

MAYOR AND CABINET		
Report Title	Housing Challenges and Opportunities	
Key Decision	Yes	Item No.
Ward	All	
Contributors	Executive Director for Customer Services, Executive Director for Resources, Head of Law	
Class	Open	Date: 18 January 2012

1. Purpose

- 1.1 Due to changes in central government policy, legislation and the wider economy there are considerable challenges facing people in acute housing need as well as those on low and middle incomes who are falling between the gap in the rented and home ownership markets.
- 1.2 The most significant financial change is the proposed housing self financing regime which will take effect in April 2012. The principal effect of this change will be to increase the range of options available to the Council to achieve its housing goals around investment in existing homes and new supply of housing.
- 1.3 There is a significant shortage of housing supply nationally, regionally and locally. Over the next 20 years the mismatch between new households forming and the projected supply of new housing in Lewisham means the shortage of housing could be as much as 15,000 units. The requirement for investment in existing homes is also considerable with 55% non decency in the social housing units owned by the Council and 37% non decency in the private rented sector.
- 1.4 This report sets out the level of investment required in existing council owned housing and the significant shortfall in housing supply that we are currently experiencing and expect to continue to experience going forward. In that context the report sets out a review of the demographic and economic changes, the predictions for population and household growth and explores the options available to address the shortfall in funding for investing in new and existing homes. In focusing on the options that will become available through the new self financing regime the report sets out a high-level assessment of the options and their implications for the Council.

2. Recommendations

The Mayor is recommended to:

- 2.1 Note the current and projected strategic housing demands and supply in the borough.
- 2.2 Note the implications of changes to the local authority housing finance regime set out in Section 7 and consider the range of options for delivering its housing investment goals set out at Section 8.

- 2.3 Agree that a full technical and legal appraisal should be undertaken on how these policy challenges might be addressed to include the following two main options and the variants within each:
- **Council retains ownership of the housing stock including** – stay as we are, bring Lewisham Homes back into Council Management and develop a further PFI
 - **Council transfers ownership to another organisation including** – partial stock transfer, full stock transfer to an existing Housing Association, setting up a Co-op, Community Gateway or Council and Community Owned (CoCo) vehicle or setting up a Joint Venture vehicle
- 2.4 Agree to provide one-off funding of £0.5m from corporate resources to finance this appraisal.
- 2.5 Note that at the present time it is difficult to quantify the cost of carrying out this appraisal, and that although officers will seek to minimise the costs the complexity and importance of the decision is such that requests for further funding might be required.
- 2.6 Agree that should any other funding model become available during the appraisal period that it is given consideration.
- 2.7 Agree that the findings of this exercise should be reported back to M&C for a final decision.

3. Policy Context

- 3.1 Addressing issues relating to the quality and quantity of housing stock in the borough relates directly to the Council's Sustainable Communities Strategy (clean, green and liveable) and to the Council's corporate priorities (decent homes for all).

4. Background

- 4.1 The Council undertook a comprehensive stock options appraisal in 2003 to determine how the Council was going to meet the Government's Decent Homes Standard by 2010. The government issued guidance to local authorities outlining the options available to meet the standard – Arms Length Management Organisation, PFI, and stock transfer. The Council's appraisal was subsequently approved by the Government Office for London (GoL) in 2005.
- 4.2 Residents were placed firmly at the hub of the appraisal process with the establishment of the Stock Options Appraisal Steering Group (SOASG) in December 2003, which guided the process from the beginning. The SOASG was made up of eight resident representatives (seven tenants and one leaseholder), alongside the Deputy Mayor as lead Member for Regeneration and the Cabinet Member for Housing.
- 4.3 To inform the stock appraisal process, the Council engaged consultants Savills to update the 2003 stock condition survey and PwC to provide financial advice on the Council's current investment gap and the financial viability of the options available.
- 4.4 The independent tenants' advisor, PPCR was appointed by the Tenants Strategy Group in November 2003 to support and advise the core group of resident representatives through the stock options appraisal process as well as raising awareness of the stock options appraisal process across the wider Lewisham community.

- 4.5 Key strategies were developed in partnership with SOASG to ensure tenant engagement throughout the process:
- Tenants' Empowerment Strategy
 - Communications and Consultation strategy
 - A campaign identity was designed and applied from the start of the process and used for all printed materials, exhibition stands and information points, web pages, presentations and newspaper advertising.
 - Bespoke Leaflets were delivered updating residents on the stock options process, along with factsheets detailing the investment options
 - Adverts on radios, newspaper adverts, press releases
 - 27 Decent Home Roadshows were sited in estates and busy shopping areas which engaged over 250 residents.
 - 15 'Home from Home' events, which took place in busy shopping and leisure venues across the borough, which engaged over 700 residents
 - Visit to showflats
 - Hard to Reach Strategy
 - Equalities Impact Assessment (EIA) on the Stock Options Appraisal Process
- 4.6 The consultation with residents during this two year period about their aspirations for their homes and wider neighbourhoods led to the development of the Council's mixed approach to achieving decent homes i.e. our borough wide ALMO – Lewisham Homes, Brockley PFI, nine stock transfers including a stock transfer under the Community Gateway Model to Phoenix Community Housing.
- 4.7 Transfers have only taken place where popular support for doing so has been established by a ballot of tenants. However there is still a backlog of repair and improvement works, and at present 55 per cent of housing stock does not yet meet the Decent Homes Standard.
- 4.8 To date, the Council has carried out 9 stock transfers to four housing providers – Hyde, L&Q, Broomleigh (Affinity Sutton) and Phoenix Community Housing. In April 2005 Lewisham's stock totalled 31,793. The total number of homes transferred to the above providers is 12,273 with a further 1,800 homes in the Brockley PFI. The remaining 18,000 homes are in Lewisham Homes (approximately 13,000 tenanted and 5,000 leaseholders).
- 4.9 More than £260 million has been attracted to the borough through the stock transfers and PFI to invest in decent homes and wider environmental improvements.
- 4.10 The Department for Communities and Local Government (DCLG) published formal proposals for reform of the housing finance regime for local authorities late in 2010. The details of the new regime, known as self-financing, are now known and the relevant legislation has been enacted and hence the impact on the Council's options and future housing strategy can be assessed. The proposals will have significant impacts for the delivery of the Council's investment requirements in relation to existing housing and new supply, including the delivery of the Decent Homes Programme.
- 4.11 There will be two principal effects of reform. First, it will remove the existing system of national subsidies, passing to local authorities the opportunities and risks of managing housing finance. Second, it will create, if the Council so chooses, the opportunity to borrow money against future rents in order to finance delivery of housing policy objectives. In the short to medium-term, therefore, the Council will need to make long-

term decisions as to its housing policy. These will include but not be limited to the relative priority it places on the various goals it might pursue (such as the decent homes programme, building new housing stock, investing in more specialised forms of housing such as sheltered and extra care), its rent setting and financing policy and the form of organisation that might best deliver these objectives.

- 4.12 Once the technical, financial and legal evaluations of the options as set out in Section 8 of this report have been completed consultation with residents and tenants will be undertaken.

