



London Borough of Hammersmith & Fulham

CABINET

Monday 1st December 2014

STRATEGIC HOUSING STOCK OPTIONS APPRAISAL

Report of the Cabinet Member for Housing – Councillor Lisa Homan

Open and Appendices 1 and 2 are exempt from disclosure on the grounds that they contain information relating to the financial or business affairs of a particular person (including the authority holding that information) and in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Classification - For Decision
Key Decision: Yes

Wards Affected: All

Accountable Executive Director: Executive Director for Housing & Regeneration – Melbourne Barrett BSc(Hons) MBA MRICS

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1. EXECUTIVE SUMMARY

- 1.1. The Labour Manifesto prepared for the 2014 local election identified as a priority, “We will work with council housing residents to give them ownership of the land their homes are on.” This is consistent with the tenets underpinning the Big Society and the Administration’s commitment to devolving more control to the community. Moreover the Economic Regeneration, Housing and The Arts Policy and Accountability meeting of 11th November 2014 requested the Administration to establish a Residents Commission on Council Housing to consider the options for empowering residents to take local control over their homes and for maximising investment in existing and new council homes. This report proposes the undertaking of a Strategic Housing Stock Options Appraisal (SHSOA). Such an options appraisal will consider the practical options available to the Council, and deliver to Members a report back which fully considers the benefits and disadvantages of each option.

- 1.2. In addition to the Manifesto pledge there are also other good reasons for considering a SHSOA at this time. These include:
 - a) the council has not conducted a full Stock Options Appraisal since 2003;
 - b) the Administration is committed to devolving more control to the community; and
 - c) the Administration is in the midst of updating the council's Housing Strategy to reflect local need and priorities.
- 1.3. Members have expressed the strong desire that tenants should be heavily involved in an accountable and transparent process, and any recommendation leading to a substantial change will likely need to be put before tenants in a potential ballot.
- 1.4. Given the Council's housing stock is a significant resource that plays a major role in the functions of the council and community, any recommendation to change will need to be carefully considered and evidenced. There will be a number of professional services which need to be procured to support on the financial, legal and asset requirements. There will also be considerable resourcing requirements to ensure meaningful tenant engagement throughout this process. The results of this extensive work will enable the Council to work more effectively with residents to devolve more control and achieve value for money in the significant ongoing investment in Council homes. As a result, estimated costs for the SHSOA (based on previous examples, and industry advice), are considered to be approximately £1.5 million.
- 1.5. The indicative timetable for the SHSOA is as follows: -

	2014			2015								
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
H&F Business Board - 22nd October 2014	■											
Cabinet - 1st December 2014			■									
Project setup & Governance			■									
Preparation and initial scoping			■									
Brief Corporate Support Departments			■									
Cabinet approval of proposed programme and budget to fund Housing Options Appraisal programme			■	■								
Appointment of Residents' Commission on Council Housing							■					
Procurement of Independent Tenants Advisor & specialist advice (assuming frameworks)							■					
Establish data room			■	■								
Establish role and work of Independent Tenants Advisor						■						
Stock Condition Survey								■	■			
Finance and Funding desktop study								■	■			
Independent Options Appraisal - Desktop Reviews								■	■			
Independent Options Appraisal - Appraisal of Options								■	■	■		
Presentation and analysis of Key Information by Steering Group									■	■	■	
Outcome of the Full Options Appraisal report of recommended option										■	■	■

- 1.6. A Strategic Housing Stock Options Appraisal on a regular basis is considered to be good practice in order to achieve the best value possible from ongoing maintenance and repairs, but the potential costs and the lack of a guaranteed outcome should be carefully considered and therefore regular reviews are built

in throughout the process to ensure that the process does not continue to work up unviable options.

