy applies or blocks of flats with a low take up of sales. This should however be off-set by improvements in procurement arrangements.
34. The Support Service recharges are mainly based on usage so a reduction in property numbers and housing staff numbers, coupled with other efficiency savings initiatives such as Housing Officers taking standard rent arrears cases to Court should results in savings of 14%. This is only achievable however if economies of scale are made in the departments providing the support services whilst also recognising that some recharges are fixed.
35. The introduction of a Call/Contact Centre and the options for efficiencies in respect of Neighbourhood Houses together with stock losses suggests that similar savings of 14% could be achieved in direct staffing costs.
36. The charges for Grounds Maintenance, Building Cleaning and the Warden Service were all reviewed as part of the Revenue Budget for 2004/05 when Cabinet agreed to meet the shortfall between income and expenditure by directly charging service users the true cost and phasing these increases in over a five-year period. This equates to potential additional income of around £300k.
37. This option could therefore result in an investment programme totalling £49.5m to 2010 and providing the long term profile can be funded by managing revenue expenditure accordingly, a fully funded profile of £133m over 30 years is achievable.

## **Arms Length Management Organisations (ALMO)**

38. Under this option, the council establishes a new arms length organisation to take over the landlord services for a specified period. The ALMO is a not for profit company, limited by guarantee and owned by the council. The ALMO operates under a framework agreement with delegated powers from the council, delivering all landlord services, either utilising directly employed staff, contractors or continued council services in the short term. The principal benefit is that the programme of works within the ALMO is funded by the Government through housing subsidy as opposed to, for instance, stock retention, whereby the council would need to borrow the additional resources required.
39. Some features are common with stock transfer, for example the board of management, its membership and the need to establish a separate legal entity. Staff delivering landlord services would move across to the ALMO under TUPE. In all other respects, the ALMO is distinct from stock transfer which is described later. In summary:-
  - (a) The ownership of the assets stays with the council which remains and landlord.
  - (b) Tenancies and rights remain unchanged.
  - (c) The agreement with the ALMO is finite and reversible.
  - (d) No other option could develop without the express consent of the council and its tenants.
40. The Government has provided additional resources for councils which wish to establish an ALMO, subject to the achievement of a minimum 2\* best value rating arising from an inspection of all landlord services. The Housing Inspection star rating applies to the ALMO, once established and not the council prior to the establishment of the ALMO. In the first two rounds, the maximum additional resources provided for housing investment represented the equivalent of £5,000 per dwelling although this ceiling has since been dropped.
41. The public sector financial regime stays in place under this option. The HRA would continue and distribution of the additional resources, as well as existing Major Repairs Allowance, would continue to be undertaken by a small section of staff continuing to be directly employed by the council. As the HRA stays in place, any changes to the local authority housing finance system will affect the ALMO.
42. To receive additional resources, authorities must not only satisfy the appropriate criteria and have established an ALMO, but also demonstrate that the resources are required and will be put to good use. Given the demand for ALMO's nationally, it is likely that the priority criterion affecting the level of allocation will be the extent to which additional resources are required to enable an authority to fully meet the Decent Homes Standard. This is the challenging issue for Darlington should it chose to apply for an ALMO as the current Business Plan does meet the Decent Homes Standard.