5. Housing supply and demand in Lewisham

- 5.1 The Office for National Statistics projects that the number of people living in Lewisham will grow by 23,500 people (11 per cent) by 2030. The Department for Communities and Local Government (CLG) projects that the number of households in the borough will grow far more quickly, by 37,000 households (34 per cent) by 2033. The CLG projection is derived purely by extrapolating past trends of household formation and dissolution, and takes no account of the practical ways in which policy choices and limited housing availability will slow or stop those trends. Nonetheless, the significant discrepancy between the CLG household projection and the ONS population projection demonstrates the impact that social and lifestyle choices are having on household growth. As people increasingly stay single for longer, form families later there is a tendency towards smaller household sizes and therefore demand is increasing at a greater rate than population growth would suggest.
- 5.2 The CLG projections based on past trends show how the demand in the Lewisham housing economy may change over the coming 20 years. As noted, these projections are based on past trends alone and as such caution should be exercised when drawing conclusions from them. Nonetheless they provide a useful basis for understanding how current demographic trends may impact on housing demand in the future. The key points are as follows:
- The number of households in Lewisham is projected to grow faster than the London and national averages
 - Lewisham will see particularly strong growth among households aged 35 – 55
 - Lewisham will not see the same pressure for housing for older people that will be the case nationally
 - There is an increasing trend towards smaller household sizes, with the greatest increases amongst single person households, including lone mothers, and real decreases in the number of couples.
- 5.3 The total housing stock in Lewisham is 117,000. Of these:
- 32,000 units (28%) are social housing
 - 34,000 units (29%) are private rented
 - 51,000 units (43%) are owner occupied.
- 5.4 Of the Council's own stock 55% does not meet the decent homes standard, compared to 37% of the private rented sector, although 18% of the total private rented stock has category one hazards which the council has a statutory responsibility to address. The council also has 538 units of sheltered and extra care housing, the condition of which is generally below standard.
- 5.5 The national and the local housing economies have undergone significant changes over the past 15 years. A period of substantial price inflation, running from the mid-

1990s until the recession in 2007, increased the average house price in Lewisham by 250 per cent. The median wage increased by 50 per cent over the same period and as a result housing has become increasingly unaffordable, particularly for first time buyers. House prices have since stabilised, but mortgage finance has been rationed, deposit requirements have increased, and with personal debts still high the ability of most first time buyers to save large deposits is severely constrained.

- 5.6 Current planning projections show that a net 16,500 new dwellings will be built over the coming 15 years, of which up to 6,600 (40 per cent) will be either social or intermediate housing. However the recession and the subsequent period of subdued economic growth nationally means that many developments which were marginally viable during the years of price inflation are no longer viable in this period of economic uncertainty, or they are commercially viable only if expectations for the provision of affordable housing are reduced.
- 5.7 Over the past 15 years, high levels of demand and constraints on land availability have driven above-average growth in house prices across London, including in Lewisham, and this has limited affordability for residents. In 1997 the average house price in Lewisham was £73,789 and the median salary was £16,120, a price to income ratio of nearly 5:1. By 2010, and despite the downturn in the broader economy, the average house price in the borough had increased to £255,351 and the median income had increased to £23,592, resulting in a doubling of the price to income ratio to almost 11:1.
- 5.8 House prices have since stabilised, but mortgage finance is increasingly rationed and deposit requirements have increased. To be able to purchase a property in the lowest 25 per cent of prices in Lewisham in 2010, a single resident would need to be earning at least at the level of the highest 25 per cent of earners (£40k p.a. or more), qualify for a 75 per cent loan-to-value mortgage, and have saved £1 in every £5 that they had earned for 7 years or have other access to the £45k deposit. With personal debt levels still high - £1,700 for every adult in the UK aged 18 or older, compared to £1,000 in 1997 – this rate of saving is unlikely, and first time buyers are increasingly reliant on family support to access home ownership.
- 5.9 In combination, these factors have led to a significant shift towards private rental in the Lewisham housing economy. The number of private rental dwellings in Lewisham doubled from 15,500 in 2001 to 31,300 in 2010, while there were slight falls to the number of owner occupied and social rented dwellings. The net effect of these changes is that the private rented sector now plays nearly as large a part (28 per cent) in the Lewisham housing economy as does the social rented sector (31 per cent).
- 5.10 As stated earlier the latest Planning projections show that the total housing stock in Lewisham will increase by 16,500 (15 per cent) by 2027. The estimates set out previously suggest that an additional 37,000 households will form in the borough over the next 20 years, and there is therefore a shortage in gross supply. In addition there may be a shortage of supply in specific tenure types. Past trends and London Plan targets suggest that between 3,000 and 4,000 of the additional units will be social rental units. As noted, currently there are 6,745 households with a housing priority on the housing register and so it is likely that there will be insufficient supply to meet these already existing specific needs, let alone any new households developing such needs over this time period.

- 5.11 The recession and the subsequent period of subdued economic growth nationally means that many developments which were marginally viable during the years of price inflation are no longer commercially viable in this period of economic uncertainty, or they are viable only if expectations for the provision of affordable housing are reduced. As a result, the projections set out above – and especially those over the longer term – should not be viewed as certain to take place.
- 5.12 Given this context, officers are continuing to explore all available options for encouraging appropriate public and private sector investment in new house building, for example by using Council land to deliver private sector investment and by working with local housing providers to identify opportunities to secure new homes on their existing land. Officers are also working with the Homes & Communities Agency to explore whether and how sites in the borough can be used to deliver sustainable development via financial guarantees or prudential borrowing. Officers will continue to recommend that these measures are undertaken to unblock development schemes and deliver new housing, whenever they would be both necessary and prudent.

6. Strategic challenges for housing in Lewisham

- 6.1 The two biggest challenges are the shortfall in housing supply to help meet people's needs and aspirations and the need to invest in existing homes to ensure our current households live in homes that are up to modern day standards.
- 6.2 The challenges in relation to quality and decency are reflected in the fact that 55 per cent of the Council's housing stock does not meet the Decent Homes Standard. In addition the quality and design of the Council's Sheltered Housing and Extra Care provision need to be urgently addressed in the short to medium term. These properties contain shared facilities and bedsits, which is an outdated approach, and many are contained within schemes which have been assessed as being too small to be viable. Investment in all of this current stock is required.
- 6.3 Over the next 20 years the mismatch between new households forming and the projected supply of new housing means the shortage of housing could be as much as 15,000 units.
- 6.4 There are currently 16,566 households on the housing register in total, of which 6,745 (41%) have a housing priority (i.e. are in bands 1-3). However only 1,203 general needs lettings are expected during 2011/12, and as such ensuring fair access to a limited supply of social and affordable housing will continue to be a key strategic challenge, as will be finding appropriate solutions for the 1,000 homeless households in temporary accommodation. Households in need can often wait many years before a suitable home becomes available.
- 6.5 Current demand exceeds supply across all tenures. The Strategic Housing Market Assessment undertaken in 2007 found that there would be a net requirement for 6,800 homes across all tenures up until 2012. At the end of March 2011 4,409 homes had been completed with a further 826 due by March 2012, representing a shortfall of 1,435. The Council will need to continue to take all possible steps to increase supply across all tenures.
- 6.6 The importance of the private rented sector is increasing in the Lewisham housing economy. As a result of this and the shortage in housing supply the Council is taking steps to be able to better access private rented sector housing to discharge its

statutory duties, and to promote quality standards, aligned with London standards wherever possible. To this end the Council is intending to establish a Social Lettings Agency / Private Rented Sector Unit to improve quality, security, affordability and the use of the private rented sector,

- 6.7 The following sections outline the impact of finance reform and set out in principle the options that will be available to the Council to finance measures to resolve some of these challenges. At present it does not appear likely that sufficient financing will be available to address all of these challenges, at least immediately, and consideration will therefore need to be given to the appropriate sequence in which these challenges are to be addressed.