2. SUMMARY

- 2.1. The Labour Manifesto prepared for the 2014 local election identified as a priority, “We will work with council housing residents to give them ownership of the land their homes are on.” This report proposes the undertaking of a Strategic Housing Stock Options Appraisal (SHSOA), which will include a range of options including disposal of the housing stock by way of stock transfer, prior to putting the issue before tenants in a potential ballot.
- 2.2. Within the Housing Revenue Account (HRA), the Council owns and manages circa 12,500 homes, circa 4,600 leasehold properties on which HRD make a service charge, and providing a service to 166 freeholders on Council Estates. In the context of any proposed transfer, consideration will need to be given to protecting the council’s position, or otherwise, in relation to leveraging value from the portfolio, particularly in the event that a transfer of the housing stock to an existing Housing Association emerged as the preferred option.
- 2.3. In addition to necessary options appraisals, including a sound business case, feasibility studies and engagement with residents, a successful stock transfer would require the support of government in the form of the Department of Communities and Local Government (DCLG) and HM Treasury, together with the approval of the Social Housing Regulator, the Homes and Communities Agency. Housing Revenue Account (HRA) Self Financing, which came into effect in April 2012, introduced changes in the approach to Stock Transfer, with the latest guidance having been issued in July 2014. HRA Self Financing ended the national housing subsidy system; stock retaining local authorities are expected to manage their housing operations from the income that they derive. In the case of LBHF, central government reduced HRA debt from £415 million to £218 million, as part of the HRA Self Financing settlement and, therefore, it cannot be automatically presumed that central government will provide financial support to a stock transfer process, which has traditionally been the government’s approach.
- 2.4. Traditionally stock transfer from local authorities to Registered Providers (housing associations) has been utilised to facilitate capital investment in the stock to fund improvements that otherwise may not be achievable. This traditional approach was assisted by a supportive approach from government in terms of writing off debt and premia to smooth the path of the transfer, with the receiving Registered Provider taking on new borrowing to fund the acquisition and the promised improvement works to the stock. At LBHF, the investment case is rather more nuanced, as although the Decent Homes programme has been completed (kitchens, bathrooms, boilers and roofs), there remains a significant investment requirement in relation to lifts, cyclical decorations and works to improve the public realm on estates.
- 2.5. In undertaking a stock options appraisal process, there is a requirement to have regard to the impact on the rest of the council if the housing stock were to be disposed of by way of stock transfer in the overall value for money assessment.

- 2.6. Effectively there are two main options for the future financing, ownership and management of the Council's housing stock: -
- a) Stock retention, which factors in the impacts of self-financing and potential restructuring of existing housing management, maintenance and future investment arrangements; and
 - b) Stock transfer to an existing Registered Provider (housing association) or to a newly created Registered Provider that might be a community based organisation.
- 2.7. Initial consideration of the manifesto priority, suggests that a stock transfer to an organisation that has a substantial role for tenants, such as a Community Gateway¹ may be a preferred option, however, it is important that the Council appraises in detail all the potential options open to it.
- 2.8. Importantly, if the options appraisal were to recommend any option other than the Council directly owning the stock and managing it in the Housing Revenue Account, tenants would hold the final say and a transfer of ownership would only proceed if it were supported through a future ballot of all tenants. This would mean the tenants would be faced with a ballot that would either a) Retain the existing stock or b) Effect a Stock Transfer. This means that retention automatically becomes the base case against which all other options are tested.
- 2.9. This report seeks authority and funding to carry out and complete a strategic appraisal of the options available to the council, with emphasis upon the ambition in the Labour Manifesto of 2014, to give council housing residents ownership of the land their homes are built upon.
- 2.10. This work will be carried out alongside an engagement exercise to seek the initial views of residents and other relevant stakeholders who would be affected.
- 2.11. In order to progress the Stock Options Appraisal, specialist consultancy support will be required to be procured to advise the council in respect of: -
- a) appropriate legal structures;
 - b) assessment of landed property titles and proposed terms of transfer;
 - c) stock condition assessment to inform works required to maintain the housing stock in good condition in the short and medium term, together with associated financial modelling; and
 - d) valuation and financial advice to assess Transfer Value and an outline business case² for transfer taking account of stock condition information and potential access to funding following any possible transfer.
- 2.12. To expedite the Options Appraisal preliminary, conditional, procurement notices have been issued subject to Cabinet approval. It has therefore been made clear in the tender documents that LBHF may abandon the procurement at any time

¹ A Community Gateway is a model of housing organisation that is able to provide a range of opportunities for tenant and community empowerment, and which is owned by and legally accountable to its members. The Community Gateway's primary aim is to place community regeneration at the heart of the housing organisation and to use the strength of the organisation as a catalyst for community.

² As set out in the current DCLG Stock Transfer Guidance (July 2014).

and that the Council is not obliged to award the Contract(s). This may include stopping or reducing the scale of work should an option(s) prove fundamentally unviable.

- 2.13. In order to support residents, the regulations require the appointment at the council's cost of an Independent Tenant Advisor. This element would be an integral part of the council's resident engagement programme, as set out in section 6 of the report.
- 2.14. Preliminary estimates suggest that a budget envelope of approximately £1.5 million is required for programme management, professional fees and external advice to conclude the initial work packages to produce a strategic options appraisal together with an associated stock condition survey and outline business case, which includes the costs of external specialists along with an independent tenant advisor, and a resident engagement programme, as set out in section 6 of this report and at Appendix 1. Once tender submissions are received for various work packages the budget envelope will be updated. The Council will fund the Options Appraisal from the HRA and from General Fund Reserves, with the latter likely to provide more than half of the amount in line with DCLG regulations. The longer-term financial impact of the various options will be considered during the strategic options appraisal process.

