



Community Ownership Review

Report of the Expert Group





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COMMUNITY OWNERSHIP REVIEW– REPORT OF THE EXPERT GROUP

Executive Summary

The main purpose of the Community Ownership Review Group was to come forward with proposals for streamlining and improving the stock transfer process, together with recommending arrangements in two new policy areas: the rules for partial stock transfer, and for access to regeneration funding linked to stock transfer. The Group recognised the major opportunities offered by the developments in the housing policy framework, with a wider range of options available, and a clearly established Scottish Housing Quality Standard (SHQS), together with the improved information which will come from the Scottish House Condition survey (SHCS) and the development of local housing strategies (LHS).

This provides a framework within which the emphasis can be given to the underlying objectives – meeting the SHQS, improving housing management, and meeting the need for affordable housing - rather than the models of ownership. This means that all ownership models are feasible going forward and limited only by affordability issues specific to each local authority. Working within the constraints of what is affordable to each, local authorities (LAs), along with their tenants, will now be in the driving seat to make the necessary choices about the future of their houses to enable them to put in place a sustainable long-term strategy for their stock. Tenants should be involved throughout the process, should be properly informed about the range of realistic options available, and allowed to make their choice.

For those choosing to go down the community ownership path the proposals made in this report should streamline the current process and ensure transfers are delivered in a timely and cost effective manner. For those LAs not choosing to transfer ownership much of what is discussed in the following report will still assist them in arriving at a suitable plan of action for ensuring that they have sustainable and long-term viable social housing stock.

Recommendations

Making the process work better

- Local authorities should produce a comprehensive option appraisal and delivery plan for their own stock, which the Scottish Executive should assess in terms of meeting the SHQS.
- Except where the case for transfer is already clear, option appraisals will need to be revisited in the light of the SHQS.
- The Scottish Executive should put in place a new process for transfers, with clearly defined gateways, and realistic timescales.
- The start of the transfer process should be entry onto the Community Ownership Programme (COP).
- Criteria for entry onto the COP should be political commitment, organisational capacity, demonstrable tenant engagement, a clearly set out communications strategy and basic financial analysis set out in an outline business case.

Roles and Skills

- The LA should be firmly in the lead in project managing each transfer, and should put in place the capacity to do so.
- The roles of the different parts of Communities Scotland (CS) and the Housing & Area Regeneration Group (HAAR) in the Development Department need to be more clearly defined. A case team approach should be adopted led by CS with clear roles identified for all the participants. This is covered in more detail in the report.
- LAs should consider a range of options for the receiving landlord, including both creating a new organisation, and inviting bids from existing organisations. This should take account of the benefits, over time, of tenants having a choice of social landlord locally.
- The approach to funding set-up costs should be changed, creating strong incentives for the stakeholders to achieve best value.

- Efforts should be made to both grow the existing capacity and bring new managerial talent into the Registered Social Landlord (RSL) sector, reflecting the massive growth it has enjoyed as a result of stock transfer, to ensure its long term sustainability.

Partial transfers

- It is now proposed that debt write off will be available for partials that gain entry to the COP. While such partials are an additional option they must be considered as part of an overall strategy for a local authority to meet the SHQS for all its stock.
- Rather than set a numerical limit, provided they address local circumstances, partials should qualify for entry onto the COP with the attendant debt write-off, access to regeneration funding, and be subject to Treasury debt write-off rules.
- For some LAs partial transfers will make sense in regeneration terms, leaving their remaining stock sustainable, however for others this will not be the case.
- The approach to partial transfers should recognise that the main logic for partial transfers is the regeneration needs of a particular area.
- Partial transfers could also be seen, potentially, as a phased approach to transfer of the entire stock.
- Financial arrangements for partial transfers should require any benefits to the Housing Revenue Account (HRA) to be used to fund the transfer and regeneration package.

