

Summary: Intervention & Options

Department /Agency: Communities & Local Government	Title: Impact Assessment of tenant led stock options	
Stage: Final Proposal	Version: 1	Date: 19 October 2007
Related Publications:		

Available to view or download at:

<http://www.communities.gov.uk>

Contact for enquiries: Stephen Biddulph

Telephone: 020-7944-0060

What is the problem under consideration? Why is government intervention necessary?

Central Government is keen to empower local authority tenants to effect a change of landlord or management where to do so is a viable option and has the support of the majority of tenants.

However such transfers are at present at the discretion of the local authority, some of which have (possibly for ideological reasons) blocked such transfers.

What are the policy objectives and the intended effects?

It is Government policy that local authority tenants be given greater say over how their homes are managed, including who their landlord should be.

The intended effect of the proposal is to ensure that local authorities cannot block or unnecessarily impede the wishes of tenants where they have identified (and wish to see) a viable alternative landlord or manager of their homes.

We estimate this will affect approximately 3 local authorities a year, and approximately 2,200 homes.

What policy options have been considered? Please justify any preferred option.

“Do nothing” would not have achieved the policy objectives.

Instead Government proposes imposing a conditional duty on the local authority to effect the transfer process (once the other already existing conditions relating to tenant led stock options had been met). The duty would be on condition that transfer of the stock would not have a negative effect on the local authority's finances and therefore subsequently their ability to perform a satisfactory landlord role to other local authority tenants.

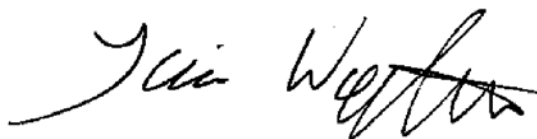
When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects?

We will consider a full evaluation of the new procedures within three years of the legislation coming into force.

Ministerial Sign-off For final proposal/implementation stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister:

A handwritten signature in black ink, appearing to read "Jacqui Weir". The signature is written in a cursive style with a long, sweeping underline.

Date: 9 November 2007

Summary: Analysis & Evidence

Policy Option: Tenant Led Stock Options	Description: To increase the opportunities for tenants to undertake tenant led stock options, including transfer of ownership
---	--

COSTS	ANNUAL COSTS		Description and scale of key monetised costs by 'main affected groups' We estimate approx 3 local authorities a year will be affected by this proposal. £1.5m = the cost of the transfer process x 3.
	One-off (Transition)	Yrs	
	£0	1	
	Average Annual Cost (excluding one-off)		
	£1,500,000		Total Cost (PV) £1,500,000
Other key non-monetised costs by 'main affected groups'			

BENEFITS	ANNUAL BENEFITS		Description and scale of key monetised benefits by 'main affected groups' We estimate approx 2,200 homes each year will transfer to the RSL sector as a result of this proposal. £22m = additional investment of approx £10k in each home.
	One-off	Yrs	
	£0	0	
	Average Annual Benefit (excluding one-off)		
	£22,000,000		Total Benefit (PV) £22,000,000
Other key non-monetised benefits by 'main affected groups'			

Key Assumptions/Sensitivities/Risks

Price Base Year	Time Period Years	Net Benefit Range (NPV) £	NET BENEFIT (NPV Best estimate) £
------------------------	--------------------------	-------------------------------------	---

What is the geographic coverage of the policy/option?	England			
On what date will the policy be implemented?	Summer 2009			
Which organisation(s) will enforce the policy?	The courts			
What is the total annual cost of enforcement for these organisations?	£ not calculable			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	No			
What is the value of the proposed offsetting measure per year?	£			
What is the value of changes in greenhouse gas emissions?	£N/A			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro N/A	Small N/A	Medium N/A	Large N/A
Are any of these organisations exempt?	Yes	Yes	N/A	N/A
Impact on Admin Burdens Baseline (2005 Prices) (Increase – Decrease)				
Increase of £	Decrease of £	Net Impact £		
Key:	Annual costs and benefits: Constant Prices		(Net) Present Value	

Evidence Base (for summary sheets)

[Use this space (with a recommended maximum of 30 pages) to set out the evidence, analysis and detailed narrative from which you have generated your policy options or proposal. Ensure that the information is organised in such a way as to explain clearly the summary information on the preceding pages of this form.]

1. The Department for Communities and Local Government's commitment to the wider Government agenda for encouraging community empowerment and neighbourhood-focused renewal is reflected in the tenant empowerment programme. This provides a wide range of opportunities for local authority tenants' groups to explore how they might become more involved in the management of their homes, including support for pursuing the option for the statutory Right to Manage and Tenant Led Stock Options.
2. The Department wishes to encourage and support Tenant Led Stock Options where local authority tenants take the lead in looking at the future options for the management and/or ownership of their homes and, if feasible, take forward a preferred option. For a Tenant Led Stock Option the properties will need to have a geographical coherence and relate to an existing community. A likely outcome is a tenant led stock transfer to a Registered Social Landlord, an Arms Length Management Organisation, or a development programme in conjunction with commercial developers.
3. A separate block of funding has been allocated within the Tenant Empowerment Programme to enable local authority tenant groups to explore stock options and develop the preferred option in partnership with the local authority.