3. RECOMMENDATIONS

- 3.1. That approval be given to proceeding with and producing a Strategic Housing Stock Options Appraisal (SHSOA) for the future financing, ownership and management of the Council's housing stock, as set out in section 5 of this report.
- 3.2. That approval be given to carrying out an initial residents engagement programme to ascertain residents initial views on the possible options open to the council with regards to its Housing Stock, set out in Appendix 1, as the first stage of any strategic housing stock options programme.
- 3.3. That approval be given to the budget of £1.5 million funded from the General Fund Reserves for the preparation and submission of the Strategic Housing Stock Options Appraisal business case and report to Cabinet. The contribution from the HRA to these costs will be calculated after the procurement of services in line with DCLG regulations. Approval of this contribution is delegated to the Cabinet Member for Housing.
- 3.4. That approval be given to the establishment of a 'Residents Commission on Council Housing', for strategic oversight of the Stock Options Appraisal comprising of approximately a dozen residents supported by the programme manager.
- 3.5. That in accordance with the provisions of Contract Standing Orders paragraph 11.4, framework agreements operated by either the Crown Commercial Service and/or the Homes & Communities Agency be used to procure the necessary specialist advice.
- 3.6. That the requirements contained in Contract Standing Order 12.3 for the Cabinet to make contract awards be delegated to the Cabinet Member for Housing, in order to progress the related procurement processes for: -

- a) external Independent Tenants Advisor, including Contract Award on the basis that extension options are included to allow for further advice, should stock transfer be recommended.
- b) external legal advice including Contract Award on the basis that extension options are included to allow for further advice, should stock transfer be recommended;
- c) consultancy to conduct a comprehensive refresh of stock condition information to a warrantable standard including Contract Award on the basis that extension options are included to allow for further advice, periodic updates throughout the programme as required, rights to the data and analysis be available/assigned to any new organisation(s) and their advisors, should stock transfer be recommended;
- d) external property and surveying advice including Contract Award on the basis that extension options are included to allow for further advice, should stock transfer be recommended;
- e) external financial advice including Contract Award on the basis that extension options are included to allow for further advice, should stock transfer be recommended;
- f) external Communications and Consultation Advisor including Contract Award on the basis that extension options are included to allow for further advice, should stock transfer be recommended.

up to a maximum cumulative estimated value of £1.5 million for the Strategic Housing Stock Options Appraisal.

- 3.7. That authorisation be given to the Programme Team to share data and analysis with the Residents Commission on Council Housing, external advisors, and funders etc as required throughout the Strategic Housing Stock Options Appraisal in accordance with the Council's Information Sharing Protocols.
- 3.8. That delegated authority be given to the Cabinet Member for Housing in conjunction with the Executive Director for Housing & Regeneration to progress the Options Appraisal and then report the outcomes back to the Cabinet, where there is a desire to deliver an interim progress report to the ERH&A Policy & Accountability Committee in May/June 2015, and to conclude this process at the earliest opportunity with a report to Cabinet in August/September 2015. This assumes timely progression of activities throughout the Strategic Housing Options Appraisal.
- 3.9. That authorisation be given to the Executive Director for Housing & Regeneration to hold exploratory discussions with Department for Communities and Local Government (DCLG), HM Treasury, Homes & Communities Agency (HCA) and Greater London Authority (GLA) on process, funding and timetable to ensure the Strategic Options Appraisal meets all parties' requirements.
- 3.10. That members of the Economic Regeneration, Housing and the Arts Policy and Accountability Committee be invited to participate in the Stock Options Appraisal process.

4. REASONS FOR DECISION

- 4.1. To confirm the Cabinet's priority to work with council housing residents to give them ownership of the land on which their homes are built.
- 4.2. To explore the options available to give greater powers to residents of the council's housing estates across a broad range of areas.
- 4.3. A stock transfer option may allow access to borrowing currently limited by the HRA debt cap and therefore access to the funding to increase the provision of affordable housing within the Borough, as well as giving more flexibility in terms of being able to maintain homes at a decent standard.
- 4.4. The Council has not conducted a full Stock Options Appraisal since 2003.
- 4.5. The Council is committed to devolving more control to the community.

