

Gloucester City Council

Meeting:	Council	Date:	20 May 2013
	Cabinet		12 June 2013
Subject:	Housing Futures – Joint Strategic Options Review (Housing Options Update)		
Report Of:	Cabinet Member for Housing, Health and Leisure		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Martin Shields, Corporate Director of Services and Neighbourhoods		
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Appendices:	None		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To provide members with an update on progress as a result of meetings held between the Council, Gloucester City Homes and Government Departments about the **Council and Community Owned** (Co-Co) model as the future strategic housing investment option for the Council going forward.

2.0 Recommendations

- 2.1 Council is asked to **RESOLVE** that
- (1) The report be noted.
- 2.2 Cabinet is asked to **RESOLVE** that
- (1) The report be noted.

3.0 Background

3.1 Members will be aware that following the Housing Futures Options Review which commenced work in November 2010; they approved the following strategic direction for housing to meet current and future housing need at the Council meeting held on the 22nd September 2011:

1. A **Council and Community Owned (Co-Co) model** be adopted as the best option for this investment and that further work be undertaken with Government to establish, in detail, whether the necessary support for a Co-Co would be given.

and:

2. That a continuation of existing arrangements be regarded as the next best option if a Co-Co cannot be made to work. With a view that in parallel to the work on a Co-Co, the following option known as **ALMO Plus** of enhancing the existing arrangements be agreed for further development;

- Extending GCH's management agreement to 35 years
- Changing GCH's ownership so as to allow it to borrow outside the public sector borrowing requirement.

3.2 In summary, the Co-Co would covenant with the Council to repay the Housing Revenue Account (HRA) debt over the next 30 years after receiving a transfer of the housing stock from the Council; and, in addition, would be able to raise additional private loans to pay for continued capital investment in the housing stock; and potentially regenerate existing housing estates and build new homes for rent and sale.

3.3 GCH would be reconstituted to form the new CoCo, whose ownership would be 1/3 Council; 1/3 Tenants and 1/3 Independents. Board membership would be the same as now with membership from the Council, Tenants and Independents.

4.0 Progress

4.1 Since the Council's resolution several meetings have taken place with the Department for Communities & Local Government (DCLG) and the Homes & Communities Agency (HCA) to seek support for the new Co-Co model for future housing investment in the City. The meetings are led by senior council officers, supported by senior officers from GCH; and independent technical and legal advisors.

4.2 Regrettably, even after detailed discussions and clarification on the new model, we have been made aware that HM Treasury are not convinced that the Co-Co could be classified as a private sector organisation due to its debt being primarily public debt and the Council still having considerable influence over the new organisation. Consequently, they are of the opinion that the CoCo would not be able to seek the additional independent funding from banks or other financial institutions to meet the investment needs of the existing stock; or to regenerate existing estates and build new homes.

