

**Future Housing Revenue Account Options for
Rochdale's Housing Service**

Final report

Final Report of the Investment and Involvement Commission

December 2010

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1. The Investment and Involvement Commission

1.1 Introduction

Rochdale Metropolitan Borough Council (RMBC) set up the Investment and Involvement Commission in September 2009 to examine the future housing revenue account options for the local authority housing service. The review was designed to secure the best possible future of council housing for the long-term benefit of current and future tenants and to ensure the service was placed on firm financial foundations to meet formidable future challenges and pressures. The review was also seen as an opportunity to improve governance, tenant empowerment and investment processes in the housing service. A crucial aspect of the Commission was its independence from the local authority, or indeed any other body. This was considered critical in order that all options could be reviewed on their own merits, and not influenced by any prior commitments or preconditions that might then constrain debate and analysis.

The decision to set up the Commission was taken in order to prevent current problems of local authority housing revenue growing into a crisis in the near future. As with many other local authorities in England, Rochdale MBC's Housing Revenue Account (HRA) is forecast to go into deficit in the next four to five years under current arrangements and the local authority cannot legally budget for a deficit. It therefore needed to take corrective action to avoid this outcome, although its room for manoeuvre is inevitably highly constrained. The Commission was therefore tasked to provide a carefully argued analysis of the options and to express a preference for the option (or range of options) that would address housing needs in the borough in the most effective and sustainable manner.

There have been three key constituencies for the Commission's work. First, the tenants, who will directly experience the consequences of changes recommended for the Council housing service. Clearly, tenants have a crucial role to play in shaping the future of their housing service and they also have a statutory right to vote if an option to transfer the housing stock is adopted, as suggested later in this report. The second constituency is the Council, which currently owns the housing stock, is the customer for the Commission's work and has the power to act on proposed changes recommended by the Commission. The third constituency is Rochdale Boroughwide Housing (RBH), the arms length management organisation (ALMO) set up in 2002 to manage and maintain the local authority housing stock and to oversee the major investment in the current stock under the government's

'decent homes' programme. The composition of the Commission reflected this three-fold set of interests, comprising:

- five elected members from Rochdale MBC
- four members of the RBH Board
- one 'generic' tenant representative
- four area-based tenant representatives (one from each township)

The Commission was also supported by a project manager appointed by Rochdale MBC, and by senior members of staff from the Council and RBH as appropriate. A Project Board was also established, chaired by the Council's Executive Director for Regeneration, to oversee the implementation of the project and to monitor progress according to an agreed project plan.

1.2 The Commission's Terms of Reference and Programme of Work

While the Commission had an open brief in terms of the future options it might consider, it was not conducting its business on a blank canvas. The Commission had to consider future developments in national policy, especially in the light of the change of government in May 2010 and the outcome of the ongoing national review of council housing finance. Locally, the Commission needed to be aware of the council's Community Plan, ongoing strategies for area regeneration and the redevelopment of local authority housing stock, and, at national level, the changes in the institutional machinery around housing and the revised role for the Homes and Communities Agency. The Commission also had to take into account the local authority's community engagement strategy and an independent review undertaken by Libra, in parallel to the Commission's work, covering tenant representation and involvement in the housing service.

The key objectives for the Commission were:

- to review different options for the future organisation and management of council housing in Rochdale;
- to assess the options against agreed common criteria;
- to identify a preferred option, or set of options, to secure the best possible future for council housing and tenants in the borough.

The inaugural meeting of the Commission was held in September 2009 and it met on eight occasions overall. The first three Commission meetings were primarily concerned with receiving presentations from expert consultants and RMBC and RBH staff on the key issues facing the housing service (as discussed in Chapter 3). The fourth meeting took the form of

a more open-ended discussion by members of the Commission to consider some of the various options for the future development of the service. An Interim Report was considered at a meeting of the Commission in January 2010. A revised draft of the Interim Report was then submitted to the Council. At that stage it was decided that it would be premature to move to a definitive recommendation, given the forthcoming general election and the uncertain outcome of the national review of council housing finance. The Commission therefore suspended its deliberations for six months and reconvened on 29 July 2010 to consider the financial options for remaining within the HRA, and to appraise the possibility of a transfer to a mutual organisation. The Commission then met for the last time in 22 November 2010 where it discussed a draft recommendation and agreed the eventual recommendation set out in Chapter 4.

