

Leicester
City Council

WARDS AFFECTED
All Wards

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Housing Management Board	13 th January 2005
Housing Scrutiny Committee	20 th January 2005
Cabinet	24 th January 2005
Council	27 th January 2005

**REPORT ON THE OUTCOME OF LEICESTER'S HOUSING STOCK OPTIONS
APPRAISAL**

Report of the Corporate Director of Housing

1. Purpose of Report

1.1 To report on the outcome of the Housing Stock Options Appraisal.

2. Summary

2.1 The Government has set a target for all council housing to be brought up to a defined decency standard by 2010. As part of this process the Government requires all Local Authorities to do an Options Appraisal by July 2005. It is a requirement that this be signed off by the Government Office for the East Midlands as fit for purpose.

2.2 For all Local Authorities this means consideration of alternative management arrangements. These are:

Stay with the existing arrangements
Arms Length Management Organisation (ALMO),
Private Finance Initiative (PFI)
Transfer of ownership and management to a housing association (LSVT).

2.3 The advantages and disadvantages of all the options are described in the attached report by Chapman Hendy (the council's consultant) at Appendix A. The results of the consultations with tenants are described in the attached report by PEP (the Independent Tenant Advisor) at Appendix B. The full version of each report is available in the Members' Area.

2.4 It is clear that the option for the Council to continue to own and directly manage its stock is a viable option, preferred by tenants. The viability of this option is based on the current level of resources being monitored. Mostly those resources are made available by government and clearly any significant reduction in those resources or change to government policy would require a further review of the situation at that time.

3. Recommendations

It is recommended that Leicester City Council should continue to own and directly manage its stock.

Housing Scrutiny Committee is recommended to consider the issues raised in this report and the views of the Housing Management Board and pass any comments on to the meeting of the Cabinet.

The Cabinet is asked to consider the report and any comments from the Housing Scrutiny Committee and make recommendations to Council.

4. Headline Financial and legal Implications

4.1 There are significant financial and legal implications depending on the chosen option.

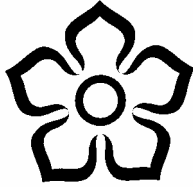
4.2 The cost of carrying out the Options Appraisal has been met from existing resources.

5. Report Author/Officer to contact:

5.1 Mike Forrester
Corporate Director of Housing (Ext 6800)

DECISION STATUS

Key Decision	Yes
Reason	Significant in terms of its Effect on communities Living or working in any One ward of the city
Appeared in Forward Plan	Yes
Executive or Council Decision	Council



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SUPPORTING INFORMATION

1. Background

- 1.1 The government requires council houses to be in a decent state of repair and to have reasonably modern facilities by 2010. This is known as the Decent Homes Standard. This work is to be combined with improvements to services and the local environment. Local authorities are also required to consider alternative management arrangements which could bring additional funding. The government has stated that authorities opting for stock retention cannot expect to receive additional funding beyond that available from the Housing Investment Programme. The overall process is known as Stock Options Appraisal. The process is closely scrutinized by GOEM and needs to be signed off by them as fit for purpose by July 2005.
- 1.2 There are four main options. These are:
- 1.2.1 The council continuing to own and directly manage the stock.
 - 1.2.2 Setting up an Arms Length Management Organisation (ALMO) where the council continues to be the landlord but a new company is set up to manage the stock and probably handle repairs as well.
 - 1.2.3 Private Finance Initiative (PFI). The Council remains the landlord but there is a long term contract with an external organization to improve and maintain properties. This is usually only practical for small numbers (usually 1,000 to 3,000) of properties with high improvement costs.
 - 1.2.4 Large Scale Voluntary Transfer (LSVT) which would mean that the Council's housing stock would be sold to a new company, or to an existing Registered Social Landlord, who would become the landlord instead of the Council.

It is also possible to have a combination of the above options to allow for differences that may exist within the stock.

2. Work carried out for the Options Appraisal

2.1 The Options Appraisal was directed by a Steering Group set up for the purpose. It comprised tenants representatives, trade union representatives and councillors. It was also guided by the Council's Consultant and the Independent Tenant Advisor. Every effort has been made to ensure that the process has been carried out in accordance with the requirements of the Community Housing Task Force (a government body set up to advise local authorities) and the Government Office of the East Midlands (who are responsible for determining whether the appraisal has been done properly).

2.2 A full and detailed analysis has been carried out to establish Leicester's position at area level (based around the council's 6 main estates) as well as at whole stock level. Consideration was also given to the Council's Sheltered Accommodation. Work has included:

2.2.1 Producing Criteria to help determine the outcome of the Options Appraisal. The criteria reflect Leicester's housing objectives and have been developed to assist councillors in reaching a conclusion. The consultant's report describes the criteria and analyses the impact of each option on them.

2.2.2 Establishing the demand for Leicester's housing. Chapman Hendy verified the results of the council's housing needs survey and other data sources and established that there was a strong demand for council housing.

2.2.3 Establishing the condition of Leicester's stock. An external consultant was used to verify the accuracy of Leicester's stock condition information.

2.2.4 Establishing the cost of bringing all homes up to the Government's Decent Homes Standard. The cost of reaching the Decent Homes Standard by 2010/11 and maintaining it over a 30 year period was calculated using unit costs and life cycles.

2.2.5 An independent survey was carried out to discover what tenants consider important with regard to their homes, estates and services. This was used to help set a 'Leicester Standard' for council housing which is above the Government's Decent Homes Standard.

2.2.6 Establishing the cost of reaching the Leicester Standard. The cost of reaching the Leicester Standard by 2010/11 and maintaining it over a 30 year period was calculated using unit costs and life cycles.

2.2.7 Leicester's financial position as a landlord was calculated. This took into account likely future capital and revenue resources.