5. BACKGROUND & CURRENT POSITION

- 5.1. H&F Homes Ltd, an Arm's Length Management Organisation (ALMO), was set up in 2004 to manage the Council's housing stock. This enabled the ALMO to access government funding and undertake a £215 million programme of works to deliver the Decent Homes initiative. H&F Homes Ltd substantially completed the Decent Homes programme and in April 2011, responsibility for housing management returned to the Council and the ALMO was subsequently wound up.
- 5.2. Following this, the Localism Act 2011 saw the implementation of HRA reform, which replaced the complex system of housing subsidy with a "self-financing" regime from 1st April 2012. This model has a number of implications for the maintenance of a viable long-term HRA business plan:
 - a) the Council's HRA retains the revenue derived from rents and service charges, and from this is expected to cover the combined costs of management, repairs and effective maintenance of the stock;
 - b) government-funded capital programmes, such as Decent Homes (once the current backlog programme has been completed) have ceased; and
 - c) actual HRA debt was reduced from £415 million to £218 million against a backdrop of the Government setting the Council's borrowing cap³ at £255 million. This debt cap provides borrowing "headroom", which will stand at £50 million following recent debt repayments, which are forecast to reduce debt to £205 million by 31st March 2015.
- 5.3. In addition to the changes outlined above, it should also be noted that in recent years the Council, both prior to the establishment of and under the ALMO, under-invested because of the constraints imposed on the Council by the financial regime. The Decent Homes programme run by the ALMO brought a welcome "catch up" investment in repairs and improvements. However, this only covered certain property elements and significantly did not cover lifts or public realm. Therefore, there remains much work to do; with £49 million of investment in stock via the capital maintenance programme planned for 2014/15 alone,

³ The government introduced a self-financing 'debt cap,' a prescribed figure above which the Council is not permitted to borrow.

which is a higher rate of investment than the annualised rate of investment under the Decent Homes Programme.

- 5.4. HRA Reform provided the opportunity for the Council to adopt a pro-active asset management approach to creating a 30-year investment plan. The HRA Asset Management Plan endorsed by Cabinet on 8th April 2013 identified that the housing stock required around £1.2 billion of investment over the next 30 years. This investment requirement is roughly equivalent to an average of £93,000 per property and an average of £3,000 per property per annum.
- 5.5. The HRA Asset Management Plan is incorporated within the current long-term business plan, which supports the HRA Financial Strategy approved by Cabinet on 3rd February 2014, which is predicated on the disposal of 295 void properties to partially fund the capital programme. The future financing of the HRA Capital Programme, is currently under review by the Administration.
- 5.6. As a result of prospective changes in policy surrounding asset disposals, the Administration is currently reviewing a number of scenarios for the HRA long-term business plan and the HRA Financial Strategy.

6 OPTIONS AND ANALYSIS OF OPTIONS

- 6.1 The council has two main options regarding the financing, ownership, governance and management of the Council's stock. These are to carry out a Large Scale Voluntary Transfer or to retain the stock within the Council. Each option has a number of variants.
- 6.2 The headline ownership and management issues are identified in the table below: -

Option	Ballot	Ownership	Management	Examples
Transfer stock to Community Gateway	✓	Residents	Residents	Preston, Braintree, Lewisham, Watford
Transfer to CoCo ⁴	✓	CoCo	CoCo	Gloucester City Homes
Transfer management to ALMO	Test of Opinion	Council	ALMO	Westminster, Brent, Lambeth
Transfer management to TMO	Test of Opinion	Council	TMO	Kensington & Chelsea
Transfer stock to Community Mutual	✓	Residents & Staff	Board / Representative Body including Residents & Staff	Rochdale Boroughwide Housing
Transfer land not stock to Community Land Trust		Buildings - Council Land - Residents	Council	East London Community Land Trust (not HRA)
Transfer stock to Registered Provider (RP)	✓	RP	RP	Richmond, Bromley

⁴ 'CoCo' is jointly owned by the Council, tenants and independents and is set up to receive a transfer of housing stock from the council. The CoCo model was designed by the National Federation of ALMOs to enable access to private sector funding whilst preserving community focus and customer involvement.

