

**The Royal Borough of Kensington and  
Chelsea**



**Key Decision Report dated 15 June 2006**

**For Decision by Councillor Daniel Moylan  
Deputy Leader and Cabinet Member for  
Planning Policy, Housing Policy and  
Transportation and,  
Councillor Thomas Fairhead, Cabinet  
Member for Finance and Property**

**Report by the Executive Director for  
Housing, Health and Adult Social Care**

**HOUSING STOCK OPTIONS APPRAISAL**

**1. Introduction**

1.1 I am writing to seek your approval to undertake an appraisal of future options for the housing stock. The reasons for undertaking an appraisal are detailed below.

**2. Background – Why a Review is Necessary**

2.1 Since the establishment of the TMO in 1996, central government has introduced a number of policies, for example

- rent re-structuring;
- Decent Homes;
- changes in housing subsidy formulae;
- initiatives to transfer local authority housing stock out of the Council sector in the form of large scale voluntary transfers;
- setting up of Arms Length Management Companies (ALMOs) to deliver capital investment.

2.2 Council policy since 1996 has continued to support tenant management whilst keeping the housing stock in Council ownership. The ALMO route has been taken to enable delivery of Decent Homes whilst maintaining these two principles. The HRA has also remained in balance over this time. The Council has been able to maintain the current arrangements for the stock but the general drift of government policy makes this position less tenable. Changes in subsidy arrangements are impacting on HRA viability over time. Additionally, post-decent homes funding, it is likely that there will be very little capital funding available to maintain and improve the stock. There is considerable central government control over housing finances with very little opportunity to deliver on the Council's and residents' aspirations for the council rented stock. The

implications of future reductions in capital and revenue funding are discussed below.

- 2.3 Based on HRA Business Plan projections, the Housing Revenue Account (HRA) working balance is likely to fall into deficit by 2011/12. The projected overall deficit is between £1.9m and £3.7m depending on the level of protection given for changes in the HRA subsidy system. This is despite the fact that the TMO and the Council have conducted reviews of costs and have implemented a range of cost savings and income generation measures of over £1m, which will over time result in significant savings to the HRA. It is unlawful to have a HRA which is in deficit and planning needs to take place to avoid this situation.
- 2.4 Aside from the projected HRA deficit, there are other drivers which indicate the need for a strategic review of the options open to the Council for the future of the housing stock. Once Decent Homes investment is delivered, it is clear that in future years, government policy will restrict the amount of capital funding available to modernise ageing estates. A number of these estates will need either renewal or substantial re-modelling in order to meet the aspirations of residents in the 21<sup>st</sup> century and to meet area regeneration objectives. Without further investment it will become increasingly difficult to maintain or renew the stock and aspirations about creating decent neighbourhoods will fail to materialise. In addition, newer homes that currently meet the decency standards will fall into disrepair over time without significant capital investment. To counter this, an estate renewal option is currently being evaluated which may provide a solution to the projected capital and revenue shortfalls. This will examine whether estates can be redeveloped to unlock high land values to finance provision of more housing, re-construction of estates and the creation of decent neighbourhoods.

### **3. Strategic Context**

- 3.1 This report has made no assumptions about the future management arrangements or ownership of the stock. However, the report notes that since setting up the TMO, the Council has supported tenant management and tenant participation in service delivery. As with the ownership issue, the Council may have to revisit these principles during the review of future options for the stock.
- 3.2 The range of stock options will need to be evaluated in the light of housing strategic aims which reflect the Council's strategic aims of renewing the legacy, providing really good services and responding to residents. These aims can be summarised as follows:

- To provide for improved levels of service delivery in the social housing sector;
- Be capable of leveraging in sufficient resources to maintain, renew and improve the stock properly;
- To contribute to providing a high quality housing environment with balanced and mixed communities
- To achieve a balanced and viable HRA and provide certainty in business planning for the next 30 years.

3.3 The Housing Strategy 2003-08 is currently being reviewed with the aim of producing a new housing strategy. The new strategy will need to set out the long-term vision of the Council for its housing stock (as well as for all sectors). The conclusions of a stock options appraisal will need to be fed into the new strategy.