43. In 2001, formal applications were submitted by 14 local authorities for additional ALMO resources of which 8 were successful. In Round 2 in 2002, 13 authorities applied, including the six unsuccessful first round bidders and all 13 were given conditional allocations of a proportion of their bids, making the total allocated to the 21 successful bidders £655m against the national allocation of £460m from the 2000 Spending Review.
44. For Round 3 during April 2003, 15 expressed interest and 14 applied to join the programme with 13 accepted onto the programme.
45. Round 4 applications total some £1.8 billion and the outcomes of these applications are scheduled to be announced in May 2004. In September 2003, 19 local authorities expressed interest and 4 withdrew, either as a result of poor mock/interim inspection ratings or to pursue an alternative option (ie stock transfer).
46. For Round 3 and 4 the available allocation of £700m between 2004 and 2006 is considerably over subscribed with total bids of over £3.6 billion. Allocations are now being based more specifically around liabilities towards the Decent Homes Standard compared to the first two rounds when a more comprehensive bid was the norm.
47. Successful Round 4 ALMO's would begin spending additional resources in 2005/06 on a 4 year programme of spend to 2009. A possible Round 5 (which would be applicable to Darlington, if this option was chosen) would therefore be spending additional resources to meet the Decent Homes Standard between 2006 and 2010. Recent comments by the Housing Minister have indicated that the actual pre-allocation of additional resources indicating the likely treatment of Round 5 and future rounds will be delayed until after the July 2004 Comprehensive Spending review and, therefore, at this time, Round 6 looks extremely unlikely given these circumstances.
48. The availability and timing of ALMO resources is therefore potentially critical to a council in Darlington's position should an ALMO option be chosen.
49. Also significant in the context of the ALMO programme is the first no vote by tenants during December 2003 and January 2004, in the London Borough of Camden. It is probably too early at this stage to assess the long-term consequences of this outcome although a clear message is around the importance of accurate and timely information to tenants. Of more short term importance for option appraisal projects, is that the result prompted early comment from ministers that the Decent Homes Standard would not be imposed on tenants if they did not wish to support the only options which are able to deliver it.
50. The following are the key current issues:
  - (a) Whether ODPM continues to support applications at the level of the full bid.
  - (b) Whether and to what extent there is funding for a Round 5 ALMO programme.

## **Financial Implications of ALMO**

51. The main problem for the Council in respect of this option is the very low level of Council dwellings which are non-Decent Homes in accordance with the Decent Homes criteria and the relatively low cost of £11m to bring all the housing stock to the minimum standard by 31<sup>st</sup> December 2010 and the full Decent Homes related investment of £38m.
52. Nevertheless, HQN advised that a credible bid could be mounted on the following basis:
  - (a) A significant and rising level of the current Housing Business Plan investment programme has been committed to regeneration : 33% in 2000/01, 38% in 2001/02, rising to 43% in 2002/03 and 47% in 2003/04. This recognises the need for investment in the wider environment and regeneration in the Borough.
  - (b) Based on an average of 40% of capital resources committed to regeneration and wider investment over the next 6 to 7 years, the allocation for regeneration type investment is projected to be £13.8m in line with the current and previous investment policies of the council.
  - (c) The impact of this is that the shortfall against the Decent Homes element of the profile will therefore increase to £18m, comprising the basis for an ALMO Decent Homes application. Under current guidance, a small amount may also be added for environmental issues of up to 10%, in line with other ALMOs in the North East, making a total bid of £19.8m.
53. On this basis, it was identified that a total investment programme to 2010 could therefore approach £54.4m subject to Government approval of the application. This formed the basis of consultation with tenants.
54. It was only after the consultation with tenants had been concluded that a letter was received from the ODPM (**Appendix 2**) advising the Council that ALMO funding would not be available due to the solution identified in the previous option involving the Council retaining the housing stock and securing the necessary investment through Prudential Borrowing.

## **Large Scale Voluntary Stock Transfer**

55. The Large Scale Voluntary Transfer (LSVT) programme has now been running for well over 14 years. Early LSVT proposals established the base for the conduct of the programme which has now covered over 100 councils and well over 750,000 properties. Despite some reversals particularly in the early part of this decade, LSVT remains the main basis for levering in private finance to sustain additional investment in the housing stock and improved services.
56. The earliest transfers were to traditional style housing associations. In 1996, the model of the Local Housing Company was formed which allowed Boards of Management of new landlords to consist of three way membership between the council, tenants and independent board members. This has remained the predominant form for whole stock transfers. During 1999, the Government agreed to write off so-called overhanging housing debt thereby opening up the transfer option to many urban councils with low value stock.