Partial Transfer of stock	✓	RP	Residents / Independents /Councillors	Poplar HARCA in Tower Hamlets
Retention of Housing Stock		Council	Council	Camden, Islington

- 6.3 The Council faces significant financial and legal consequences in relation to all of the options that are available to it for the future financing, ownership and management of its housing stock.
- 6.4 The immediate headline from this report is that if the Council chooses to consider a transfer of its housing stock, it must consider the effect of transfer on the Council's other services and activities. This includes an assessment of the Council's overall financial position in terms of the General Fund and impact on the corporate structure of the authority.
- 6.5 Whilst preparing the Stock Options the Council should continue to explore options for the transfer of its housing stock by: -
- a) Considering the guidelines set out in the Housing Transfer Manual (July 2014) and updates to same, once published by the DCLG;
 - b) Reviewing the tenanted market value of the stock and associated debt reduction issues, value for money and determine optimum transfer combinations that maximise investment for the whole stock;
 - c) Increasing communication with DCLG, GLA and the HCA;
 - d) Ensure the Council is clear on the financial implications to the Council of stock transfer;
 - e) Ensure that stock transfer would be financially viable for the organisation into which the stock transferred, this should include considering the ability of the organisation to raise funding.
 - f) Developing a comprehensive communication and consultation strategy to raise awareness amongst all stakeholders of the role of the Council, promote transfer options, explain the implications of stock transfer and include a plan for engaging socially isolated communities ; and
 - g) Aiming to submit a formal transfer proposal, if this is the preferred option, to the DCLG by the end of 2016 or early 2017.
- 6.6 All of the options would need to be appraised fully over the coming months and would also require the involvement of: -
- a) DCLG, HMT, GLA and the HCA;
 - b) Tenants and the TRAs;
 - c) Leaseholders;
 - d) LBHF councillors and officers, H&F Business Board, HRD Management and employees.
- 6.7 In considering the options, it will be necessary to determine and agree the Council's key strategic objectives for housing within the borough and to evaluate how each option meets these key objectives.
- 6.8 The key objectives and tests are likely to include: -

- a) Will the option provide all the investment needed, and at the right time, for the council owned homes in Hammersmith & Fulham?
- b) Will the option satisfy the government's requirement for a value for money solution and will it be possible to produce a viable business case as part of the stock transfer application?
- c) Will the option maximise customer involvement, customer led self-regulation and place customers at the heart of governance?
- d) Will the option at least maintain the current service standards and performance levels achieved by the Council?
- e) Can the Council afford the option financially?
- f) Will the option represent the corporate interest and interest of the council taxpayer?
- g) Will the option enable the council or stock transfer organisation to fully fund the long-term business plan?

6.9 Further desirable outcomes to be tested include: -

- a) The ability to provide new social and affordable homes that meet future demands and needs of the borough;
- b) Any new organisation to be recognised as a strategic housing partner within the Borough;
- c) Have wider neighbourhood responsibilities than housing provision alone; and
- d) Provide additional employment and training opportunities.

6.10 A stock transfer option allows access to borrowing governed by the financial markets and not by the HRA debt cap and therefore potentially affords more access to the funding necessary to achieve and maintain decency for the properties and deal with all other backlog repairs as well as providing additional affordable housing, providing the debt can be serviced from rents and loan covenants complied with. This will need to be thoroughly appraised prior to the identification of stock transfer as a viable option. In addition, a stock transfer would give the council an opportunity to promote its commitment to work with residents to give them genuine ownership and interest in their future housing organisation. The new organisation would potentially be able to provide its tenants with more support as it would not be restricted by The Housing (Welfare Services) Order 1994. This Order forces councils to account for some elements of welfare outside the HRA which as Registered Provider for example would be able to deliver. The council has already commenced a debate with tenants, as to how it can further develop its tenant involvement arrangements; indicative early ideas and thoughts around alternative ownership models have been explored and favourably received so far.

6.11 The Council would also need to consider that in the event of a stock transfer, the Council would aside from statutory homelessness, housing advice, register and enabling functions, no longer be responsible for, or control, housing service provision in the Borough and unlike an ALMO, it would not be possible to re-integrate the new Landlord back into the Council at a later date.

- 6.12 The guiding principle of all stock transfer proposals is the requirement that for any stock transfer to take place the residents concerned must have their opinion of the proposals properly tested – by ballot – and if the majority who vote oppose, then the proposal is not carried forward. This means that any options appraisal must also advise the implications of the rejection of stock transfer.

7. CONSULTATION

- 7.1 The process of carrying out an options appraisal and possibly a ballot has the potential to re-galvanise resident involvement in the borough. The options appraisal will involve high levels of consultation with residents in order to help determine the viability of stock transfer. The ownership and management of residents' homes is a very important issue and may generate strong opinions on all sides of the debate. This atmosphere would be highly conducive to enhancing the council's ability to attract residents into the resident involvement structure.
- 7.2 Any subsequent ballot or test of opinion will need to be resident led and will require high levels of both consultation in developing an 'offer' and in ensuring that residents supported the proposal. The Council would need to support an Independent Tenant Advisor to work with residents in evaluating and shaping the ultimate offer document. This process in turn would help to embed residents in the decision making process of any receiving landlord.