7. Housing finance reform

- 7.1 Local authority housing finance has, since the enactment of the Local Government and Housing Act 1989, been driven by the 'housing subsidy' system. In essence this compared the costs of managing and maintaining housing stock against the rental income it generated, resulting in nationally redistributive payments from authorities with income in excess of costs to those with higher costs than income.
- 7.2 The precise details of the system were highly complex. It did not incentivise authorities to take long-term asset management decisions, or facilitate investment to the level required in the areas most needing it. Its high degree of central control over often relatively minor local decisions also made it expensive to administer. In Lewisham's particular case, had the system continued, by 2013/14 the Council would have been required to make payments rather than receive subsidies, despite the relatively poor condition of its stock.
- 7.3 The new self-financing system has its own complexities, but its implementation represents a significant opportunity for the Council. On 1 April 2012 the Council will receive a one-off settlement of its housing debt. Current debt of £220m will be reduced to £85m. However, a borrowing cap of £129m will be introduced, retaining some central control over total public sector borrowing.
- 7.4 Decisions about investment, borrowing and financing can then be made locally, subject to this cap. Normal principles of decision making will remain, in particular that any new borrowing must be prudent, affordable and sustainable. As housing rents will be the only significant income stream under the new system it is critical to note that new borrowing will, all other things being equal, tend to increase the upward pressure on future rents. Local authorities will also bear the risk on changes in interest rates in respect of any borrowing they undertake, whereas at present these are funded through the housing subsidy system.
- 7.5 In the medium-term the existing 'convergence' controls over future increases in rents will apply, with rents expected to rise by the formula driven calculation of RPI inflation plus 0.5% plus £2 per week. The Government has recently confirmed that its strong expectation is that Councils will continue to increase rents in line with this formula. Under the subsidy system there were automatic financial penalties for not doing so. It is unclear what sanctions might apply under self-financing. However, it is important to note that the underlying mathematical algorithms which have been used to calculate the debt settlements in self-financing are based on an assumptions that rents will be increased in line with this formula.

- 7.6 Under the new system local authorities will have the freedom to invest in their stock as they consider best meets their strategic objectives and long-term asset management requirements. Decisions about the relative priority of issues such as the decent homes programme, investment in new stock, investment in long-term asset management (e.g. energy efficiency measures, lift and boiler replacements and so on) rent levels, acceptable interest rate risks and other factors will rest with the Council and have to be made in due course.
- 7.7 It is unlikely that the Council will be able to meet every possible aspiration for its housing stock. It therefore follows that decisions as to the relative priority of these options will become critical matters for the Council, in a way that the previous housing subsidy system never facilitated.

8 High-level appraisal of the options housing finance reform presents

- 8.1 This section outlines the range of options that will become available as a result of housing finance reform, and provides a high-level assessment of how each might contribute towards meeting the challenges set out previously.
- 8.2 Under any of the models under consideration the Council would have the flexibility to choose its priorities for capital investment. To avoid presenting an unnecessarily complicated appraisal the numerous theoretical combinations of choices are not detailed here, but the essential features of the flexibility and resource constraints are picked up in the initial assessment of the strengths and weaknesses of each option. It is important to stress that this is an initial appraisal only. Significantly more due diligence would be required before a complete appraisal could be completed.
- 8.3 It is of critical importance that we acknowledge that this model is at this stage highly sensitive to changes in the baseline assumptions. For example, officers have assumed that the £94.5m of previously announced backlog Decent Homes funding will be made available in CSR12. The actual theoretical range is between £25m (the amount already guaranteed) and £186m (the amount the Council bid for). Whilst funding at either of these extremes is perhaps highly unlikely it is a possibility. Were it to be realised very different conclusions might be drawn from the full option appraisal recommended by way of this report. The capital costs of decent homes and lifecycle works are similarly capable of significant variation, again with the capability of fundamentally affecting the conclusions to be drawn from the full option appraisal. Decisions about rent setting policy are also capable of having a similar effect.
- 8.4 In general terms, the more pessimistic one's assumptions are about future financing and costs the more likely it is that the conclusion to be drawn from any appraisal is that the Council should seek some significant change to its current housing management arrangements. The current 'baseline' case (summarised below) provides sufficient resources to deliver the basic requirements to address the decent homes backlog and undertake some improvements to sheltered housing in the first five years. Other models can potentially enhance this offer through additional borrowing in one form or another, with all the attendant risks. There is therefore a reasonable expectation that following the full option appraisal a choice could be made between reasonable alternatives, each with their own different set of strengths and weaknesses.
- 8.5 If, however, significantly more pessimistic assumptions about future financing, capital costs and so on were to be made then it would not be possible to deliver the decent homes programme and sheltered housing improvements in a reasonable period of

time (in the baseline case). If significantly more optimistic assumptions were to be made then the baseline case could provide such significant resources for investment that further option appraisals of other financial models might be deemed unnecessary. It is for this reason that the only firm conclusion to be drawn from the appraisal at this stage is that further resources should be committed to a more substantial appraisal of all of the options.

- 8.6 There are two main options with variations contained within each of the options as follows:

Option 1: Council retains ownership of the housing stock including – stay as we are, bring Lewisham Homes back into Council Management and develop a further PFI

Option 2: Council transfers ownership to another organisation including – partial stock transfer, full stock transfer to an existing Housing Association, setting up a Co-op, Community Gateway or Council and Community Owned (CoCo) vehicle or setting up a Joint Venture vehicle

- 8.7 These options are further explored below.