57. Financially, the transfer process works on the basis that current HRA expenditure on debt charges and negative subsidy become available to a new Association to fund loans to purchase the stock and finance investment, without the expenditure counting against the Public Sector Borrowing Requirement. Existing debt is written off and there may be some money left over for investment in other services, especially for meeting affordable housing need.
58. Any transfer of over 500 properties is deemed to be a LSVT subject to specific guidance, which includes a ballot of tenants, in which a majority must support the transfer proposal in order for it to go ahead. Transfers above this stock number must also be to a Registered Social Landlord (RSL) or Housing Association, registered with the Housing Corporation.
59. The key features which distinguish LSVT from an ALMO are as follows:
  - (a) LSVT is the only option where ownership of the stock changes.
  - (b) The Housing Corporation acts as regulator rather than ODPM directly.
  - (c) An RSL is not subject to public expenditure restrictions although rent restructuring does apply as for local authorities.
  - (d) Tenants have an Assured Tenancy where the main rights affected are the Right to Buy, Management and Repair. The Right to Buy can be preserved for tenants who were previously Council tenants. The Rights to Manage and Repair can be included within the commitments of the new organisation at transfer. It should however, also be noted that the Government is due to advance proposals to develop a single social housing tenancy.
  - (e) A RSL is able to receive grant funding for new build from the Housing Corporation and Regional Housing Boards.
60. Transfer can be to a range of organisations or types of organisations. These include existing RSLs, newly created stand alone RSLs or newly created RSLs belonging to a group structure with an established RSL. The key differences between these options relate to:
  - (a) The sense of local belonging associated with whether transfer is to an existing or a newly created body.
  - (b) The opportunities to secure economies in management by transferring into an existing infrastructure.
  - (c) Additional skills will be required including financial and treasury management and potentially development and construction skills.
61. In certain circumstances, if the stock to be transferred is of low value or deemed risky, an existing RSL may also be able to use its existing assets to ensure a transfer could proceed.

62. The appetite from the private and funding sector for stock transfers continues to be sufficient to provide funding for all those transfers currently reaching conclusion. There are however concerns that rent restructuring. The limiting of RSL rent increases to half a percent above inflation has limited the ability of some transfers to proceed by depressing valuations and / or providing too much pressure on the future business plan for the RSL. Certainly the Government shows every sign of supporting stock transfers at the rate at which councils wish to pursue them. In contrast to the ALMO programme, the acceptance or otherwise onto the transfer programme is dependent upon financial feasibility and the proposals within the scheme, rather than in competition with other applicants.
63. High profile rejections of stock transfers by tenants during 2001 and early 2002, at Dudley and Birmingham in particular, have, whilst certainly not leading to a general trend of no votes, placed the achievement of the Government's original Green Paper objective of 200,000 properties per year to transfer under pressure. Since 2002, transfers have not been proceeding at this rate and the ODPM has been forced to reconsider its overall approach to the financing of housing capital investment in the context of the overall achievement of the Decent Homes Standard for all stock by 2010. This led to the PSA Plus Review of Decent Homes Delivery and the key elements arising from this which can be seen as an attempt to re-invigorate the transfer option, are as follows:
- (a) Clearance of redemption premiums on (PWLB loans only) as well as overhanging debt on low value transfers.
  - (b) Exploration of ways to fund negatively valued transfers, although PSA Plus appears to rule out central grant funding; concentration is therefore expected on using other local resources or the security of existing housing associations financial strength.
  - (c) Partial debt clearance for partial transfer in order to ensure the capital receipt from any subsequent whole stock transfer is as far as possible available for the authority.
  - (d) Some criticisms acknowledged of value for money on set up costs and the use of the capital receipt following transfer, with a commitment to find ways to, measure value for money at the local as well as national level.
  - (e) Consultation on alternative funding mechanisms: National Joint Venture, Structured Funding and Capital Market Aggregation Vehicle. These offer alternative approaches to the traditional funding method.
  - (f) Relaxation of the upper limit of 12,000 properties for individual RSLs.
64. The latest programme received less than 10 full stock applications in December 2003, largely as a result of the introduction of the Option Appraisal Guidance and perceived increased needs for consultation prior to Option Appraisal sign off. The majority of applications were for partial transfers in large urban areas.