Statutory Consultation Requirements

- 7.3 The Secretary of State will not consider granting consent to stock transfer unless the local authority can demonstrate that it has properly consulted tenants as required by paragraph 3 of Schedule 3A to the Housing Act 1985 ("paragraph 3").
- 7.4 This means that the options appraisal and the Council's decision on the future financing, ownership and management of its housing stock need to be fully informed by consultation with customers, staff, councillors and other key partners.
- 7.5 From the outset of the options appraisal project, the Council will need to ensure that residents, staff and councillors and other key partners should play a significant role in the appraisal of options for the housing stock.
- 7.6 Residents need to be engaged from the very beginning of the project in defining objectives and priorities for the Council's housing stock. Residents will need to highlight their priority objective as the ability to access long-term funding to support the improvement and repair of high-quality affordable homes. Residents will also be concerned to identify how to protect and promote tenant rights; improve the local provision of services; achieve the regeneration of neighbourhoods as some of the key priorities for consideration when appraising options. These objectives and their relative weighting will need to underpin the identification of the benefits of each potential options for the future financing, ownership and management of the housing stock.
- 7.7 The Council will need to develop a detailed Communication and Consultation Strategy and Tenant Empowerment Statement to guide consultation with all stakeholder groups and to ensure barriers to involvement in the process were

identified and removed. The Council also needs to ensure the widest possible engagement, participation and representation through their consultation activities.

The Offer

7.8 As part of any consultation and ballot of tenants, if appropriate, an Offer Document will need to be developed. This would set out the key promises that the new Landlord would deliver. The Offer Document would form part of the transfer contract between the Council and the new Landlord.

7.9 Initial consideration has been given as to what key promises could potentially be given by a new Landlord that will be reviewed in the Strategic Housing Options Appraisal, these could include: -

- **Further investment**

Maintaining the Decent Homes standard, additional affordable housing, environmental works, street properties investment plan and Equalities Act plus accessibility.

- **Regeneration**

Estate renewal and new development.

- **Empowerment**

Independent board with resident majority, ward panels/localism, devolved budgets, setting priorities/policy/standards, selects staff/contractors, scrutiny of performance and choice.

- **Community benefits**

Community regeneration, community engagement, community empowerment, stimulus of local economy and community identity and pride.

- **Financial**

Rent setting confidence, rent set in relation to service level and budget setting/prioritisation.

8 STAFF & RESOURCES

8.1 Staff are a key stakeholder in the stock options appraisal process. This includes all staff working for the Council as part of the housing landlord function within HRD and potentially other council staff who spend the majority of their time supporting the housing landlord function. Any options that the Council considers must also consider implications for employment, terms and conditions and pensions. Any transfer of stock is likely to involve a transfer of staff, which will be covered by the Transfer of Undertakings (Protection of Employment) regulations (TUPE).

8.2 The report recommends the establishment of a core project team to manage the project for the production of the Strategic Housing Stock Options Appraisal. The project team will continue to need substantial support from the Council's

corporate finance, legal, human resources and procurement teams and the Council's housing and regeneration department.

- 8.3 The project team will also require additional support from expert financial, legal and stock condition advisers to complete an analysis of stock value, financial performance, asset management and legal issues related to consultation and warranties.
- 8.4 This report seeks approval for £1.5 million to fund the Strategic Housing Stock Options Appraisal and Stock Condition Survey and should a stock transfer option be recommended, a significant further budget will be required and sought from Cabinet

9 NEXT STEPS

9.1 There are a number of next steps as shown in the table of paragraph 1.5 should the council opt to carry out a Strategic Stock Options Appraisal.

9.2 These are outlined in the indicative project plan in paragraph 1.6 for the Options Appraisal, and the key ones are as follows: -

- a) **Initial discussion with the Homes and Communities Agency, Department for Communities and Local Government, Greater London Authority (and HM Treasury):** There is likely to be a lot of interest in stock transfer and only limited funding will be made available to support a transfer programme. The existing transfer programme is limited to a total overhanging debt write-off of £100 million for transfers that complete before 31st March 2016; the government has yet to publish a future programme, which the council would be required to join should stock transfer be recommended.
- b) **Establish a resident led Residents Commission on Council Housing for strategic oversight of the Options Appraisal:**
- c) **Procurement of External Specialist Advisors:** The Options Appraisal and later phases will require external specialist advice and given the potential value of this expenditure will need to be competed to conform with Contract Standing Orders.
- d) **Appoint an Independent Tenant Adviser:** Tenants will need independent advice throughout the options appraisal process, and they will need to procure an ITA at an early opportunity.
- e) **Approval of the Project Initiation Document and Plan:** This document confirms the scope of the project, likely resources needed and where they will be funded from, key actions and dates.