2.2.8 Carrying out a tenants' 'Test of Opinion'. All tenants were sent an information leaflet and questionnaire asking them to say which option they favoured.

3. Conclusion

The advantages and disadvantages of each option are included in the consultant's attached report. The main conclusions are that

- The council has sufficient resources to reach the Government's Decent Homes Standard by 2010/11 and maintain it over a 30 year period. It also has sufficient resources to reach the higher Leicester Standard by 2010/11 and, with a small redirection of resources, over 30 years.
- Because of Leicester's circumstances, ALMO and PFI are not of great interest.
- There is little reason for going for a mix of options as Leicester has few properties in poor condition. This is partly because of its policy of dealing with its worst properties first and partly because it does not hold onto properties which are in such poor condition that it cannot afford to improve them.
- LSVT would bring some additional resources.

On the basis of all the work carried out during the Options Appraisal I would recommend that the council should retain the stock. This is mainly because:

- Leicester has sufficient resources to meet not only the Decent Homes Standard but also the Leicester Standard.
- The independent survey of tenants showed high levels of satisfaction with current housing services which have also been rated as high performing by the housing inspectorate.
- The test of opinion for the Steering Group showed 100% to be in favour of staying with the Council.
- Finally, and probably most importantly, the tenants want to stay with the council. Almost 5,000 households (around 20%) returned questionnaires and of these 92% said they favoured staying with the council.

Because of the above it would be most unlikely that the stock could be transferred; even if it was the wish of members. LSVT can only go ahead if the majority of tenants are in favour. A failed bid would cost the council about £500,000.

Members should be aware that the council's financial position could change in the future. Almost all housing finance is tightly controlled by the government. If there was a significant reduction in resources for council housing then the position would need to be reviewed.

FINANCIAL, LEGAL AND OTHER IMPLICATIONS

4 Financial Implications

- 4.1 There are significant financial implications which are described in the Consultant's report
- 4.2 The cost of carrying out the Options Appraisal will be met from existing resources.

5. Legal Implications

- 5.1 There are significant legal implications depending on the chosen option.

6. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph Within Supporting information	References
Equal Opportunities	No		
Policy	Yes	Whole Paper	
Sustainable and Environmental	No		
Crime and Disorder	No		
Human Rights Act	No		
Elderly/People on Low Income	Yes	Many of Leicester's tenants are either elderly and/or on low income.	

7. Background Papers – Local Government Act 1972

Delivering Decent Homes – Options Appraisal ODPM 2003

Progress Report on Housing Stock Options Appraisal – Housing Management Board 7th October 2004, Housing Scrutiny 14th October 2004.

Stock Options Appraisal – Progress Report – Housing Management Board 10th June 2004, Housing Scrutiny 24th June 2004.

HACAS Chapman Hendy Demand Report – May 2004

Stock Options Appraisal Progress Report to Scrutiny – 15th January 2004

Stock Options Appraisal Report to Cabinet – 22nd September 2003

8. Consultations

There has been significant consultation throughout the process with the many stakeholders affected and particularly tenants. Consultation results are summarised at Appendix C.

9. Aims and Objectives

9.1 A decent home for everyone.

10. Report Author

Mike Forrester
Corporate Director of Housing (Ext 6800)

**LEICESTER CITY COUNCIL
HOUSING OPTIONS APPRAISAL
DRAFT EXECUTIVE SUMMARY
DECEMBER 2004**

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APPENDICES

- I: Options Appraisal Assessment Criteria
- II: Assessment of options against key objectives

1. INTRODUCTION

- 1.1 HACAS Chapman Hendy were appointed by Leicester City Council in November 2003 to undertake an appraisal of options available to the Council to secure sufficient investment in its Council Housing to meet the ODPM decent homes standard and beyond that to meet the aspirations of its tenants. This study has also been commissioned to meet the Government requirement for every Local Authority to undertake an appraisal for “sign off” by their Government Regional Office by July 2005.
- 1.2 The review examines the resources available to meet these demands and in particular gives detailed consideration to the following options:
- stock retention by the Council under the current management arrangements (based on assumptions about future costs, and resources);
 - the potential for an Arms Length Management Organisations in the City and the possible impact on resources;
 - the Private Finance Initiative (PFI);
 - stock transfer to a Registered Social Landlord.
- 1.3 In order to prepare this report, it was necessary to obtain a large amount of information from Council officers. HACAS Chapman Hendy acknowledges with thanks the assistance of those officers who provided information and time.

2. CURRENT GOVERNMENT HOUSING POLICIES

- 2.1 The main analysis in the report has been undertaken against the background of current Government thinking on housing policy. This includes the Government’s Communities Plan, published on 5 February 2003, and its Public Service Agreement Plus review of policies contributing to the Decent Homes Standard, published on 3 March 2003. The PSA review contributed to, and is reflected in, the Communities Plan. The content and structure of the report also reflects the Government’s ‘Delivering Decent Homes – Option Appraisal Guidance for Local Authorities’ of June 2003.
- 2.2 In summary, the Communities Plan, insofar as it is directly relevant to this report;
- states “By 2010, all social housing will have been made decent”;
 - reaffirms the Government’s commitment to the options of Arms Length Management Organisations (ALMO), Private Finance Initiative (PFI) and Large Scale Voluntary Transfer (LSVT) as the only alternatives to stock retention;
 - provides details of the allocation of funds to those alternatives for the period of the current Comprehensive Spending Review (2003/4 – 2005/6);

- states that all Local Authorities with their own housing stock will be required to produce a robust Option Appraisal for Government sign off by July 2005;
- states that authorities opting for stock retention cannot expect to receive additional funding, beyond that available from the Housing Investment programme (HIP).

