



**AGENDA ITEM: 5(f)**

**Cabinet: 12<sup>th</sup> November 2013**

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**Report of: Assistant Director Housing and Regeneration**

**Relevant Managing Director: Managing Director (Transformation)**

**Relevant Portfolio Holder: Councillor Mrs V. Hopley and Councillor A. Owens**

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**SUBJECT: HOUSING OPTION APPRAISAL**

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Wards affected: Borough wide

**1.0 PURPOSE OF THE REPORT**

1.1 To review the progress made since self financing was introduced in April 2012 and whether any change in direction would be beneficial at the current time.

**2.0 RECOMMENDATION**

2.1 That alternative options not be pursued at the current time and the situation to be reviewed in 2017.

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**3.0 BACKGROUND**

3.1 The Government introduced changes to the way that Council Housing was financed in 2012. Previously the Housing Revenue Account (HRA), where the rents paid by tenants are accounted for, was part of a national system known as the HRA subsidy system. Some Councils paid into the system and others received a subsidy. The position in West Lancashire was that we paid in £6.8M. The formula for the subsidy system meant that year on year, a greater sum was paid in subsidy whilst those receiving help got less and less. When the system was abandoned, in 2012/13, the Government lost an income to support various housing initiatives.

- 3.2 The new system introduced in April 2012 was known as HRA self financing. After extensive consultation, Councils either received a cash settlement or a debt. Once allocated, each Local Authority was responsible for managing their "Housing Business" and would not have the safety of a national system to support them if things went wrong.
- 3.3 West Lancashire Borough Council, under the self financing regulations, were given a debt of £88M which needed to be financed by the rent stream. Additionally, our borrowing ceiling was set at £94M where we could take out additional borrowing of up to £6M if we chose to do so.

#### **4.0 CURRENT POSITION**

- 4.1 In setting the budget for 2012 onwards, key strategic decisions needed to be made that would have long term implications for the Council and its tenants.
- 4.2 Prior to the first budget being set in February 2012 for the forthcoming financial year, extensive discussions were held with tenants and political groups.
- 4.3 Broadly speaking, there were 3 priorities that had been identified for investment:
1. Reduce the backlog of repairs and carry out improvements to the housing stock
  2. Improvement to the environment
  3. Build new Council homes to assist those on the waiting list
- 4.4 The top priority by tenants and political groups was to clear the backlog of repairs and improvements. The repayment of debt was therefore structured to maximise investment in this priority. The debt of £88M was structured to pay the interest over 50 years and to repay the debt over the same period with increasing payments year on year which achieved the objective of being debt free at the end of this time.
- 4.5 The Council commissioned Savills, an experienced firm of surveyors, to undertake a stock condition survey. This identified major investment of around £60M was required to bring homes owned by the Council up to a reasonable standard. Members have approved a programme of investment that will see significant progress in addressing all the issues identified in the survey by 2018.
- 4.6 Not only have the Council been able to address an agenda to improve the vast majority of our Council homes but additionally, a major revival scheme was launched in Firbeck which will see this part of the Town Centre regenerated as part of the Skelmersdale Vision launched by the Council.
- 4.7 Without self financing, investment at this scale could not have been achieved in the short term. It is a significant and major success story for the Council.
- 4.8 Not only has investment taken place to meet tenants and Member desire to see our housing stock improved to modern day standards, but a further revival scheme is being developed. In addition, a significant investment has been made

in developing an IT strategy, which will improve efficiency. An Asset Management team has been created to ensure sustainable investment is made in our stock and the tenant involvement team has been strengthened.

- 4.9 The Council's HRA business plan is monitored as part of the Council's risk management arrangements and if corrective action proves necessary mitigate any of the risks identified, these will be taken to ensure the objectives can be achieved within a balanced HRA.

## **5.0 OPTION APPRAISAL**

- 5.1 Whilst the Council, over the next 5 years, will make great strides forward in improving our housing stock and enhancing service delivery, I would not wish to "rest on our laurels".

- 5.2 Progress on tackling environment issues with the exception of revival areas has been relatively slow. The tenant led environments improvement budget has been successful and whilst this will continue, the significant investment required will not be able to be tackled comprehensively until after 2018.

- 5.3 Our investment plans use the total borrowing at our disposal which may preclude any investment in new homes which would assist those in housing need. There are around 3000 applicants waiting for Social Housing in the Borough.

- 5.4 There appear to be a range of options which could be explored that might address the issues of the environment and new Council homes. These are as follows:

### **5.4.1 Stock Transfer**

- 5.4.1.1 The Government has recently issued a consultation paper on stock transfer. This makes £100M available to support this option. This could potentially mean that some debt could be "written off" making more investment potentially available to address either environmental issues or more homes for those that need them.

- 5.4.1.2 There are advantages and disadvantages for this option. These are:

#### **(A) Advantages**

- Potentially additional investment through debt being "written off".
- No "borrowing ceiling" which would enable additional borrowing to tackle investment needs.
- Become a different organisation (Co-operative, Mutual Charitable, Commercial etc.)

#### **(B) Disadvantages**

- No guarantee of debt "write off" without work being explored at risk.
- A potential distraction when the current agenda is challenging to deliver.
- Risk of a "No Vote" as in 2005.

