

Briefing Paper

Housing Stock Options

October 2003

Introduction

The government expects all local authorities to carry out a review of strategic stock options, linked to the Housing Revenue Account Business Plan and Best Value Reviews. The key issue to consider is which housing stock option offers the greatest potential to address any backlog of housing repairs and modernisations and achieve the decent homes standard.

The options that are available to local authorities are:

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

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

"Local authorities should separate their landlord function from their strategic housing responsibilities. Best Value reports show that landlords' concerns often dominate Local Authorities' thinking on housing when they should be considering strategies for whole local housing markets. Separation helps ensure that proper attention is given to both the strategic and landlord functions.

"Local authorities 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 authorities, Arms Length Management Organisations (ALMOs). 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, as part of an overarching strategy.

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“We expect every local authority with stock to produce an objective and rigorous appraisal of investment options for government sign-off by July 2005. We will provide support to authorities to do this, and to put viable plans in place, through the Community Housing Task Force.

“The Government will intervene where authorities fail to act, consistent with its approach to intervention following completion of Comprehensive Performance Assessments and with the Joint Protocol agreed with the Local Government Association under the Central-Local Partnership.”

Mr Mike Gahagan, Head of the Housing Directorate at the Office of the Deputy Prime Minister, 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 authorities not to have to go down the whole stock route.”

As a result all local authorities, that have not already done so, are either in the process of looking at housing stock options or will do so soon. The Communities Plan was also significant in that it made clear the government view that retention of a traditional service is not appropriate and will not attract any additional funding

How is council housing funded?

Continuing with a council housing service in the same way as at present 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 local authority housing rents to achieve convergence between local authority and registered social landlords' rents. This means that rents in local authorities and housing associations will become similar.

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

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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 authorities. 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 authorities, it does provide grants and a major repairs allowance and 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 authorities is not sufficient to meet the cost of the decent homes standard that is estimated at £19billion at a national level. A significant number of local authorities do not have sufficient resources to meet the decent homes standard.

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 authorities 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.

Retention of a traditional council housing service

Authorities that wish to retain a traditional council housing service will have to demonstrate, through the Housing Revenue Account Business Planning process, that they have sufficient resources to bring their stock to a decent standard by 2010.

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The proposal to introduce a prudential system of borrowing is unlikely to provide additional resources for the majority of local authorities. This is because the housing subsidy system ensures that most authorities will not have sufficient 'spare' revenue resources to support significant borrowing under the prudential system. It will only be the authorities that gain additional resources through establishing 'Arms Length Management Organisations' that have sufficient 'spare' revenue resources to support significant borrowing under the prudential system.

Are there any alternatives?

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

Tenant Management Organisations

Some local authorities have established tenant management organisations, where tenants elect representatives to boards of management that are responsible for managing defined aspects of the council housing service that are delegated by the council.

Community Gateway Association

A Community Gateway Association is a new model for tenants and communities interested in the principle of stock transfer, but unsure of which of the existing options is best. It is a new type of tenant-owned not-for-profit organisation that will enable tenants to be fully involved in the decisions that affect their neighbourhoods, offers greater accountability and acts as a mechanism for achieving wider social change. The aim is to tailor the Community Gateway model to local needs, with tenants choosing their level of involvement.

A Community Gateway Association would take its own decision regarding whether to become an Arms Length Management Organisation or a Registered Social Landlord.

Preston City Council and Sandwell Borough Council have both established Community Gateway Associations as pilot projects.

The Chartered Institute of Housing and Confederation of Co-operative Housing support Community Gateway, and argue that option appraisals for council housing stock should be seen as a means to develop community engagement.

Community Based Housing Organisations

Following the result of the tenants' ballot at Birmingham City Council that rejected the option of a large-scale voluntary transfer; the authority is considering establishing Community Based Housing Organisations.

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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. A Community Based Housing Organisation would typically employ 33 housing staff including a Director.

It is envisaged that, once established, a Community Based Housing Organisation could broaden its role into renewal, including the environment, super caretakers, neighbourhood wardens and economic initiatives.

The housing department would become a smaller organisation responsible for housing strategy and co-ordination of agreed corporate standards of service.

It is suggested that government could support Community Based Housing Organisations by writing-off existing debt or allowing them to keep the proceeds of land sales for re-investment. Birmingham City Council is seeking funding from the Neighbourhood Renewal Fund for two pilot schemes involving four Community Based Housing Organisations.

Few authorities have developed these ideas in practice.

The Liberal Democrats have criticised the government's 'nonsensical' policy on stock options and for failing to provide a 'level playing field' on stock options appraisals. At their conference in September 2003 they passed a motion that called for:

"Providing local authorities with a range of options for running their housing stock including direct management, stock transfer, arms length management or tenants' co-operatives without government bias in favour of any individual option."

Edward Davey MP, Liberal Democrat spokesman on housing favours councils being able to borrow against the value of their housing stock and said:

"There's no reason why councils can't be allowed to borrow in just the same way as housing associations."

Conclusions

Most local authorities do not have sufficient resources to achieve the decent homes standard because the government has set a level of resources at national level that is not sufficient. The government has also made it clear that they will not provide additional resources to local authorities unless to support an arms length management organisation, private finance initiative scheme or stock transfer.

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An authority that wishes to retain a traditional council housing service and at the same time achieve the decent homes standard, must either be an authority with stock that is already in a good condition, or an authority that is prepared to make significant savings in its revenue budgets that would enable it to fund significant levels of prudential borrowing.

Models such as Tenant Management Organisations, Community Gateway Associations or Community Based Housing Organisations offer more tenant involvement, but not any additional resources. Adopting such models does not, therefore, allow an authority to avoid considering housing stock options.

Other Relevant Briefing Papers

'AWICS' has also published briefing papers on:

- Large Scale Voluntary Transfer
- Arms Length Management Organisations
- Private Finance Initiative for Housing

These are available on the website: www.awics.co.uk/page24.html

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