The current Tenant Led Stock Option process

4. The current process is broken down into 3 stages:
 - the **initial stage** is not always necessary but funding can be given for tenant groups to learn about the process and what their role will be;
 - the second **feasibility stage** is where the options for management and/or ownership are explored and their feasibility assessed;
 - the third **development stage** is where preparations are made up to and including the stock transfer ballot.

5. The Department's guidance defines Tenant Led Stock Options and sets out the framework for the process of exploring and implementing these. It looks particularly at how and where Tenant Led Stock Option grant will be available for the Feasibility and Development stages. The guidance is primarily for tenant groups, local authorities and Approved Persons under the Housing (Right to Manage) Regulations 94.

Rationale for govt intervention

6. Stock options can be explored effectively only in partnership with the local authority. In line with Government stated objectives LAs are expected to provide this support. All applications for funding must be accompanied by a letter of support from the local authority in order to be considered. However, we accept that the local authority may have grounds not to give this support (where, eg, developing a specific stock option for the tenants group's area could significantly undermine the local authority's own approach to the future of the rest of its housing stock).
7. A number of tenants groups have been able to work co-operatively with their local authority to enable them to take forward a Feasibility study and to move into the Development stage. However, the Department is also aware that obtaining the support of the local authority has proved in some cases to be a hurdle both for tenant groups wanting to undertake a stock options study but also in taking forward their preferred stock option. For example, in recent years Birmingham City Council and Wolverhampton City Council both rejected stock transfer proposals received (respectively) from the Bloomsbury Estate Management Board and the Bushbury Hill Estate Management Board (650 and 870 homes respectively, which could have received additional private sector investment had transfer proceeded).
8. We want to ensure that all local authority tenants have the same opportunity to explore the options for the future management of their homes.

Do Nothing

9. We could do nothing, other than issue further guidance encouraging local authorities to support Tenant Led Stock Option processes. However, even with further guidance there would be no legal compulsion for a local authority to co-operate. It would still be possible for a local authority to withhold support leaving tenants unable to explore options for the future management of their homes or later in the process so tenants could not take their preferred stock option forward. This option would not ensure that every local authority tenant had the same opportunity to participate in the Tenant Led Stock Option process.

Our Proposal

10. Instead we propose placing a duty on local authorities to enable tenants to pursue their desire to look at stock options or to transfer their homes to an existing Registered Social Landlord or to an organisation that the tenants themselves wish to set up.
11. However the duty would be conditional inasmuch that the local authority would not be obliged to comply where it could demonstrate to the satisfaction of the Secretary of State (or the proposed social housing regulator if his remit extends to the local authority sector) that the transfer would have a negative financial impact on its remaining housing stock (and therefore its landlord service to its remaining tenants). The collective benefits must take priority.
12. However in order to ensure that the local authority is not required to complete nugatory work tenants would need to demonstrate through an independent assessment that there was overall support amongst tenants for taking the process forward.

Costs and Benefits

Sectors and groups affected

13. The primary groups most affected by the proposal are:
 - unitary and district local authorities responsible for housing services
 - local authority tenants and tenant groups
 - Tenant Management Organisations
 - Housing Associations
 - approved agencies

Race equality assessment

14. Our housing policies positively encourage inclusion of every citizen regardless of ethnicity or religious beliefs and highlight the requirement to ensure the inclusion of hard to reach groups. A housing service provider has to adopt a constitution that ensures that the organisation will not discriminate on the grounds of racial origin, gender, sexuality, disability or religion.
15. We will ensure that any new guidance documents contain advice about providing information in languages other than English and guidance on adopting methods of inclusion and ensuring consideration is given to factors that may affect individuals' ability to be involved.

Health impact assessment

16. We do not believe there to be any direct impacts on health. It might however be argued the sense of well being derived from people having influence and input into decisions that affect their homes and neighbourhoods and the increase in social interaction tenant participation brings has a positive impact overall although this is not quantifiable.

Rural considerations

17. Concentrations of social housing tend to be found in more urban areas and therefore active tenant groups are more common in urban areas. It may be that because of the scale of the housing service the transfer of housing stock is more likely to negatively impact on the finances of the local authority – further assessment will be made in readiness for the next formal impact assessment.

Breakdown of costs and benefits

Do nothing

Economic

18. There are no economic benefits from the status quo. We currently fund tenants groups to undertake an options appraisal. If this work cannot be taken forward at the end of the process because it is blocked by the local authority one could argue that this results in unnecessary costs. The current funding is £400k pa so this could be the maximum cost but not all work will be nugatory.