The Commission was chaired by an independent expert, Professor Ian Cole. Professor Cole is the Professor of Housing at the Centre of Regional Economic and Social Research at Sheffield Hallam University. Professor Cole has published a wide range of research papers and reports and directed several major research and policy evaluations of social housing, tenant involvement, regeneration and housing market change. He chaired the Government's Commission on the cross-domain regulation of social housing set up in 2008, and has been a member of the two Government Expert Panels - on Regional and Economic Development Analysis and Housing and Communities Analysis. Professor Cole drafted the interim report for discussion by the Commission and produced the final report.

In addition to the presentations and information provided to the Commission at its meetings the report has been informed by scanning policy developments at the national level and by two short exercises in gathering further information. A telephone survey was conducted with members of Rochdale's Local Strategic Partnership on the issue of the breadth of the future landlord role in the borough. A short telephone survey was also undertaken with Chief Executives in some of the larger ALMOs across the country in order to assess how they were facing up to the future challenges to their housing service. These two studies were funded directly by Sheffield Hallam University and led by Professor Cole.

It was important to establish some parameters for the Commission's work at an early stage and at the inaugural meeting the following criteria were agreed as the basis for considering options:

- financial sustainability
- stock investment/condition/type/location
- the landlord's role in tackling physical and social deprivation
- tenant involvement in decision-making.

Of these criteria, many of the Commission's deliberations understandably focused on the first of these four criteria: it was hardly worth devoting time to the other three issues if they

were not incorporated within a financially sustainable package. Much of the 'ground clearing' therefore focused on financial viability, with various assumptions being made about future stock investment, the landlord role and tenant involvement as a part of each option.

The task of the Commission was therefore to assess realistic and practical options for the future, based on acknowledged principles but also mindful of the wider economic and political context in which the housing service in Rochdale is situated. Before looking to the future, it was important to have a basic understanding of present pressures and contingencies, as a backdrop to the Commission's work. Some of these issues are therefore summarised in the following chapter.

2. The Economic and Policy Context

2.1 The Prospects for the Economy and Public Expenditure

The Commission's Interim Report in February 2010 provided a fuller overview of the broader economic context for its review. Here we concentrate on the implications of some key developments since then. Much of the debate about the future financial prospects for social housing is about debt, in the context of severe constraint on public spending in the years ahead. The coalition government has set itself the objective of removing the current national budget deficit by the end of the lifetime of this parliament and to this end has embarked on substantial reductions in the level of public expenditure overall, including a reduction of around 10 per cent for 2011/12 in central government grant to local authorities (equating to a 4.4 per cent reduction overall in local authority spend). Overall, revenue funding for local government will reduce by 26 percent in real terms between 2010-11 and 2014-15, and the impact on Rochdale will be above this figure.

These daunting prospects for public expenditure are compounded by wider macro-economic trends. The ippr group *Centre for Cities* estimated that relatively poor cities in the North of England (such as Hull and Barnsley) will take a good deal longer to recover from the downturn than their more prosperous counterparts in the South (such as Brighton and Milton Keynes). Rochdale is a lot closer (economically as well as geographically) to Barnsley than Brighton. The cutbacks in public expenditure will also affect levels of worklessness, especially in the younger age groups, as redundancies and freezes on recruitment shift from the private sector to the public sector, and then have a subsequent rebound impact on private sector employment. The Chartered Institute of Personnel and Development (CIPD) has estimated that the combination of spending cuts and the rise in VAT to 20 per cent in January 2011 will result in the loss of 725,000 public sector jobs by 2016 (which is 100,000 higher than the estimates produced by the government's Office for Budget Responsibility) and 900,000 private sector jobs. This will increase the level of economic vulnerability, at the least in the short term, and thereby pressure on the social housing sector. CIPD has estimated that an average of 325,000 private sector jobs a year will need to be created by 2015/16 just to keep unemployment steady at 2.5 million.