Regeneration linked to whole stock transfer

- Funding should be allocated on the basis of size, level of deprivation and quality of proposal.
- The priority for use of this funding should be for regeneration activity directly linked to the sustainable success of the transfer, such as the

provision of new affordable housing, environmental improvements or owner occupier costs.

- However where a local authority can make a case for other initiatives which would significantly improve their proposal and ensure the sustainable regeneration of the broader neighbourhood, these should be considered.
- There was also some discussion of the situation of LAs with sustainable housing stock and significant regeneration needs with some group members advocating the extension of eligibility to this funding to such LAs.

The text of this report can be found at
www.scotland.gov.uk/library/housing/coor-00.asp

Introduction

This report comes at a crucial stage in the development of Scottish housing policy. The first wave of whole stock transfers is complete, and a number of Local Authorities are, post-election, considering the long term options for their own housing stock. We will soon also have a much better view of the overall state of the housing stock in Scotland, through the Scottish House Condition Survey, and of local conditions and issues, through Local Housing Strategies. The forthcoming SHQS will provide a benchmark for Councils to judge what is the most sustainable way forward for their stock. Sustainability encompasses both the condition of the stock and its suitability for the needs of changing household make-up. Financial viability is also a crucial element of sustainability.

Remit and approach

The Community Ownership Review group was set up by the Minister for Communities as part of the review of Community Ownership policy being undertaken by the Scottish Executive. The group was comprised largely of external stakeholders and was asked to look at how the transfer process could be streamlined and improved. In addition, in light of recent policy developments the group was asked to consider and make recommendations on the criteria that should be used to approval partial transfers and access to the regeneration funding made available to underpin successful community ownership. The remit and membership of the group can be found at Annex a.

The group took as its starting point the vision and policy framework established by the Scottish Executive. To build safe strong communities there is a need to invest in quality housing across Scotland. This means addressing both quality and quantity of social housing. As well as ensuring that everyone has access to a warm dry affordable home it is also necessary to build on efforts to regenerate those neighbourhoods which are economically and culturally excluded. Where positive outcomes are achieved, investment in housing and regeneration are inextricably linked.

Within the current financial framework transfers to community ownership are not only a means of promoting community empowerment but also of securing significant additional investment in housing. The three large scale voluntary transfers (LSVTs) that took place last year resulted in the write-off of over £1bn of over-hanging debt by Treasury and secured private sector investment of £1bn. The remaining housing debt in Scotland is £2.3bn in respect of almost 400,000 properties. The Scottish Executive target of the transfer of a further 70,000 homes would provide a substantial boost of much needed housing expenditure in Scotland while delivering benefits to tenants within a relatively short timescale.

Where are we now?

- Four LSVTs have taken place in Berwickshire, Glasgow, Borders and Dumfries and Galloway, there have been 112 Scottish Homes transfers and around 200 partial transfers of LA stock. Transfers also took place in the 5 New Towns.
- The consultation paper 'Modernising Scotland's Social Housing' was issued in March 2003 which sought views on a new standard for Scotland's social housing, reaffirmed the benefits of community ownership through whole stock transfer and extended debt write off to partial transfers. The paper also extended the Prudential Regime to housing finance and invited ideas for innovative funding and management approaches. The paper introduced the Community Ownership Programme and measures to improve links between housing and regeneration activity.
- Partnership Agreement targets have been set – the introduction of a decent homes standard and transfer to community ownership of 70,000 houses by 2006, subject to approval by tenants.
- A single regulatory framework is now in place through which Communities Scotland assesses performance against agreed national performance standards for both Local Authorities and Registered Social Landlords.