3. ASSESSMENT CRITERIA

3.1 The ODPM guidance requires the Council to establish assessment criteria to objectively compare the different investment options. The guidance states that “a key part of the option appraisal is to establish the broad objectives for the service, in terms of improvement to the stock and action to improve the quality of services provided to tenants. These objectives need to reflect:

- delivery of the decent homes target and other national/regional priorities;
- tenants and leaseholders aspirations and priorities;
- the authority’s statutory housing duties;
- wider housing market and supply and demand issues; and Neighbourhood renewal/regeneration strategies.

3.3 The Council’s key objectives have then been used to develop the assessment criteria which are summarised below:

- ability of the options to meet the decent homes standard by 2010 and beyond that the Leicester investment standard;
- potential to develop community capacity and tenant participation across the City;
- extent to which the options protect tenants’ rights;
- scope for meeting housing need and improving choice;
- ability to deliver high quality services; and
- the extent to which the options can help to deliver the Council’s regeneration agenda.

3.4 These criteria are outlined in more detail in Appendix I.

4. KEY DATA AND TENANT ASPIRATIONS

4.1 Housing Need and Demand

4.1.1 As part of the options appraisal process we analysed the available secondary data relating to housing demand in Leicester. This analysis included a review of management data collected by the Council, a review of the Business Plan and other local reports commenting on housing demand, and a review of the 2002 general Housing Needs Survey.

4.1.2 A separate report covering the this analysis was provided to the Council and the fey findings were that demand for social housing in Leicester remains

strong although there is evidence of a mismatch between the supply of property and demand in particular areas and for particular property types.

4.2 Stock Condition Information

4.2.1 The Leicester City Council stock condition survey was completed in 2002. The survey was a 100% survey, including the Council's entire housing stock. The survey was undertaken using the Council's own in-house staff, with a Council surveyor overseeing the operation.

4.2.2 The ODPM option appraisal guidance requires Councils to ensure that options appraisals are based upon robust stock condition information that should be externally validated. To meet this requirement the Council commissioned FPD Savills, on the advice of HACAS Chapman Hendy, to carry out a review its stock condition data. The Savills report concludes that the Councils overall costs over a 30-year period are robust and are within their expected benchmark range.

4.3 Decent Homes Standard

4.4.1 The government has set a target for all local authorities to meet the decent homes standard by 2010 and to consider the options available to achieve this objective.

4.3.2 There is a clear distinction between the decent homes standard, which the Council must achieve, and the investment needed to meet the Council's full requirements, which includes expenditure to address the long-term sustainability of the housing stock. This type of expenditure is not included in the Decent Homes Standard.

4.4.3 The decent homes standard is strongly focused on building components and does not take account of expenditure like environmental works that may be needed to ensure that communities are sustainable in the long term. A property will fail the decent homes standard if it:

- is unfit as defined by s604 of the Housing Act 1985, as amended by the 1989 Local Government and Housing Act; or
- is not in a reasonable state of repair; or
- does not have reasonably modern facilities and services; or
- does not provide a reasonable degree of thermal comfort.

4.4.4 In the Leicester context, simply meeting the decent homes standard will not include many priorities and initiatives that the Council wish to undertake. Examples of these include:

- environmental improvements including fencing and boundary walls;
- external security lighting;
- communal lighting and door entry systems;
- conversion of bedsits to flats;
- provision of parking facilities;
- provision of disabled persons' adaptations.

4.4 Customer Survey

- 4.4.1 In order to gauge the opinion of tenants on the housing service and to identify priorities for investment the Council commissioned a specialist market research organisation MRUK to carry out statistically robust customer surveys based upon stratified samples. The samples were stratified to ensure that the results reflected a broad cross section of tenant opinion down the to level of the Council's 6 housing management areas.

Key Findings – Overall Priorities for General Needs Tenants

Tenants gave the highest priority to improving the inside of their homes (67% saw this as the main priority), while 52% wanted improvements to community safety. The next priorities were for improvements to the area immediately outside of the home (43%), to improving options for housing and care provision after retirement (43%) and to increasing the supply of affordable housing (41%).

Key Findings – Overall Priorities for Sheltered Tenants

Tenants gave the highest priority to improving the inside of their homes (24% saw this as the main priority), to the social activities within schemes (20% saw this as a priority) and to safety in the scheme (22% saw this as a priority). Including medium term priorities, the top priority for improvement work overall is to the outside of the home, including gardens, fencing and security lighting (62% stated this).

5. STOCK RETENTION

- 5.1.1 Stock retention assumes that the current management arrangements for the housing stock continue with the Council as landlord providing housing services to its tenants and leaseholders. Our analysis examines the current and future position on the Housing Revenue Account and the Housing Capital Programme in the light of the investment requirements for the stock based on the Council's stock condition information.
- 5.1.2 For comparative purposes we have considered 2 different levels of capital investment:
- ***Decent Homes Standard. This requires £99.3m by 2010/11 and £581.9m over 30 years; and***
 - ***Leicester Standard. This requires £154.1m by 2010/11 and £639.7m over 30 years.***
- 5.1.3 The Council's current standards for modernisation and improvements go beyond the basic decent homes requirements and so we have modelled the

impact of spending at the levels consistent with the Council’s current policies and practices.

5.2 Capital Funding

5.2.1 HRA capital expenditure can be funded from the usable proportion of RTB receipts, borrowing, the Major Repairs Allowance, and, direct revenue funding. ***The financial modelling indicates that the maximum resources available will be around £158.2m up to 2010/11 and £622.5m over 30 years***, assuming that the Council retains minimum working balances of £1.5m at current prices. This is illustrated below.