The baseline model

- 8.8 The cost of bringing all of the Council owned social housing to the Decent Homes standard was estimated at £186m when the original proposals were submitted as part of the bid to create an ALMO. It will be possible to refine this estimate over time by comparing actual costs for completed properties to the modelled costs and/or by commissioning more detailed stock surveys. At the moment this remains the best available estimate of the cost of achieving the decent homes standard for Council owned social housing.
- 8.9 In addition the cost of bringing the Council's sheltered and extra care housing up to an appropriate standard needs to be taken into account. Many of the 20 schemes require more than just decent homes investment. They are in need of fundamental redesign and refurbishment works to bring them up to modern day standards. Estimates of the cost of this are less certain. Officers' current working assumption is that the total cost would be £50m, of which up to £8m may have already been accounted for in the decent homes bid referred to above. This figure needs considerable refinement.
- 8.10 The other broad policy that the Council might wish to pursue is building new Council owned properties for social rent. Estimates of the cost of this would need to be significantly refined, but a high level figure might be between £150,000 and £225,000 per unit of new build.
- 8.11 The baseline model's ability to finance delivery of any or all of these goals is constrained by the limitation on its borrowing capacity. This limitation is imposed by central government as part of the self-financing system. In theory (and subject to due diligence) the Council, if unconstrained by this, could borrow significantly more in order to finance capital works whilst still ensuring that the borrowing was prudent and sustainable.
- 8.12 On current information the Council will receive £94.5m funding from DCLG to address backlog maintenance needs in its housing stock between 2011/12 and 2014/15. However, of this only £25.5m, to be received in 2011/12 and 2012/13, is guaranteed. An announcement on the balance is expected as part of the Comprehensive Spending Review 2012 (CSR12). This will presumably be contingent on the government's

assessment of the economy at that point in time, its political priorities and also on its assessment of the Council's performance in delivering to the Decent Homes standard. Only this last measure is within the Council's control.

- 8.13 CSR12 is also expected to contain details of backlog funding beyond 2014/15, if any. Officers will continue to make strong representations to DCLG and other agencies that as other ALMOs previously received 100% of their backlog funding Lewisham should also receive the full £186m. However, for the purposes of this initial appraisal officers have assumed that the £94.5m already announced will be received in full, but that no further backlog funding will be received.
- 8.14 In addition to this backlog funding the budget projections under the baseline model to 2016/17 show that required capital investment in lifecycle and related works of £38m could be financed and that £23m would be available to fund investments in sheltered housing and/or new build, according to the policy priority. This would entail taking on new borrowing up to the level of the debt cap.
- 8.15 The other key assumptions in the baseline model are that:
- Other than those already proposed for 2012/13 no further base budget savings could be delivered within the HRA after the introduction of self-financing, other than those reflecting reductions in stock. This assumption is for the purposes of prudent financial modelling, and does not imply that officers will not seek to identify savings and efficiencies.
 - The cost of lifecycle capital works and planned preventative maintenance over the first five years of the new settlement could be contained within the £38m referred to above. Lewisham Homes' officers have indicated that they are concerned that the actual requirement may be of the order of £3m p.a. higher than this, although further work would be required to verify this.
 - The costs of works to leaseholders' properties are recovered (to the extent that this is permissible under the relevant legislation). Given that a significantly enhanced programme of decent homes works is envisaged this has been assumed to be £28m (after prudent discounting for non collection) over the period to 2016/17.
 - Rents would continue to rise in line with the formula until at least 2015/16, i.e. at around 7% in 2012/13 and, based on the Bank of England's Monetary Policy Committee's (MPC) long-range inflation forecast, at around four to five per cent per annum thereafter; and that after 2015/16 rents would rise at inflation plus 0.5% for investment.
 - Actual inflation costs for the foreseeable future would be 1% on salaries and 2.5% on other costs, in line with budget assumptions for 2012/13 and MPC forecasts. The outcomes of the initial appraisal are not very sensitive to changes in the inflation assumptions, because costs and income (i.e. rent) would tend to move in line with each other. The outcome of the model is however highly sensitive to any change in the assumption that rents would be increased by the formula amount.
 - New borrowing is assumed to be at 6%, the long-term PWLB rate. Cheaper rates are currently available, but the borrowing need on current projections does not kick in until 2015/16, and this assumption is therefore reasonable for the purposes of this model.

Option 1: Council retains ownership of the stock

- 8.16 The following options do not require a formal ballot. However Government has recommended that full consultation with residents is carried out if any changes to current arrangements are proposed.

Option 1a: Council retains ownership of the stock - No change to current structures, complete Decent Homes in five years

- 8.17 Under the baseline model, if the Council borrowed £40m, bringing total housing borrowing to £125m, within £4m of the cap, the Decent Homes programme could be delivered by March 2017, and £23m would be available for investment in Sheltered Housing or new supply. However, other works, other than those built into the assumptions above could not be delivered unless these assumptions were flexed. The initial appraisal of the baseline model therefore sets out first what could be delivered if decent homes remained the key policy priority and then in general terms what else might be achieved if this assumption were to be flexed.
- 8.18 The key features and outcomes of the baseline option are that:
- The Council enters into approximately £40m of new borrowing for housing purposes between 1 April 2012 and 31 March 2017
 - The decent homes programme is completed by 31 March 2016
 - £38m is available to meet the assumed need for programmed capital and lifecycle works between 1 April 2012 and 31 March 2016
 - A maximum of £23m is available to finance additional works, either to sheltered and extra care housing and/or to build new homes
 - The existing corporate structure is retained by keeping the Lewisham Homes, and this option therefore avoids the costs of transition to any new structure.
- 8.19 For the avoidance of doubt, the outcomes above are subject to the modelling assumptions set out previously, and therefore potentially subject to substantial revision. Subject to this the preliminary conclusion to be drawn from this initial appraisal is that it provides a credible policy response to some of the housing issues facing the borough, but that the constraint on borrowing limits the ability of this option to deliver on a wider agenda.
- 8.20 The Decent Homes programme would be delivered in a reasonable time, improving the quality of housing for many of the borough's residents. Substantial investment could be delivered to the sheltered and extra care housing offered, but given the scale of need perhaps only around half that required, and no new build could be delivered (or new build could only be delivered at the expense of reduced investment in sheltered housing).
- 8.21 A significant consideration might also be that under this option there are no transition costs. Transition costs can be financial, such as the cost of undertaking a ballot or commissioning appropriate professional advice, and as such can be substantial. Transition costs can also mean the loss of management focus and the impact on staff morale as new options are considered, with risks to service performance whilst such consideration and transition is ongoing. Whilst these costs are not quantifiable they can nonetheless be significant, and should therefore be an important consideration in the evaluation.
- 8.22 Taking a longer-term view this option could then start to deliver further investment after the first five years, i.e. after 2016/17, although it would be some years beyond that before any significant new supply could be delivered in the borough.

