



Fenland District Council

## Option Appraisal Final Report

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June 2005

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**Private and Confidential**

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## 1. INTRODUCTION & BACKGROUND

1.01 DTZ Pieda Consulting (DTZ) have been commissioned by Fenland District Council (the Council) to assist in undertaking a housing stock options appraisal in accordance with guidance published by the Office of the Deputy Prime Minister (ODPM)<sup>1</sup>. This is our second stage report for the Options Appraisal Working Group and follows our first stage report, titled 'Base Case Position' detailed the following and should be read prior to this report:

- National and local context
- DTZ methodology for the options appraisal
- Base case position findings
- Financial position

### Options Appraisal Process

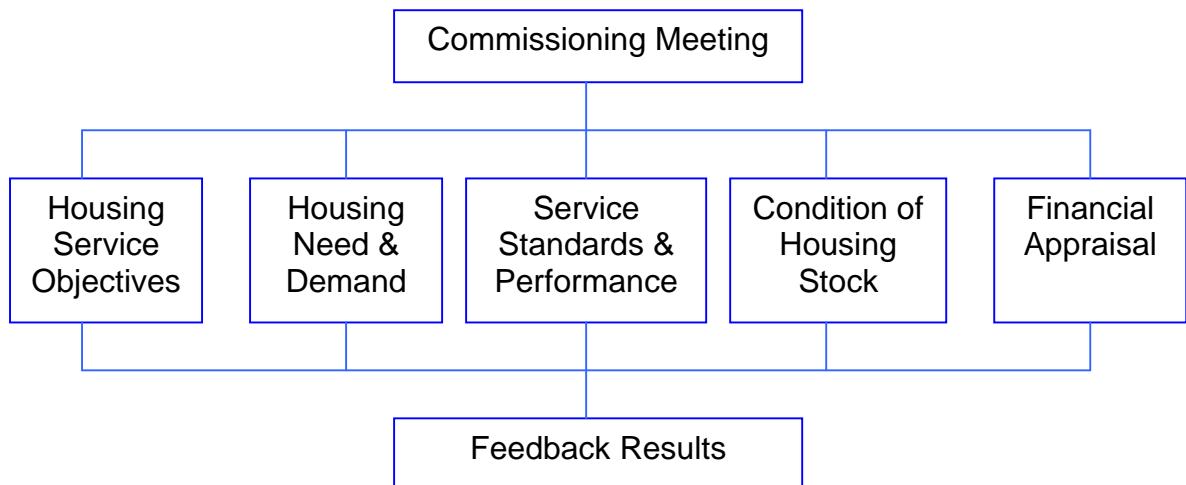
1.02 All Local Authorities are required to undertake an appraisal of all housing investment and ownership options available to them. This is called a Housing Option Appraisal and all Local Authorities are required to carry out such appraisals and submit the findings to the Government Office by July 2005 in order to determine how the Decent Homes Standard will be met and longer-term investment plans are delivered.

1.03 The study approach we have adopted is in accordance with the ODPM Guidance Delivering Decent Homes – Option Appraisal and A New Financial Framework for LA housing: Guidance on Business Plans. The diagram overleaf details our option appraisal process:

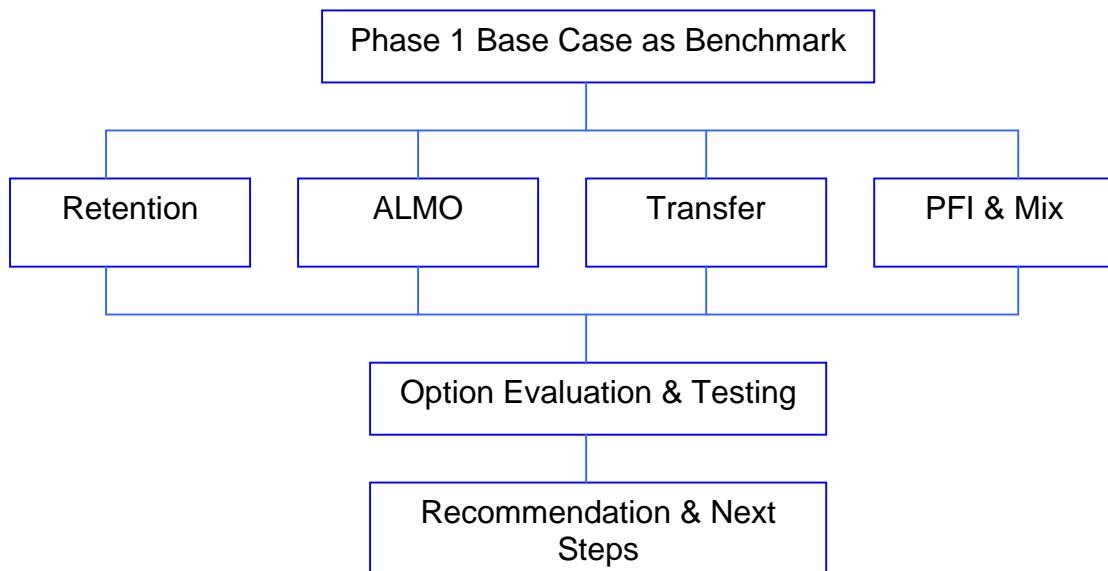
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<sup>1</sup> "Delivering Decent Homes – Option Appraisal: Guidance for Local Authorities", June 2003, Office of the Deputy Prime Minister (ODPM),

### Stage 1: Base Case Position



### Stage 2: Option Identification & Evaluation



Consultation

- 1.04 The work included in this report relates to stage 2 and involves the identification and evaluation of the options available to the Council. This includes the identification of a 'Fenland Standard' regarding repair and improvement of the properties and housing management service provided, plus details of the Council's wider strategic issues to assist in the evaluation of the options.

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## Background – Base Case Results

1.05 The base case position has been utilised as a ‘starting point’ in assessing the options. The main issues identified from the base case are as follows:

- Overall there appears to be long term demand for social and affordable properties within the District given increases in house prices, low earnings, an increasing population and slowly reducing social housing stock.
- The Housing Needs Survey suggests a shortfall of affordable housing totalling 174 per annum, allowing for reducing levels of social housing due to Right To Buys.
- The Housing Service is not yet considered to be a high performing authority and areas for improvement have been identified for the Council to take action.
- Based on the recently updated stock condition survey the Council would be able to resource expenditure needed in order to bring homes up to the Decent Homes Standard by 2010.
- The Council would be unable to maintain homes at the Decent Homes Standard to 2033 (the end of the 30 year projections). The Housing Revenue Account would go into deficit by 2010/11 as capital expenditure exceeds resources. **By 2033 the total deficit would be £23.8m based on current policy and current resources.**
- The Council would not be able to resource expenditure needed in order continue to repair and improve the stock to its current standard. Based on Rands associates all improvements level the Housing Revenue Account would go into deficit almost immediately as capital expenditure exceeds resources. **By 2033 the total deficit would be £52.9m base on current policy and current resources.**
- Although the base case position highlights funding shortfalls, the Council could change its current policy in order to increase resources for the

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Housing Revenue Account, although this would need to be considered in the context of its current medium term priorities.

### **The Future of Social Housing**

- 1.06 The Government has identified a number of key options for increasing investment in social housing, achieving the Decent Homes Standard to a 30-year period and delivering other local housing related key objectives. These include Large Scale Voluntary Transfers, ALMO's, and PFI initiatives. These are explained further in later chapters.
- 1.07 Each option must also be able to demonstrate financial ability to maintain the stock to Decent Homes normally over a thirty-year business plan horizon.
- 1.08 The guidance also clearly stated that ministers have decided that additional funds (those above approved mainstream housing funds) will only be available through three of the options (PFI, ALMO and stock transfer) and therefore no additional resources will be available through mainstream funds to help local authorities to deliver the Decent Homes Target. The 2004 Comprehensive Spending Review has confirmed funding for PFI and ALMO rounds to 2007/8.
- 1.09 This report concentrates on the option identification and evaluation stage, prior to wider consultation with tenants and residents.

### **Consultation**

- 1.10 At the beginning of the options appraisal process the Council established a Working Group, comprising members, tenant and leaseholder representatives a staff representative and a member of the Fenland Strategic Partnership to oversee and lead the process. Throughout the options appraisal process we have undertaken meetings with the Options Appraisal Working Group (over 20). This has involved providing a number of presentations on the following issues for discussion:

- Base Case Position

- Fenland Standard
- Retention
- ALMO
- Transfer
- PFI & Mix of Options
- Evaluation Matrix

- 1.11 We have also undertaken presentations for the Executive Steering Group regarding the evaluation of all the options.
- 1.12 We have worked in conjunction with the Independent Tenant's Advisor, Adrian Waite Independent Consultancy Services (AWICS) and the Council's communication consultants, Daniel Harris Associates throughout the options appraisal process.
- 1.13 The following chapters detail the findings made and presentations provided to the Options Appraisal Working Group.

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## 2. WIDER STRATEGIC HOUSING ISSUES

2.01 As part of the options appraisal process the Council needs to consider wider strategic issues and the associated resource requirements that may be needed. Other issues such as affordable housing and private sector stock requirements are often competing for resources alongside Council housing and therefore needs to be balanced against the specific Council housing stock requirements.

### **Current Arrangements**

2.02 At the present time the Council's strategy includes the use of approximately 20% of all non-ring fenced capital resources for Council Housing. This enables 80% to be utilised on mainly affordable housing and private sector issues plus a small proportion on other strategic issues such as waste collection. The division of capital resources is based on the need and demand of these services. Capital resources include the use of receipts from the sale of Council houses and the use of supported borrowing.

### **Private Sector**

2.03 The Government have set targets to ensure vulnerable people in private sector housing live in a home that meets the Decent Homes Standard. This has placed pressure on the Council to utilise resources on private sector needs. In recent times the Council has been able to achieve specific supported borrowing approval for private sector renewal, however this then restricts that borrowing for the private sector only.

### **Affordable Housing**

2.04 As identified in the Base Case Position report, there is a significant need for new affordable housing in the District. The Housing Needs Survey suggests a shortfall of affordable housing totalling 174 per annum, allowing for reducing levels of social housing due to Right To Buys. Due to demand the Council allocates a significant proportion of capital resources for the provision of affordable housing, which is undertaken with local Housing Associations.

## HRA Land Sales

- 2.05 Most Councils own small pockets of land in and around Council estates that are part of the Housing Revenue Account that could potentially be sold or utilised in partnership with Housing Associations for the provision of new housing. In Fenland District Council's case the major pockets of land were identified and developed a few years ago, therefore the council has limited opportunities left in this respect.
- 2.06 As part of the Options Appraisal process the Council has undertaken a desk-top exercise of the remaining housing sites available around the District in order to identify any potential value. From the results of the exercise it has identified that approximately £1m profit from the sale of land could be achieved. However further work would be needed in order to identify the future use of these sites with regard to the properties and infrastructure around, residents views and other possibilities such as utilising the sites for additional social housing in partnership with Housing Associations that would yield limited capital receipts.
- 2.07 In February 2003 the Government relaxed the rules on the spending of HRA land and asset receipts (but not RTB receipts) to allow 100% of such receipts to be spent on housing provision that meets the criteria of providing affordable homes.
- 2.08 Such expenditure can be on repairs to existing housing that meets the affordable criteria, either within the HRA or through grants to RSLs or to owners of housing in the private sector. Schemes to provide new affordable housing can also be financed in partnership with RSLs or private developers.
- 2.09 It will be for the Council to decide if pockets of land are to be sold and where the profits from the sale of land are to be utilised. However due to the rules over HRA land receipts only expenditure on existing Council properties, new affordable dwellings and regeneration projects could utilise 100% of the receipts, whereas expenditure on private sector stock or any other resource would result in only 50% of the receipt being utilised. The rest would be pooled as per Government guidelines. With regard to regeneration projects, these can include projects to support affordable housing or community priorities as identified in the Housing

Strategy and regeneration schemes. However in any project, the Council would need to seek legal advice to support the use of 100% capital receipts.