4.3 The current Co-Co model **does not** therefore have the endorsement of the DCLG and HCA and cannot be taken forward.

4.4 The amended proposal to Co-Co to be called Co-Co Plus

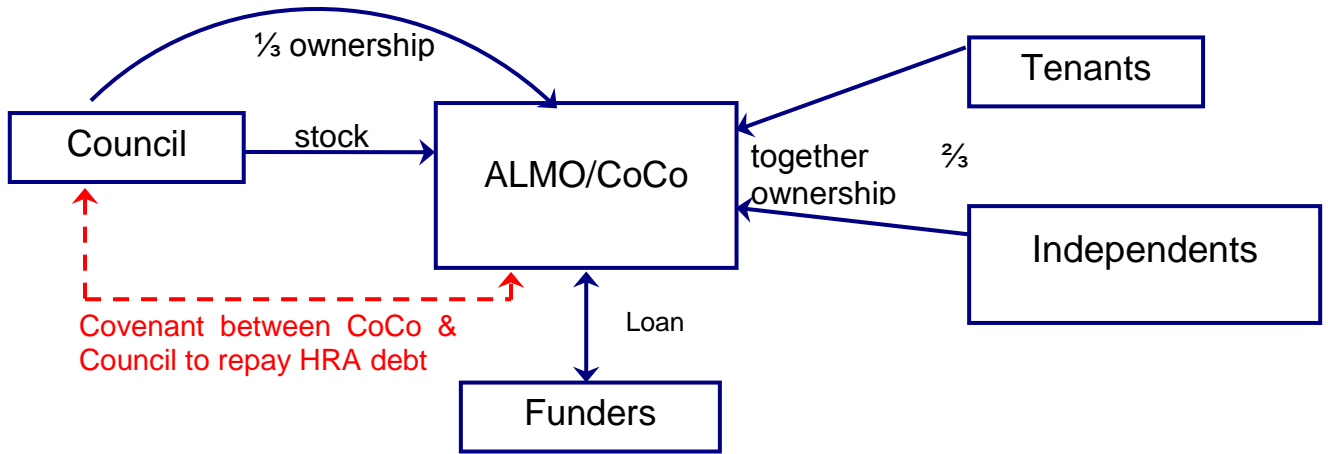
4.4.1 However the HCA and DCLG have indicated that they would welcome a more traditional proposal to transfer homes from the Council to a Registered Provider. That organisation could be GCH, after it has been reconstituted as a CoCo and registered with the HCA. This follows the well established approach of transferring the housing stock, traditionally known as LSVT or stock transfer.

4.4.2 In September 2012, the HCA indicated that the Government had set aside a budget to assist councils (like Gloucester) who had made a strong business case for change, linked to a compelling need for future housing investment that could not be funded under the current HRA self-financing arrangements.

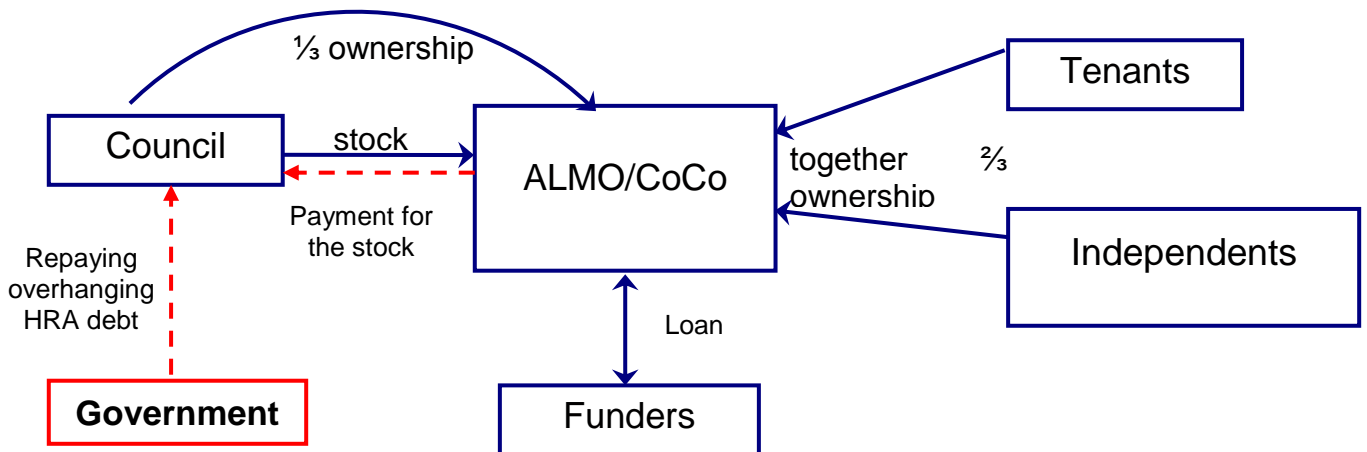
4.4.3 Under this amended proposal the stock would, subject to a positive vote by tenants in favour of the proposal, Council approval and Secretary of State approval, transfer to the CoCo. The Council would receive a capital receipt for the purchase of the stock which it would use to pay off some of the HRA debt. The Government would then pay off the remaining HRA debt. This would leave the Council HRA debt free and the CoCo, would begin its life with a much smaller debt (the cost of the stock purchase) and therefore in a much better position to secure additional private investment to pay for improvements to the existing homes, regenerating the estates and where required, providing new homes.