Option 1b: Council retains ownership of the stock - No change to current structures, complete Decent Homes in more than five years

- 8.23 This option is structurally identical to option 1a, but places a different priority on the decent homes programme. Under option one this programme is assumed to be the over-riding policy priority, and only resources not required for this are committed to other objectives. Option 1b sets out what might be achieved if this policy assumption was varied, and the attendant opportunities and risks. Clearly, there are a theoretically infinite number of other possible policy priorities, and so this initial appraisal can only set out broad themes.
- 8.24 If sheltered and extra care housing were to be prioritised for delivery within the first five years this would cost £50m on the current best estimate, only £31m of which could be delivered in this time period under option one. Re-directing resources from the decent homes programme to deliver sheltered housing investment earlier would therefore mean that completion of the basic decent homes programme would be delayed. Assuming that in the three years following March 2016 one third of the cost assumed for lifecycle and programmed capital works could be directed to Decent Homes, it would then be possible to complete the Decent Homes programme within three years, i.e. by March 2019.
- 8.25 At an average cost for new build of £187,500 per unit (range £150,000 to £225,000) the impact of prioritising new build over decent homes (leaving sheltered housing investment as per option one) would be that for every 10 units built almost £2m would have to be directed from lifecycle costs to fund Decent Homes.
- 8.26 The other particular consideration would be the impact of being seen to reverse a long-standing policy commitment. Albeit that a higher priority for other housing policy goals might objectively be justified moving away from decent homes could be perceived by residents as failing to meet legitimate expectations. It might also have implications for future backlog funding from the DCLG, although this risk cannot be quantified at the present time.
- 8.27 Any number of varieties on these basic policy choices could be presented. The purpose of this part of the report is to set out the broad choices that could be made, in order to inform the initial debate. Significantly more work would be required to refine this, but it is important to note that under self-financing the Council will have substantially more scope to set its own policy priorities, for example as to the relative priority of decent homes works, improvements to the sheltered and extra care housing on offer, building new council houses and rent policy to name but some considerations.
- 8.28 Option one (and option two which is really an illustration of the impact of adopting different policy positions rather than a genuinely distinct option) set out what could be achieved under existing corporate structures. Following a full options appraisal Members might (or might not) come to the view that this did not provide a sufficient policy response to the challenges faced. If so, alternatives might be considered. The following paragraphs set out broadly the kind of option that might be considered.

Option 1c: Council retains ownership of the stock - Bringing the ALMO back in-house

- 8.29 This option would involve dissolving the Lewisham Homes company (ALMO), which is 100% owned by the Council, and bringing all its functions back under direct Council management. Staff employed by Lewisham Homes would TUPE transfer back to the Council's employment.

- 8.30 Four London boroughs have recently brought their ALMOs back in-house – Hillingdon in October 2010, Ealing, Hammersmith & Fulham and Newham in March/April 2011, and Islington plan to do so. Officers understand that the completion or near completion of the Decent Homes programme was a prevailing factor in why these boroughs brought their ALMOs back in-house as well as achieving potential savings for the Councils.
- 8.31 Savings in management costs could be achieved under this option. However, management costs should not necessarily be regarded as simply an overhead cost. Management is also about controlling and directing the work of an organisation and ensuring that appropriate quality standards and other objectives are achieved. There is a link between the costs of good management and the performance of an organisation.
- 8.32 The standard of the housing management services provided by Lewisham Homes has risen since the creation of the organisation. On most key performance measures performance has improved, although there are still services in which further improvements are required. At least in part this must reflect the quality and cost of the management of the organisation and the focus it brings to housing management. Bringing the service back in-house may provide an opportunity to reduce management costs. However, there is a risk that this would mean that the improvement in performance was at best not sustained and at worst deteriorates, and there would be particular risks in the short-term as staff and managers focused on delivering the change in organisational structure.
- 8.33 There are other costs associated with the corporate structure of the ALMO that may be reduced if the service was brought back in-house. These are primarily those associated with the maintenance of a separate statutory company and the corporate governance that goes with it and the cost of clienting the contract between the organisations.
- 8.34 All other features of this option are identical to the baseline model. Its key features, including an initial estimate of the savings that it might offer, are :
- The Council enters into approximately £40m (less net impact of saving in this period) of new borrowing for housing purposes between 1 April 2012 and 31 March 2016
 - The decent homes programme is completed by 31 March 2016
 - £38m is available for programmed capital and lifecycle works between 1 April 2012 and 31 March 2016
 - A maximum of £23m, plus savings of £7.5m grossed up over five years (assuming the same level of savings can be achieved as have been projected by other boroughs considering this option, which may be optimistic) for additional works, either to sheltered and extra care housing and/or to new build homes is available
 - The corporate structure is changed, but to a familiar model which, other than the costs set out above, would not require specific due diligence work and advice.
- 8.35 To conclude, this option is only slightly different to the baseline model. It may in the longer run be cheaper, arguably at the expense of transferring housing management responsibilities from a successful provider to one with a less successful track record. It introduces significant risks associated with managing organisational change with no corresponding new opportunities. No new finance is accessed under this option, unlike some of the options considered later in this report. It could therefore perhaps be

characterised as providing more capital investment than the baseline but not so much more investment that it is capable of delivering fundamentally different outcomes.

Option 1d – Council retains ownership of the stock - ‘Service Concession’ / PFI contract

- 8.36 A ‘service concession’ is a phrase used to describe a contract that is usually let on a long-term basis, say for 25 years, in which the outcomes required are defined in the contract specification with bidders able to approach achieving those outcomes in different ways. Private Finance Initiative (PFI) contracts are a particular form of service concession contract.
- 8.37 In this context a theoretical option for the Council is to let a service concession contract for some or all of the stock currently managed by Lewisham Homes. Elements of the Decent Homes programme in Lewisham have been achieved by this means, through the Brockley PFI contract.
- 8.38 Some indicative key features of the model are outlined below.
- 8.39 Previous ‘service concession’ contracts have usually been let in the public sector under the PFI regime. A key feature of this was the award of PFI credits (i.e. a grant) from central government to make the projects affordable. There is no indication that any such credits would in the future be available, other than for schemes already announced by government.
- 8.40 Another key feature of long-term service concession contracts is their relative inflexibility. Although it is possible to design a contract with some flexibility to enable the Council to change its policy goals over a 25 year period it would not be simple (or cheap) to do so. This form of contract works best where an investment need can easily be identified that is unlikely to change significantly over time (e.g. street lighting). In this case the Council does not yet know its policy objectives in housing, and recognises that in ten or twenty years time they could change significantly this could be a significant factor counting against this option.
- 8.41 Were this option to be pursued significant costs might be incurred in testing this model further, including commissioning expert legal and procurement advice. These would be incurred in pursuit of an option that, in order to make it affordable, has previously depended on government funding that is no longer likely to be available.
- 8.42 To conclude, it is unlikely that this option will be affordable and, further, it is far from certain that it offers the potential to meet the Council’s ambitions for its housing stock, even if it were. It would be expensive to undertake analysis of this option in any further depth. Officers will nonetheless include this option in the full appraisal recommended by way of this report, but seek to ensure that the costs of researching it further are kept as low as possible. As a result but the primary focus of the full appraisal would not be directed to this option.

Option 2: Council transfers ownership of the stock to another organisation

- 8.43 There are a variety of vehicles that can be created to enable higher levels of borrowing to increase the level of investment. All the vehicles involve the Council transferring either all or the majority of its ownership of the stock currently managed by Lewisham Homes to another body.