### **3. FENLAND STANDARD**

- 3.01 The Decent Homes Standard is a minimum repair and improvement standard for properties, set by Central Government with a target date of 2010. This is not the current standard of repair and improvement of Council owned properties that the Council currently provides.
- 3.02 The Council currently has a standard agreed with the Tenants Forum, which exceeds the Decent Homes Standard. This standard includes:
- A programme of replacing external doors in PVC-U
  - A whole house improvement programme which includes altering room combinations, provision of first floor toilets, off street parking and boundary fence renewal and decoration
  - Renewal of external joinery and guttering
  - A major refurbishment programme for sheltered housing
  - A significant aids and adaptations programme
  - External environmental work to other properties including (but not limited to) upgrading of parking, fencing, communal lighting and connection to mains drainage where possible
- 3.03 The Council's current capital programme is based on this standard and it is very closely correlated to the estimate of "all improvements" undertaken by Rands Associates in the stock condition survey.
- 3.04 It is important as part of the options appraisal process to consider whether the stock investment strategy should provide works that go beyond the Decent Homes Standard. It is clear that the Council currently provide works beyond this standard, however it was considered important to identify tenants aspirations with regards to the repair and improvements of properties and the services they require. As tenants are at the heart of the process we have explored with tenants by means of a survey to identify a Fenland Standard.
- 3.05 The survey was sent to every Council tenant in the District and included a range of questions about their current home and what their hopes were about the future

with regard to repairs and improvements. The questions included the following categories:

- External elements of the properties
- Internal elements of the properties
- Additional needs (such as neighbourhood)
- Council services & tenant involvement
- Future priorities

3.06 The questions were tested with tenant representatives, staff representatives and the Options Appraisal Working Group. The survey achieved a 36% response rate and the results of the survey were categorised into the following areas to identify any differences in tenants' views:

- March
- Chatteris
- Whittlesey
- Wisbech
- Rural towns
- Pathfinder Area
- Sheltered

3.07 The detailed findings and results of the survey are provided in **Appendix A** as a separate report. The main findings are detailed below:

- A number of external and internal elements were identified by the majority of tenants to be important or very important. However many of these elements are already provided by the Council under the current capital programme of repairs, although above the Decent homes Standard
- The majority of tenants expressed general satisfaction with the quality of their neighbourhood and general environment
- Most considered that it was important to have wardens/caretakers patrolling estates
- The sub-analysis identified that there was no significant difference between the different areas with regard to what tenants considered important. The only slight differences came from sheltered groups who were more satisfied with their properties than the rest of the tenants and

the Pathfinder Area who were a little more dissatisfied than the rest of the tenants.

- The majority of tenants considered that there was a shortage of affordable housing
- The majority were generally satisfied with the housing service although a number of improvements could be made in particular with Council inaction and frequency of visits.

- 3.08 The overall results identified that the majority of tenants were satisfied with the current level of repair and improvements that the Council currently undertakes, which is above the Decent Homes Standard. However a few elements were highlighted in the survey that are not currently provided by the Council. The cost of these elements was identified and details were discussed with the Working Group, which concluded to remove intruder alarms from the list of elements as being a responsibility of individual tenants. The table below details the elements and cost.

**Table 1 - Fenland Standard Items & Cost**

Cost Item	Cost per Unit £	Number of Units	Total Cost £
Security lights (front & back of home)	200	1,506	301,228
Over bath shower & tiles	600	805	483,000
Front of house parking	1,550	1,917	2,971,350
<b>Total capital cost</b>			<b>3,775,578</b>
3 x Scheme Managers/Wardens (These costs were refined and built into a revised management cost within the financial modelling)	24,000 pa	3	72,000 pa
<b>Total annual revenue cost</b>			<b>72,000 pa</b>

- 3.09 The table above details the estimated number of units required. This was identified from the percentage of tenants that considered those elements as being poor in their current home. Also the Council provided data as to the number of homes requiring certain elements or where elements could be physically

installed. This information also assisted in estimating the number of units required for each element.

- 3.10 The resulting Fenland Standard is therefore the current level of repairs and improvements that the council currently undertakes, which is detailed by Rands Associates 'all improvement' costs plus an extra amount of elements and service that was identified from the Fenland Standard survey work. The resulting Fenland Standard and the extra costs as detailed in the above table have been discussed and agreed by both the Working Group and The Executive Steering Group.

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## 4. STOCK RETENTION OPTION

- 4.01 This chapter assesses the potential long-term financial and operational implications involved for the Council to continue to manage and maintain all the HRA stock. This includes the identification of possible ways to try and meet cost imbalances given the absence of additional investment funding under the retention option.
- 4.02 For the Council to retain its stock it must demonstrate that this option:
- Provides adequate long term funding of HRA repairs and improvements
  - Provides the best value for money solution when compared to the other options
  - Meets the requirements of the housing service for tenants, leaseholders and the Council
  - Enables the Council to meet and maintain the Decent Homes Standard
  - Fits in with the local housing and regeneration strategies and priorities.
- 4.03 Under the retention option the Council would retain ownership and continue to manage all of the properties. This option involves minimum change to the current arrangements for tenants however the retention option is not the status quo and it does not mean that change will not be made.
- 4.04 Although this option can be seen as attractive in terms of being the option that involves minimum change and disruption for tenants, it relies on the Council delivering efficiency savings in management and maintenance. These have been set at an achievable level but there remains a risk that these might not be achieved.
- 4.05 The key factors in stock retention are:
- The tenants remain tenants of the Council with no changes to their tenancy.

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- Staff remain employees of the Council.
  - Rent setting is carried out by the Council, subject to the rules of the Rent Restructuring regime.
  - Existing tenants groups would retain the same status and level of involvement.
  - Right to Buy will continue, unless there is a change in Government policy.
  - Management and maintenance costs will increasingly be concentrated on a depleting housing stock, putting pressure on service provision and reducing economies of scale.
  - The Council must meet the Decent Homes Standard by 2010 and maintain stock at this standard thereafter.
  - The Best Value regime and Comprehensive Performance Assessment (CPA) will continue.
  - Debt for properties remains with the Council.
- 4.06 Improvement of services to outcomes will rely on the Council's ability to increase efficiency and quality. The Council could of course consider working with private partners to externalise some of its current services to bring in expertise and experience to address those areas where services, or costs, are not satisfactory. Whilst this could allow the Council to improve services without ongoing significant additional cost or management time in some discrete areas of service, management costs may increase in the short term to achieve this externalisation.
- 4.07 For the Council to retain the stock a balanced HRA must be maintained. As identified in the Base Case Position in order to reach and maintain the Decent Homes Standard the HRA is predicted to go onto deficit from 2010/11, with a total funding shortfall of **£23.8m** by 2033. Therefore for this option to be viable the shortfall must be addressed.

### **Addressing the Shortfall**

- 4.08 The Council is restricted in increasing incomes. Rents are constrained by the Government's current rent restructuring guidelines and there is little sign that the Government will change its approach in this respect. Indeed the latest consultation paper relating to rent convergence continues to apply the claw back of rental income from Council's, whereby subsidy is changed in line with rent increases from rent restructuring so that Council's do not directly benefit.
- 4.09 The Council could increase garage and shop rents but this would not equate to any significant additional income. For example a 25% increase would produce around £60,000 extra per annum, assuming that lettings continue at the current levels. However large increases in rents would no doubt adversely affect future lettings of garages and commercial properties.
- 4.10 The Council has already undertaken a number of cost savings that are included in the financial projections such as service provision cost reductions to account for reductions in stock. The following table details the management cost profile included in the Base Case position projections.

**Table 2 – Management Cost Reductions in the Base Case Position**

<b>Year</b>	<b>Service Provision Cost Change £</b>	<b>Reason</b>
2005/06	+ £372,000	Cost increase due to modernisation of services provided by other parts of the Council
2014/15 to 2017/18	- £304,000	Cost reduction to account for stock reductions of over 500 properties
2029/30 to 2033/34	- £242,000	Cost reduction to account for stock reductions of over 1,000 properties

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- 4.11 Further service provision cost savings could be undertaken as efficiencies are made over time. However, the level of savings need to be deliverable and realistic as major savings would make the improvement of performance more challenging to achieve and increase the risk of reduced services and standards for the retention option. While successful demonstration of improved value for money could have positive implications for the Council's overall Comprehensive Performance Assessment (CPA) failures in performance could have a negative impact.
- 4.12 Some Councils have taken advantage of optimising capital receipts by selling vacant HRA land to developers and investors. However Fenland District Council has already identified and developed the major pockets.
- 4.13 The Council currently utilises an average of 20% of Right To Buy (RTB) receipts on expenditure to Council properties. The remaining RTB receipts are utilised on expenditure outside the HRA. In addition, the same percentage of supported capital borrowing available to the Council is utilised for the HRA. It is for each Council to decide what RTB receipts & supported capital expenditure is utilised on the HRA, other housing issues (such as the private sector and affordable housing), or the Councils other medium term priorities.
- 4.14 The Council has not yet considered the possibilities of prudential borrowing in order to reduce the funding gap. The financial projections include an element of supported borrowing of £1.77m between years 2004/05 and 2010/11. In order for a local authority to obtain prudential borrowing for the HRA it must be able to demonstrate that the borrowing can be paid back (interest and capital). Therefore the HRA must not go into deficit and in particular the Council would need a healthy Operating Account throughout the 30-year projections.
- 4.15 The Prudential Regime is enshrined in the Local Government Act 2003 and means that Local Authorities will no longer require Government permission to borrow. Each Council is required to set prudential borrowing limits and having set limits these must be adhered to. However the regime is reinforced by Government reserve power to impose borrowing and credit ceilings both nationally and on individual councils.

4.16 The Prudential Code states that all external borrowing and other long term liabilities must be prudent and sustainable, capital spend plans must be affordable and treasury management decisions taken in accordance with professional good practice. The ODPM financial model allows unsupported borrowing to be added to the financial projections to enable prudential borrowing estimates to be tested in the options appraisal process.

### **Policy Changes possible**

4.17 From the result of analysis of possible changes that the Council could make in order to reduce the funding gap the following possibilities were identified:

- Increase the amount of usable RTB receipts for Council properties (although this in turn would reduce the amount of capital expenditure for the Council's other priorities including issues such as affordable housing unless efficiency savings could be made to the same effect)
- Increase the amount of supported borrowing for Council properties (although this again would reduce the amount of capital expenditure for the Council's other priorities such as affordable housing unless efficiency savings could be made to the same effect.)
- Undertake Prudential Borrowing
- Make further service provision savings
- Undertake HRA land sales and utilise profits for Council properties

4.18 The above possible changes were modelled in the financial Base Case position model individually and altogether. A number of permutations were considered including the amounts increased in the HRA. A total of eleven different models were produced. We have worked with the Working Group, Council officers, the ITA and the Executive Steering Group in identifying a feasible and deliverable retention option.

### **Agreed Retention Option**

4.19 All groups have agreed on a retention option that ensures the following:

- Achievement of the Decent Homes Standard for the next 30 years plus approximately £3m to £4m available for works beyond the Decent Homes Standard.
- Achieves a balanced HRA for the full 30-year projections
- Utilises an extra £160,000 per annum of supported borrowing for the HRA between years 2005/06 to 2010/11 (total of £960,000 over the next 6 years)
- Utilises an extra 20% of the usable RTB receipts from 2011/12 onwards
- Includes efficiencies anticipated in the level of voids from current 2% voids to 1.5% voids per annum.
- Includes an anticipated reduction in bad debts by £20,000 per annum
- Includes service provision cost savings by means of efficiencies of £30,000 in 2006/07, with a further saving of approximately £100,000 in both 2009/10 and 2012/13
- Includes 0.5% efficiency savings in all revenue and capital works costs compared to a 0.5% increase assumed in the Base Case Report.

4.20 The ODPM financial model allows unsupported borrowing to be added to the financial projections. This has been undertaken to identify whether prudential borrowing could ensure a similar level of repair and improvements to the stock as tenants currently receive. The Council would be in a position to be able to undertake prudential borrowing, however at this stage the Council would not benefit significantly as the revenue reserves that build up over time to provide an extra £3m to £4m extra expenditure above the Decent Homes Standard would be used to pay interest charges from prudential borrowing and the capital expenditure available under prudential borrowing would not be significantly above the estimated revenue reserves.