4.4.4 The following tables compare the difference between the original Co-Co model and the amended Co-Co model:

The Original Co-Co Model



The Amended Co-Co Model (with the Covenant to repay HRA housing debt over 30 years removed and replaced by Government paying off overhanging HRA debt)



4.5 Government Guidance and Bidding Timelines

- 4.5.1 Further meetings with the HCA on the 27 February 2013 and the HCA/DCLG on the 17 April 2013, confirmed that Gloucester is currently well placed to enter the Government's transfer programme.
- 4.5.2 The HCA has already shared with us a set of papers describing the application process and format as they expect it to be set out in the final guidance subject to DCLG and HM Treasury approval; and have indicated their willingness to work with the Council to develop its bid prior to formal guidance and invitations to bid being issued. Before approval is given however, we would need to submit a compelling business case linked to:
- The Government's Value for Money test
 - Added value in terms of development and regeneration
 - Added value in terms of social and economic factors
- 4.5.3 At this stage however, there is no commitment from the Government. They would be happy for the Council, at its own risk, to begin working up a formal bid and a draft "Offer to Tenants" setting out the Council promises to tenants that would ultimately be delivered by the CoCo.
- 4.5.4 Officers were advised by the HCA that they hoped to issue new transfer guidance by the end of May 2013. This would then be subject to 4 weeks consultation ending in June. Members should note Government consultations normally take approximately 12 weeks and this shorter consultation period may require Cabinet Office approval. This could mean the final Guidance may be available as early as July 2013 or as late as September 2013.
- 4.5.5 Based on that latest information, the Council, subject to a future approval of the amended CoCo proposal, may need to submit a formal bid to the Government as early as September 2013 or as late as November 2013.
- 4.5.6 The Government have indicated that they would then take around 17 weeks to assess the bid and make a final decision which could be as early as January 2014 or as late as March 2014.
- 4.5.7 If approved, the Council could then publish its offer to tenants and commence its formal consultation with tenants as early as March 2014 or as late as May 2014. This consultation stage normally lasts 28 days. The Council would then consider any comments and whether it wished to amend its offer. The Ballot, would then commence as early as May 2014 or as late as July 2014 and end as early as June 2014 or as late as August 2014. The ballot stage normally lasts around 21 days.
- 4.5.8 If the tenants approved the proposal and the Council confirmed the transfer, there would then need to be a minimum of 3 months preparation before the homes could be purchased by the CoCo, which could be as early as October 2014 or as late as April 2015.

4.5.9 The overall delay in the process could mean that there may be up to a year of under investment in the housing stock before they could be transferred from the Council to the CoCo.

5.0 Implications for the Council and Tenants

5.1 Council Implications

5.1.1 The amended proposal is potentially more advantageous to the Council which would see all of the HRA debt redeemed on the day it transfers ownership of the housing stock to the CoCo. It would also no longer have the liability for finding the extra resources to keep existing stock decent and would benefit from a potential regeneration of the city's older housing estates.

5.1.2 The delay by the Government in producing the latest guidance and inviting bids is likely to push any potential move of stock from the Council to CoCo, subject to Government, Council and tenant approval, well into the following financial year 2014/15 meaning that there could be up to a years worth of under investment in the housing stock.

5.2 Implications for tenants

5.2.1 The aspects of the CoCo which tenants found most attractive would remain part of the amended Co-Co proposal:

- GCH would change its legal status to become a Registered Provider of Social Housing and become the Co-Co organisation, with one third owned by the tenants, one third by Council and one third by independents;
- Investment in the homes to keep them decent would become available, as would the likelihood of extra investment in estate regeneration and new homes; and
- Tenants would have an important role in the Governance of the 'Council and Community' owned new landlord.

5.2.2 The key difference, around how the Co-Co is financed, should also provide comfort to tenants. The CoCo would begin its life with a smaller debt and therefore a higher chance of keeping the existing stock decent; and regenerating the estates and developing new homes.