## Financial Implications of Large Scale Voluntary Stock Transfer

65. A complex prescribed formula is used to determine the valuation of the housing stock for LSVT. In simple terms, the formula reflects the level of revenue and capital expenditure with higher costs lowering valuations. The valuation for Darlington's housing stock, based on 5,926 properties at 2004/05 prices and expenditure levels at the Draft Darlington Standard investment requirement of £148.8m over 30 years, is £17.26m or £2,913 per property. This level of valuation is able to meet set up costs, estimated at £3.5m and a proportion of debt redemption premiums arising from debt clearance with the remainder of housing debt cleared by Overhanging Debt Grant from the Government. This level of valuation is above the point of financial feasibility and there is therefore, some leeway on the spending assumption.
66. This means that the scope for additional capital investment beyond the Darlington Standard profile is limited although it should be possible to develop further additional investment resources of around £5m over the period to 2010 depending upon stock loss and cost pressures in the short term. A key factor remains that stock reduction through ongoing use of the preserved Right to Buy by tenants following transfer would in all likelihood reduce values further.
67. This option also has some corporate implications in terms of internally provided services which may no longer be required. This would probably require a combination of:-
- Transfer of staff to the Registered Social Landlord.
  - Reduction in staff numbers through turnover or redundancy.
  - Re-allocation of accommodation, with the aim of reducing accommodation costs elsewhere.
68. In order to achieve a successful tenant ballot and to set up the transfer, a budget of some £500K is anticipated.
69. A Stock Transfer approach can be characterised as one which:-
- (a) Relies upon the ability of the council and funders to minimise future risks in the delivery of investment programmes.
  - (b) Provides for a slightly lower level of up front investment compared to ALMO by 2010/11 but still above current programmes.
  - (c) Is the only option which provides any prospect of funding capital investment past projected levels into the longer term.
  - (d) Allows revenue funding to be protected at current levels for the long term, with fewer challenges from stock reductions but with reduced flexibility for service investment.

70. The key advantage of stock transfer is that the long-term fundability of revenue services and capital programmes can be secured from day one. In effect, the valuation would provide for:
- (a) A 30 year investment programme of £148.8m in line with the Draft Darlington Standard.
  - (b) Revenue services protected at today's level of expenditure for 30 years.

### **Consultation**

71. The Government have been explicit within the guidance that tenants and leaseholders must play a central role in the process of option appraisal and should be engaged in all stages and not just consultation on the outcome.
72. At the onset of the process the Housing Division had to submit a project plan for the Option Appraisal Process which was originally planned to take place between September 2003 to March 2004.
73. The Project Plan outlined a number of key stages which included:
- (i) Establishment of a Steering Group
  - (ii) Development of a Communications Strategy
  - (iii) Development of a Tenant Empowerment Strategy
  - (iv) Public Engagement Exercises- to be undertaken over a 3 month period Oct 2003- Dec 2003
74. A Steering Group comprising 3 Council Officers, the Cabinet Member with responsibility for Housing, the Chair for Social Affairs and Health Scrutiny Committee and three representatives from the Residents Panel was established to manage the process. The 3 tenant representatives were nominated by the Residents Panel.
75. Throughout the process this group met fortnightly and were responsible for ensuring the project timetable was met and for the production of the Communication and Tenant Empowerment Strategies. They were also responsible for reviewing progress and evaluating consultation exercises and results. The group had clear objectives for the process which were:
- To establish tenants preferences for the future ownership and management of council housing
  - To determine tenants and leaseholders priorities for future investment and improvements in services
  - To effectively engage tenants and leaseholders in the process to ensure sign off by the CHTA