4.21 It must be stressed that although the retention options is considered achievable and deliverable, it will not provide the level of improvement that tenants currently receive and will not provide the Fenland Standard works. In addition funds that are currently utilised on non-HRA issues would be diverted to help ensure that

the HRA remains in balance for the full 30-year projections. This would inevitably result in some reduction in affordable housing expenditure. The Council has estimated that this equates to approximately 6 properties per annum, although this does not account for any efficiencies that the Council may be able to achieve.

### **Conclusions of the Retention Option**

- 4.22 There are many possible changes that the Council could undertake in order to prevent a funding shortfall after 2010 (as identified in the Base Case Position report). After working with all parties involved in the options appraisal process an agreed retention option has been identified that is considered reasonable, deliverable and does not severely affect other major policy issues such as future affordable housing. However, the Council would not be able to continue to improve the properties to the current standard or indeed a Fenland Standard. Only the Decent Homes Standard (plus a small amount extra) could be undertaken.

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## 5. ALMO OPTION

5.01 ALMO (Arms Length Management Organisation) is one of the three options that can provide additional investment for housing stock. An ALMO is an organisation specifically set up by a local authority to manage and improve all or part of its housing stock. Key features of the ALMO option are:

- Ownership of the housing stock remains with the local authority.
- The local authority remains the legal landlord.
- Tenants remain secure tenants of the authority and there is no change in their rights, such as the right to buy, right to repair and right to manage.
- An arms length body may manage all or part of an authority's stock.
- It has a significant degree of independence from its parent local authority.

5.02 Beyond these requirements it is for local authorities to devise arrangements which best suit their circumstances, encouraging a business-like and innovative approach to the management of the housing stock.

### **Form of Arms Length Body**

5.03 ALMOs are normally companies that are 100% controlled by the Council, usually constituted as companies limited by guarantee. ALMOs do not trade for profit, issue share capital or pay dividends.

5.04 A Tenant Management Organisation (TMO) may be able to form the basis for an ALMO provided its arrangements achieve separation between strategic and management roles. Adjustments to the financial regime for the TMO may be necessary, and membership of the TMO Board would need to be widened in line with the requirements for ALMOs.

### **The Management Agreement**

5.05 The relationship between a local authority and the ALMO is defined in an agreement, which sets out the obligations of each party. This will cover issues such as the functions to be delegated, reporting and monitoring, financial

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obligations, standards of service, length of the agreement, actions to be taken where there is non-compliance and arrangements for termination

### **Directors of ALMO Companies**

- 5.06 An ALMO is managed by a Board of Directors. The Board should include tenants, local authority nominees and independent members with relevant experience of social housing or other ALMO responsibilities. No one group should be in a majority on the Board. Tenant Board members should be elected by their fellow tenants to ensure that they are genuinely representative.

### **Size**

- 5.07 To be effective, the ALMO's work must be informed by and responsive to tenants' needs. This is more likely to be achieved if the housing stock is managed in relatively small units. An indicative upper limit of 12,000 properties was used for Rounds 1 and 2 of the ALMO programme. This no longer applies, however no ALMOs have yet been established with under 3,500 units.

### **Best value Reviews and Inspections**

- 5.08 ALMOs should provide high standards of service. In order to qualify for additional resources their services must be rated as either 3\* (excellent) or 2\* (good) by the Housing Inspectorate. The Council should therefore have regard to the guidance issued by the Inspectorate when planning the ALMO's service delivery and judging whether this is likely to reach the qualifying standard.

### **Separating Strategy and Management**

- 5.09 The ODPM considers that a key benefit of setting up an ALMO is the separation of the local authority's housing management role from its strategic housing function as the ALMO will have a clear focus on the housing management role, concentrating on delivering high quality services and responding to tenants needs.
- 5.10 The local authority will retain its strategic and enabling role and responsibilities for issues such as homelessness, allocations and private sector housing. These functions are underpinned by statutory requirements and the Secretary of State

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will need to be satisfied that their delivery will not be jeopardised by the setting up of an ALMO.

5.11 Councils can contract out most of their homelessness functions to the ALMO, although the requirement to have a homelessness strategy cannot be contracted out. Where functions are contracted out, the statutory responsibility for ensuring that those functions are carried out remains with the Council.

5.12 It is for the Council to determine which functions to delegate to the ALMO, which to retain, and which to share. Functions likely to be appropriate for an ALMO include:

- Stock investment decisions and repairs ordering;
- Rent collection, dealing with arrears, debt counselling;
- Consulting/informing tenants on matters that is the ALMO's responsibility;
- Promoting tenant participation and involving tenants in monitoring and reviewing service standards;
- Enforcement of tenancy conditions;
- Similar functions for leaseholders;
- Managing lettings, voids and under-occupation;
- Estate management, caretaking and services under the Supporting People programme.

5.13 Functions which it may be more appropriate for a council to retain include:

- Overall housing strategy, including liaison with RSLs, housing needs assessments, and cross-tenure stock condition surveys;
- Homelessness responsibilities;
- Lettings policy, in consultation with the ALMO;
- General housing advice – but not that related to an individual's tenancy;
- Policy on tackling anti-social behaviour, in consultation with the ALMO
- Owner-occupation strategies, including the formal determination of eligibility for Right to Buy and carrying out RTB valuations;
- Tenant participation in developing housing policy and strategy;
- Overall policy on rents;
- Programme of Best Value reviews, in consultation with the ALMO;

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- Determining the ALMO's minimum standards of service and monitoring its performance;
  - Bidding for capital resources, taking account of the ALMO's plans
  - Supporting People strategy.

### **Procurement of Works and Services**

5.14 The ALMO would be responsible for making and implementing decisions on planning and procuring works and of its own support services. It should take account of Best Value principles and follow best practice in procurement. For repair and improvement works, this should include consideration of the potential benefits of partnering arrangements with contractors and the scope for partnerships with, or purchases from other ALMOs, RSLs and others. The Local Authorities (Goods and Services) (Public Bodies) (England) Order 2002 (SI 2002 No 522) adds ALMOs to the list of bodies entitled to trade with each other under the Local Authorities (Goods and Services) Act 1970.

### **Investment**

5.15 The major part of the ALMO's expenditure and the bids for ALMO funding, will be on repairing and improving the housing stock to bring it up to the Decent Homes Standard by 2010. The ODPM will need to be assured that estimates and bids are reasonable. Bids for ALMO resources may include sums for environmental or other works not directly contributing to the decent homes target. The Council must demonstrate the case for such expenditure and should have fully explored the scope for using other funds for this purpose. As a general rule, no more than 5% of bids for ALMO resources should be for expenditure on such works.

### **Payment of ALMO Resources**

5.16 ALMOs qualifying for support will be allocated Supplementary Credit Approvals (SCAs) for two years at a time, with future allocations dependent on the outcome of future Spending Reviews, any revision of estimates and sustained achievement of a 2\* or 3\* rating by the ALMO. Each time the ODPM will also need to be satisfied that the Council continues to use its overall resources to make the most effective contribution to the decent homes target.

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### Tenant Participation

- 5.17 Key aims of the ALMO initiative are to give tenants the opportunity to play a greater role in the management of their homes, and to ensure that services are responsive to their needs. ALMO bids must show the support of the majority of tenants, although this does not require a formal ballot as the Secretary of State is prepared to accept other clear evidence of support.

### Employment Issues

- 5.18 It is important to safeguard the interests of the staff who will be working for the ALMO. Ministers have said that they will not countenance a two-tier workforce in ALMOs and have made it a condition that transferred and new staff should have comparable terms and conditions.
- 5.19 ALMOs will need to employ staff and should normally do so directly. Other arrangements such as secondments from the Council may be justified for short term, specialised tasks.
- 5.20 Where the delegation of functions to an ALMO amounts to a transfer of an undertaking to which the Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE) applies, contracts of employment (apart from terms relating to occupational pensions schemes) of relevant staff and all the local authority's rights, powers, duties and liabilities under or in connection with those contracts will transfer to the ALMO.
- 5.21 The future terms and conditions of employment for ALMO staff under TUPE, should be determined by the ALMO Board in the light of local circumstances. The Secretary of State recognises, however, that it would not be unreasonable for ALMOs to offer their staff future terms and conditions that overall are no less favourable than those agreed by local authorities nationally, though this is not compulsory.

### Monitoring

- 5.22 The Board has primary responsibility for the ALMO's performance and operation,

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and is accountable to the Council under the terms of its management agreement. ALMOs are also regulated by ODPM, for example when allocating and authorising the payment of extra resources, and by the Housing Inspectorate through the inspection process.

- 5.23 ALMOs are required to keep and publish annual reports and accounts in accordance with the requirements of the Companies Acts and should produce and regularly update a Business Plan setting out their works programme and targets.

### **What Happens if Things go Wrong?**

- 5.24 Monitoring arrangements should provide an early indication of any problems experienced by the ALMO. The Council remains statutorily responsible for delivering the housing management service and can terminate its management agreement with the ALMO if things go badly wrong or if the ALMO's performance is consistently unsatisfactory. Appropriate clauses should be included in the Management Agreement.

### **Bidding for Funds**

- 5.25 At least £700 million was made available for ALMO's seeking additional resources starting in 2004/05 and 2005/06, allocated in two bidding rounds (Rounds 3 and 4). For Rounds 5 & 6 at least £2billion over three years of the review will be allocated.

### **Future Bidding Rounds**

- 5.26 Bids relating to Round 5 submissions closed on 28<sup>th</sup> January 2005. The ODPM will announce the successful bids in May 2005. The ODPM will be launching round 6 of the ALMO Programme towards the end of 2005 which will be particularly relevant for the Council as the Options Appraisal would need to be signed off prior to any ALMO bid. The timetable for round 6 successful bids will be announced at a later date.

## Corporate Implications

5.27 The establishment of an ALMO removes the management functions of the Housing Department to a new organisation. This will result in wider implications to the Council. The general implications are as follows:

- There is a cost to setting up an ALMO, including new staff premises, transitional arrangements, consultants and legal fees etc. It is estimated that it could cost the Council £200,000 to £500,000 if it decided to establish an ALMO. Costs depend on whether service improvements are undertaken when the ALMO is established
- Other Council Departments currently recharge certain non-housing services to the HRA. These include accountancy, legal, IT, democratic services, customer services etc. If the Council decides that the housing service is to become an ALMO, these recharged services may no longer be required by the ALMO and would then fall as a cost on the Council which in turn may adversely affect Council tax payers.
- Other facilities such as works depots and one stop shops may be utilised by both the Housing management service and other departments of the Council. The future viability of facilities may be a concern once the ALMO is established.

## Considerations for Fenland District Council

5.28 An application for ALMO status by the Council should consider the following challenges:

- The Council is able to meet the Decent Homes Standard to 2010 therefore there would be no financial advantage for the Council at the present time as ALMOs can only apply for additional funding up to achieving the decent Homes standard to 2010. No additional funding would be available to the Council.
- The Council would still need to identify ways of preventing a funding shortfall after 2010, prior to establishing the ALMO.

- The Council could still decide to become an ALMO based on the premise that tenants would be more involved in decision making with concentration on service improvements and tenants needs. However, there would be a cost of establishing the ALMO, which may well outweigh the benefits. Instead the Council would be in a better position to take on best practice elements of ALMOs whilst still being part of the current Council structure.
- The ALMO would be still be exposed to the Best Value process, Housing Inspections and would be answerable to the Board of Directors
- There will be corporate implications from the result of an ALMO being established. The Council will need to consider the net yearly costs to the General Fund, which may impact council tax payers.

### **Conclusions of the ALMO Option**

- 5.29 There appears to be no significant advantage to the Council, the stock or the tenants in establishing an ALMO. The issues that are faced with regard to the retention option would also remain as the funding shortfall after 2010 would still need to be addressed and at the present time the ODPM have not agreed to provide additional funding for ALMOs that are unable to maintain the properties at the Decent Homes Standard beyond 2010.
- 5.30 **The ALMO option does not appear to be a viable option at the present time, in the view of the Working Group and supported by the Executive Steering Group.**

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## 6. STOCK TRANSFER OPTION

### Deciding to Pursue the Transfer Option

6.01 Transfer is one of the primary options supported by central Government that is available to local authorities deciding on the future management and ownership of their existing housing stock. The Government has an annual programme associated with the stock transfer process as part of its objective of achieving decent homes for all. Local authorities wishing to pursue transfer should consider the following:

- How the transfer proposal supports the objectives for bringing the housing up to the decent homes standard and improving management.
- The proposals should be based on a fully worked out investment proposal in which tenants should be involved from the outset.
- The Council must assess the impacts of the proposed transfer on the corporate strategy, organisational structure and resource allocation including the General Fund implications.
- The Authority will need to draw up a Change Management Plan to ensure the involvement and commitment of all staff affected by the proposed transfer.
- The Council should give careful consideration to the transfer proposals put forward to the tenants.