10 EQUALITY IMPLICATIONS

10.1 A full Equality Impact Assessment will be required to accompany the report on the outcome of the Housing Stock Options Appraisal. However, an EQIA is not required for this report.

10.2 Clearly, this proposal could initiate a complex set of changes with wide ranging and deep impacts on a significant number of people and organisations with a

wide variety of equality considerations. It will be essential to carry out full and detailed equality impact assessments on each of the options that are worked up in the following stages of this initiative.

- 10.3 *Implications completed by: David Bennett, Head of Change Delivery (Acting), Innovation and Change Management, Finance and Corporate Services, 020 8753 1628.*

11 LEGAL IMPLICATIONS

- 11.1 This report seeks approval to proceed with producing a Strategic Housing Stock Options Appraisal for the future financing, ownership and management of the Council's housing stock, to carry out the necessary procurement of expert advice to complete such appraisal and to incur the required cost to undertake the appraisal.
- 11.2 There are significant legal implications for the Council if it selects the option to transfer all of its housing stock. Further legal advice will be required throughout the process and in relation to the implications for the Council's existing contracts, other agreements and arrangements.
- 11.3 *Implications completed by: Tasnim Shawkat, Bi-Borough Director of Law, 020 8753 2700.*

12 FINANCIAL AND RESOURCES IMPLICATIONS

- 12.1 This report recommends that approval be given to create a budget of £1.5 million to finance the preparation of a Strategic Housing Stock Options Appraisal, due to report to Cabinet in August/September 2015. The detailed estimated breakdown of costs relating to the options appraisal is set out in Appendix 1, which is confidential and is in Part B.
- 12.2 Guidance sets out that the majority of costs incurred are expected to fall to the General Fund⁵. It is therefore proposed to set aside funds of £1.5 million from the Council's General Reserves. It may be possible to charge some of the stock condition survey costs to the HRA to the extent that they directly benefit the HRA. (For example, the cost which represents a refresh of the stock condition survey and an improvement to the ongoing maintenance of the stock condition data that the Council would have undertaken even in the Options Appraisal had not been going ahead.). The level of the recharge to the Housing Revenue Account for the Stock Condition Survey will be ascertained as part of the procurement process.

⁵ DoE Circular 8/95 paragraph 29: "the Department now takes the view that the only expenditure which should be a debit to the HRA is that directly incurred by an authority in discharging their statutory duty to consult under section 106A of Schedule 3A to the 1985 Act. These consultation costs must be a debit to the HRA whether or not the transfer proceeds and whether or not there is a capital receipt. No other LSVT related expenditure can be charged to the HRA under item 1, as it is not considered to be expenditure in respect of management of property within that account." This is reinforced by LAAP Bulletin 22, paragraph 35.

- 12.3 Costs relating to the Housing Revenue Account for the Options Appraisal are expected to be £150,000 for the Independent Tenants Advisor and consultation as well as a significant share of the cost of the stock condition survey. These will be funded from existing HRA resources in 2014/15 and 2015/16.
- 12.4 The Council's General Fund Reserve is currently £19 million. It is anticipated that the General Fund will underspend in 2014/15 by more than £4 million due to the interim budget savings reported to Council in July 2014. The recommended range for the Council's Reserves is £14 million to £20 million. Therefore setting aside the £1.5 million for the Strategic Housing Stock Options Appraisal still leaves the Council's balances over and above the recommended level. This contribution will be reduced following a contribution to the appraisal from the HRA. The amount of this contribution will be calculated following procurement in line with DCLG regulations.
- 12.5 Detailed financial implications will be further assessed as part of the Strategic Stock Options Appraisal process and will be subject of a report back to Members in due course. Some initial considerations are set out in the report. As part of the Stock Options Appraisal care should be taken to ensure the financial implications considered are not just restricted to the housing stock for the different stock options appraised but also consider specifically the impact each option will have on the Council as a whole including:
- the cost, financial impact on and benefit to both the Council's General Fund and Housing Revenue Account of the implementing each option;
 - the implications of each option for Council support services, such as Information Communications Technology, finance, legal, HR, property, procurement, and office facilities management;
 - the impact of each option and benefit to both the Council's General Fund and HRA's treasury management strategy; and
 - an assessment of the impact of the proposals on the Council's VAT partial exemptions position.
- 12.6 *Implications completed by: Kathleen Corbett, Director of Finance & Resources (HRD), 020 8753 3031.*