There will also be parallel pressures in the private housing sector. There has been a fairly sharp fall in property prices in the past quarter and it is difficult to predict how long it will continue, or the scale of the decrease - though an annual fall in prices of up to 20 per cent by the end of 2011 has been suggested. When credit constraints ease and values in the

private housing market begin to pick up, it is likely that this will result initially in an *increase* in repossessions for defaulters, as lenders can secure better returns on resale. This is not the end of the process, however. This will be compounded if the Bank of England base rate (which has been held at 0.5 percent for the past eighteen months) increases in the future and mortgage costs rise as a result. In the private rented sector the changes in housing benefit will have an impact which is difficult to predict at this stage, though it will result in higher turnover and displacement, especially in higher rental areas.

Given this powerful combination of bleak economic and expenditure trends, the Commission agreed it was best to consider a way forward for social housing investment and management in terms of the 'least worst' option rather than being overoptimistic about the impact any of the financial options on offer. It is likely that any of the ways forward will involve some very tough decisions about essential, and more expendable, priorities.

2.2 Coalition Government Policy

Amid the welter of changes and proposals announced by the coalition government since May 2010, one important part of the jigsaw for the Commission's work remained relatively unchanged. The government continued with the national review of council housing finance set up by the previous administration and preserved the commitment to self-financing, although the terms and conditions for the redistribution of debt are less favourable to local authorities such as Rochdale MBC than before.

Major changes have been made to the institutional landscape. The government has scrapped the Audit Commission, the Tenant Services Authority, the National Tenants Voice, and has recast the role of the Homes and Communities Agency as an enabler, working alongside local authorities, rather than driving forward a national programme. It has also scrapped the core standards for the HCA. Major reductions have been made to levels of future capital expenditure. However, it has maintained support for the completion of the decent homes programme, and the government is committed to producing another 150,000 affordable homes a year through partnerships between the private sector and housing associations. It has encouraged local authorities to increase housing supply locally through the incentives offered through the New Homes Bonus. The government has also made major changes to the future operation of housing benefit in terms of rent capping, eligibility, and support over the longer term for those applicants receiving job seekers' allowance

In terms of institutional arrangements and delivery processes the government has espoused greater autonomy for public sector agencies to develop their own priorities at the local level, including increased responsibility over budgets and encouragement for innovative ways of working suggested by front-line staff. It has also given support for the development

of mutual models of public sector agency, not least through the launch of a programme of 12 pathfinder mutuals by the Cabinet office Minister Francis Maude in August 2010. One of these twelve pathfinders has a housing component, involving the creation of a social enterprise for delivery of housing support services to vulnerable people in Mansfield, bringing together a range of public sector workers. However, none of the pathfinders involve organisations delivering landlord services. The government has made it clear that it is wants to hear about new models for delivery from those directly involved in running services at the front-line level.

3. The Key Issues

The analysis of the challenges facing the future of the housing service in Rochdale is organised around the four key criteria agreed by the Commission at its initial meeting: financial sustainability; stock investment/condition/type/location; the landlord's role in tackling physical and social deprivation; tenant involvement in decision-making.

3.1 Financial Sustainability

There was little or no appetite among members of the Commission for a reversion to a housing service that was managed as well as owned by the council (ie 'pre-ALMO'). While there had been some initial scepticism locally about the benefits that moving to ALMO status might bring, it seems to be widely accepted that the service has improved over the past eight years, that tenant satisfaction has increased year by year, and that it has enabled Decent Homes investment to be made.

An initial analysis of the HRA self-financing model was carried out for the Council by external consultants from Housing Quality Network and the Chartered Institute of Housing. A further updated analysis was then produced by the Council's Finance team. This analysis took the form of a comparison of the self financing model (based on the assumptions used in the March 2010 Prospectus) compared to the HRA Business Plan (based on actual income, costs and investment requirements). This analysis showed that the self financing model debt cap would be breached in year 14. Debt would then continue to increase, reaching £187m after 30-years. It was also estimated that, from 2019 onwards, 5% of homes would become non-decent each year, assuming that work programmes were prioritised with the sole aim of minimising Decent Homes failures (which does not necessarily accord with tenants' wishes nor achieve value for money). Under self financing, in short, it was not possible to provide a sustainable 30-year business plan or to maintain properties to a basic Decent Homes level.