### Applying for a Place on the Large Scale Voluntary Programme

6.02 A Large Scale Voluntary Transfer (LSVT) is the transfer of more than 499 properties to a single RSL/Housing Association over a 5-year period. It is impossible for an LSVT to go ahead without the local authority first securing a place on the Government's annual LSVT programme.

6.03 A place on the LSVT programme signifies that the ODPM has given the Council and its tenants its agreement to develop the transfer proposal further and to formally consult tenants about the detailed proposals. It does not, however, confirm the Secretary of State's consent to the transfer. The Secretary of State's consent will only be granted after the Council has met the full conditions and

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criteria associated with LSVT and has obtained a positive vote from its tenants to transfer.

- 6.04 Councils seeking a place on the LSVT programme are required to submit an expression of interest and later in the year a full application for transfer. The Government announces the timing of submissions each year. The full application should comprise a fully completed transfer proposal summary sheet and a completed Single Transfer Model indicating its initial financial impacts and assessments. All transfer applications will be judged against transfer selection criteria set out by ODPM and identified within **Appendix B** of this report.

### **Involving Tenants**

- 6.05 Tenants need to be fully involved in all stages of the transfer proposal and selection of the prospective new landlord. The ODPM will also require that the proposal will enhance opportunities for tenant and community empowerment. The transfer arrangements will continue the need for independent tenant advice throughout the transfer process. Guidance is available on this issue and the Council will need to have regard to this guidance when pursuing the transfer arrangements.

- 6.06 An authority will also need to consider the tenant participation policies and procedures that will apply after transfer. These must ensure and deliver effective participation with tenants at all levels of the organisation and provide greater opportunities for tenants to be involved than those that the authority has in place at present. This is a key feature of housing transfer. After transfer, the new landlord will be expected to comply with the requirements of the Housing Corporation's Regulatory Code of Guidance together with other Housing Corporation good practice and policy needs.

### **Potential Profile of the Board**

- 6.07 Control of the RSL lies ultimately with the Board, which is responsible for directing the affairs of the Association. Key rules of the organisation are agreed by the Board and can only be changed if the Board agrees to any amendments.

- 6.08 The conventional model for stock transfer involves the "thirds" approach, with tenants, council nominees and independents each holding a third of the Board

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places. There may be scope, however, for involving tenants in different ways and this will need to be agreed between the local authority and new RSL/Association when considering Board places. The Housing Corporation will also help facilitate arrangements around the profile of the Board and provide advice, support and guidance as to the Government's arrangements that will apply.

- 6.09 If the Board or Association subsequently fails to meet its obligations in running the Association's affairs, or if the Association fails to meet Housing Corporation/Audit Inspection quality standards, the Corporation may decide to place statutory nominees on the Board to ensure compliance with standards and regulations.

### **Repair and Improvement Programme**

- 6.10 The ODPM expects transfer to facilitate the repair and improvement of the housing to bring it up to the decent homes standard as a minimum and to ensure that the property is adequately maintained in the long term, addressing issues of demand and viability.
- 6.11 As well as the repair and improvement of the stock, ODPM expects the transfer to bring about an improved housing service. The Council will therefore need to consider how the current housing service could be improved and develop proposals accordingly, in conjunction with the new landlord body and tenants. ODPM would expect an improved housing management service to be partly contingent upon improved levels of resident involvement.

### **Deciding on the Terms of Transfer**

- 6.12 The transfer proposals should involve the sale of the freehold interest in all properties except where this would not be feasible, for example flats over shops, or tower blocks above shopping centres. The Council will be required to draw up a proposed rent plan in accordance with the Government's Rent Reform Guidance.

### **Drawing up a Transfer Contract**

- 6.13 In any transfer proposal it will be necessary to subsequently identify and draw up a transfer contract between the local authority and RSL. This governs the sale of

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the housing and the relationship of the authority and RSL. This contract should be a complete record of all agreements entered into by the authority and RSL. Where the authority is providing support to the RSL, these will need to be set out in service level agreements. Particularly, the Council will need to consider carefully how other responsibilities relating to such matters as common landscaping for example must be dealt with. Finally the contract should detail the arrangements for sharing the proceeds for any right to buy sales.

### **Selection and Transfer of Staff**

- 6.14 Selection of staff by the new landlord should be at its own discretion. Other arrangements such as secondments from the Council may be justified for short term, specialised tasks.
- 6.15 Where the delegation of functions to an RSL amounts to a transfer of an undertaking to which the Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE) applies, contracts of employment (apart from terms relating to occupational pensions schemes) of relevant staff and all the local authority's rights, powers, duties and liabilities under or in connection with those contracts will transfer to the RSL.
- 6.16 Where the council considers that the sale of the stock amounts to a transfer of undertaking the authority and new landlord should consider the application of the TUPE regulations. Councils are strongly advised to seek legal advice about the application of TUPE.

### **The Authority's Housing Role and Duties after Transfer**

- 6.17 After transfer an authority maintains all statutory obligations in relation to homelessness and the allocation of housing. In considering its plans for transfer it is essential that the council plans for its role after transfer to take into account broad based strategies. For example the council will need a strategy for preventing homelessness and ensuring accommodation and support will be available to anyone who is homeless or at risk of homelessness. Certain functions however may be discharged either in-house or on a contracted out basis.

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- 6.18 Decisions on the contracting out of functions must be made on a best value basis with consideration given to retaining functions in-house, contracting out to the stock transfer landlord or contracting out to another agency. Where homelessness or allocation functions are contracted out, the council must have adequate monitoring and quality assurance mechanisms in place to ensure the statutory duties are being performed.
- 6.19 Nomination agreements should be drawn up with regard to the Council and RSL's statutory obligations and the Housing Corporation's regulatory code and to any homelessness or allocation functions that have been contracted out to the stock transfer RSL or other agency.

### **Legal Considerations**

- 6.20 Clearly the process of completing the transfer of the local authority stock is a complicated issue. The ODPM has produced detailed guidance, which is supported by guidance from the Housing Corporation about legal considerations for both the local authority and prospective new landlord bodies in accepting the transferred stock. It is imperative that both parties obtain detailed legal guidance and support to ensure full compliance with legal, statutory and other requirements associated with securing a successful transfer. The costs associated with meeting the legal requirements of a transfer tend to be significant.

### **Calculating the Sale Price – The Tenanted Market Value**

- 6.21 The price that an RSL pays for the housing it acquires through transfer must have regard to its Tenanted Market Value (TMV). This method of valuation assumes that the stock is transferred as a going social housing concern and in simple terms equates to the income the RSL is likely to receive over 30 years in the form of rents, less the estimated expenditure necessary on repairs and improvements works, maintenance, supervision and management.
- 6.22 The proposed sale price, therefore, should be able to support the prospective new landlord's business plan. The ODPM has developed a model (the Pricing Model) to calculate Tenanted Market Value and this model forms part of the Single Transfer Model (STM) used for assessing transfer financial implications. The TMV is the basic valuation of the housing stock for social rented housing - it

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is the discounted value of income, less expenditure of the tenanted dwellings transferring.

6.23 The Single Transfer Model also enables the Full Valuation to be identified, which can include related assets such as shops, garages, land etc. However, this stage of the valuation is normally undertaken at the application stage as the Council has the discretion to exclude all or elements of related assets from the transfer.

6.24 The TMV is significantly different than the Right to Buy (RTB) valuation:

- RTB Valuation is based on the empty property market value
- TMV is based on sitting tenants, paying social rents and the future incomes/expenditures rather than the market value

#### **Indicative TMV for Fenland's Stock**

6.25 The ODPM provides a computer model (the STM model) to estimate the TMV. As part of the options appraisal process we have produced indicative TMVs for the Council's stock. A number of discussions have been made with the Working Group and ITA with regard to the level of repair and investment to include, given that three types of TMV could be produced based on either achieving:

- Decent Homes Standard only
- All improvements standard as per Rands Associates (i.e. the Council's current level of repair and improvement)
- The Fenland Standard, which is a higher standard to the previous two.

6.26 It has been agreed by the Working Group that the TMV for the Fenland Standard should be identified. It is considered that tenants would require a higher level of repair and improvements in considering the transfer option.

6.27 The costs provided by Rands Associates Stock Condition Survey have been included plus the extra costs identified in the Fenland Standard as detailed in **Chapter 3**. Costs relating to garages have been removed from Rands Associates costs as they would form part of the Final Valuation if the Council decided to include these assets.

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- 6.28 The majority of the assumptions in the Single Transfer Model have been based on the retention option assumptions. The main assumptions are as follows:
- The transfer date in the TMV model is set at April 2005/06
  - The number of properties to be transferred at that date is 3,833
  - The STM does not take account of Right To Buys
  - Major Repairs, improvements and adaptations are increased by fees at 8% and VAT of 12.25% as per the Single Transfer Model
  - All existing tenants rents will slowly converge to target rent levels and new tenants will pay rent at the target rent level. Turnover is at 11% as per the Retention Model
  - Any potential capital receipts from the sale of HRA pockets of land has not been included in the TMV
  - There is no cost information for year 30 in the TMV (2034) as the Stock Condition Survey is dated to 2033. Therefore we have assumed that the same costs apply as in 2033
  - Management costs have been based on 2005/06 cost as per the retention model, plus 3 extra Scheme Managers as per the Fenland Standard. This total cost has been reduced to account for the cost that will subsequently fall to the General Fund. (This is explained further in **Chapter 8 – Corporate Implications**). Management costs remain within the range for local RSLs.
- 6.29 The costs have been identified for the TMV in respect of achieving the Fenland Standard. The costs have been taken from the financial projections based on Rands Associates stock condition information. The Tables below sets out the cost details and does not include inflation.

**Table 3: Fenland Standard Costs for the TMV**

<b>Cost Category</b>	<b>2005/06 to 2010 £000's</b>	<b>2011 to 2033 £000's</b>	<b>Total Cost for 30 Years £000's</b>
Catch up Repairs	6,560,299		
Major Repairs, Improvements and estate works	25,755,750	108,453,581	134,209,331
Responsive, Void & Cyclical	14,567,354	67,648,800	82,216,154
<b>Total Costs</b>	<b>46,883,403</b>	<b>176,102,381</b>	<b>222,985,784</b>

### **TMV Results**

- 6.30 The results of this analysis provide only an indicative valuation and further work would be required by the Council in order to provide accurate data in particular with regard to property valuations and accurate costings to 2004.
- 6.31 **The tenanted market valuation of the stock is £29.4m on the basis that the stock would be repaired to the Fenland Standard and maintained at this standard there after.**
- 6.32 It is estimated at this stage that the Full valuation, which would include some or all of the related assets may increase the valuation slightly (by approximately £1m to £2m), however the Council would be advised to check the garage and shop repair and improvement costs if transfer was the chosen option.
- 6.33 The results for the valuation is not set in stone, and if further valuations are carried out the estimates will vary as the inputs are modified. Further details with regard to issues such as the RSL management costs would be undertaken as part of a transfer and would alter the TMV. However, it is considered that the results presented here provide a reasonable impression of the level and differential of valuation for the expenditure case examined.

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### Rent Restructuring

- 6.34 Rent restructuring and convergence applies to all the options being considered. The target rent is produced using a formula calculation and all social landlords are required to reach their target rent levels by 2011/12. However, the calculations used in identifying the target rent for RSL properties differ slightly to the calculation for Council owned properties. This results in a slightly higher target rent being calculated for RSL properties
- 6.35 However, the Three Year Rent Restructuring Consultation Paper produced in July 2004 by the ODPM proposes changes to the calculation of Local Authority target rents so that both Local Authority and RSL target rents for identical properties will be the same. If these proposals are introduced convergence between Local Authority rents and RSL rents will be exactly the same. Therefore any Council tenants transferring to an RSL in the future will not experience any change to the rent levels other than what was expected to occur as a Council tenant.