76. In the latter part of December 2003 the Steering Group evaluated the consultation that had taken place. Concerns were raised about the low level of understanding amongst tenants and the low numbers that had been engaged in the process. It was agreed to extend the consultation period by a further 3 months and that further work was required to increase the level of engagement, to engage young people, including families with children and ethnic minorities. The second phase of the consultation was to concentrate on raising the awareness of the stock options, personalising the engagement techniques used, the inclusion of pre paid reply envelopes for the return questionnaires and the use of incentives. At a recent seminar on Option Appraisals, Darlington was used by GONE as the good practice example on how to consult tenants and they were particularly pleased with our commitment to ensuring that tenants were actively engaged even when this meant our original timetable had to be extended.
77. In considering the second phase of consultation it is clear that a higher number of tenants had been engaged in the stock options process with 2033 tenants completing questionnaire and increase in numbers attending the second phase of locality meetings and 90 tenants attending the Shaping the Proposals event. The analysis of results also showed that the level of understanding of the whole process was much increased from 59% (first phase of consultation) to over 77%. Throughout the process a representative of CHTF, appointed by the ODPM provided advice and support to ensure the process meets the Governments requirements. Feedback given by the CHTF on the process has been positive.
78. The remainder of this section details the extensive consultation work undertaken between October 2003 and April 2004 in terms of work arising from these strategies. Consultation with stakeholders has included:
- Appointment of the Independent Tenant Advisor (PEP) by the Residents Panel.
  - Seven consultative briefings for staff.
  - Two consultative briefings with the Residents Panel.
  - Three consultative briefings for elected members.
  - Newsletters delivered to all council owned homes and applicants.
  - Two rounds of local meetings in Autumn 2003 and February 2004.
  - Focus groups and home visits to concentrate on hard to reach groups.
  - Questionnaires for tenants.
  - Radio Advert/Awareness Raising.
  - Focus Groups.
  - Work carried out by PEP.
  - An end of consultations conference – ‘Shaping the Proposals’.
79. A newsletter, a special edition of the Council’s Hot News from Housing was distributed to all tenants and housing applicants in early November. The Options process was introduced, the options outlined and a series of 8 local meetings were advertised in November. On the back a reply panel invited people unable to attend the local meetings to return their comments to the council. Thirty comments were received, many of them ‘one liners’ indicating peoples satisfaction with the council or expressing their desire to remain council tenants.

80. A total of 90 people attended the local meetings and all meetings lasted around two hours. Each session included a slide presentation, giving the background to the option appraisal, information about Decent Homes and each of the 4 options. People were invited to ask questions throughout, and specifically were asked for views on service standards, how they wanted to see homes managed, what were the important issues for residents, the standard whichever landlord is chosen should be providing for both houses and the environmental aspects of housing estates in the future. The common messages are shown below:-

- Desire for a higher standard than Decent Homes.
- Desire for strict tenancy management, particularly on neighbour nuisance and anti social behaviour.
- Concern about the right to buy because with LSVT, existing tenants have their right to buy protected but new tenants can no longer buy their house. This was therefore seen as an advantage over the other options where heavy stock losses would still apply.
- Concern about security.
- Concern about rent.
- Lack of information, poor impressions and mistrust of Housing Associations.
- The general view that Darlington Borough Council is a good and efficient landlord.
- Elderly people wanted additional services to enable them to live independently for as long as possible.
- A concern that only alternative options to retention bring extra resources.

81. A first questionnaire, designed as an interviewer completion survey resulted in only 87 questionnaires being filled in, despite real efforts to boost numbers and it was decided to redesign a survey which could be self- completed. These were distributed in the second week of January 2004 together with a reply paid envelope. This included questions about a draft Darlington Standard for investment, which had been influenced by both the Residents Panel and tenant feedback during the first round consultation meetings. The response was good, with 2,033 returning completed forms.

82. PEP, the independent tenant adviser, attended most of the initial meetings with tenants, to listen to the questions and concerns of attendees and also to promote their service and encourage its use. The PEP 0800 advice line number was advertised prominently on the council's newsletter, and in a series of radio adverts that ran in the early weeks of December. In the period up to the end of January only 14 calls were received. In addition they attended residents groups and held surgeries, focus groups and meetings at sheltered schemes. There were concerns that some sections of the community were under represented in the initial consultations and PEP included further work to engage young people, and ethnic minority people, and plans were made to encourage greater and wider involvement, including more families with children. Messages were consistent across the surveys and meetings with a strong desire for additional services for older and disabled people and for better tenancy management, particularly in respect of tackling anti-social behaviour. Tenants want to go beyond the Government's Decent Homes Standard and identified the following improvements as being important.