- 8.44 The Council's current ALMO, Lewisham Homes, is not precluded from participating in a process which would lead to the transfer of the housing stock to another organisation and from evolving into one of the vehicles detailed below in options 2c – 2e.
- 8.45 Transferring the stock to an RSL or to a new vehicle, offers the potential to achieve the decent homes standard across the borough more quickly, as well as addressing other priorities such as investment in sheltered housing and delivering new homes. This is because the vehicle receiving the stock would be able to borrow against future rents to finance the necessary works, and would not be subject to the borrowing cap imposed by central Government.
- 8.46 The Council would cease to own the social housing stock outright although depending on the vehicle it could own a minority share. In all cases whether the stock was transferred completely or the Council owned less than a 50% share the new vehicle could undertake commercial borrowing against rental income to fund additional policy interventions such as delivering new housing supply.
- 8.47 There are risks to this approach. As it involves a stock transfer, all tenants would be balloted. The cost of transferring the stock and managing the ballot should be included in all cost benefit analyses. The scale of borrowing available to the recipient organisations is not certain, and may be even more uncertain in the current economic climate. Borrowing would need to be paid for, and as such additional borrowing would be subject to interest rate fluctuations which may put pressure on rents.
- 8.48 Nonetheless, this is a potentially viable option. Initial analysis indicates that it may create the capacity to address several of the Council's policy aims in a shorter timescale such as building up to 1,000 additional units, as well as completing the Decent Homes programme in a timely manner. It also offers the potential to resolve the issues facing the Council's Sheltered Housing and Extra Care provision. And, because there are options to be explored in relation to the nature of the recipient body, it offers significant potential for greater community and tenant involvement in housing decisions.
- 8.49 There are at least five models under which such an approach could proceed, as outlined below:

Options 2a: Council transfers ownership of the stock to another organisation – Further partial stock transfer(s)

- 8.50 This option is compared against the baseline model. It would also be possible to deliver this option alongside the in sourcing model (or indeed any other model), although the difficulty of managing two complex managerial and corporate changes at the same time would add significantly to the risks.
- 8.51 The Council has previously transferred elements of its stock to registered social landlords (RSLs) as part of its mixed approach to delivering the decent homes standard. In total since April 2007, 12,340 units have been transferred in this way, most recently 3,522 units 2010 to London & Quadrant as part of the Chrysalis stock transfer.
- 8.52 This partial stock transfer model has been an effective part of the Council's delivery arrangements for decent homes. RSLs are not constrained by limitations to their borrowing, other than such limitations as they impose on themselves as part of sound

financial management. The effect of this is that they have been able, on receiving stock, to borrow the money to finance immediate investment, usually bringing the stock up to the decent homes standard within two years of completion of the transfer.

- 8.53 RSLs have been able to afford this because, depending on the precise terms of the transfers, they are able to let a proportion of the transferred stock out at higher rents than the Council charges. The transfers have also been successful from the point of view of the Council because 'overhanging debt' has been written off by way of grant from DCLG. The transfer price in these transactions is usually less than the debt associated with the properties. In the past DCLG has made grant available to Councils in order to facilitate such transfers, as it would not normally be acceptable to any local authority to transfer its assets whilst retaining the debt for them.
- 8.54 However, the authority's previous partial stock transfer programme has naturally resulted in those transfers that are more attractive to housing associations being completed. The remaining stock tends to have either higher costs to bring it back to a decent homes standard, and gap funding from Government to cover the outstanding debt is less certain. The potential scope for further partial stock transfers is therefore more limited.
- 8.55 A further feature of this model is that it would reduce the Council's remaining housing stock (or the stock available to the Council to move into another corporate structure if that was what was desired). This may increase the unit costs of managing that stock, as it is unlikely that the corporate overhead costs could be reduced in direct proportion to the stock loss. This has been the experience of other stock transfers since Lewisham Homes was established, and would only tend to be more so as the stock declined beyond a naturally economic size.
- 8.56 This model may not be capable of implementation, as it depends on finding an RSL willing to accept a transfer of some of the authority's existing stock. It may also have disadvantages in respect of the remaining stock.
- 8.57 To conclude, it appears unlikely that the full option appraisal would show that this model meets the policy challenges, except perhaps on an opportunistic basis should a viable opportunity present itself. This is not to rule this option out at this stage. Further work will be undertaken as part of the fuller option appraisal recommended by way of this report, but the primary focus of this further work would not be directed to this option.

Option 2b: Council transfers ownership of the stock to another organisation - LSVT to existing RSL

- 8.58 This would involve a standard large scale stock transfer to existing RSL. Both stock and debt would be transferred, and the RSL would then borrow outside of the HRA cap, against rental incomes, in order to finance new build or other policy goals.
- 8.59 This is the simplest LSVT option. Provided that there would be sufficient interest amongst RSLs then it is a tried and tested delivery method. It is also important to note that in previous stock transfers the overhanging debt has been written off, which should not be assumed to be likely in the current circumstances. The appetite by RSLs to pay for a stock transfer, decent homes investment and clear the overhanging debt will also be constrained by the additional strains imposed on their business plans by the new affordable rent model.

- 8.60 Provided there are still some RSLs interested in stock transfer this model could be assumed to deliver all of the Council's policy goals in respect of decent homes and sheltered housing, provided that it could be financed as part of the transfer. However if this option were to be pursued then the only way in which further new build could be delivered would be through the existing well established partnership arrangements the Council has with its RSL partners.
- 8.61 The Council, under this model, would inevitably not involve itself in any direct delivery role in the local housing market but would continue to work with its partners to encourage delivery where possible. However, as this model potentially has the capacity to deliver all of the Council's housing policy goals as regards its existing stock it is one that logically must be explored further.

Option 2c: Council transfers ownership of the stock to another organisation - Co-operative, including the Community Gateway approach

- 8.62 This is simply a different version of the above approach, with the exception that a new vehicle is created to receive the stock. That vehicle would be created as a mutual, offering tenants democratic control over the decision making process. The Council has experience of successfully transferring stock to a co-operative, with the Phoenix Community Gateway.
- 8.63 The outcome of this option is theoretically similar to the RSL option. The borrowing cap that applies under self-financing would not apply to this model, as it would not be owned by the Council. However, as the new vehicle would have to test its borrowing capacity with lenders as it would not have the track record that other housing providers in the market have established over a period of time. The benefits of the mutually owned structure includes greater tenant control over decision-making, and hence responsiveness of the service to resident demand. This model has tended to build greater trust levels between the provider and tenants based on mutually agreed objectives and outcomes.
- 8.64 This model offers a broadly similar range of potential benefits to the RSL model. There would be some additional complexities around establishing a new corporate structure, which may incur greater costs of transition. There is also the risk that the actual (as opposed to theoretical) ability of the company to raise finance might be constrained by caution on the part of potential lenders. The extent to which the Council may be able to influence the activities of the new organisation would need to be clarified. Therefore, whilst new build would remain a desirable policy goal the Council will not be in a position to be able to direct the new organisation to build new homes, or direct where any such new homes should be built.
- 8.65 Any new build under this or the following option could be seen as new build by the Council, or at any rate a company in which the Council has some interest. RSLs develop land for new build in the borough at the moment, and to some extent at least the activities of such a new vehicle might be to replace such new build activity, rather than add to it. The extent of this cannot reasonably be quantified, but it is an issue that in principle at least ought to be taken into account now. However such a new vehicle could facilitate in-fill new build development on the existing estates that have been transferred which would become additional new housing.
- 8.66 There will be transition costs and risks associated with developing new corporate structures which will need to be quantified, but in principle at least this is a mechanism

to unlock sufficient financing to meet all of the Council's immediate aspirations for housing policy in the borough. This is because the commercial potential of the future rental streams is theoretically sufficiently high and sufficiently certain to enable significant borrowing over and above the cap imposed in the baseline model to finance investment and which can still be paid off over the business plan cycle.