The combined impact of the introduction of the SHQS, the Prudential Regime, local housing strategies and the single regulatory framework has led to the debate moving from a focus on ownership to a situation where LAs are being given clear parameters within which they should develop a strategy which will, through whole/partials transfers or retention options:

- Achieve the physical standards required for the housing stock
- Address supply/demand/affordability housing issues in their locality
- Meet the national performance standards for social housing; providing a quality housing management service
- Put in place a sustainable long-term financial environment

Their strategies are also expected to achieve:

- Tenant engagement in the management or ownership of their homes at a level chosen by the local community
- Improved links to wider regeneration activity

Lessons learnt from first wave of whole stock transfers

- The transfer process was prolonged and subject to delays and slippage due in part to unclear objectives
- Essential information became available too late – creating difficulties particularly on financing
- The process of setting up new RSLs was both more time consuming and more difficult than expected.
- The relative responsibilities of the different stakeholders were not always clear, including the roles of Communities Scotland and Housing and Area Regeneration Group (HAAR) in the Development Department of the Scottish Executive.

- There was a tendency to believe that, because the Scottish Executive was the promoter of community ownership as a policy, it would always be willing to absorb any potential financial consequences.

The options

Before looking at improvements in the stock transfer process, the Group looked at the range of options that should be available to local authorities in respect of their own stock.

The fundamental choice facing local authorities is which option for their own stock will make the greatest contribution to meeting the challenging housing objectives set out above.

The key role of the Scottish Executive is to take decisions on which options should be available, and on which terms, in order to make the greatest contribution to these objectives for Scotland as a whole.

There is therefore a delicate balance to be struck between giving local authorities as wide a range of choice of delivery options as possible, and ensuring that the sum of these individual decisions produces the best outcome for Scotland as a whole.

The Scottish Executive's position is that community ownership is the approach most likely to meet these objectives, by virtue of the role tenants can play in ensuring their own needs are met, and because stock transfer puts in place a sustainable, committed, funding package. The Scottish Executive has, however, recently made a wider range of options available to local authorities, notably retention through the prudential regime and partial transfers. What should be the terms of use for these arrangements?

Looking at the broader picture, it is clear that pressures on funding for housing in Scotland will be significant:

- A substantial number of Scottish local authorities will be unable to meet the SHQS on their existing stock from rental income alone.
- The demand for new affordable housing, whether to replace existing properties to reflect the changing pattern of households or add to overall supply, will remain substantial.

Even after the stock transfer in Glasgow, there is still £2.3 bn of housing debt outstanding for Scottish local authorities. Stock transfer, whether whole or partial, remains the only means by which the Scottish Executive can deliver additional resources from HM Treasury to lift the debt burden. It is highly unlikely that Treasury will revisit the current financial framework in the near future.

Given the competing demands for housing finance in Scotland, it is difficult for the Scottish Executive to justify making extra funding available to local authorities which would not have been required if the local authority had chosen the stock transfer option, and had its debt written off. The options available, and the related conditions, need to be set on the basis of this principle of “value for the Scottish pound” provided they also achieve value for money for the public sector as a whole. Taking the main options available in turn against this criterion:

- whole stock transfer resulting in complete debt write-off, will involve the minimum additional funding from the Scottish Executive to achieve the SHQS. It means that the rental income currently going on debt servicing (which was around 40p in every £ in Glasgow) is available to fund new borrowing for investment.
- retention, under which the local authority has to continue to service existing debt from rental income, will be viable for those authorities able both to service the debt and to reach the SHQS, while keeping rents affordable.
- partial transfers could form part of a local authority’s strategy, provided the cost to the Scottish Executive of meeting the SHQS in this way would not exceed the cost of following the full transfer route. This is addressed in more detail later in this report.

- Arms length management organisations (ALMOs) have merits in separating out the landlord function from the strategic housing function. However debt write-off from the Treasury is not available for this option and no funding is forthcoming from the Scottish Executive to support ALMOs. The option of ALMOs should be offered but recognising that they will only work for those authorities already able to reach the SHQS from rental income.

Funding

The Scottish Executive housing budget will need to be managed over the medium term, to meet housing policy objectives on both quality and quantity. Individual stock transfer proposals can require Scottish Executive funding over a long period: the Glasgow stock transfer will be receiving grant funding for 10 years.