- (a) New kitchens and bathrooms every 15 to 20 years.
- (b) Increased security
- (c) Double glazing



- (d) External doors
- (e) Rewiring
- (f) Fencing and car parking

83. To ensure all residents knew about the option appraisal, and to try to ensure everyone interested had a chance to attend the next round of meetings, personal letters, and an invitation card were sent to every tenant. Seven meetings took place during the afternoons and evenings of the week commencing 23 February. The meetings followed the same format to the first round, with a slide presentation detailing the options, the findings of the first round of consultations, including tenants priorities and the draft Darlington standard, and in detail, how stock transfer, retention and ALMO might work if chosen as the option.
84. In addition, participants were asked to fill in an initial reactions survey before they left. Questions including checking how important people thought elements of the draft Darlington Standard were and, their understanding and support for each of the options. 150 people attended the meetings and 122 people completed a survey a summary of the feedback from tenants from the second round of consultation is shown in Table 1 overleaf.

**Table 2: Tenant’s Feedback from Consultation**

<b>Option</b>	<b>Questionnaire</b>	<b>Locality Meetings</b>
Stock Retention	94% of respondents preferred this option	74% felt this offered a positive future
Arms Length Management	17% would consider this option	21% felt this offered a positive future
Transfer	28% would consider this option	8% felt this offered a positive future

85. There are a number of clear messages which have come out of the meetings and surveys:-
- Broad endorsement of the Draft Darlington Standard. Debate suggested a need for further detailed discussions about issues raised several times in the meetings e.g. the addition of double glazing, and the quality/replacement cycle for kitchens, the option to have walk in showers. The highest level of support was for ‘extra support for elderly and disabled people’.
  - Participants did not like alternative options, but stock transfer is, by a long way, the most unpopular.
  - ALMO is viewed by some as offering potential to improve homes and maintain council ownership, without the risks and uncertainties of relying on extra borrowing.
  - Retention with extra borrowing. Favoured by some, but other people had real concerns about the impact of re-payment would have on the service in years to come.

86. All tenants received an invitation to ‘Shaping the Proposals’, a final event to round off the consultations. This took place on 5 April and was a method of both feeding back and inviting final views and refinements. It was attended by 17 staff, 8 Elected Members and 90 tenants and the key messages were as follows:-
- (a) The Draft Darlington Investment Standard was ‘about right’, but the details need further refinement. As throughout the consultations, support and provision for elderly or disabled tenants was a priority.
  - (b) In respect of Housing Services some felt things should continue as they are, as they work well and people are satisfied. Others, that improvements should be made to responses to anti social behaviour, litter and the enforcement of tenancy conditions. Some felt there was a need to tackle the root causes, and acknowledged that some issues and problems were wider than just housing, with a need for the involvement of other agencies including the Police, Social Service. There was a desire to see greater tenant involvement and influence, in both the service and investment plans.
  - (c) People’s views about the pros and cons of each option were explored and the findings again underlined broad support and trust for the council. There were negative feelings ranging from active dislike, fear and uncertainty, about the other options especially stock transfer, whilst many people expressed mixed feelings and were unable to come to any comfortable conclusions.
87. At the end of the discussions, retention, with and without additional investment, clearly emerged as the preferred option of most participants, with ALMO being viewed as a potentially attractive but risky alternative.
88. Taking all of the consultation into account it is clear that transfer to a registered landlord would not be supported and that people would prefer the council to retain its homes. ALMO is the least unpopular alternative option whilst retention with additional borrowing is the more popular option, but there are concerns about both repayment and certainty.
89. An Option Appraisal Steering Group comprising of Members, tenants and Officers has met regularly throughout the consultation process to oversee the review and at its final meeting on 27 April 2004 reached agreement that a recommendation be made to the council that it explains the delivery of the Darlington Standard through the retention of the stock.
90. The option appraisal process developed by the Steering Group has included significant involvement from tenants and stakeholders. The process has produced a favoured option in so far as tenants themselves are concerned, involving Stock Retention with additional investment. At an early stage, the option of PFI was ruled out as being unachievable and following extensive consultation there is little tenant interest in LSVT.