### Checking the Transfer would be Fundable

- 6.36 The Council would be required in proposing transfer to seek the views of several funders (institutions might lend the new landlord the money necessary to buy the housing and carry out repairs and improvements) at an early stage. Potential funders will provide information on whether the proposal meets the organisation's funding criteria and therefore its fundability, i.e. the likelihood of the necessary funding being secured.
- 6.37 Once there has been a ballot and positive result, the prospective new landlord should hold a proper funding competition inviting a wide range of organisations to bid to fund the transfer. The new landlord should avoid waiting until shortly before the proposed transfer date to invite funding bids.

### Identification of Warranties & Set up Costs

- 6.38 Any funding offer is likely to be contingent on the authority giving a range of warranties on issues such as asset title, transferring staff, and major defects and environmental matters. The scope of the warranties can have a significant effect on the valuation and must be considered by the Council at an early stage in

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negotiation with the new landlord in order to ascertain what risks the new landlord can minimise or manage and whether any can be covered by either party's insurance arrangements.

- 6.39 As these warranty considerations are complicated, the ODPM and Housing Corporation have issued joint guidance – *Dealing with Uncertainty, the Role of Warranties in Stock Transfer* and the Council would be advised to take account of these guidance notes as early as possible.
- 6.40 The TMV is reduced by warranties and set up costs of the transfer. The total cost will differ between authorities and the Council will need to consider issues such as consultant and legal fees, superannuation costs, environmental warranties etc. It must be noted that in recent times a number of local authorities have experienced an increase in superannuation costs at the point of transfer due to under-funding of pensions schemes and therefore if this option is taken forward it is advised that the Council undertake an assessment of this at an early stage

### **Considering the Use of Receipt from Transfer**

- 6.41 In looking at any transfer proposal and subsequently developing the detailed transfer arrangements, the Council should work out whether it would result in a capital receipt and if so, how much of this would be required to "set aside" as provision or credit liabilities to pay to the Government as the LSVT levy. Below is a summary some of the key considerations around the guidance on these capital finance issues.
- 6.42 **Calculating the Level of Net Receipt** - The Council's first step is to calculate the level of net receipt. This should accord with the stock's Tenanted Market Value as calculated by the Pricing Model less any agreed set up costs and warranties.
- 6.43 **Calculating Housing Debt** - The Council will also need to calculate the housing debt, i.e. the debt associated with the properties to be transferred. There are financial models used to calculate this sum. In overhanging debt transfers the housing debt is confirmed immediately prior to transfer by a calculation of the model as prescribed by ODPM.

- 6.44     ***Calculation of Amount of Receipt*** - As a minimum an authority will be required to set aside as a repayment of debt 75% of the receipt received from the new landlord from the transfer of the stock. Further arrangements apply where the housing debt is greater than 75% of the net capital receipt. There are other arrangements regarding the relaxation of set aside rules, calculating the amount of LSVT levy and deciding on how to spend any useable receipts that an authority has left over after taking account of its financial obligations after transfer. These arrangements are not covered within the scope of this report, as they are highly technical and complex issues, which need to be considered as part of any detailed proposal for completion of the transfer.
- 6.45     The table below has been provided by the Council to illustrate the possible reductions to the TMV and provides an estimated net receipt. It must be noted that the figures provided below are indicative and if the Council were to pursue transfer, a great deal of work and detail would be identified in calculating the net transfer receipt.

**Table 4 – Estimated Transfer Receipt**

Cost Category	£m
Initial TMV	29.40
Less Set Up Costs	(3.00)
Less Notional HRA Debt	(10.65)
<b>= Net Receipt for Levy</b>	<b>15.75</b>
Less Levy (20%)	(3.15)
Less difference between notional and Actual Debt and Repayment Premium	(4.13)
<b>= Possible Net Receipt</b>	<b>8.47</b>
Plus Possible Additional Value of Related Assets	1.00-2.00
<b>= Possible Net Receipt (Full Valuation)</b>	<b>9.47-10.47</b>

- 6.46     The table highlights that the Council would be in a good position to receive a capital receipt for the transfer of its' Council owned properties. It must be noted that this receipt could be utilised for any Council expenditure, as it does not have to be housing related.

- 6.47 Stock transfer is seen as an achievable way of securing longer-term investment and improvements to services and many local authorities have now opted for this solution. If tenants determine that they wish the Council to retain the stock, it needs to be appreciated that this will set the Council on a course of providing services and meeting Government standards within the limited resources that are projected to be available, also that the standard of improvement will be below that currently provided. There are no other subsequent options likely to be available in the foreseeable future to improve this position.
- 6.48 **On balance therefore the stock transfer option provides the Council the opportunity of attracting sufficient new resource for the Fenland Standard level of service improvement and stock investment demands, which are slightly above the Council's current level of improvements and significantly above the Decent Homes standard provided by the Retention Option.**

### **Choosing a Prospective Landlord**

- 6.49 All landlords acquiring tenanted local authority housing must be Registered Social Landlords (RSLs). In other words the landlords must be registered with the Housing Corporation. Acquiring landlords can be existing organisations or bodies created specifically for the purpose of transfer.
- 6.50 Any RSL/Housing Association acquiring tenanted local authority housing must operate in accordance with the Housing Corporation's Regulatory Code for RSLs. There is specific guidance that has been produced on setting up a new RSL and the implications of the Housing Corporation's registration process.
- 6.51 An authority proposing to transfer its stock to a new landlord is required to consider with tenants in consultation with the Housing Corporation, what type of new landlord should take over the housing. The following options apply.
- An existing RSL/Housing Association
  - A newly established subsidiary of an existing RSL/Housing Association (either part of an existing group structure or through the creation of a new group structure)

- A newly established free-standing RSL – **including the Community Gateway Association (see Appendix C for outline details)**
  - A number of newly established RSLs, which will make up a new group.
- 6.52 At present, the ODPM does not require a competitive process for landlord selection on all transfer proposals. However, it does require an authority to demonstrate clearly in both its LSVT programme application and its discussions with the Community Housing Task Force representative, that tenants have been made fully aware of the new landlord options and have been fully involved in deciding the eventual landlord choice. It should also be pointed out that it would be particularly beneficial to involve staff representatives other than those taking forward the actual transfer within the process.
- 6.53 The process of landlord selection will depend on a range of issues including:
- The size and nature of the stock to be transferred.
  - The organisational viability and the landlord's ability to deliver service improvements, manage the improvement programme, secure the confidence of the tenants and other stakeholders in the area, tenant empowerment and fundability.
  - Local circumstances such as community boundaries, geography and management areas together with the understanding of the nature of the social housing market in which the local authority is operating would also be beneficial.
- 6.54 In considering landlord choice the local authority is recommended to make early contact with the Housing Corporation's Stock Transfer Registration Unit, and with ODPM.

### **Choice of New Landlord**

- 6.55 As part of the transfer option consideration needs to be given to the potential choice of landlord if the Council were to decide to transfer the housing stock. There are alternatives to consider in relation the body to which the stock could be transferred. Generally there are three choices, transfer to an existing landlord,

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transfer to a subsidiary or transfer to a new sponsored RSL. Each are described below:

**Transfer to an existing RSL**

- 6.56 Given the size of the stock (almost 4,000), the Council would be able to transfer all the stock to an existing RSL as long as it was of reasonable size, with good performance, sustainability and its tenants did not object.

**Transfer to a subsidiary of an existing RSL**

- 6.57 The Council could transfer its stock to subsidiary. This is where there is a group structure with a parent organisation that is generally non-property holding not for profit Association. The ex-Council stock would, in Fenland's case become a subsidiary. Similar to a new RSL the subsidiary would own and manage its own properties, have its own RSL name and Board but would form part of a larger group and have representation on the Group Parent Board. The potential pros and cons of this landlord are:

**Advantages:**

- The group parent can provide economies of scale e.g. major repair contracts, ICT etc
- As part of the essential criteria for interested RSL organisations the Council can stipulate that the RSL must be classified as a development partner of the Housing Corporation which will ensure that the organisation will have the ability to bid for grant funding from the Housing Corporation to build affordable homes on top of any allocation of resources from the Council for this purpose.
- Economies of scale could also be obtained in borrowing/funding arrangements giving the subsidiary favourable rates and more secure borrowing
- The ex-Council stock would be able to retain its own identity and have flexibility over influence for ex Council tenants require over policies etc.

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- Greater local tenant and Council representation on the board compared to transfer to an existing RSL
  - Benefits of a new RSL but with extra security of being part of a larger group
  - Experience from the Group can be utilised, especially in the first few years

**Disadvantages:**

- It may be difficult for tenants to understand the relationship or arrangements between a parent subsidiary and this landlord type is more confusing to understand
- The perceived uniqueness of the subsidiary may be reduced due to the parent relationship

**Transfer to a new RSL**

6.58 A typical approach for local authorities in the past has been to transfer to a new RSL by creating a new organisation dedicated solely to taking on, repairing and managing the stock. The potential pros and cons of this landlord are:

**Advantages:**

- The RSL will focus solely on the ex-Council stock
- There is maximum accountability to the ex-council tenants
- Performance of the new RSL is more transparent and more easily monitored than with the other RSL types.
- The ex-Council stock would be able to retain its own identity and have flexibility over influence for ex Council tenants require over policies, rents etc.
- Greater tenant and Council representation on the board compared to transfer to an existing RSL

**Disadvantages:**

- Tenants may not see the difference between the new RSL and the Council owning and managing the stock
- This in turn could result in tenants not having ownership with the new RSL
- It probably would take longer to set up and be more costly compared to the other RSL types.
- Housing Corporation Registration would be required and therefore there is a possible risk of registration being deferred or declined
- The new organisation would not have easy access to Housing Corporation funding as it would have no track record on development delivery and will not have development partner status with the Housing Corporation.
- It may be difficult for the new RSL to be innovative as in many cases the existing structures and working methods transfer to the new RSL.

**Conclusions of the Transfer Option**

6.59 In Fenland Council's case, stock transfer would enable the stock to be repaired and improved to the Fenland Standard, which is beyond the Council's current level of improvements. In addition, the Council would receive a net capital receipt of approximately £9.5m – 10.5m that could be spent on any strategic issue (not just Housing). The Executive Steering Group has suggested that a portion of any receipt from transfer or a proportion of the interest from the receipt may be utilised on new affordable housing, given that this is a priority for Fenland at this present time. The working group has recommended that if transfer is the chosen option then transfer to an existing RSL or as a subsidiary of an existing RSL rather than establishing a new stand alone organisation should be pursued in view of the Corporations development partner arrangements and the track record of existing RSLs in development.

6.60 The risk to the Council however in pursuing stock transfer as an option is the associated preliminary work around putting detailed proposals to tenants and these being subject to a positive ballot to enable the transfer process to be

fulfilled and approved by the Secretary of State. The primary risk in this regard is in respect of the costs of completing this major consultation exercise, which will include the need to engage specialists such as legal and other consultancy advisers. The Council will therefore wish, wherever possible, to ensure that it has a good chance of securing such a positive ballot result.

- 6.61 On balance stock transfer is seen as a viable way for the Council to secure long-term investment and improvements to services. If tenants determine that they wish to retain the stock, it needs to be appreciated that this will set the Council on a course of providing services and meeting Government standards, i.e. the decent homes requirements, within the limited resources that are projected to be available and that there are no other subsequent options likely to be available in the foreseeable future to improve this position.

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## 7. PFI & MIX OF OPTIONS

- 7.01 The ODPM guidance 'Delivering Decent Homes - Options Appraisal' states: *Authorities should as part of the process look at mixed model solutions but only as part of an overarching strategy for the whole stock.* PFI and the mix of options have been considered as part of the options appraisal process to identify whether one or more of the options could be utilised.

### **PFI**

- 7.02 PFI is part of the mixed approach as it is not a whole stock solution due to the limits in size of a PFI project. A PFI project needs to have at least 1000 units, and larger bids of around 2,000 probably have a better chance of success, as the Government sees an advantage of the setting up costs being defrayed over a larger number of units and the PFI project remaining viable even with Right To Buys. Due to the size, PFI bids need to be focused on a defined geographical area or specific property type with a common sense of identity.