#### **4. Options to be Evaluated**

##### **A. Options for Arms Length Management Organisations**

4.1 Over the last year the Office of the Deputy Prime Minister (now the Department for Communities and Local Government) has been conducting a review of ALMOs and considering their future development. An announcement has been made and a consultation paper is due imminently. It is likely to make recommendations around greater freedoms for ALMOs in terms of developing their functions around regeneration and new build. There is recognition that the current housing subsidy system is both complicated and unpredictable and this makes long-term business planning impossible. The options are likely to give ALMOs greater independence but without losing the Council's shareholding, ownership of the stock or the vital role of tenants in ALMO governance. The options would seem to be as follows:

- Option 1A – Self sufficient HRA controlled by the local authority with sufficient investment to maintain the housing at the Decent Homes standard in the future;
- Option 1B – Self sufficient HRA controlled by the local authority, as above but also with sufficient investment to deliver long-term sustainability, including environmental and community works;
- Option 2 – Self sufficient HRA managed by the ALMO with the HRA debt becoming ALMO debt secured on the ALMO's income, but still within public sector borrowing controls. A longer term contract period for the management agreement will be needed. The local authority would be the regulator and exercise control through the management agreement;
- Option 3 – Self sufficient HRA managed by the ALMO. The Council would have a minority share in the ALMO. The ALMO would have a tenant majority. The local authority would manage

the HRA through a long-term service contract with the ALMO. Borrowing would be private sector and off the balance sheet of the authority.

- 4.2 The Government has recently made an announcement (on 7 June 2006) about Decent Homes delivery and the possibility of excellent local authorities with three star ALMOs operating outside of the housing subsidy system as a pilot scheme. Both the TMO and the Royal Borough have indicated that they would like to be a part of this pilot. It is still unclear which option the Government will promote and a consultation paper is awaited. Nevertheless, it will be necessary to evaluate if the preferred government option can deliver wider renewal and regeneration objectives as set out in the recent announcement.

## **B. Transfer to a Registered Social Landlord**

- 4.3 Transfer of the housing stock to an RSL has not been favoured traditionally in this Borough. It may offer short to medium term financial solutions and may be capable of leveraging in additional resources, as investment in housing will be outside public sector borrowing controls. The extent to which this option can satisfy long-term objectives is worth evaluating further. This option will involve the Council giving up ownership and control of its housing stock – however some of these principles could be protected by the specifics of contractual arrangements of transfer. This option will also require a majority vote of tenants and leaseholders to take place. Transfer of the stock can take several forms:

- Whole stock transferred to the TMO, the TMO having been constituted and registered as an RSL by the Housing Corporation;
- The whole stock is transferred to an RSL with a group structure allowing the TMO to retain its identity as a subsidiary of the group;
- Partial transfer of stock to an RSL. This could be to enable regeneration or renewal of neighbourhoods.

Partial stock transfer has the disadvantage that it is likely to have detrimental effects on the remaining stock and future financial strategy for the retained stock as efficiency and economies of scale will be lost.

- 4.4 The announcement made on the 7 June 2006, indicated that the Government sees participation by residents as vital in creating sustainable mixed communities. The Government wants to build on the success of tenant involvement in the options appraisal process by

promoting greater tenant management and ownership. This leads to the need to consider a further option of transfer to a tenant or community based RSL.

### **C. Private Finance Initiative**

- 4.5 Private Finance Initiatives (PFI) is an option that has been promoted by central government. However, it has rarely been proved to work for housing refurbishment schemes and it is not an option for the whole stock. PFI may be suitable for particular estates or neighbourhoods. The schemes usually take the form of long-term (25-30 years) service contracts, usually with RSLs, involving refurbishment or new development. Many PFI schemes have had lengthy lead-in times, with considerable resources required with no guarantee of success. However, it may be worthwhile as an option to deliver a particular plan of area regeneration. Its impact on the viability of the remaining stock will need to be evaluated.

### **D. Estate Renewal**

- 4.6 Work is underway in evaluating whether this option can unlock high land values in the Borough, sufficient to finance rebuilding and renewal of estates and balance the HRA. The evaluation is considering whether housing densities can be increased sufficiently to re-provide the social rented housing and adding high value market housing. It is clear that some estates are already at high density and the scope to add to existing levels may be limited. However, there are other estates that are at low densities where this option could be viable. A financial appraisal that will map the subsidy and HRA implications is currently underway.

### **E. Other Options**

- 4.7 Sale of the stock to a private landlord is unlikely to deliver long term security for tenants or offer benefits over and above that which would be achieved if the stock is transferred to an RSL. Sale of the stock will also require the consent of the Department for Communities and Local Government. Whilst consent has been given in the past for the sale of individual estates, there is no precedent for wholesale stock disposal in this way.
- 4.8 Greater capital borrowing or 'prudential borrowing' was introduced for local authorities under the Local Government Act 2001. Income to the HRA is largely decided by central government and the new system will not lead to more council housing investment unless there are substantial increases in subsidy to finance the cost of more borrowing. As a result, this option is unlikely to deliver a solution.