Environmental

19. There are no environmental benefits from keeping the current arrangements nor are there any environmental costs.

Social

20. There are potentially significant social costs in not making any changes to the current arrangements. Tenant groups that have undertaken a stock options process are extremely disillusioned when their work results in no change or progress. This disillusionment has a significant local impact but through tenant networks also has a wider effect. It undermines the Government's commitment to ensure greater tenant participation.

Our Proposal

Economic

21. There are economic benefits through increased investment in housing and local environment and additional job opportunities post-transfer. Since 1997 £8.76bn has been levered in through private sector borrowing by housing associations following transfer of 831,291 homes (October 2007 figures). This calculates at approximately £10,000 a home.
22. In the last year two tenant led stock transfers involving 1,500 homes have been blocked by local authorities. If we assume that the legislation might encourage at least one other of a similar size to come forward each year, then 2,200 homes a year might transfer as a result of this legislation, meaning additional investment benefits of £22 million.
23. There are costs for tenants developing the stock options studies, currently around £60 – £80k. These are currently met by Tenant Empowerment Programme grant (75%) and the local authority (25%). However these are costs that would be borne anyway and are not directly relevant to this proposal.
24. There will be some administrative costs if the local authority decides to make a case to the Secretary of State (or in future possibly the regulator) to prevent the transfer of housing stock and to the Secretary of State (or regulator) for assessing case against transfer.
25. Costs will also be incurred by the local authority in taking a transfer through to ballot and then to consent. For estate based transfers these are around £500,000. If, however, the ballot failed there may be a case for reimbursing the local authority as they were required to go ahead with the process. However failure is an unlikely scenario as tenants would have to demonstrate support before the local authority embarked on any formal process.
26. It is possible for political reasons that the Secretary of State will direct a local authority to proceed with a transfer of stock even where this had a negative financial effect on the local authority. In such cases the Secretary of State would be obliged to compensate the local authority which, in a worst case scenario, could be as high as £30 million per annum.

The worst case scenario

27. A local authority would suffer a financial loss if it were to transfer out of its ownership homes from which rental income exceeded costs of repair and maintenance. There are dwellings in the London Borough of Harrow where the net receipt to the local authority is in excess of £2,000 per annum.

The largest estate based stock transfer is likely to consist of around 5,000 dwellings. We are aware in the last year of 2 tenant led stock transfers being blocked by the local authority. This legislation might encourage others to come forward, so we estimate possibly 3 a year. So a worst case scenario would be £2,000 x 5,000 x 3 : ie £30 million.

Environmental

28. There will be environmental benefits that arise from the greater borrowing power of the housing association that takes on the stock. This could include greater investment in improving the energy efficiency of homes and wider estate improvements. If the worst housing stock transfers from the local authority then this will improve the local authority's overall Housing Revenue Account position as high cost stock has been removed but the reduction of allowances is based on average costs. This would increase at the margins the local authority's spending power for the rest of its stock.
29. The converse of that is that if the best housing stock leaves the Housing Revenue Account it is probable that the local authority's finances will be negatively impacted and there will be less resource to invest in the remaining housing stock.

Social

30. The social benefits of making changes will be the increase in tenant empowerment. Our proposal balances the competing pressure of specific tenants groups and with the interest of wider local authority tenants. However it is impossible to quantify these benefits.

Small Firms' Impact Test (SFIT)

31. Not applicable

Competition Assessment

32. This proposal will have no negative impact on competition.

Enforcement, Sanctions and Monitoring

Enforcement

33. The Secretary of State will have powers to direct the local authority.

Sanctions

34. The Cave report proposes that a social housing regulator should be responsible for enabling tenants to seek better management of the homes they live in. If the regulator does cover all social housing then in this context the proposed regulator could assume responsibility for imposing penalties through its role in performance assessment if local authorities fail to comply with the duty to provide information.

35. The regulator might also determine that the tenants' group demonstrates that the outcome of the options study has the support of tenants in the homes covered by the proposal. However, we do not propose to impose specific penalties for tenant groups that fail to comply with any of the processes; groups that fail to comply will simply be prevented from moving to the next stage.
36. We have strong relationships with both stakeholders and practitioners in the field. We will monitor the progress and effectiveness of the legislation in partnership with the new regulator. We will consider a full evaluation of the new procedures within three years of the Act coming into force.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	Results in Evidence Base?	Results annexed?
Competition Assessment	No	No
Small Firms Impact Test	No	No
Legal Aid	No	No
Sustainable Development	No	No
Carbon Assessment	No	No
Other Environment	No	No
Health Impact Assessment	No	No
Race Equality	No	No
Disability Equality	No	No
Gender Equality	No	No
Human Rights	No	No
Rural Proofing	No	No

Annexes

None.