### **Repair & Improvements**

- 7.03 A PFI scheme entails a portion of the HRA stock being repaired, managed and maintained under a contract, usually for 30 years, by a private operator. The operator is usually a consortium including specialist contractors in repairing and managing homes and financing the loans required to fund repairs. Ownership of the dwelling remains with the Council and at the end of the contract the management of the units reverts to the Council.
- 7.04 It also enables repairs and refurbishment to be carried out soon after the start of the contract. Under the contract, the Council pays a fixed annual payment leaving the private operator to repair the housing and deliver the service. The risk of overspending on repairs and management becomes the responsibility of the operator. The Council's expenditure is fixed under the contract and therefore not exposed to expenditure risks. Moreover, if the contractor fails to repair or manage the dwellings to the standards agreed in the contract, a portion of the Council's annual payment need not be paid.

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- 7.05 PFI Pathfinders in the first two rounds of PFI were limited to refurbishment, but a recent relaxation of the rules has allowed some (probably small) element of demolition and rebuild to be included where it can be shown to be better value for money than refurbishment.
- 7.06 The Government is also interested in PFI bids that contribute to regeneration and sustainability of communities. Current PFI projects are tackling a wide range of stock - from tower blocks to terraced houses – in a diverse range of areas - from the inner city and the suburbs to former coalfield communities.

### **Wider Council Strategy**

- 7.07 PFI schemes must fit with the wider housing and regeneration strategy and be a priority for investment. They must demonstrate value for money in that the cost of the contract over the thirty year period must be shown to be less than what it would have cost the Council to continue to run the housing units on limited investment resources. The Government expects PFI costs to be competitive because the consortium has the opportunity to repair units at the start of the contract so that subsequent running costs should be lower.

### **Allocation of Additional Funds**

- 7.08 If the project is accepted onto the PFI programme and the value for money case is demonstrated, the Government provides assistance in the form of a PFI Credit that will cover the capital element of the cost of the Council's annual payments to the contractor.
- 7.09 As the units remain in Council ownership, Government management and maintenance allowances are still payable to the HRA for these units. These help to fund the running cost element of the annual PFI payment.

### **Council Responsibility**

- 7.10 Retention of ownership of the units has other advantages for the Council in that tenancy agreements remain unchanged and the rents set for the properties should be no different from what they would be for HRA stock outside the PFI.

7.11 However, the Council is expected to retain responsibility for tenanting the properties. This means that a PFI bid should address the issue of low demand. The Council must ensure there is long-term demand for properties repaired under PFI. This does not rule out refurbishing property that currently suffers from low demand, provided the refurbished property can be shown to attract demand over the long term.

### **Tenant Consultation**

7.12 The ODPM does not anticipate authorities will ballot tenants on whether or not to proceed with a PFI scheme. However, the Office does expect tenants will be given the opportunity for involvement in decision-making in line with best practice in tenant participation and consultation. Tenants must be consulted as part of the Options Appraisal.

### **Bidding Rounds**

7.13 The Government's PFI for Council housing is conducted as a challenge fund, for which bids are invited at periods of approximately once every two years. The 2004 Spending Review announced 3 further rounds of HRA PFI to 2007/08. The timetable for the next round has recently been announced and the last deadline for submitting an expression of interest was 28<sup>th</sup> January 2005, with announcement of successful schemes expected in May 2005. Future rounds will be announced closer to the Options Appraisal deadline in July 2005 so that Councils such as Fenland that are in the process of completing the Options Appraisal will have access to the following PFI rounds.

### **Legal Implications**

7.14 Specialist legal advice in relation to the setting up of suitable new bodies to run the PFI project and to write the contract documentation will be required. The Government is encouraging the adoption of standard documentation to make this process more straightforward.

### **Financial Implications**

7.15 PFIs provide additional investment needed to repair and improve properties at the cost of a fixed annual payment agreed in advance when the contract is set

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up. In addition the risk of cost overruns passes to the contractor and the finances of the Council are further protected by the automatic reduction of the annual payment should contract performance fall below agreed standards.

- 7.16 To maximise the financial advantage, the Council should select that part of its stock in particular need of refurbishment so that the normal HRA resources (credit approvals and major repairs allowance) can concentrate on the rest of the stock while the PFI credit takes care of the PFI stock, enabling the remaining housing stock to achieve and maintain the decent homes standard using existing capital investment resources.

#### **Formulation of a potential PFI scheme for the Council**

- 7.17 A Council PFI housing scheme is likely therefore to require the following characteristics:
- Size at least 1000 units and ideally in the range 1500-2500.
  - Homogeneity of the selected units. This will simplify the estimation of repairs and make the scheme more attractive (less risky) to potential private sector operators.
  - Demand or demand potential. As the Council will be accepting the financial risk of not filling the refurbished units, demand is a critical factor to be taken into account at scheme selection stage.
  - Regeneration and sustainable communities. The stock refurbishment scheme must include measures to ensure the improvement and sustainability of the local area.
  - The scheme must fit with the wider housing and regeneration strategy and be a priority for investment
  - The Council and its senior staff must sign up to the vision of PFI being a legitimate vehicle for investment in Council assets.

## **MIX OF OPTIONS**

- 7.18 A mixed option approach (including PFI) may be used if:
- It is beneficial for the stock concerned, the rest of the stock the Council and the District (impact on Council tax payers)
  - Areas or property types can be split into more manageable units
  - Specific options provide solutions to only part of the stock - this occurs when areas/property types have specific issues that don't relate to the rest of the stock (e.g. if an area has a specific identity or a property type has much more expenditure needs than the rest to reach the decent homes standard)
  - The Council's wider strategic housing function must be considered, which includes other funding needs as stated in chapter 2

- 7.19 A mix of options relates to a mix of the four options available to the Council, which are:

- PFI
- ALMO
- Partial transfer
- Partial retention

### **Considerations for Fenland District Council**

- 7.20 The Council currently owns almost 4,000 stock, therefore a mix of options can be considered although a mix of more than two options would not be recommended due to the size of the stock.
- 7.21 Two main sources of information were utilized when identifying possible PFIs or Mix of Options. These were:

- **Stock Condition Survey** – As the survey results were analysed into areas and into the pathfinder properties and sheltered housing, differences in repair and improvement costs were easily compared
  - **Fenland Standard** – These results were also analysed into the same categories as the stock condition survey, enabling easy identification of differences in tenants needs in particular areas
- 7.22 When considering partial options (i.e. partial transfer, partial ALMO and PFI) two types of analysis are undertaken:
- Areas
  - Property Types

#### **Areas – Pathfinder Properties**

- 7.23 There are 949 properties in the pathfinder area as per Rands Associates Stock Condition Survey. These properties may be considered as having different needs due to the Pathfinder status in the area. Therefore these properties were analysed further. The number of properties in the pathfinder would prevent a possible PFI or partial ALMO, however a partial transfer could be considered if appropriate.
- 7.24 From the Stock Condition Survey it was identified that these properties required slightly higher levels of investment when compared to the rest of the stock. The table below details the differences.

**Table 5 - Pathfinder Properties Repair & Improvement Costs**

Areas	Decent Homes Standard £000's	All Improvements Standard £000's
Pathfinder Area	44	52
All Other Stock	43	50
<b>Difference</b>	<b>1</b>	<b>2</b>

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- 7.25 The table highlights that the difference between pathfinder properties and the rest of the stock is very small for both the Decent Homes Standard and for the Councils current level of repair and improvements. This confirms that the properties in the pathfinder area have no particular priority investment needs above all other properties that the Council own. In addition there is no evidence of any particular low demand in this area.
- 7.26 Information from the Fenland Standard Survey suggests that overall tenants in the pathfinder area were more dissatisfied with their properties, however when questioned the elements and services considered important were almost identical to the other areas analysed as part of the sub-analysis undertaken in identifying the Fenland Standard.
- 7.27 Therefore there is no evidence to suggest that the pathfinder area requires significantly different types of improvement or more levels of investment. In addition there is no evidence to suggest that the remaining stock would significantly benefit financially if the stock were removed from the HRA.

### **Areas – Towns or Villages**

- 7.28 Fenland District is split into four market towns plus rural areas. Both the stock condition survey and Fenland Standard survey results were analysed to identify any significant differences in cost or need with regard to improvement elements or services.
- 7.29 There appears to be no significant difference between the towns and/or villages to suggest that any particular area has significantly different types of improvement or more levels of investment. In addition there is no evidence to suggest that splitting the stock up would benefit the stock concerned or the rest of the stock.
- 7.30 There are no real reasons at this stage to consider a partial option based on areas.

### **Property Types – PRC Properties**

- 7.31 The Council own 292 PRC (Pre Reinforced Concrete) properties as per Rands Associates Stock Condition Survey. Generally these property types require a great deal of expenditure in order to ensure they are sustainable in the long term

due to their design and building fabrications. Therefore they were analysed further. However as per Rands Associates Stock Condition Survey all these property types have either been fully refurbished or demolished and rebuilt over the last few years by the Council. Therefore no additional works was required in the foreseeable future.

- 7.32 There is therefore no indication that these property types would benefit individually from a small-scale transfer, or that the rest of the stock would benefit from this.

#### **Property Types – Sheltered Schemes**

- 7.33 The Council own 485 sheltered scheme properties as per Rands Associates Stock Condition Survey. Generally these property types can have problems with long-term letability and often require major refurbishment.
- 7.34 However from analysis of the housing need and demand work undertaken in the Base Case Position it has been identified that although there is a high number of Council owned bungalows in the District there does not appear to be any significant letability issues with these properties.
- 7.35 From the information analysed from the Fenland Standard Survey results, sheltered scheme tenants had no particular needs or aspirations with regards to the improvements to the properties or service standards. In fact they were the least dissatisfied group with their home overall. Therefore there is not indication that these tenants require different repairs and improvements.
- 7.36 Furthermore from the Stock Condition Survey it was identified that these properties required slightly lower levels of investment when compared to the rest of the stock. The table below details the differences.

**Table 6 - Sheltered Properties Repair & Improvement Costs**

Areas	Decent Homes Standard £000's	All Improvements Standard £000's
Sheltered Properties	42	49
All Other Stock	43	50
<b>Difference</b>	<b>(1)</b>	<b>(1)</b>

7.37 The table highlights that the difference between sheltered properties and the rest of the stock is very small for both the Decent Homes Standard and for the Councils current level of repair and improvements. In fact this highlights the work that the Council undertaken with these properties to ensure improvements required have been undertaken. It also highlights that the properties have no particular priority investment needs above all other properties that the Council own and that removing them from the rest of the stock may worsen the overall financial position. In addition there is no evidence of any particular low demand in sheltered schemes.

#### **Property Types – Bedsits**

7.38 The Council owns 71 bedsits. Generally these property types can have problems with long-term letability and often require major refurbishment as many tenants needs have changed over the years to needing 1 bedroom properties instead of bedsits.

7.39 Analysis of void and turnover rates have identified that:

- In the last three years void rates are 14% on average compared to an 8% average for all the stock
- Stock turnover has also been higher suggesting possible letting problems

7.40 When considering the needs of future tenants it is also important to consider that the Council currently own over 1,000 bungalows and with the changes to the

Supporting People Programme many potential tenants are now able to remain longer in their existing home.

- 7.41 There is no separate cost information with regard to the future repair and improvement of these property types, therefore it cannot be identified whether these properties require higher levels of investment than the rest of the stock, however given the small number of properties it is considered that this would have little effect on the rest of the stock.
- 7.42 Therefore, although these property types may benefit from a small-scale transfer in the future there is no benefit to the rest of the stock at this stage to do so.

#### **Conclusions of PFI & The Mix of Options**

- 7.43 Overall, a number of considerations have been made by either area or property type to be considered for either a small scale transfer (given that none of the options provided enough properties to consider a PFI or partial ALMO). However there appears to be no significant advantage to the Council, the stock or the tenants in undertaking a PFI or a Mix of the options at this time.
- 7.44 **The PFI or Mix of options do not appear to be a viable options at the present time**, in the view of the Working Group and supported by the Executive Steering Group

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## 8. CORPORATE IMPLICATIONS

8.01 At this stage it is clear from the findings in the report that the two main options that are financially viable are stock retention and stock transfer. These two options have therefore been considered further in relation to the effects they may have on the Council's wider corporate implications.