13 RISK MANAGEMENT

- 13.1 There are a number of risks inherent in the Strategic Housing Stock Options Appraisal, which are detailed in the Risk Register attached at Appendix 2, which is confidential and is in Part B. The Council's Strategic Risk Register will in future require modification to note the scheme however the report proposals presently are to seek approval to consider options.
- 13.2 The identification and management of risk will be critical to the success of the project. A structured and auditable process for the benefit of London Borough of Hammersmith and Fulham and all others involved with the project which is dedicated to the purpose of identifying, appreciating, controlling and mitigating risks concerned with the delivery initially of the stock options appraisal and the successful implementation of the chosen option.

- 13.3 The risk management process will be designed by the Programme Team in conjunction with the Bi-Borough Risk Manager to be proactive and can make significant contributions to the manner in which the project is managed and delivered.
- 13.4 Risk management is a practical aid to the project team. It cannot, and is not intended to, supplant intuitive project management. It adds structure to the team's appreciation of risks, provides assurance, which all parties can understand and agree to. It enables decisions to be validated.
- 13.5 Risk management will be applied by the Programme Team in conjunction with the Bi-Borough Risk Manager to the full process of implementation at all stages of the Project. It has the greatest potential to mitigate risks when deployed early, well in advance of the circumstances, which might give rise to risks. Assessment of risk takes into account contractual, commercial, safety, environmental and quality issues. The specific assessment and management of safety risks is dealt with separately in this bid.
- 13.6 It is recognised within the that risks are encountered at three overlapping levels:
- a) Strategic level;
 - b) Change; including Project (or objective) level; and
 - c) Business as usual.
- 13.7 Financial analysis and the outcomes of the consultation will identify and underline some clear risks for the Council when moving into the next phase of its options appraisal.
- 13.8 The key headline risks are detailed in Appendix 2, which is confidential and is in Part B, and all of these risks are directly linked to the Strategic Stock Options Appraisal and decisions that could subsequently arise. The Council will undertake a series of actions to identify those risks, plan and allocate measures to mitigate against these risks and reduce their likelihood. These measures include: -
- a) Observe the guidelines set out in the revised Housing Transfer Manual and continue to work with DCLG and the HCA to prepare a stock transfer proposal that meets Government requirements.
 - b) Develop and implement a comprehensive communication and consultation strategy for stock transfer that explains the role of the Council; the transfer option and implications for all stakeholders. The strategy should be projected over a two-year time frame and its central aim should be the achievement of a ballot result based on full information.
 - c) Work with stakeholders to complete a transparent review of the costs associated with a variety of self-financing arrangements. The investigation should also consider the project objectives of the options appraisal; local service delivery; and efficiency savings and a whole stock solution.
 - d) Develop robust governance for assurance purposes and risk reporting that will include consideration of Information Management, Technological, Continuity of Service, Counter Fraud, Human Resource, Customer/

Citizen, Finance and Legal risks throughout as is consistent with the Councils Risk Management Strategy.

13.9 *Implications verified by: Michael Sloniowski, Bi-Borough Risk Manager, Finance and Corporate Services, 020 8753 2587.*

14 PROCUREMENT AND IT STRATEGY IMPLICATIONS

14.1 Specialist consultancy advice in respect of valuation, surveying, communications, financial and legal advisers and an independent tenant advisor will have to be procured to support the formulation of potential options and the delivery of the programme.

14.2 These services, which are estimated to exceed OJEU value thresholds, are proposed to be procured via appropriate Framework Agreements operated by Crown Commercial Services and/or the Homes and Communities Agency. The services will need to be performed in accordance with the terms (including duration limitations) of the respective Frameworks.

14.3 An assessment of the strategic and operational IT needs for each option should form part of the work to be carried out in the proposed programme.

14.4 In light of the above the Director of Procurement & IT Strategy is in agreement with the recommendations in this report.

14.5 *Implications completed by: Robert Hillman, Procurement Consultant, Bi-Borough Corporate Services Procurement Team, 020 8753 1538.*

LOCAL GOVERNMENT ACT 2000

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	DCLG Housing Transfer Manual (July 2014)	Geoff Wharton	HRD 3 rd Floor, THX
2.	Equalities Impact Assessment	Geoff Wharton	HRD 3 rd Floor, THX

LIST OF APPENDICES:

1 – Breakdown of estimated budget for Options Appraisal (Exempt)

2 – Risk Register (Exempt)