- 4.9 Whilst all options need to be considered as part of an appraisal, attention will be focused on the more feasible options as follows:
- Additional freedoms for ALMOs, removal of capital debt charges and additional borrowing outside of public sector spending controls;
  - Transfer the stock to an RSL or the TMO which has been registered as an RSL;
  - Realisation of land and property values to finance estate renewal including some examination of PFI in this context. An evaluation of the estate renewal option is already underway and this will need to be incorporated into the stock options review.
- 4.10 The benefits and disadvantages of each option need to be identified and compared in terms of
- Financial implications;
  - Service implications;
  - Stock investment implications;
  - Wider strategic implications on for example regeneration, neighbourhood renewal;
  - The effect on the Council, the General Fund and on other services working with the TMO;
  - How well each option can deliver against the strategic aims and outcomes identified in paragraph 3.2.

## **5. Resources and Timetable**

- 5.1 Experience of other Boroughs undertaking an evaluation such as implied above, indicates that this work cannot be resourced in-house. In fact even with consultants appointed, it is an intensive piece of work that will take up a great deal of officer time. It is likely that a project team will need to be set up and this will need to be managed via a project board. From the date of appointment, it is envisaged that evaluation of these options would take 3-4 months to complete. The appointment will be subject to obtaining fee quotes. It is not envisaged that the cost will exceed £60,000, the threshold for tenders.
- 5.2 The likely timetable for this work is envisaged as follows:
- |  |              |
|--|--------------|
| • Invite fee quotes from consultants         | July 2006    |
| • Appointment made                           | late July    |
| • Information gathering                      | August       |
| • Work on the estate renewal option complete | August       |
| • Draft report completed                     | November     |
| • Report of findings                         | December     |
| • Commence resident consultation             | January 2007 |
| • Consultation complete                      | March        |
| • Report on recommended option               | April 2007   |

## **6. Equalities Implications**

- 6.1 Consultation on possible future options for the housing stock will need to ensure that all groups will have an opportunity to participate. Should ownership of the stock be transferred, this will need to be the subject of a positive vote in favour by tenants and leaseholders.

## **7. Legal Implications and Comments of the Director of Law and Administration**

- 7.1 The primary legislation that deals with the HRA is contained in the Housing Act 1985, the Local Government Act 1989 and the Housing Act 1996.
- 7.2 In order to rule in or rule out various options, the Director of Law and Administration has been consulted on the status of the current management agreement with the TMO. It needs to be noted that the TMO was established following a positive vote of tenants exercising their right to manage as introduced under the Housing Act 1985. The current view is that the Management Agreement cannot be terminated by the Council except by mutual consent, or a material breach of the Management Agreement or insolvency of the TMO. However, the Agreement may be ended upon six months prior notice to the TMO where the Council lawfully sells or transfers its interest in the stock. Stock transfer would be subject to a vote in favour of the proposals by tenants and leaseholders. Transfer can only be made to RSLs and not ALMOs. In transferring its stock, the Council will need to be mindful of government and Housing Corporation advice that expects the acquiring landlord to honour the principle of an existing management agreement and to enter into a new agreement with the TMO. Sale of the housing stock, subject to giving the TMO six months notice, appears to be possible within existing powers of the Council, but it will require external legal support and a rational assessment of the cost and benefit involved from the outset. In selling the stock, the existing management agreement requires the Council to use its best endeavours to require the successor landlord to enter into a similar agreement with the TMO.

## **8. Comments of the Head of Resource Management**

- 8.1 The Head of Resource Management comments that the financial implications of each option will be assessed as part of the stock options appraisal. It should be noted that the projected HRA deficit

by 2010/11 can only be solved by reduced costs or increased income (if the stock stays in Council ownership). The options will need careful evaluation so as not to increase HRA costs further through unsubsidised debt charges.

## 9. Recommendations

I recommended that:

- 9.1 A review of the options listed in this report is undertaken for the Council's housing stock;
- 9.2 That fee quotes are obtained from suitably qualified consultants to undertake this work.

Gerald Wild  
Chief Housing Officer

Jean Daintith  
Executive Director for Housing, Health and Adult Social Care

---

### FOR COMPLETION BY AUTHOR OF REPORT:

**Date of first appearance in Forward Plan:** 16 May 2006

**Key decision reference identifier from Forward Plan:**  
KD02327/06/P/A

**Background papers:** ALMOs – a new future for Council Housing, Natfed of ALMOs, CIH and Housemark

CIH briefing paper on the Local Government Bill 2001

Delivering Decent Homes – Option Appraisal - ODPM

**Contact officer:** Martin Peach Housing Policy **Tel:** 020 7361 2950 **E-mail:** [martin.peach@rbkc.gov.uk](mailto:martin.peach@rbkc.gov.uk)