



Report of the Director of Environment and Neighbourhoods

Executive Board

Date: 14th January 2009

Subject: The future options for investment in Council housing

Electoral Wards Affected:

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

Eligible for Call In

Not Eligible for Call In
(Details contained in the report)

EXECUTIVE SUMMARY

1. This report seeks permission from the Executive Board to commence an options appraisal to determine the long term vision for Council housing in Leeds and assess the financial and organisational options available to deliver the vision. The report explains that the significant additional investment that has been delivered to make Council houses meet the government's decent homes standard is due to come to an end in 2010/11 and that the ALMOs remain financially viable until 2012/13. The report sets out the current national policy initiatives that will contribute to the appraisal and proposes management arrangements for the appraisal.

1.0 Purpose of this Report

- 1.1 The purpose of this report is to seek a recommendation from the Executive Board to commence a piece of work that will investigate and report back to the Executive Board on the options for investment in Council housing after the completion of the decency programme in 2010/11.
- 1.2 This report will set out the reasons why an appraisal of options for the future investment in Council housing is required and will explain the current policy changes, set out the options and propose the arrangements for managing the process.

2.0 Background Information

- 2.1 Leeds established six ALMOs in 2003 and submitted a bid to the government for £450m additional investment credits to enable the Council housing in Leeds to reach the government's decent homes standard. By late 2004 all six had achieved a two star status with the Audit Commission and were eligible to draw down the money.
- 2.2 Since 2003 the ALMOs have been delivering the capital spend and are on target to meet the governments decent homes target by the end of 2010/11. By the end of 2010/11 in excess of £1 billion will have been spent making Council housing decent.
- 2.3 In 2006 Leeds reviewed the number of ALMOs in the city and reduced them to three. The main drivers for this change were financial viability and reducing stock numbers. This review established three financially viable ALMOs that would be able to complete the decency programme by the end of 2010/11. Now that the decency investment programme is coming to a close it is now time to investigate the options for future investment in Council housing for the next decade.

3.0 Drivers for Post Decent Homes Options Review

- 3.1 Significant capital investment will be needed in the future for Council housing. There will be a need, as a minimum, to maintain the Council housing stock at the decency standard. In addition there is a need to deliver on wider investment needs such as lift replacement and statutory works such as aids and adaptations. The Council and the ALMOs may also aspire to increase investment to deliver a higher standard than decency. In addition, the Council may have to seek an alternative strategy for sheltered housing should the round 6 PFI bid not be successful. Beyond the maintenance and improvement agenda, the Council is also committed to delivering additional social housing. After 2010/11 capital resources available to maintain Council housing will fall to around £50 million as compared to in excess of £150 million at the peak of the decency programme. This reduced sum will be insufficient to meet the above objections.
- 3.2 The current approved Business Plans for the three ALMOs show, that through a combination of the use of reserves and the delivery of challenging efficiency and savings targets, they are financially viable, from a revenue perspective, to the end of 2011/12 . After 2012/13, and after usable reserves have been largely exhausted, at least two of the current ALMOs are projecting operating deficits. The management Agreement with the ALMOs comes to an end in 2012. The agreement was extended as part of the last review. Therefore, there will need to be a clear direction of travel before decisions can be taken about further extensions.

- 3.3 The Council, tenants and the ALMO Boards will have expectations about improving the quality of service delivery. This will require funding of both a revenue and capital nature. This is an important point as this review needs to consider both revenue and capital matters. If the ALMOs can attain either a two or three star rating from the Audit Commission, it will place both the Council and the ALMOs in the most advantageous position to take advantage of any flexibilities and freedoms that the government may offer in the future around revenue and capital funding. This in turn will assist the Council to deliver against its strategic objectives.

4.0 The Current Policy Backdrop

- 4.1 Government policy is moving quite quickly with the introduction of the Housing and Regeneration Act. Policy development is aimed both at increasing investment and service quality. The Housing and Regeneration Act created two very important bodies for the future of the sector. The Housing and Communities Agency (HCA) and the Tenant Services Agency (TSA). The HCA will be responsible for taking forward the government's investment plans. The TSA will be responsible for ensuring that tenants receive the highest quality of service.