Option 2d: Council transfers ownership of the stock to another organisation - Council and Community Owned Company (CoCo)

- 8.67 Under this model the Council would transfer at least 51% of its ownership of Lewisham Homes to a Council and Community Owned (CoCo) corporate structure. The terms of this structure would need to be determined, but would necessarily involve significant resident ownership and/or participation.
- 8.68 By transferring at least 51% of the ownership of the company outside of the Council's control the cap on borrowing would, be removed. Therefore, under this model, the Council could lever in significantly more borrowing to invest in its housing stock.
- 8.69 This model is in many respects similar to the co-operative model. As the Council ownership would be less than 50% the company could borrow commercially, with all the attendant risks and uncertainties. It could therefore finance whatever investment was thought to be affordable, which on current modelling is sufficient to meet the immediate policy aspirations in decent homes, sheltered housing and new build.
- 8.70 This model provides more Council control over development and new build than the pure co-operative model, as an ownership stake of up to 49% could be retained. Correspondingly it has perhaps less of the possible advantages of resident control whilst still retaining this as an essential feature compared to other models, since residents would hold more than 50% of the equity. Like the co-operative model the costs of the transition to this model are high, and significant professional due diligence would need to be undertaken before this could be adopted as policy. Due diligence of the possible adverse VAT and other implications would also be required.
- 8.71 Another feature of this model is its complexity of ownership. In the baseline model the Council retains 100% ownership, and therefore all of the risk but also all of the control over future policy and delivery. In the RSL LSVT model the Council transfers all of the ownership and therefore all of the risk to a well established regional or national housing association, which can therefore be regarded as a relatively safe risk.
- 8.72 In the CoCo model the Council retains a very substantial stake, perhaps as high as 49%, in the actual equity of the company, and therefore legal liabilities in the event of default, but without the ability to control and direct activity provided by the baseline model (although it can influence activity). It also transfers ownership of the Council's most significant physical asset – its housing stock – to a new provider, and yet may be required to offer guarantees of one form or another about the debt associated with that stock (for example if a new company cannot access finance without such a guarantee).
- 8.73 Significant further work would be needed to assess these potential drawbacks. They are not necessarily insurmountable, but it is appropriate that they are noted at the current time.

Option 2e: Council transfers ownership of the stock to another organisation

Joint venture

- 8.74 In principle, a joint venture approach involves the creation of a new vehicle in partnership between the Council and a private sector organisation. The two parties enter into an agreement to pool resources and expertise to achieve a particular goal, and to share the risks and rewards of the enterprise.
- 8.75 Although this is an untried approach in relation to social housing, examples exist across the country of successful joint ventures in other sectors of the public sector economy. For instance, a public-private joint venture in Lancashire is successfully transforming estate management in a healthcare trust, reducing costs and increasing the ability to invest in new clinical facilities.
- 8.76 It is not certain that a joint venture such as this would remove the barrier to investment presented by public sector borrowing limits, but as the model is working successfully elsewhere, albeit in relation to a different set of problems, officers recommend that further work is undertaken to scope the risks and rewards of such an approach.
- 8.77 Another important factor to consider in all of these transfer options is the ability of the Council to direct future housing policy. Whilst influence can still be exercised transfer of majority ownership inevitably leads to lack of the direct ability to control. Another significant factor in some of these models might be termed the 'de-mutualisation' risk. Assuming that the Council would not want any new structure to be capable of transferring ownership to some future third party then legal safeguards would need to be devised, for example to prevent the kind of de-mutualisation previously seen in the building society sector. Significantly more work would be required to assess how real this risk was and whether, and if so how, it could be mitigated.
- 8.78 To conclude, the high level options appraisal that officers have completed demonstrates that there is merit in further exploring the potential offered by transferring ownership of the Council's stock to a new vehicle. This option is likely to offer the greatest scope for the Council to achieve more of its ambitions for housing stock than any of the others outlined here, although there are risks and as such it is recommended that a full due diligence exercise is undertaken to fully understand the opportunities and risks of this approach.

9 Options relating to the Council's pension fund

- 9.1 The Council's pension fund has assets of over £0.7bn and therefore, in theory at least, could be considered as source of investment finance. However, any investment by the pension fund must be in the interest of the pension fund. Delivering the Council's policy objectives could arguably be an ancillary reason for investment by the pension fund, but if and only if the investment had first been demonstrated to be in the pension fund's interest.
- 9.2 The pension fund is separate by statute from the Council. It is required to invest its assets in order to ensure that its long-term liabilities can be met. The fund's long-term liabilities are to pay pensions and related benefits and its interests are therefore narrowly (and completely) defined as achieving investment returns to enable it to do so. Investments must therefore represent a reasonable balance of risk and reward, and any particular investment under consideration must be shown either to represent a superior risk/reward ratio than other possible investments under consideration and/or a

better means of balancing the investments of the fund so that it is not unduly exposed to the risks of any particular class of investment.

- 9.3 Therefore, any investment by the pension fund in housing would only be considered if it could be shown that the fund would make a commercial return (including rental incomes and/or appreciation in asset values and related matters) either in excess of those provided by other asset classes (for the same level of risk) or that the investment would make commercial sense by balancing the overall investments of the fund. Only if the Fund was satisfied that these conditions were met could it consider what, from its obligations as Pension Fund holder, would be classed as ancillary benefits, such as furthering the Council's wider socio-economic objectives. Any decision as to the investment of the Pension Fund has to be made by the Council through its Investment and Pension Fund Committee upon receipt of proper independent advice.
- 9.4 Investments in property are a normal activity for pension funds. It is quite common for pension funds to hold a proportion of their assets in property. Generally speaking, property investment in the UK has performed well, taking a long-term view, combining the income received from the assets (e.g. rents) and the capital growth. However, a core principle of investment should be to diversify the asset classes invested in. This helps to mitigate exposure to the risk of a significant downturn in one particular class of assets. Hence any pension fund will tend to have a proportion invested in property, a proportion in equities, in fixed income securities and so on. Within each asset class there will be geographic diversification, so for example a proportion of any equities invested might be in UK stocks, a proportion in emerging markets and so on.
- 9.5 In terms of property, pension fund investments would tend to be diversified between, for example, commercial, industrial and residential portfolios, and within each to be spread between different geographic locations. All of these would be standard risk mitigation strategies, to ensure that the fund as a whole would not be over exposed to particular risks within a particular sector.
- 9.6 Investment by the pension fund in housing in Lewisham would breach this fundamental principle. All of the investment would be in Lewisham, i.e. in a relatively small part of south-east London. The investment would therefore be significantly more high risk than is normally considered by the pension fund. Riskier investments can be considered by a pension fund, provided that the reward from them is correspondingly higher than for other asset classes. However, pension funds would not normally place any significant proportion of their asset base in a single high risk class of investments, because this would fail to diversify the risk appropriately.
- 9.7 In this case any investment by the pension fund would be high risk, by definition because the investment would solely be in residential property (whether private or social) within Lewisham. In order to make any significant difference to achieving the Council's policy objectives, given the scale of investment required outlined in this paper, a substantial proportion of the fund's assets would have to be invested in local housing. In addition, it is far from clear that investments in housing in any of the forms outlined in this paper would enable the fund to make an appropriate return on its investment. Certainly there are no compelling or even strong reasons to believe that house prices would rise very much faster in Lewisham than elsewhere.