### **Evaluation of Options**

91. In order to assist with an evaluation, Table 2 overleaf includes a comparison of the major elements to assist in decision making, with respect to the three options that are available to the Council.

**Table 3: Evaluation of the Options**

	<b>Retention – existing resources</b>	<b>Retention – additional borrowing</b>	<b>Stock Transfer</b>
<b>Consultation Priorities</b>			
Internal planned maintenance to Decent Homes life cycles	No – 30 year cycle as current	Yes – to 2010; review required for long term	Yes – for 30 years
Investment in sheltered stock	As now	Doubled	Doubled
Investment in the environment and security	As now	Improved	Improved
Investment in regeneration: flats	As now	Quadrupled	Quadrupled
Service development, dealing with anti social behaviour and estate maintenance	Flexibility for investment from the HRA	Least flexibility for investment	Marginal increase of budgets poss.
Service development : elderly services	Option no impact	Option no impact	Option no impact
Tenant participation in decision making	Requires development of tenant participation structures	Requires development of tenant participation structures	Tenants on Board with development of tenant participation
<b>The Option Appraisal</b>			
Government support for sign off	Unlikely – consultation commits to delivery of enhanced programmes	Possible given consultation and confirmation from council that can be financed	Likely to need more work to show potential support for Transfer
<b>Risks</b>			
Policy and support	Government may not support	Currently has tenant support	Government Office likely to support at some level – low current tenant support
Long term maintenance	Increasing difficulty in delivering ongoing maintenance	Review required as to how long term maintenance to be funded	Covered in valuation
Government / other assessment	Adverse	Will need persuading of fundability. This investment forecast will be sensitive to changes in Government policy towards housing subsidy.	Warranted survey required. This investment forecast will be sensitive to changes in Government policy towards housing subsidy.

**Table 3: Evaluation of the Options** (continued)

	<b>Retention – existing resources</b>	<b>Retention – additional borrowing</b>	<b>Stock Transfer</b>
<b>Financial and Funding</b>			
Investment to 2010	£34.6m	£49.5m <sup>(1)</sup>	£52.5m
Investment 30 years	£124m	£133m	£149m
Borrowing to 2010	Nil	£20m	Financed by Govt. Subsidy
Additional Revenue Costs/Savings Required	Nil	£1m pa (20%)	Nil
Potential Maximum Impact on Corporate Budgets for Support of Repairs and Maintenance, Work from DLO Services. <sup>(2)</sup>	Nil	Nil	£700K
Other Issues	Increasing revenue costs and disrepair if investment not enhanced	Depends upon council financial commitment to borrowing and meeting challenge for potential reductions in service expenditure in long term	Up front option development to gain support could be £500k <sup>(3)</sup> (pre-ballot) Corporate financial implication in terms of procurement of support services.

Note (1) Subject to council approval, assuming borrowing of £20m.

(2) LSVT organisation would need to procure support services from appropriate providers. This is the maximum impact in corporate budgets if Finance/HR etc services are not provided by DBC.

(3) The additional results of setting up the RSL would be covered by the valuation

93. **Stock Transfer:** The outcome from the various consultation events suggest that the delivery of Stock Transfer would represent a considerable challenge to the Council to secure the necessary support from tenants. Realistically, the timescales for delivery and implementation could run beyond 2-3 years from today.

94. **Stock Retention:** At current levels of Housing Business Plan investment, it is extremely unlikely that Government sign off for our Options Appraisal will be achieved. However, as identified earlier, additional borrowing under the new Local Government Act 2003 is realistic for a well-managed and well-run council like Darlington and this will receive support. The option has few up front costs, will allow the service to quickly develop in line with the forthcoming Housing Inspection findings. Support for retention is strong within the stakeholder groups, although tenants would want to be assured that future liabilities would not become unmanageable. Such an approach would need to be accompanied by further detailed consultation on investment and an agreed programme with funding set out from the outset.