Investment

- 4.2 The HCA took over responsibility for the delivery of the governments strategies and targets in relation to housing from 1st December 2008, including the funding of the public sector stock. The HCA has said that it will seek to have a single conversation regarding investment and that it sees this single conversation being held with local Authorities. The HCA are seeking to agree a local area investment plan with Authorities. This means that the Council's vision for funding for Council housing will need to be set within this context and will need to be part of a strategic vision for housing in the city.
- 4.3 The Department of Communities and Local Government (CLG) are leading a review of the HRA. It is proposed that there will be a report to ministers in February 2009 followed by a consultation paper. The review, which Leeds is contributing into, is wide ranging. It is considering whether or not there should still be a ring fenced account and if so what should be in it and whether or not there should be opt out options and if so how will debt be treated. The review may offer opportunities for borrowing to fund capital investment in Council housing.
- 4.4 Currently, ALMOs with three stars can become accredited organizations with the Housing Corporation and are eligible to receive funding to build new housing. Two star ALMOs may join with other accredited organizations to be part of a consortia bid. Recent market conditions have resulted in a number of government initiatives that will increase the amounts of money available for allocation by the Housing Corporation, which from 1st December became part of the HCA. Aire Valley Homes has recently retained its 2 star status and, as a result, is able to partner other housing organizations to bid for capital funding from the HCA.

Service Improvement

- 4.5 The TSA will effectively become a tenants watchdog with wide ranging powers that will enable it to require poor quality service delivery to be improved. The TSA will be able to require ALMOs to change their operations in order to improve service delivery.
- 4.6 The Audit Commission's inspection regime for ALMOs has been developed to enable the CLG to have confidence to release decency funding to the ALMOs. As

ALMOs complete their decency programmes this function is no longer required. The Audit Commission are currently consulting on the introduction of short notice inspections. These would be smaller in scale inspections focusing on one or two themes rather than an holistic inspection of an ALMO. The purpose would be to offer a more focused approach that will help to drive up service standards.

5.0 The Options

5.1 Previously, appraisals of housing options focused exclusively on achieving decent homes. However, due to the development of government policy, matters have moved on. Option Appraisals now need to encompass the long term strategy for the management of and investment in the assets. The Council will need to set out its own vision for the standard of the stock, the forward implications and a strategy to deliver it. This vision also needs to connect to the long term strategic outcomes set out in the Leeds Strategic Plan.

5.2 It is for the Council to lead on the option appraisal work and in so doing it would need to engage with all stakeholders. Essentially the appraisal would need to set the agreed long term preferred strategy against a range of options. In so doing the appraisal would need to consider the organisational, financial and governance arrangements for each option and how they would best deliver the preferred long term strategy.

5.3 The options fall in to four main categories

1. Return the stock to the Council
2. The continuation of an ALMO model
3. Transfer the ownership of the stock to a Housing Association created for the purpose of the transfer
4. A mixed approach that could involve ALMOs, PFI, transfer and return to the Council parts of the stock.

Dimensions to consider when appraising these options are:

5.3.1 The appraisal will need to consider which of these options can best provide the requisite investment to deliver the long term strategy. The opportunities for investment will be a mixture of public funding through the HCA or borrowing. The impact of the review of the HRA and the inspection ratings of the current ALMOs will be crucial factors.

5.3.2 The appraisal will need to determine which of these options can best secure continuous improvement in service delivery to meet not only tenants ambitions but also the expectations of the TSA. The role of Audit Commission inspections will be vital. In addition the potential for the options to secure additional income to develop services will be an important factor to consider.

5.3.3 Aside from the additional investment that the ALMOs have brought to the city perhaps the other main advantage that ALMOs have brought is greater tenant involvement. The ability to give a local focus has been welcomed by tenants. The ability to maintain a local focus will be a key consideration in appraising the options.

5.3.4 A number of Councils and their ALMOs have already started the debate about the future. Leeds has contacts with most of these Councils through its membership of the national Councils with ALMOs group and it is proposed to consult with them as part of the Leeds appraisal.

6.0 Implications for Council Policy and Governance

- 6.1 The conclusion of the appraisal may well have significant implications on the Council as it could change the manner in which Council housing is managed and funded within the city.

7.0 Legal And Resource Implications

- 7.1 There may well be legal and resource implications within this project. The involvement of representatives from both Legal Services and Resources will enable any risks emanating from this appraisal to be managed.

8.0 Conclusions

- 8.1 The creation of ALMOs in Leeds has brought great benefits to Council tenants and the houses in which they live. However, the significant additional funding secured in 2003 has now come to an end and a decision needs to be taken about the future investment in Council housing.

- 8.2 An appraisal, as set out in this report, will provide a detailed assessment of requirements and an analysis of the options that would best suit Leeds.

9.0 Recommendations

- 9.1 Executive Board is recommended to agree to the commencement of an options appraisal on the future investment in Council housing.

- 9.2 Executive Board is recommended to request an update report in May 2009.

Background Papers

There are no background papers