### **Corporate Implications – Stock Retention**

8.02 The retention option that has been chosen as part of the options appraisal process will need to utilise more funds for the HRA and make efficiencies in the following ways:

- Utilises an extra £160,000 per annum of supported borrowing for the HRA between years 2005/06 to 2010/11 (total of £960,000 over the next 6 years)
- Utilises an extra 20% of the usable RTB receipts from 2011/12 onwards (a total of £2.64m extra RTB receipts over the 30 year financial model)
- Includes efficiencies anticipated in the level of voids from current 2% voids to 1.5% voids per annum.
- Includes an anticipated reduction in bad debts by £20,000 per annum
- Includes service provision cost savings by means of efficiencies of £30,000 in 2006/07, with a further saving of approximately £100,000 in both 2009/10 and 2012/13
- Includes 0.5% efficiency savings in all revenue and capital works costs

8.03 In order to retain the stock the Council would need to re-direct future funds to the HRA that would not have originally been allocated to the HRA under current policy. A total of £3.6m over the next 30 years would be needed. This will result in a reduction of funds of this amount over the next 30 years for other Council priorities. From analysing the Council's current division of funds it appears that priorities such as affordable housing would be the most adversely affected. In overall terms the Council has calculated that this may equate to approximately 6 new affordable homes each year that would not be built due to the re-direction of

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funds. Of course over a 30 year period it is difficult to anticipate changes that the Council would make regarding the allocation of funds. This calculation is solely based on the Council's current policy to provide a comparison between the current allocation of funds and those proposed under the retention option.

- 8.04 The efficiency savings that have been identified from bad debts, voids, revenue and capital works costs have been considered in detail by the Council. It is considered that these efficiencies are achievable and sustainable within the realms of the HRA operations.
- 8.05 Under the retention option the current level of HRA debt would of course remain. In addition the Council would also continue operating with a depleting housing stock. This will inevitably place pressure on the service and the staffing levels required in the long term as the stock continues to reduce.

#### **Corporate Implications – Stock Transfer**

- 8.06 Under the full stock transfer option it is estimated that approximately £9.5m- 10.5m depending on the additional value generated from related assets net capital receipt could be achieved from the transfer if the Fenland Standard level of improvements were undertaken. There are no restrictions as to the use of this receipt and therefore the Council would be able to use it on any of its priorities for example its commitment to affordable housing or any of its other medium term priorities. At the same time the Council would no longer have any HRA debt as this is redeemed as part of the transfer (please refer to section Six for further details).
- 8.07 The staff that currently work under the HRA management function would transfer to the new Housing Association (HA) under TUPE regulations. Identifying the staff involved, the new roles that some may need to undertake and discussing the complexities of transfer plus ensuring that staff are in agreement with the changes will take time and resources. In addition there will be some staff that undertake duties relating to both the management and strategic roles plus those that undertake some work for the HRA but are from other departments. New staff structures for the HA and remaining strategic housing functions would be required. TUPE and trade union considerations would need to be addressed and resources, time and inevitably a cost would be incurred.

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- 8.08 The buildings and shared facilities would need to be considered in particular the Works Depot. The Council would need to consider the future viability of this and other shared facilities once the transfer is complete. The offices currently utilised by HRA staff would no longer be needed and the recharge made to the HRA for office space would become a potential cost to the General Fund.
- 8.09 The services, buildings and facilities that the HRA utilises from other departments of the Council is costed and the HRA is charged for these services each year in the form of a recharge. The General Fund currently recharges the HRA by approximately £1.2m each year. The recharge consists of support services to the HRA, which includes services such as legal, accountancy, IT etc. contributions to Democratic Representation, Corporate Management, Revenue Services and Council wide initiatives.
- 8.10 A proportion of support costs relating to staff would transfer to the HA under stock transfer. Savings would be expected to be generated reflecting services no longer provided to the HRA. The Council would need to devise an action plan including transitional arrangements arising from the transfer in order to ensure that savings are achieved as soon as possible. A residue cost would initially remain with the General Fund reflecting both the present HRA contribution to the corporate management of the authority and economies of scale offered by existing arrangements. The Council has undertaken considerable work in identifying the anticipated residual cost to the General Fund. It has been estimated that this is in the region of £510,000 per annum. This figure could be completely offset if the Council's debt was redeemed as part of the transfer and use of the receipt due to the elimination of debt repayments. In addition to any cost implication the Council would almost certainly be required to reorganise in order to adjust to the smaller size of organisation that would inevitably result.
- 8.11 Furthermore, the Council currently utilises approximately £700,000 of HRA Right To Buy (RTB) receipts each year on other Council priorities (based on an average of the next 10 years anticipated RTB allocation). After transfer the HA would be entitled to retain any future RTB receipts. Under stock transfer the Council would be in a position to negotiate with the new HA for a share of future Right to Buy income from the sale of properties after the transfer has taken place. Although this would be for the Council and HA to negotiate and agree upon it is realistic to

suggest that the Council could obtain 50% of these receipts, based on other stock transfers that have been undertaken in the last few years. Utilising the Business Plan Financial Model it has been identified that approximately £4m RTB revenue would be made based on a slowly reducing level of RTBs each year. At present the Council is required to pool 75% of any RTB receipts to Central Government. As part of a transfer this pooling requirement is exempt, consequently the Council could easily cover any RTB receipt loss by negotiating for 20% of future RTB receipts. Details of the above calculations is provided below:

**Table 7 – Level of Negotiated RTB Receipts Needed**

<b>Calculation Details</b>	<b>£</b>
Total RTB Receipts in the Financial Model for 30m years	117m
= Average Each Year (£117m /30)	<b>3.9m</b>
RTB receipts used for non-HRA Purposes each year	0.7m
Percentage in relation to total	<b>20%</b>

- 8.12 Of course if the Council negotiated a higher percentage, any excess would result in a higher level of RTB receipts available each year for the council to utilise as it so wishes.
- 8.13 In any transfer there would be a cost to transfer. This cost generally relates to costs such as consultants fees, legal fees, and Council resources in undertaking the transfer process, which can last over a year. These costs are made before and after the ballot. If the transfer is successful the costs are deducted from the Tenanted Market Valuation and therefore there would not be a cost to the Council. However, if the result of the ballot is a no vote (i.e. against transfer) then the transfer cannot be undertaken and any costs incurred would fall to the Council to pay from its Housing Revenue Account.

## 9. OPTION EVALUATION

- 9.01 All the options available to Fenland District Council have been considered as part of the options appraisal process. This stage of the work brings together all the information that has been considered and makes an assessment for the housing service and implications to the Council overall. It also allows us to test further the viability and best fit to finally conclude a preferred option having already provisionally identified the two most appropriate options after completing the majority of the appraisal work.
- 9.02 At the early stages of the options appraisal process a total of six workshops were undertaken with staff, members and tenant groups (two with each group) to identify the major issues, priorities and to rank in order of importance the issues for the stock. In addition a further workshop with the Fenland Strategic Partnership was undertaken during the options appraisal in the same format. Each workshop started with a blank page and once all priorities and rankings were identified the Independent tenants Advisor (ITA) compiled the results and produced the list of priorities and their ranking based from the workshop findings. The Working Group then discussed and agreed work. **Appendix D** provides the ITA's completed list of priorities and rankings. These priorities and the respective rankings have been utilised in assessing the options.
- 9.03 The priorities have been identified as:
- Housing Investment
  - Tenant Accountability and Involvement
  - Housing Performance
  - Strategic/Enabling Role
  - Financial Appraisal
  - Staff Issues
  - Impact on the Council

- 9.04 Throughout the options appraisal process each option has been initially considered in light of its viability to become a successful option for Fenland Council. During this process this primary evaluation has been undertaken and the ALMO, PFI and Mix of options have been dismissed prior to the full option evaluation stage. Please refer to chapters 5 & 7 for further details.
- 9.05 The transfer option and retention option have been identified as potential options to provide a long term viability solution for the Council and therefore have been assessed against the priorities previously established by the stakeholder groups. This assessment is a form of cost benefit assessment where each option is assessed against each priority. A score is awarded based on the level of achievement of each priority and the previously agreed weighting converts the score to a percentage.
- 9.06 The maximum total score possible for each option is 7. The highest total score dictates the best option for Fenland District Council. Each priority has a weighting so that more important priorities can provide a higher score compared to other priorities that are less important.
- 9.07 An Evaluation Key is provided below which details the possible scores available for each criteria heading.

**Table 8 - Evaluation Key**

Score	Key
1	Major Disadvantage
2	Some Disadvantage
3	Minimal Disadvantage
4	No Tangible Effect
5	Minimal Advantage
6	Some Advantage
7	Major Advantage

9.08 The Working Group then discussed the achievement of each option against each priority and provided a score between 1 and 7. The following table provides the resulting evaluation matrix produced and agreed by the Working Group.

**Table 9 – Evaluation Matrix**

Criteria Heading	Max Score	Total	Retention	Transfer
<b>Housing Investment</b>				
Meeting the Council's own standard (Fenland Standard)	23.7		2.00	7.00
<b>Weighted Score</b>	4.1		1.17	4.10
Maintain current levels of investment			3.00	7.00
<b>Weighted Score</b>	3.8		1.63	3.81
Decent Homes Standard			7.00	7.00
<b>Weighted Score</b>	0.4		0.39	0.39
Decent Neighbourhoods			2.00	2.00
<b>Weighted Score</b>	0.7		0.21	0.21
Environmental Improvements (inc. parking if appropriate)			4.00	5.00
<b>Weighted Score</b>	5.5		3.16	3.95
Lighting & Security			3.00	5.00
<b>Weighted Score</b>	7.0		2.99	4.99
Right mix of properties			4.00	4.00
<b>Weighted Score</b>	0.5		0.27	0.27
Increase sustainability			4.00	4.00
<b>Weighted Score</b>	1.7		0.95	0.95
<b>Tenant Accountability/Involvement</b>	18.0			
Increased tenant involvement			4.00	5.00
<b>Weighted Score</b>	5.2		3.00	3.75
Protection of tenant rights			4.00	3.00
<b>Weighted Score</b>	5.6		3.23	2.42
Rent reductions or guarantees			4.00	4.00
<b>Weighted Score</b>	6.0		3.41	3.41
Community accountability			4.00	3.00
<b>Weighted Score</b>	1.2		0.67	0.50
<b>Housing Performance</b>	31.2			
Maintain service standard (management)			4.00	4.00
<b>Weighted Score</b>	1.6		0.92	0.92
Enhanced housing service delivery			4.00	4.00
<b>Weighted Score</b>	2.8		1.62	1.62
Maintain current repairs standards			4.00	4.00
<b>Weighted Score</b>	0.9		0.50	0.50
Improved housing repair service/defined standard			4.00	4.00
<b>Weighted Score</b>	5.6		3.23	3.23
Better tenancy and estate/neighbourhood management			4.00	4.00
<b>Weighted Score</b>	2.6		1.46	1.46