## **Feedback from CHTF and GONE**

95. At the last meeting with representatives from CHTF and GONE on 17<sup>th</sup> May 2004 the following issues were raised.

- ALMO's were created as a vehicle for delivering the Decent Homes Standard in local authorities who were unable to fund the work by any other means. As Darlington Council has demonstrated that it can achieve this by Prudential Borrowing there is a need for clarification from ODPM on whether ALMO funding would be available. David Siddle from CHTF has provided guidance on this shown in **Appendix 2**.
- The Option Appraisal Guidance emphasises the need for consultation with key stakeholders and there is an expectation that this would include the Local Strategic Partnership. The Darlington Partnership were advised of the outcome of the Option Appraisal at their meeting on 14 July 2004.
- Whilst recognising that the Residents' Panel have been actively involved throughout the process there is a need to formally seek their views before the Council makes a final decision. This was undertaken on 16 June 2004.
- The Landlord and Strategic functions need to be completely separate irrespective of the management option chosen. The current arrangements comply with this requirement with the exception of the Warden Service which must be moved from Housing Services to Housing Management, under the Housing Estates Manager.

## **Legal Implications**

98. This report has been considered by the Borough Solicitor for legal implications in accordance with the Council's approved procedures. There are no issues which the Borough Solicitor considers need to be brought to the specific attention of Members, other than those highlighted in the report.

## **Section 17 of the Crime and Disorder Act 1998**

99. The contents of this report have been considered in the context of the requirements placed on the Council by Section 17 of the Crime and Disorder Act 1998, namely, the duty on the Council to exercise its functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent, crime and disorder in its area. It is not considered that the contents of this report have any such effect.

## **Council Policy Framework**

100. The issues contained within this report are required to be considered by Council.

## **Conclusion**

101. Depending on the option chosen there are different time scales involved in achieving a successful outcome. The most straightforward is stock retention, which subject to sign off by the ODPM maintains the status quo in terms of ownership and management responsibility, subject to the development and implementation of prudential borrowing arrangements, planning and implementing investment proposals and achieving the required savings in management and maintenance costs.
102. In the case of LSVT, considerable further work would be required with tenants to achieve the necessary level of support for a successful tenant ballot. This is likely to take a further two years at least, require investment of around £500K in the process and would require a majority of tenants to vote in a ballot for LSVT. Given the current low level of support there is a significant risk in proceeding this way, in terms of getting a sign-off for the Options Appraisal by July 2005.
103. There is also a requirement to improve existing governance arrangements and provide greater empowerment for tenants. Whilst there is not one particular model we need to adopt there is an expectation that any future structures will reflect the type of Housing Board arrangements which ALMO's and LSVT's have in place. There is also a need to explore the future role of the Residents Panel and the establishment of a separate structure for tenants, which officers are currently working on.
104. In summary, Darlington's housing stock is already in relatively good condition and the Government's Decent Homes Standard can be met from existing Business Plan resources. The Option Appraisal project will lead to further improvements in the housing stock by committing the Council to achieving around £50m of capital investment in the housing stock over the next 7 years. Following extensive consultation with tenants, the only practical alternative to stock retention, an ALMO, has been ruled out by the ODPM.

## **Recommendation**

105. Council are recommended to approve:-
  - (a) Adoption of the Darlington Standard for future investment in the housing stock, subject to further consultation with tenants.
  - (b) Stock Retention with Prudential Borrowing to a maximum of £20m.
  - (c) A tenants body being established and revised governance arrangements negotiated with respect to future management of the Council's housing stock.

## **Reasons**

106. The recommendations are supported by the following reasons :-

- (a) to conclude the Housing Options Appraisal; and
- (b) seek 'sign-off' of the process by the ODPM.

**Cliff Brown**  
**Director of Community Services**

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