The Commission considered in August 2010 various intermediate options for preserving the ALMO model while extending the potential to increase borrowing capacity to meet the ongoing requirements of keeping the decent homes standard over the next thirty years, while also investing in neighbourhood improvements, to go beyond a sole focus on the dwelling. Such an exercise also needed to be mindful of the implications for future rent levels, not least given the likely increases in the levels of economic vulnerability in the short term outlined earlier. The Commission concluded that none of the variants under the local authority self-financing route provided sufficient scope to achieve these objectives, and that

stock transfer was the only option that could potentially provide the resources necessary to meet future housing needs, maintain an acceptable level of service and provide enough headroom for future investment. However, at the same time Commission members also had serious reservations about certain forms of stock transfer, as described below.

3.2 Stock Investment, Condition, Type and Location

The Council's housing stock is now at 'decent homes' standard. It is of course open to debate (not just in Rochdale) whether this standard is 'decent' enough, particularly given the lack of attention to environmental works, common parts (including lifts) and also disabled adaptations. There is also the need for ongoing investment to maintain decency at its current level, particularly ten to fifteen years hence. Following expert advice made to the Commission, the assumptions made to the model of self-financing were not considered sufficient to meet these requirements, and so the gap would have to be funded through higher initial debt or future grant funding. Given the overriding need to reduce and ultimately eliminate debt, and the likelihood that there would be no additional central government grant funding for neighbourhood-based programmes of regeneration in the foreseeable future, this was not seen as a sufficiently robust basis for the future housing service. Investment through stock transfer was seen as the most likely route to achieve anything more than a basic standard for decent homes together with the prospect of levering in some additional investment at the neighbourhood level.

3.3 The Landlord Role in Tackling Physical and Social Deprivation

To an extent, the ability of any landlord to go beyond its 'core' service of management and maintenance to extend to 'housing plus' activities (such as tackling financial exclusion, creating training opportunities, or dealing with anti-social behaviour) is contingent on its financial position. An artificial division between 'core' and 'peripheral' landlord functions makes little sense to tenants concerned about anti-social behaviour on their estate, or for those struggling to pay their bills because there are few jobs locally. Nevertheless the resources available to a landlord to tackle these broader issues will inevitably be very limited and this puts a premium on acting alongside other agencies to ensure maximum collective impact and to avoid duplication.

Given the severe pressures on local authority budgets in the near future, and the ramifications for third sector organisations as well, the Commission considered that under the option of self-financing there would be no prospect of the housing service extending beyond 'basic' management and maintenance functions and that only stock transfer offered the potential to continue with the broader role that RBH has adopted since its creation.

Commission members had several concerns about proposing large-scale voluntary stock transfer as an option. The Commission recognised that there had been financial benefits associated with this option in the past (eg a government 'dowry' to cover outstanding debt), but future arrangements to deal with such debts were not clear. The genesis of the 'ALMO' model nationally was of course partly shaped by concerns among tenants and elected members in many local authorities about the transfer option. It would be fair to say that these concerns do not seem to have abated in Rochdale over the past eight years. This is a partly to the credit of the quality of the service provided by RBH in this period, and partly due to the perception that stock transfer has not been an unalloyed success in some other local authority areas. Commission members had particular concerns about transferring stock to larger, nationally based housing associations that might fail to adapt to specifically local circumstances and needs in Rochdale.

If stock transfer were to be contemplated, the Commission felt that it was crucial to ensure that any potential new landlord was strongly committed to the locality. There were fears that a larger existing housing association with stock distributed across several boroughs, for example, might be tempted to disinvest in the Rochdale area if the organisation came under financial pressure in the future. There was much to be said for a landlord that operated only within specified geographical boundaries for this reason. A genuine (and not merely rhetorical) commitment to tenant involvement and representation was also essential for any potential new landlord.