Capital Resource Projections		
Source of Finance	Resources To 2010/11 £m	Resources Over 30 Years £m
Supported HRA Borrowing	38.8	165.2
Additional Prudential Borrowing	18.0	18.0
Major Repairs Allowance	87.2	394.0
Useable Capital receipts	3.5	21.7
Direct Revenue Financing	10.7	23.6
Total	158.2	622.5

5.3 Area Based Analysis

5.8.1 The housing stock across the City is fairly homogenous and no specific area has extraordinary investment needs. The investment costs needed to achieve the Leicester standard are fairly similar with only 12% separating the most expensive area from that with the lowest cost.

5.4 Key Findings and Risks of the Stock Retention Option

5.4.1 ***The decent homes standard can be achieved by 2010/11 and maintained over the full 30 years.***

5.4.2 The Council can also deliver the Leicester standard to 2010/11 but not over all 30 years, which may impact upon the long term sustainability of the housing stock. The shortfall in resources is expected to be £17.2m over 30 years. However, the Council could deliver the full Leicester standard over 30 years if it was able to utilise around one third of the useable resources generated from right to buy sales on the HRA capital programme.

5.4.3 Key risks of a stock retention strategy revolve around the long-term viability of the HRA operating account. This will dependent upon future allocations through the housing subsidy system and the Council’s ability to deliver revenue savings on the repairs and maintenance costs built into the business plan.

- 5.4.4 The condition of the housing stock is fairly consistent across the 6 management areas and therefore there are no obvious contenders for separate treatment.
- 5.4.5 Based upon the foregoing analysis, ***a stock retention strategy presents a realistic option for the Council provided the current Leicester standard is sufficient to ensure there is long term demand for the housing stock and that modernisation and improvement works meet the aspirations of current and future tenants.***

6. STOCK RETENTION – ARMS LENGTH MANAGEMENT

- 6.1 The analysis evaluates the option of the Council's retaining its housing stock, but putting Arms Length Management arrangements in place, with a view to attracting additional investment to assist it in meeting the decent homes standard. Key elements of the statutory framework for this include:
- the authority's tenants remain the secure tenants of the authority, and all the existing legislation and regulations governing their rights and the landlord's obligations remain applicable, including provisions for Tenant Participation Compact(s) between the landlord authority and recognised representative tenant groups, the Right to Manage and the Right to Buy;
 - the legislation and regulations concerning local authority housing finance continue to apply to the housing stock managed at arms length;
 - the provisions of Best Value, powers of the Audit Commission and requirements to achieve public sector efficiencies continue to operate; to obtain additional funding, the ALMO must maintain at least a "2-star" service, and continue to improve service quality and efficiency with a view to achieving a "3-star" rating in due course;
 - the management agreement which defines the relationship between the authority and the ALMO above would normally be subject to the EC procurement rules applicable to local authorities; however, ODPM guidance offers the view, based on case law, that the regulations do not apply where the authority exercises a control over the ALMO which is similar to that which it exercises over its own departments, and the ALMO carries out the essential part of its activities with the controlling local authority. Care may need to be taken, however, in designing an ALMO that is significantly different from the "template" model, or in delegating other activities in addition to housing management;
 - entry into such a management agreement is a matter of housing management as defined in Section 105 of the Housing Act 1985, and therefore is a matter on which all secure tenants affected by it must, in any case, be informed and consulted in advance. Unlike a stock transfer, however, a ballot of all tenants is not compulsory.

6.2 Tangible benefits

The primary tangible benefit would be additional financial support in meeting the Decent Homes Standard, provided the ODPM's criteria, discussed below in the context of "Risks", could be met. The costs of setting up an ALMO, and of it being run as a separate organisation, would produce an additional cost to the HRA, for which no additional funding would be available. However, any bid could take account of the loss of funds available for revenue financing of capital that would result. The Council would need to incur debt to make use of the Arms Length Allowance.

6.3 Intangible benefits

Establishment of an ALMO could give rise to intangible benefits, including:

- addressing the underlying Government policy of a separate focus between Housing strategy and management;
- additional scope for the benefits of operating economies in service management to be ploughed back into landlord services;
- additional scope for spending and investment priorities to be more influenced by tenants' and leaseholders' views, addressing any objective for review of priorities;
- additional scope for tenants' and leaseholders' representatives to take a part in managing the service, meeting the Council objective of continuing to involve and empower users in the planning, provision and monitoring of services.

6.4 Longer-term benefits

The Government's interest in rewarding authorities and ALMO's who achieve excellent ("3*") ratings in Inspection of Housing services has gained momentum now that the first round of ALMO's are nearing completion of their investment programmes and some have achieved such a rating. The ODPM Review Group referred to earlier is considering, in the context of financial freedoms, the constitutional and other changes that might be necessary to enable ALMO's in the longer term to contribute funds and services to supporting sustainable communities in partnership with tenants and other bodies. The Review Group's findings may reveal potential for ALMO's to transform themselves into bodies offering wider benefits, once the Decent Homes objective has been achieved.

6.5 Critical risks

The key risks of the strategy are all implicit in the ODPM's bid criteria:

- attracting an allocation of additional funds is dependent upon:
 - a robust analysis of stock condition and benefits of additional resources in meeting the Decent Homes standard;

- a clear, and sustainable, vision of the ALMO structure and relationship with the authority, which complies with ODPM core principles;
- in-principle support from tenants and staff.