- Will have an impact on the Council requiring further organisational change across most Council services.

5.4.1.3 Whilst this is an option currently, unless there was a possibility of a small scale transfer to facilitate another revival scheme, I think the disadvantages outweigh the benefits.

5.4.1.4 The purpose of this report is to openly discuss the options so that tenants and Members are aware of these and if necessary, can call for further work to be carried out if necessary.

#### 5.4.2 Externalising Management

5.4.2.1 An alternative option to release financial resources would be to out source the current Landlord Services. The cost of providing the service is around £7M. Organisations that decide to outsource the service report savings typically of around 20%. This could potentially release £1.4M on an annual basis or around £42M over the lifetime of the business plan. This level of resource is significant and could be used to tackle investment in the environment and/or new homes.

5.4.2.2 There are clearly advantages and disadvantages of this option which can be summarised as follows:

##### (A) Advantages

- The service cost reductions could be used to meet tenant priorities.
- Outsourcing could lead to efficiencies and service improvements.
- TUPE applies so no redundancies (initially).

##### (B) Disadvantages

- Distraction from delivery of current agenda.
- Can unsettle staff leading to people leaving the organisation.
- No guarantee of savings until tender opened.
- Fear of reduced costs but reduced services.
- No additional borrowing capability

5.4.2.3 Currently the Council are looking to drive efficiency and service improvement through the Organisational Re-engineering (OR) transformational process. I would not wish to move forward on this option until after this process has taken the service forward. OR is due to be completed by around March 2015. Once again this is a real option and can be explored further if tenants and/or Members wished resources to be deployed on this.

5.4.3 Overall, whilst there are 2 options outlined briefly in 5.4.1 and 5.4.2 above, on balance I feel that the OR should be allowed to be completed and the IT strategy implemented to enhance existing services. I feel that exploring the alternative options at the current time will have a detrimental impact on delivery of current services and programmes. It is for this reason that I recommend that no further work be carried out on option appraisal, rather it be reviewed in 2017 when work on current programmes draw to a conclusion and the longer term position will be

clearer. The OR project will provide service improvements and efficiencies that we would want to deliver before any consideration is given to outsourcing the service.

5.4.4 Whilst my judgement is outlined in this report I wanted to test the appetite for change with tenants and Members.

## **6.0 SUSTAINABILITY IMPLICATIONS/COMMUNITY STRATEGY**

6.1 The preferred approach in this report will see Council housing receive the benefit of major investment making this fit for purpose. If we look at other options at this stage it could undermine our target of making value for money investment in our housing stock.

6.2 Improvements to environmental conditions can be made but the pace of this will be slower than possibly under the other options which have been highlighted.

6.3 New homes for social and affordable rent will continue to be provided via the planning system and Registered Social Landlords (RSL's) developing within the Borough.

6.4 My view is that if we currently explore other options like stock transfer and outsourcing of management, we will take our eye off the task in hand which is to bring our housing stock up to an excellent standard. It is for this reason that I feel we should complete our investment proposals by 2018 and then re-examine the options that are available to tackle the outstanding priorities of new homes and environmental issues.

## **7.0 FINANCIAL AND RESOURCE IMPLICATIONS**

7.1 The Housing and Regeneration Service is going through a period of significant change. These changes include:

- Meet regulatory requirements
- Welfare Reform
- More focus on tenant involvement
- New lettings on 5 year tenancies
- New allocations policies
- Changes to the way that people are supported in the community
- Major £60M investment over the next 5 years
- Introduction of mobile working
- Improved IT
- OR

7.2 There might be financial benefits in exploring Stock Transfer but further work would need to be undertaken. The main benefit would be by moving outside of the public sector, additional borrowing would be possible which could assist additional investment.

- 7.3 There are potential benefits of outsourcing the landlord services which highlight that these could be as much as £42M over the life of the Business Plan.
- 7.4 Resources are currently stretched delivering the work highlighted in 7.1 above. If Members wished to pursue stock transfer or outsourcing, then the work programme would need to be amended to compensate or additional resources would need to be allocated to take work forward. No detailed costings have been sought but it is estimated that budgets of £1M would need to be allocated for a stock transfer proposal – although an initial feasibility study could be commissioned for around £100K and £250K for outsourcing.

## **8.0 RISK ASSESSMENT**

- 8.1 There are greater risks associated with stock transfer and outsourcing than allowing the status quo to remain.
- 8.2 Allowing the organisation to cope with the changes outlined in 7.1 above, which all have various levels of risk associated with them, allows for a period of stability.
- 8.3 Reviewing options for change in 2017 allows the potential fiscal benefits to be achieved in a managed way that will minimise risk.

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### **Background Documents**

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

### **Equality Impact Assessment**

There is a direct impact on members of the public, employees, elected members and / or stakeholders. Therefore an Equality Impact Assessment is required. A formal equality impact assessment is attached as an Appendix to this report, the results of which have been taken into account in the Recommendations contained within this report.

### **Appendices**

Appendix A - Equality Impact Assessment  
Appendix B – Minute of Landlord Services Committee (Cabinet Working Group) held on 6 November 2013 (to follow)