3.4 Tenant Involvement in Decision-Making

The extent to which tenants could be more involved in decision-making was also a consequence of the option selected for stock ownership and management. Tenants are currently represented on the RBH Board, although many decisions on resources lie with the elected members of the local authority in Cabinet rather than the Board itself. Under a transfer, tenant representatives would have more direct involvement in, and responsibility for, ensuring the financial viability of the business plan, and ultimately the housing stock. Were a transfer to be made where the landlord was part of a larger group structure, this would add a further decision-making layer, as Board decisions would need to be subject to the approval of the 'parent' Board for the group as whole. Again, the Commission considered that it was preferable that the organisational option of a locally based landlord, with direct tenant representation, would provide the best assurance for a responsive and sustainable social housing service to be delivered in these testing economic times.

One neglected constituency in earlier Commission discussions had been the staff of Rochdale Boroughwide Housing. In the presentations and information supplied to the Commission in July 2010 about mutual model of co-ownership, there was great interest in

the claim that it would increase the level of staff commitment (and accountability) if they had themselves a direct interest in the future landlord organisation. This sense of ownership would be shared with tenants and could assist in breaking down barriers between the providers and the recipients of the housing service.

After careful consideration, the Commission took the unanimous view at its final meeting that the preferred option for the future of the housing service in Rochdale would involve a transfer of stock from the local authority to a mutual housing association in which all staff and tenants had a direct interest (with limited liability). The co-ownership model could better achieve, it was felt, any management and maintenance cost savings, through being more closely attuned to local needs and priorities. The level of ongoing engagement would also make the new organisation better able to take tough decisions, with genuine stakeholder buy-in. Experience of mutuals elsewhere suggests that they are capable of deliver efficiencies, while being especially resilient in a rapidly changing climate. This organisational model also gives the freedom and flexibility to maximise external income through delivering services to third parties in the future, for example over energy efficiency measures.

This constitutes an ambitious and innovatory proposal for the future of the council housing service in Rochdale, but it is also based on a hard-headed appraisal of the different options open to the RMBC and RBH. In practice, much will depend on the detailed negotiations that will be necessary between the local authority, RBH and central government on the eventual offer to be made to tenants in any forthcoming ballot. The Commission does not underestimate the challenges of such an exercise, but the degree of support for this way forward achieved by the broad constituency of interests represented in the Commission should help to achieve a favourable outcome.

4 The Commission's Recommendation

The Commission has made over the past fourteen months a careful and open-minded appraisal of the different options for future investment in the local authority housing stock in Rochdale, while ensuring a high level of tenant and resident involvement in the housing service in the future. Given the broad range of representation on the Commission, the positive support shown for prospect of transfer to a mutual model augurs well for gaining wider tenant support for the proposal, if a financially viable and sustainable case can be made. This option also presents some exciting possibilities for both tenants and members of staff to fashion a locally responsive and financially strong organisation that will be able to develop policies and initiatives to meet the considerable challenges for investing in both the housing stock and the neighbourhoods in Rochdale in the years ahead.

The development of a mutual and co-operative model for service delivery will protect the housing investment already made through the Decent Homes programme. It offers the prospect of levering in significant levels of private finance for investment in homes and communities. It should provide a secure long term future for the Council's housing stock, preventing future backlogs developing. It will provide a mechanism for making tough decisions in the future on regeneration. It can open up significant opportunities for new areas of work which will deliver wider savings for the public purse. It can tap into the spirit of enterprise and innovation found among those who work in social housing, and increase their motivation and sense of ownership, which should thereby deliver benefits to the wider community. And it should lead to improved landlord performance as a direct result of the new responsibility of ownership that tenants will have, so it becomes 'their' service rather than one delivered to them by others.

For these reasons, the Commission has therefore agreed the following recommendation about the future of the local authority housing service in Rochdale:

The Investment and Involvement Commission recommends that Rochdale MBC and its partners pursue with Communities and Local Government and the Homes and Communities Agency as a matter of urgency the possibility of transferring the council's housing stock to a new mutual organisation, co-owned by tenants and employees. The Commission believes that this is the best way of ensuring the long-term financial sustainability of the housing stock while giving both tenants and employees a stronger sense of ownership in providing a high quality housing service in the future. The broad membership, careful deliberations and independent status of the Commission should also add legitimacy and authority to the Council's position, so that it can negotiate from a position of real strength with central government over delivering this option.