- obtaining ODPM consent is dependent upon:
 - demonstrable support of the majority of tenants;
 - a fully developed ALMO structure and mechanisms for its relationship with the authority that comply with ODPM criteria;

- “going live” in time to meet the deadline for Inspection (6 months after “go-live”) and release of additional funding in time to enable their full take-up within the ODPM’s planning period, is dependent upon support from dedicated resources and corporate and political stakeholders;

- achieving the necessary Inspection rating is dependent upon:
 - achieving service improvements and widespread tenant awareness and appreciation of these;
 - establishing an effective ALMO Board and practicable working partnership between the Council and the ALMO;

- delivering enhanced programmes of investment within a defined time period is dependent upon:
 - the property professional skills and resources at the ALMO’s disposal;
 - the local building contracting market.

Management of these risks is fundamental to the process of successfully implementing ALMO management.

6.6 Summary of the ALMO Option

Government funding for ALMOs is only available to assist local housing authorities to meet the decent homes standard by 2010.

Leicester’s good best value inspection record would suggest that ALMO funding could be obtained. However, as our modelling suggests that the Council’s HRA is able to meet the decent homes standard without this additional funding, it will have a relatively weak bidding position compared to some Council’s that need extra resources simply to achieve decent homes.

The ODPM guidance indicates that bids can be constructed to deliver decent homes earlier than would normally be the case and so the Council could potentially bid for resources to achieve this end. Any such bid could also include an additional 5% to address issues outside the scope of the decent

homes standard such as environmental improvements. Attracting a worthwhile level of additional resources will be the key risk for the Council.

7. PRIVATE FINANCE INITIATIVE

7.1 The Application of the PFI to HRA Housing

The Housing Revenue Private Finance Initiative (HRA-PFI) is a method whereby private sector finance can be brought in to renovate public sector housing stock while the properties remain in public ownership.

The HRA-PFI process would involve entering into a long-term contract for up to 30 years with a private sector service provider to renovate and manage part of the stock in return for a management fee for the contract period. At the end of the contract period the stock would revert to management by the Council. (In all the schemes approved to date, management of the housing stock is to be undertaken by the private sector provider, except for Camden, a high performing authority, where provision of management services has been retained by the Council.)

The types of private sector bidders for these contracts have in practice been consortia consisting of major construction companies, banks and housing associations.

For a scheme to pass the rigorous tests set by the ODPM and the Treasury, the Council would have to illustrate that the proposed scheme provided better value for money than retention and reinvestment by Council management with conventional public subsidy or transfer to a Registered Social Landlord.

7.2 PFI in Leicester

There are some concerns arising from experience to date about the practicability of the model's wider application, the value for money it represents, and its capacity to comply with PFI risk transfer principles.

Based on current Housing PFI models the scheme is unlikely to provide Leicester with a viable whole stock solution. The ODPM's June 2003 Option Appraisal Guidance for Local Authorities emphasises that, as with the arms length management initiative, extra funding will only be available to bridge the investment gap to achieve the decent homes standard (with some additional funds to address wider area improvement work). The ability of the Council to address the decent homes target without extra funding therefore makes it an unlikely beneficiary of this scheme.

PFI is most appropriate as a solution for an identified group of dwellings. Leicester's management areas are probably too large to be considered as individual PFI projects based on the experience of schemes to date and therefore more analysis below the area level would be needed to identify potential schemes within the City. An alternative would be to consider the

Council's sheltered housing stock, which could be packaged as a single PFI contract and is in keeping with the scale of HRA projects that have been developed so far. It should be borne in mind that the removal of a portion of the stock to pursue such a scheme could have economies of scale implications for the remaining HRA.

An alternative approach could be to develop a General Fund scheme to secure new affordable housing in the City to complement a strategy for delivering investment in the Council's own housing stock.

8. STOCK TRANSFER – FINANCIAL ANALYSIS

8.1 Partial or Full Stock Transfer

The Council could choose (with the support of tenants, and the formal approval of the Secretary of State) to transfer all of its dwellings (Full transfer) or only some (partial transfer).

Partial transfer has tended to be pursued by larger, metropolitan authorities, as a means of dealing with stock with very high investment needs. In some cases, the transfer has been the means to achieve the demolition and rebuilding of poor condition stock. These transfers are often at nil value, or are even accompanied by a "dowry", paid by the transferring Council to the new landlord, in recognition of the responsibility being accepted.

Leicester does not have any clearly definable stock, which may warrant such an approach. However, to meet the ODPM requirement for the Council to consider partial solutions, we have carried out separate valuations for each of the 6 management areas and the sheltered housing units.

8.2 ODPM Rules

Stock transfers are subject to ODPM consent and their regulations and guidelines, which are issued periodically. If the Council wished to proceed with full-scale transfer it would need to apply for a place in the annual disposals programme.

The Council at 1 April 2004 has 23,858 units, which is greater than the maximum (12,000) that the ODPM will permit to be transferred to a single landlord and so the Council has the following options:

- It could request a dispensation from the ODPM; the proposed transfer of c34,000 dwellings in Wakefield will be to a single landlord;
- It could transfer to two or more "Registered Social Landlords" (RSLs) in a "Group Structure"
- It could transfer to two or more independent RSLs, although this would necessitate separate ballots, with the possibility of different results.

The new landlord would have to be a RSL as defined by the Housing Corporation. If the Council wished to set up a new organisation they would need to be registered before transfer could take place.

8.3 Valuation

The methodology for determining the tenanted market valuation (TMV) or purchase price of the stock is laid down by the ODPM in its guidelines. This is based on discounting all future expenditure and income cashflows over the next 30 years at a discount rate of 6%.

The resulting valuation arising out of the above assumptions is £10.274m (a unit valuation of £431).

8.4 Application of Receipt

The ODPM also stipulates rules on the application of any capital receipt arising from transfer.

The key items to be considered are as follows:

- setting up costs;
- ODPM Levy;
- Provision to cover HRA debt;
- Usable receipt.