10 Next steps

- 10.1 The appraisal set out in this report is complex. It is at this stage only high level. Whilst the basic framework of each option can be assessed reasonably easily the detail behind each can be substantial. The decision that will ultimately be required on this will be one that impacts on housing policy in the borough for many years, and it is therefore appropriate that it is fully researched before irrevocable commitments are entered into.
- 10.2 This cannot be undertaken without resourcing it appropriately, for which there is no currently identified budget. The kind of professional and other advice that might be required to undertake this would include (but not necessarily be limited to):
- Detailed stock condition surveys of the Lewisham Homes and sheltered/extra care housing stock to assess the decent homes backlog in more detail and the lifecycle maintenance costs over 30 years
 - Due diligence of the financial modelling by appropriately qualified financial advisers
 - External legal and tax advice on new corporate structures, the risks associated with them and related matters
 - Consultation with residents and other stakeholders including tests of opinion and a ballot when appropriate
 - Programme management and other ad-hoc specialist consultancy as required.
- 10.3 At this stage it is very difficult to estimate the actual costs associated with this advice. Officers recommend that, excluding a ballot, a sum of £0.5m would be sufficient to cover the costs of the external advice required to complete an initial options appraisal and bring a report to M&C on a recommended way forward. In the event that this sum proves insufficient further funding will be requested.

11 Comments from the Housing Select Committee

- 11.1 Housing Select Committee received an outline report on the future housing challenges and opportunities at its December meeting. The main points raised at the meeting are included here for the consideration of Mayor and Cabinet. Those points are that
- Safeguards must be built into future service specifications of any future organisation to protect the interests of current and future tenants especially around rents and tenancy conditions;
 - The full range of options need to be presented to Members for consideration with detailed financial and risk modelling and legal advice;
 - Community consultation is of paramount importance and needs to start from the earliest stage.
 - Concerns exist about the potential for future de-mutualisation if a co-operative model was adopted and to therefore build in safeguards against this happening if a co-op model is pursued.
 - Increasing new supply of housing should be a main priority for the Council.
 - All reports on the future of housing must be available in the public domain, except where this information is commercially sensitive.
- 11.2 The issues raised above will be addressed as part of the options appraisal.
- 11.3 The Housing Select Committee was advised that all reports on the options going forward will be in the public domain unless there are legal grounds for excluding the press and public. The Committee was also reassured about the consultation process for any future housing transfer options. It was confirmed that the pattern adopted in previous options appraisals would be followed, including the use of a variety of methods including tests of opinion, and employing independent tenant advisers.

12 Financial implications

- 12.1 This report is concerned with the financial implications of new national policy in respect of housing finance and its implications for the Council in light of identified policy objectives of its own. Except for the matters referred to below there are no direct financial implications in agreeing the recommendations of this report, as a final decision as to future borrowing or other housing delivery vehicles has yet to be taken. Any such decisions will be subject to normal due process at the appropriate time.
- 12.2 However, this report recommends that a budget of £0.5m be identified to fund the full option appraisal recommended in this report, and the report notes that this is only a broad estimate at this stage. If the Mayor agreed to pursue this appraisal this could be financed from corporate resources. It must however be noted that, as with any option appraisal, that the amounts spent could in time prove to be abortive, for example if the result of the appraisal was to remain with the baseline model.

13 Legal implications

- 13.1 The Mayor is being asked to agree to a feasibility study being undertaken to explore the options for housing investment in the Borough set out in the Report . There are serious technical financial and legal issues to be determined in relation to each option before a formal decision which will have long term consequences can be reached. In these circumstances it would be reasonable for the resource being requested for such a study to be provided for a more detailed examination of the issues involved
- 13.2 Consultation with tenants and residents affected by the options will have to be undertaken when the Mayor has determined which options to proceed with and in relation to a transfer to an LSVT a ballot of tenants will be required.

14 Equalities implications

- 14.1 The Equality Act 2010 (the Act) brings together all previous equality legislation in England, Scotland and Wales. The Act includes a new public sector equality duty (the equality duty or the duty), replacing the separate duties relating to race, disability and gender equality. The duty came into force on 6 April 2011. The new duty covers the following nine protected characteristics: age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
- 14.2 In summary, the Council must, in the exercise of its functions, have due regard to the need to
- eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
 - advance equality of opportunity between people who share a protected characteristic and those who do not.
 - foster good relations between people who share a protected characteristic and those who do not
- 14.3 As was the case for the original separate duties, the new duty continues to be a “have regard duty”, and the weight to be attached to it is a matter for the Mayor, bearing in mind the issues of relevance and proportionality. It is not an absolute requirement to

eliminate unlawful discrimination, advance equality of opportunity or foster good relations.

- 14.4 The Equality and Human Rights Commission issued guides in January 2011 providing an overview of the new equality duty, including the general equality duty, the specific duties and who they apply to. The guides cover what public authorities should do to meet the duty. This includes steps that are legally required, as well as recommended actions. The guides were based on the then draft specific duties so are no longer fully up-to-date, although regard may still be had to them until the revised guides are produced. The guides do not have legal standing unlike the statutory Code of Practice on the public sector equality duty, However, that Code is not due to be published until April 2012.
- 14.5 As part of the appraisal process proposed here, an equalities analysis assessment will be undertaken to identify the possible implications of each of the proposed options for the local community.

15 Environmental implications

- 15.1 Bringing homes up to the Decent Homes standard will lead to greater energy efficiency, reduced maintenance costs and lower fuel bills for residents. It will also reduce the level of harmful gases being released into the atmosphere.

16 Crime and disorder implications

- 16.1 The potential of each of the options set out above to deliver physical improvements, enhanced estate management and diversionary opportunities in order to reduce crime and antisocial behaviour would be considered in full during the proposed options appraisal.

17 Conclusion

- 17.1 The Council faces significant housing challenges. The new self-financing system provides opportunities to respond to these creatively. However, this report has clearly shown that this will be an extremely important decision for the Council, with significant long-term consequences for the organisation and, more importantly, its residents. At this stage, therefore, the right conclusion to draw is that further option appraisal is required in the terms set out in this report.

18 Background papers

- 18.1 There are no background papers to this report.
- 18.2 If you would like any further information on this report, contact Genevieve Macklin, Head of Strategic Housing on 0208 314 6800.