Scheme Manager in each scheme		4.00	7.00
<b>Weighted Score</b>	<b>3.8</b>	<b>2.20</b>	<b>3.85</b>
Neighbourhood Allocations Policy		4.00	4.00
<b>Weighted Score</b>	<b>1.1</b>	<b>0.61</b>	<b>0.61</b>
Matching of people to homes & estates		4.00	4.00
<b>Weighted Score</b>	<b>3.5</b>	<b>2.01</b>	<b>2.01</b>
Enhanced Gritting, especially sheltered housing		4.00	4.00
<b>Weighted Score</b>	<b>2.2</b>	<b>1.26</b>	<b>1.26</b>
Aids & Adaptations, improved customer service & speed		4.00	4.00
<b>Weighted Score</b>	<b>1.5</b>	<b>0.86</b>	<b>0.86</b>
Better tackling of anti-social behaviour & drugs		4.00	4.00
<b>Weighted Score</b>	<b>1.4</b>	<b>0.78</b>	<b>0.78</b>
Regular inspection of homes		4.00	4.00
<b>Weighted Score</b>	<b>2.1</b>	<b>1.20</b>	<b>1.20</b>
Incentives to address under-occupation		4.00	4.00
<b>Weighted Score</b>	<b>0.9</b>	<b>0.51</b>	<b>0.51</b>
Understanding local needs and issues		4.00	4.00
<b>Weighted Score</b>	<b>0.5</b>	<b>0.27</b>	<b>0.27</b>
Neighbourhood Integration		4.00	4.00
<b>Weighted Score</b>	<b>0.7</b>	<b>0.38</b>	<b>0.38</b>
<b>Strategic/Enabling Role</b>	<b>13.3</b>		
Ability to meet needs of homeless persons		4.00	4.00
<b>Weighted Score</b>	<b>0.6</b>	<b>0.36</b>	<b>0.36</b>
Additional affordable housing		2.00	6.00
<b>Weighted Score</b>	<b>11.3</b>	<b>3.22</b>	<b>9.67</b>
Improved private/public open spaces		4.00	5.00
<b>Weighted Score</b>	<b>1.4</b>	<b>0.78</b>	<b>0.97</b>
<b>Financial Appraisal</b>	<b>1.5</b>		
Revenue sustainability		4.00	4.00
<b>Weighted Score</b>	<b>1.5</b>	<b>0.88</b>	<b>0.88</b>
<b>Staff Issues</b>	<b>7.9</b>		
Staff Protection - pay & conditions		4.00	4.00
<b>Weighted Score</b>	<b>2.2</b>	<b>1.24</b>	<b>1.24</b>
Staff Protection - remain in Fenland		4.00	3.00
<b>Weighted Score</b>	<b>1.7</b>	<b>1.00</b>	<b>0.75</b>
Staff Protection - reorganisation		3.00	5.00
<b>Weighted Score</b>	<b>0.8</b>	<b>0.34</b>	<b>0.56</b>
Job satisfaction		4.00	4.00
<b>Weighted Score</b>	<b>1.1</b>	<b>0.61</b>	<b>0.61</b>
Job security		4.00	4.00
<b>Weighted Score</b>	<b>0.9</b>	<b>0.51</b>	<b>0.51</b>
Negotiations for staff working <50% in housing		4.00	3.00
<b>Weighted Score</b>	<b>0.7</b>	<b>0.37</b>	<b>0.28</b>
Recognition of a negotiating body		4.00	4.00
<b>Weighted Score</b>	<b>0.6</b>	<b>0.32</b>	<b>0.32</b>

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<b>Impact on Council</b>	<b>4.4</b>		4.00	6.00
Corporate Implications: staff, budgets & organisation		<b>2.3</b>	<b>1.34</b>	<b>2.01</b>
<b>Weighted Score</b>			4.00	4.00
Better inter-agency working		<b>2.1</b>	<b>1.18</b>	<b>1.18</b>
<b>Weighted Score</b>				
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>51.05</b>	<b>67.56</b>

- 9.09     **The table above highlights that the stock transfer option produces a higher score than the retention option. It is now possible to conclude that overall it appears that the stock transfer option provides the best opportunity of meeting the Councils overall objectives over the medium to longer term. It is therefore recommended that the Council consider this proposal in the context of the outcome of the consultation process.**

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## 10. CONSULTATION

- 10.01 The Council along with the ITA and Communications Consultant – Daniel Harris Associates, undertook a month of consultation exercises following the evaluation of the options in May 2005 in order to provide information to tenants and to obtain a view as to the preferred option. The work undertaken included leaflets, newspaper articles, meetings, open days and organised events in all areas of Fenland's villages and towns in order to ensure that as many tenants as possible were made aware of the options to assist in an informed view. Views were obtained by means of a pool of opinion via return slip and telephone poll.
- 10.02 The detailed work undertaken and findings from the extensive consultation undertaken can be found in both the ITA report and the Communication Consultants findings, which should be read in conjunction with this report.
- 10.03 The results of the consultation pool of opinion process were collated at the beginning of June 2005. Overall, 1308 number of the tenants of Fenland Council gave their opinion on the options. This equates to 27% of tenants. The result of this exercise found that a total of 48% of the tenants that replied wanted to retain the stock and 52% of tenants that replied wanted to transfer the stock. Therefore the majority of the tenants who responded wanted to transfer the stock.
- 10.04 However due to the sophistication of the pool of opinion process analysis below this headline shows that while sheltered tenants are strongly in favour of the proposal (68%) general needs tenants were marginally against the proposal. There was a geographical division with only one area March being against the proposal. Also the survey work carried out by DHA to complement the major consultation work identified a strong correlation within general needs tenants with age. (Sheltered tenants were not surveyed due to the high response rate). It is clear that within general needs tenants younger tenants are positive towards transfer while those over 50 and particularly over 65 favour retention more strongly.

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## 11. CONCLUSIONS & RECOMMENDATIONS

11.01 The options appraisal has considered the options available to Fenland District Council. They are:

- Stock Retention
- ALMO
- Stock Transfer
- PFI & Mix of Options

### Main Conclusions

- 11.02 As part of the base case position work it was identified that if the Council undertook only work to reach and maintain the Decent Home Standard, based on the Council's current policy and resources the Housing Revenue Account (HRA) would go into deficit from 2010/11 and by 2033 the total deficit would be £23.8m. If the Council decided to undertake all improvements as identified by Rands Associates the HRA would go into deficit almost immediately as capital expenditure exceeds resources and by 2033 the total deficit would be £52.9m. Of course this is based on current policy and current resources, which was considered as part of the retention option.
- 11.03 During the options appraisal process it was identified that the ALMO, PFI and Mix of options would not provide a viable solution for the Council. Consequently these options were not considered further.
- 11.04 Under the stock retention option consideration was given to methods of closing the gap to enable a balanced HRA for the 30-year projections. The retention strategy chosen and agreed by the Working Group and Executive Steering Group required the following changes to be made:
- Achievement of the Decent Homes Standard for the next 30 years plus approximately £3m to £4m available for works beyond the Decent Homes

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Standard. This is a lower standard of repair and improvement compared to the Council's current policy.

- Utilise an extra £160,000 per annum of supported borrowing for the HRA between years 2005/06 to 2010/11 (total of £960,000 over the next 6 years)
- Utilise an extra 20% of the usable RTB receipts from 2011/12 onwards
- Include efficiencies anticipated in the level of voids from current 2% voids to 1.5% voids per annum.
- Include an anticipated reduction in bad debts by £20,000 per annum
- Include service provision cost savings by means of efficiencies of £30,000 in 2006/07, with a further saving of approximately £100,000 in both 2009/10 and 2012/13
- Include 0.5% efficiency savings in all revenue and capital works costs

11.05 It must be stressed that although the retention options is considered achievable and deliverable, it will not provide the level of improvement and repairs that tenants currently receive and will not provide the Fenland Standard works. In addition funds that are currently utilised on non-HRA issues would be diverted to help ensure that the HRA remains in balance for the full 30-year projections. This would inevitably result in some reduction in affordable housing expenditure. The Council has estimated that this equates to approximately 6 properties per annum, although this does not account for any efficiencies that the Council may be able to achieve.

11.06 Under the transfer option The Council are in a position to transfer all the stock to an existing or new Housing Association and ensure the following:

- All homes would be repaired and improved to the Fenland Standard for the next 30 years
- A net capital receipt of approximately £9.5m could be achieved for the Council to utilise as it wishes

- Any adverse financial consequences of the transfer (e.g. loss of RTB receipts, Cost to the General Fund etc.) could be easily addressed if the Council negotiated a proportion of the future RTB receipts. It has been calculated that the Council would need only 20% of the future RTB receipts to ensure this. Any receipts over this amount would enable the Council to receive receipts above its current levels.
- 11.07 An evaluation matrix (see chapter 9) has been produced which provides a structured methodology for the assessment between the retention and transfer options. The result of the completed matrix highlights that the transfer option produces the highest score and is therefore identified as providing the best opportunity to meet the Council's overall objectives over the medium to longer term.
- 11.08 An extensive consultation exercise followed throughout May 2005 to provide information to tenants as to all the options and to gauge tenant's opinions regarding the transfer and retention options. The results of this process has identified that the majority of tenants responding wish to transfer the stock.
- 11.09 The main conclusion is that the transfer option appears to provide the best opportunity to meet the Council's and tenants overall objectives over the medium to longer term. In addition, the majority of tenants appear to agree with this view. However as a significant element of general needs tenants are not yet fully convinced of the merits of the transfer option the Council will need to explore their aspirations and undertake further consultation or/and market research before proceeding to ballot. The transfer option is therefore subject to further enhancement of the offer and the Council will need to be convinced that the final offer addresses the needs and aspirations of all elements for its tenants.
- 11.10 **It is concluded that overall it appears that the stock transfer option provides the best opportunity of meeting the Council's overall objectives over the medium to longer term. We therefore recommend that the Council consider this proposal and subsequently engage with tenants and leaseholders regarding the detailed offer associated with transfer of the Council's existing stock.**

## 12. NEXT STEPS

- 12.01 The Council needs to consider this Options Appraisal report and the resulting recommendation that the stock transfer option provides the best opportunity of meeting the Councils and tenants overall objectives over the medium to longer term. In order for the Options Appraisal to be "signed off" by the Government Office the Council Members need to make a decision on the future of the Housing Stock. Fenland District Council has made plans for all members to consider and make a decision on the 21<sup>st</sup> July 2005.
- 12.02 Once a decision has been made the Options Appraisal can be submitted to the Government Office. Throughout the process the Government Office and Community Housing Task Force have been involved and provided information to assist and ensure all criteria is met for "sign off".
- 12.03 If the Council decides to transfer the housing stock the Council will need to submit an expression of interest to the ODPM. The following table provides a summary of the sequence of the main steps that the Council will need to undertake if it decides to transfer the stock.

**Table 10 – Main Steps of the Transfer Process**

Step Number	Actions Required
1	Continued contact with the CHTF & Government Office
2	Appoint Lead Consultant, Communication Consultant, Legal Advisor and ITA
3	Develop Expression of Interest and submit the ODPM
4	ODPM makes informal assessment and may discuss with the Council
5	If ODPM has agreed for the Council to develop transfer proposal then the Council needs to decide whether to make a formal application

6	If the Council wish to make a formal application the Council and its tenants develop the proposal
7	Council makes formal application
8	ODPM makes the formal assessment and decision to place on the transfer programme
9	Council undertakes further work in establishing new Housing Association with potential group structure or agreeing terms of reference with an existing Housing Association and finalising the transfer agreement
10	<b>Tenants decide through a formal ballot</b>
11	Council and RSL undertake work to meet Housing Corporation requirements as part of a group structure
12	Council prepares to transfer the stock
13	Secretary of State consent for the transfer
14	Transfer undertaken

12.04 With regard to step 7 the following additional stages are undertaken as part of the formal application:

- Case for transfer
- Choosing prospective new landlord
- Tenant involvement
- Repair and improvement programme
- Service delivery programme
- Terms of transfer (includes Single Transfer Model, fundability, post transfer functions)

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- Use of transfer receipt or overhanging debt instructions
  - Project management
  - Change management plan
- 12.05 Throughout the transfer process the Council will need to continue its intensive consultation process with its tenants. In particular with regard to steps 1 to 9 the Council will need to develop with tenants the transfer offer and ensure that the offer can meet the needs and aspirations of all tenants in all age groups and areas throughout Fenland.
- 12.06 The ODPM have provided guidance on the transfer process and recommends that the process takes no longer than two years. However many transfers have been undertaken between six months to a year. Due to the results of the pool of opinion between transfer and retention the Working Group has recommended that the Council develop the transfer proposal and closely review tenants opinions during stages prior to the tenants ballot. This will enable the transfer proposal to be developed and enable the Council to pull out of the transfer if tenants opinions reveal that the majority do not support transfer before a formal ballot is undertaken. This may lengthen the transfer process, however it is considered that the Council will have adequate time to undertake the transfer. The Council will need to decide and set the length of the transfer process at an early stage.
- 12.07 Development of the transfer proposal includes a number of key stages and the ODPM will provide details as to the timing of submissions of the expression of interest and full proposal.