8.5 Setting Up Costs

The setting up costs associated with transfer would be paid by the Council from the capital receipt arising from the transfer. These costs are likely to amount to £5.0m of which £0.6m would be incurred up to and including the ballot. These pre ballot costs are incurred at risk of a negative ballot result.

Those costs that are incurred specifically in carrying out the consultation of tenants are, in the opinion of the ODPM, chargeable to the HRA. Ultimately it is for the Council to take its view on those items, which are attributable to the HRA, in consultation with its external auditor. Other administrative costs of and incidental to a housing transfer are chargeable to the General Fund. These abortive costs will be chargeable to the Council if there is a negative ballot or for any other reason the transfer does not take place.

8.6 ODPM Levy

The ODPM charges a Levy on transfer receipts. This is based on 20% of the net receipt after meeting any housing debt and set up costs, and excluding receipts for non-dwelling assets transferred, such as garages. ***The levy is nil in overhanging debt transfers.***

8.7 Usable Receipt

“Receipts Pooling” will not apply to transfer receipts but ODPM will expect Council’s to make provision from the receipt to cover the attributable HRA debt. In overhanging debt transfers all of the receipt must be used to repay HRA debt.

8.8 Summary of Application of Receipt

The following table represents a prudent assumption on the Council’s position:

Overhanging Debt Calculation		
	£m	£m
HRA Debt (MYSCFR)		187.088
Add Estimated Premia		20.000
Debt to be repaid		207.088
Valuation	10.274	
Lees Set Up Costs	-4.973	
Net Capital Receipt		5.301
Overhanging Debt		201.787

Under current ODPM guidelines the Council would need to generate a capital receipt to cover its attributable HRA debt measured by the mid year subsidy capital financing requirement (MYSCFR). The Council would also need to repay PWLB debt of £207.1m, to cover the MYSCC and the premia incurred on the early redemption of fixed rate loans. The Council would have to apply the capital receipt, net of set up costs, to repay PWLB debt and the ODPM would repay the remaining £201.7m.

A further complication is that ODPM will only help to fund repayment of PWLB loans. At the moment the Council has outstanding PWLB loans of only £118m and so the Council would need to develop a strategy in consultation with their treasury advisors to raise the level of PWLB debt to at least match the MYSCFR.

8.9 Area Based Valuations

To highlight the potential for partial transfers we have carried out separate TMV calculations for each of the 6 management areas as well as the sheltered housing stock. The valuation results are shown below.

Area Based Valuations		
Area	TMV	TMV Per Dwelling
	£m	£
Beaumont Leys	(5.420)	(1,460)
Braunstone	(4.071)	(1,209)
Central	(26.367)	(6,096)
Humberstone	15.580	3,197
New Parks	(2.710)	(715)
Saffron	23.922	5,677
Whole Stock	0.934	39

Only 2 of the Council's management areas generate positive TMVs, Humberstone and Saffron with valuations of £15.58m and £23.922m respectively. Transfer of the other areas could only be achieved if the Council was able to provide a dowry or if the gap funding was to be made available from the Regional Housing Board. As with whole stock transfer, the Council would not benefit from a useable capital receipt.

The TMV of the sheltered housing stock is negative to the amount of £2.197 or £5,039. The sheltered stock would also need gap funding to make transfer a viable option. A transfer of this size would be too small to establish a viable stand alone RSL and therefore any transfer would inevitably involve a preferred partner RSL.

9. CONCLUSION

The options available to Councils, laid down by Government, for the long-term future of their housing services, are the retention of the stock, with or without an arms length management company, Private Finance Institute, or transfer to a new landlord.

This report has demonstrated that on the basis of the cost of achieving Decent Homes, that this could be achieved in the case of Stock Retention. The Council can also deliver the Leicester standard and full stock condition survey requirements to 2010/11 but not over all 30 years, which may impact upon the log term sustainability of the housing stock.

For ALMO, on the basis that the Council is able to achieve Decent Homes, we consider it unlikely that it would be considered a priority for funding, although the Council is well placed based upon its current levels of performance. The additional revenue costs would place further stress on the HRA's Operating Account.

At the moment there remain some concerns arising from experience to date about the practicability of PFI's wider application and the value for money it represents. Based on current Housing PFI models the scheme is unlikely to

provide Leicester with a viable whole stock solution but it could be employed on the sheltered units or to provide new social housing units as part of a General Fund scheme.

Finally the appraisal of the stock transfer option shows that it could achieve the necessary stock investment but it would not provide the Council with a useable capital receipt. There will also be General Fund implications that need to be addressed and the Council would also need to increase its PWLB borrowing to meet the current ODPM requirements for repayment of overhanging debt. Partial transfer would be possible in Humberstone and Saffron but again the Council would not benefit from a useable capital receipt.

In reviewing the various options, it is important to compare them with the main objectives for the options appraisal in order to enable the Council and its tenants to make the best decision as to the way forward for Leicester's housing stock. The main options have been assessed against the key objectives set by The Options Appraisal Steering Group in Appendix II.