6.0 Future Work

- 6.1 Comprehensive technical work still needs to be undertaken by the Council and GCH senior management teams supported by professional advisors to submit a bid at the earliest in September 2013 and allow a tenant ballot during the late spring / early summer of 2014, and a transfer of ownership to the CoCo, possibly in October 2014 but certainly no later than April 2015.
- 6.2 The joint project board of cross party councilors, GCH Board members and tenants is chaired by the Cabinet Member for Housing and Health and meets monthly to monitor progress based on updates from the Council's Chief Executive and GCH's Chief Executive. The board is essentially directing the resources of the project and ensuring key actions are taken in line with the project plan deadlines.
- 6.3 Key milestones have been identified and all the relevant advisors have been appointed. A detailed project plan has been developed in consultation with staff and supporting consultants which is regularly updated on progress and as further information becomes available from the Government. Much of this work will feed into the negotiations with HCA/DCLG. The Government's requirements for the bid do require the Council and GCH to press ahead with preparations now rather than later.

7.0 Conclusion

- 7.1 Although discussions with Government have eventually proved promising the development of Government guidance has been much slower than originally promised. This has delayed the process and caused us to amend the proposal.
- 7.2 The amended Co-Co model is almost identical to that which the Council resolved to pursue in September 2011. It retains the key governance (ownership and Board membership) features of the original Co-Co model, which were both attractive to residents and the Council. However financially the Council would have no more HRA debt and the CoCo would be in a less indebted position making it more likely that it could achieve in full its business plans to keep existing homes decent, regenerate estates and build new homes.
- 7.3 Officers will ensure that members are kept updated on developments and will continue to undertake essential work so that when the Government Guidance is finally published and bids are invited, the Council will be able to make an informed decision on how best to proceed and can meet Government deadlines if required.

8.0 Financial Implications

- 8.1 An initial project budget of £150k in 2013 – 2014 has been set up within the HRA to move this stage of the project forward. If the Council subsequently approve the amended CoCo proposal, then a set-up budget of c£2.5m will be required to complete the transfer as originally identified and agreed by Council in principle in September 2011. This cost will need to be paid either by the Council or the CoCo or by a combination of the both, subject to negotiation.
- 8.2 The final proposals will obviously need to be based on a sound, sustainable business case for both the City Council and the 'Co-Co plus' company, going forward.
 - 8.2.1 Publication of the stock transfer guidance from central government will be key to this situation. At the point of transfer, the level of HRA related capital borrowing is anticipated to be at the debt cap of £62.75m. Once netted down against the transfer valuation of £10.2m, this would result in a potential write off of £52.5m of overhanging debt.
 - 8.2.2 Approximately half of the HRA borrowing is money market debt and the balance is Central Government Public Works Loan Board debt. Discussions will need to be completed with the HCA/CLG to confirm that government will pay any premia/costs associated with early redemption of the loans.

9.0 Legal Implications

- 9.1 Under the Housing Act 1985, the Council has powers to manage, regulate and control its housing stock and to enter into management agreements in respect of its housing stock.
- 9.2 The Council also has powers to transfer its housing stock, provided certain conditions are met and defined procedures are followed. Depending on the outcomes of continuing preliminary work, there are likely to be further legal implications for the Council and these will be identified in future reports.

(Legal Services have been consulted in the preparation this report.)

10.0 Risk Management Implications

- 10.1 There are currently no risks scoring 8 or above but risk will be continually assessed and high-risk areas will be brought to the Councils attention.

11.0 People Impact Assessment (PIA):

- 11.1 A PIA will be completed as part of the options evaluation work and will be a significant part of the work with tenants when determining the best option.

12.0 Other Corporate Implications

Community Safety

- 12.1 There are no implications.

Sustainability

- 12.2 There are no implications.

Staffing & Trade Union

- 12.3 If when Government guidance is finally published and if the revised CoCo proposal is agreed, there will need to be discussions with staff and trade unions about the proposal and any possible impacts of a change in service delivery arrangements.

Background Documents: None