

## Briefing Paper 1

### Stock Options Review and Retention

#### Why is Fenland Council doing a stock options review?

The government expects all local councils to carry out a review of strategic stock options. The key issue to consider is which housing stock option offers the greatest potential to address any backlog of housing repairs and modernisations and to achieve the 'decent homes standard'.

The options that are available to local councils are:

- Retention of a traditional council housing service.
- Large Scale Voluntary Transfer
- Arms Length Companies
- Private Finance Initiative

On 5<sup>th</sup> February 2003 the Office of the Deputy Prime Minister issued the 'Communities Plan'. With regard to stock options, it stated that:

*"Local councils will be able to choose the right approach for additional investment in housing stock which they own from the three existing options: stock transfer; the private finance initiative (pfi); and, for high performing councils, Arms Length Management Organisations (Arms Length Management Organisations). Authorities that do not use these options cannot expect increased investment in their stock above that from the Housing Investment Programme. Authorities can use different options from this list for different parts of their stock..."*

*"We expect every council with stock to produce an objective and rigorous appraisal of investment options for government sign-off by July 2005."*

As a result all local councils, that have not already done so, are either in the process of looking at housing stock options or will do so soon.

#### How is council housing funded?

The government has not ruled out the option of continuing with a council housing service in the same way as at present. This would mean that existing policies and budgets regarding council housing would continue to apply. At present council housing is funded mainly through rents and housing subsidy that is paid to councils by the government.

The government is restructuring council housing rents to achieve convergence between council and registered social landlords' rents. This means that rents in local councils and housing associations will become similar.

The Housing Subsidy system enables the government to exercise considerable control over council housing finance. This degree of control will increase as the changes to the system that are associated with rent restructuring are implemented.

The government is moving to a situation where all rents will effectively be determined at national level through the rent restructuring formulae. Furthermore, as formula rents will be used to calculate both actual rents and housing subsidy, the government will effectively take all the rent income away from local councils. They will then be given back what the government considers that they should spend. As a result, government will determine Housing Revenue Account budgets at local level. The ability that councils currently have to set rents above the government's guideline and to keep the proceeds to spend locally on management or maintenance will be gradually eroded during the period of rent restructuring.

**The government also controls the funding of capital investment in council housing. While it does not provide all the capital resources that are available to local councils, it does provide grants and a major repairs allowance and (despite the new 'prudential' borrowing system) limits the amount of borrowing. The ability to fund capital investment from the rents is also being reduced.**

#### **What is the Decent Homes Standard?**

The Decent Homes Standard is seen by many as the cornerstone of the government's policy on social housing. However, the level of capital resources that is available to local councils is not sufficient to meet the cost of the decent homes standard that is estimated at £19billion at a national level. Fenland, however, is one of a few local councils that do have sufficient resources to meet the decent homes standard. This means that a real choice is likely to emerge for tenants in Fenland.

Authorities that wish to retain a traditional council housing service will have to demonstrate that they have sufficient resources to bring their stock to a decent standard by 2010. In the case of many councils this will be difficult to achieve as the resources that the government is making available to councils through the Housing Investment Programme process is significantly less than the estimated cost of addressing the backlog of council housing repairs and improvements. This is not believed to be the case at Fenland.

The Head of the Housing Directorate at the Office of the Deputy Prime Minister, is reported to have said that there will be no extra money for councils unless they opted for a stock transfer, arms length management organisation or a scheme under the private finance initiative. He is quoted as saying that:

*"Stock transfer will continue to bring in more money than other options. Now it is easier for councils not to have to go down the whole stock route."*

#### **Are there any alternatives?**

Some councils are looking at alternatives to the government's options.

A Community Gateway Association is a new model for communities interested in the principle of stock transfer, but unsure of which of the existing options is best. It is a tenant-owned not-for-profit organisation. A Community Gateway Association would take its own decision regarding whether to become an Arms Length Management Organisation or a Registered Social Landlord. However, a Community Gateway Association could not avoid this decision.

Community Based Housing Organisations would be responsible for 2,000 to 3,000 dwellings and would be run by a board comprising six local people, not necessarily tenants, three council nominees and three independent experts. They would control the entire repairs budget and 80% of the management budget. They would decide their own future, whether as arms-length management organisations or fully independent housing associations.

Few councils have developed these ideas in practice.

#### **Conclusions**

Unlike many councils, Fenland District Council does have sufficient resources to carry out repairs and modernisations to achieve the decent homes standard. However, it is likely that tenants will wish to see the Council achieving a higher standard of housing than the national 'decent homes standard' and it may prove to be difficult to fund this standard with the existing level of resources.

The purpose of the stock options review is to consider all these implications before taking a decision.

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July 2004