APPENDIX I

OPTIONS APPRAISAL ASSESSMENT CRITERIA

THEME	OBJECTIVE	ISSUE	SOME KEY QUESTIONS
DECENT HOMES	<p>To improve the condition of Leicester’s housing stock</p> <p>To meet the Decent Homes Standard by 2010</p> <p>To meet the Leicester Standard.</p>	<p>The Stock Options Appraisal should establish tenant priorities for investment and a Leicester Decent Homes Standard</p> <p>Different options could bring different levels of resources for investing in homes.</p>	<p>What is the impact on the resources available for stock investment?</p> <p>Which Options will achieve the Decent Homes Standard by 2010?</p> <p>Which Options will achieve the Leicester Standard by 2010?</p>
TENANT & RESIDENT INVOLVEMENT AND EMPOWERMENT	<p>To develop community capacity and tenant participation across the city</p>	<p>The Stock Options Appraisal should identify the alternative models for tenant and resident involvement within each of the 4 options. It should gather information on how tenants and residents want to be involved in the management of estates.</p> <p>Different options may enable different forms of tenant involvement.</p>	<p>How will decisions under each of the options be made? Who will make them?</p> <p>What is the potential impact of each Option on Tenant involvement, participation and empowerment?</p> <p>What is the potential impact of each Option on resident involvement, participation and empowerment?</p>
RIGHTS OF TENANTS	<p>To protect tenants rights</p>	<p>Tenants rights may differ under the different options. This could differ between existing and new tenants</p>	<p>Which option offers the strongest protection for tenants’ rights including security of tenure?</p> <p>What is the effect on the Right to Buy?</p> <p>How are leaseholders rights affected?</p>

THEME	OBJECTIVE	ISSUE	SOME KEY QUESTIONS
<p align="center">MEETING HOUSING NEED & IMPROVING CHOICE</p>	<p>To encourage the provision of new housing</p> <p>To offer citizens housing choices and full mobility between tenures, locations and types of home</p>	<p>Different options could bring different levels of resources for investing in homes.</p>	<p>What would be the effect of each option on the number of new social housing units?</p> <p>What effect will the options have on choice for tenants, for example who want to move to another area or to more appropriate accommodation or want to go into shared or full home ownership?</p> <p>What impact would the options have on homelessness and numbers on the waiting list?</p>
<p align="center">HIGH QUALITY SERVICES</p>	<p>To provide high quality housing services</p>	<p>Different options could affect the quality of services provided.</p>	<p>What would be the likely impact of the different Options on the quality of the housing management service?</p> <p>What would be the likely impact of the different Options on the quality of the housing maintenance service?</p>
<p align="center">REGENERATION</p>	<p>To improve the social climate of residential neighbourhoods to make them pleasant and peaceful areas which generate community spirit</p> <p>To improve the physical environment of residential neighbourhoods to make them safe and clean with facilities which meet the needs of the community</p>	<p>The council wants to make neighbourhoods pleasant and safe to live in. Different options may affect resource availability.</p>	<p>What effect will each option have on communities as well as homes?</p> <p>To what extent can the options help to deliver regeneration?</p>
<p align="center">SHELTERED HOUSING</p>	<p>To those with care and support needs, offer the choice of independent supported living or</p>	<p>Sheltered housing has been identified as a specific issue.</p>	<p>How will each option affect residents in sheltered housing?</p>

THEME	OBJECTIVE	ISSUE	SOME KEY QUESTIONS
	sheltered accommodation		
IMPACT ON THE COUNCIL	To make Leicester more attractive for our diverse communities to live, work and invest in	<p>The different options could have an impact on a number of the council's strategic objectives.</p> <p>The impact could be on resource levels, roles and ways of working and could affect the council's ability to achieve its objectives</p>	<p>What is the impact on the Council's strategic role? What is the impact on the role of Councillors? What effect will the options have on the council's ability to provide capital resources for its non-landlord functions? What is the impact on Leicester's General Fund and Housing Revenue Account? What is the impact on partnership working with the Housing Corporation, RSL's, developers, other agencies and stakeholders? What level of risk is involved in each option? Costs, delays etc</p>
IMPACT ON STAFF	To ensure a skilled, motivated and customer orientated workforce		What is the likely impact of the various Options on staff? Including Terms & Conditions, prospects etc

APPENDIX II

ASSESSMENT OF OPTIONS AGAINST KEY OBJECTIVES

Leicester City Council
Stock Options Appraisal 2004
A report by PEP
Independent Tenants' Advisor

December 2004



Introduction

Leicester City Council began to carry out a stock options appraisal towards the end of 2003 and PEP were appointed as independent tenants advisors by a panel of tenants early in January 2004 following a competitive tendering process.

All local housing authorities in England are required to complete a stock options appraisal and demonstrate how they will achieve the Decent Homes Standard for all their stock by 2010, and have the report signed off by government by July 2005.

The government and the Community Housing Task Force (CHTF) expect Councils to demonstrate that tenants are at the heart of the appraisal process. In particular that

- all tenants have been actively encouraged to participate, give their views, and understand the issues
- as many tenants as possible have participated
- the council knows the tenants' views, priorities and preferences
- the Council has taken these seriously in choosing its preferred option for the future of its housing stock.

PEP, as independent advisors, worked with the council, its consultants and representative tenants – LFTA - as part of the process of ensuring that the stock options appraisal adhered to these principles.

PEP's approach

Having been appointed we met with the LFTA executive to discuss our approach to the project. Subsequently we worked closely with the project team and met with Ela Krychowska and Chris Cronogue on a number of occasions to review progress and consider the next steps. We attended all meetings of the steering groups made up of councillors, tenants staff and unions; we made a number of presentations on aspects of the options and updated the steering group on work in progress.

January to June 2004

The early period of the options appraisals was designed to elicit the views of a representative sample of tenants. PEP were closely involved in the design of the questionnaire and worked with contractor, MRUK, to facilitate two focus groups of tenants to pilot the questionnaire. The intention behind the survey was to gather information from tenants about their attitudes to their homes, the area outside their homes and the neighbourhood. The survey allowed for tenants to comment on aspects of the housing service as well as the bricks and mortar issues. The survey was sufficiently robust to allow comparison of views between the six management areas in the city and to generate an overall view of the city.

As well as a survey of the general tenant population a second survey, similar in design but tailored to the needs of sheltered tenants was carried out by MRUK. There are only 400 tenants living in council run sheltered schemes in Leicester, and once again PEP, working with sheltered housing staff, facilitated a focus group of sheltered tenants to tweak the questionnaire to reflect sheltered issues. A third survey (telephone) was carried out on leaseholders with a similar set of questions, though

obviously missing out much of the internal property details which are the leaseholder's responsibility.

During this part of the options study PEP were working in the background, reviewing the draft questionnaire, developing the postcard, and meeting with TARAs on request and the LFTA executive to discuss progress. There was some disquiet from some tenants about the approach used, as it was unclear which tenants would be giving their views, and the risks attached to such a strategy. In the event the results from the survey showed considerable similarity between the concerns on the housing service of the general population and the tenants reps.

July to December 2004

The second phase of our work involved developing a set of information sessions aimed at tenants' reps and other interested parties who would be taking part in the evidencing conference on September 3rd. Altogether six two and a half hour sessions were run, three for the general tenants and other parties and three for sheltered tenants.

The three sessions covered

- The 4 options; retention, PFI, ALMO and Stock Transfer
- The Decent Homes Standard
- Housing Finance

Each session took a similar format. We began by asking people to set out the information that they wanted to get from the session, and then gave a presentation during which participants had opportunities to ask questions, challenge the ideas and to clarify the information. All participants received copies of the presentation and associated materials.

The sessions were well attended and well received and it became clear during the remainder of the project that tenants were well versed in the arguments and issues surrounding the options.

The participants from the information sessions then took part in the evidencing conference on the 3rd September. The aim of the conference was for key stakeholders to hear the evidence collected up to that point. This included:

- The results of the MRUK surveys
- The review of condition of housing stock
- The review of housing demand
- The financial appraisal of the various options by HACAS Chapman Hendy
- Consultation to date

The conference took the form of a series of presentations followed by workshops to explore the implications of the evidence.

The overwhelming information was that Leicester has the resources to deliver the Decent Homes Standard within its current arrangements, and can deliver the Leicester Standard for at least 17 years into the future. Coupled with healthy demand for council housing and the general high levels of tenant satisfaction with the current

service it became clear that the preferred option of the vast majority of stakeholders present at the event would be to pursue stock retention.

The outcome of the conference for PEP as ITA was to stimulate a debate in the wider tenant population around the issues developed in the stock options appraisal.

Wider Consultation

During this phase PEP attended a series of Community Association meetings to report on the process to date. The Community Associations are a forum in each of the 6 management areas attended by tenant reps, councillors and staff to discuss issues relating to the area. PEP gave a simple report on the issues to date, though in most cases those tenants who were present had been involved already and were aware of the process.

The community associations were followed up with a series of Tenants meetings advertised through the Leicester Mercury and on posters in housing offices. In addition PEP and Rod Pearson from the council spoke to the Leicester Mercury and BBC Radio Leicester about the consultation and the council's test of opinion.

Perhaps the largest number of tenants was reached during this phase through a series of drop-ins at housing offices on their busiest days. All fourteen offices were visited for around two hours each and 251 tenants were seen of whom 70 were black and minority ethnic tenants.

The drop ins, and meetings provided opportunities for tenants to ask questions about the issues raised in the test of opinion, in addition PEP ran a freephone service throughout the appraisal and it was most used in this period. Many tenants again indicated that given the choice they wished to remain with the council. Other issues raised concerned the right to buy, antisocial behaviour, tenant participation and the right to manage (S16 grants) and the need for materials to be available in translation. Where this was requested translated copies of the test of opinion and the accompanying information were supplied.

The last element of the consultation was to reconvene the conference, this time as a visioning conference to review all the evidence gathered to date and to hear the results of the test of opinion. This event took place on the 3rd December and once again was well attended by staff tenants and unions with one councillor present.

The results of the test of opinion with over 20% of tenants taking part showed overwhelming support for stock retention on the basis of the evidence provided by HACAS Chapman Hendy.

Following a series of brief presentations on the evidence a vote of conference participants was taken for further evidence to the council in preparation for the council's decision on the way to proceed which is due to be discussed at the January round of meetings.

Conclusion

During the last 15 months tenants have been involved in the options appraisal in a variety of ways. Centrally key tenants were members of the Steering Group together

with councillors, staff and unions that oversaw the appraisal. The steering group was chaired by the Chair of the LFTA.

Tenant reps selected and appointed PEP as the ITA and we met on several occasions to review progress.

Once the Steering group decided to proceed with the MRUK survey two tenants focus groups reviewed and piloted the questionnaire.

Both LFTA and a number of TARAs requested presentations from PEP on the Stock options appraisal and the options available.

Around 40 senior tenants, officers of TARAs, plus some staff and one councillor attended the information sessions provided by PEP on; the options, finance and the decent homes standard and used the information and knowledge they had gained in the later stages of the appraisal, particularly at the evidencing conference.

Almost 1500 tenants and leaseholders were surveyed by MRUK and all 22,500 tenants were given the opportunity to express an opinion in the test of opinion in November and around 20% chose to do so.

Tenants have been at the heart of the options appraisal, have been empowered through access to high quality information, have been consulted widely, and harder to reach tenants have been spoken to through the drop ins at the housing offices.

Tim Morton
PEP
10-12-04

Consultation Summaries

A number of 'tests of opinion' were carried out and the results are summarised below:

	No of Responses	Stock Retention %	ALMO %	PFI %	Stock Transfer %
Tenants	4,811	92	4	1	2
Visioning Conference inc Steering Group	44	100	0	0	0
Potential Tenants	16	100	0	0	0
Leaseholders	29	93	0	3	3

Individual comments were invited from members of the Options Appraisal Steering Group and from a number of other more distant stakeholders such as the police, housing associations and others. These are lodged in the members area together with the full Chapman Hendy and PEP reports.