There are 2 main issues here:

- Once the level of financial support for a particular transfer has been identified, in what form should it be provided, and over what time period?
- Ensuring that the cumulative impact of financial support for individual transfers is affordable, over time, for the housing budget.

In addition, there is a range of specific issues affecting the funding structure which need to be considered as part of the financial structure. These include:

- The potential corporation tax position of the receiving RSL, which is likely to be affected by whether the RSL has charitable status.
- The VAT arrangements in relation to the investment programme, which can result in much of the investment programme carrying no VAT liability. These complex arrangements need to be agreed as early as possible with funders on the basis that there will be no guarantee or underwriting by the Scottish Executive being offered.

Recommendations to Ministers

1. Getting the process right

There are two key aspects to the decision making process if a local authority goes down the community ownership route. First the consideration of strategic options, and then if community ownership is the chosen route, moving from initial decision to ballot and hopefully transfer as efficiently as possible.

(a) choosing the right long term option

Different LAs are at different stages in the decision making process about the future of their stock – some are close to concluding that a move to community ownership is the only viable option while others are confident that the retention option, which they prefer, is a viable way of reaching the SHQS and meeting their other objectives. In the delivery plans for their stock to be provided as part of their LHS by April 2005, LAs should be required to demonstrate how they have made their strategic choices, and these plans should be assessed by the Scottish Executive.

The Scottish Executive should provide guidance for LAs to comprehensively appraise available options for investing in their housing stock. Various options could be considered by LAs but should include as a minimum delivering the SHQS through retention or whole stock transfer together with a baseline 'do minimum' base case against which the different options can be tested. Option appraisals should be part of the delivery plans for meeting the SHQS that LAs are due to submit with their LHS by April 2005.

For LAs pursuing Community Ownership, the process of preparing a fundable business plan provides a robust framework for ensuring the SHQS can be achieved and sustained. For all other LAs, the Delivery plan should set out how this will be achieved, including a financial analysis. SE should provide guidance on how a delivery plan should be prepared.

(b) the transfer process and timeline

Carrying out a stock transfer is a complex operation, combining a large property transaction, and financial package with a need for political leadership and tenant engagement. Experience of previous transfers has shown a tendency to underestimate the time required for some stages of the process, and for information to be provided at too late a stage in the transfer process, which have proved difficult to handle. Slippage of key dates, particularly ballot and legal transfer, can undermine the credibility of the entire process, most importantly with tenants. This is exacerbated when there is strong political opposition to the transfer.

Much of the Group's work was therefore devoted to trying to establish a clear and orderly staged process, with a realistic assessment of how long each stage would take, a series of clearly defined gateways, and setting out what will be required to pass those gateways.

The basic overall conclusion is that it should be possible to carry out a transfer, from the initial assessment that transfer is the right option, through to legal transfer of the housing stock to the new landlord, in about 2½ to 3 years. It is essential however that the local authority continues to resource its ongoing housing investment activity alongside its work to develop its proposals for transfer.

Chart A sets out the stages of the process in Annex b.

A four stage gateway process is recommended once an LA has decided to opt for transfer. Prior to the decision to transfer the LA would develop an outline business case and undertake initial consultation with tenants. In order to gain entry to the programme, a local authority should also demonstrate political commitment to transfer, and have the managerial capacity to run their part of the transfer process. LAs will be expected to have a tenant participation strategy in place as part of their LHS but communication with and between all stakeholders involved in transfer is crucial to success. Commitment to develop a joint

communications strategy should therefore be necessary to gain entry to the COP.

Admission on the programme should trigger the production of a detailed transfer timetable, which all stakeholders would sign up to.

2. **Key aspects of the process**

(a) Roles and responsibilities

The selling LA should lead the process to the point of ballot. After a successful ballot project management should transfer to the acquiring RSL once it can demonstrate that it has the capacity to take on this responsibility. The continuing role of the LA, particularly in relation to regeneration strategies, must be clearly defined and understood as the RSL plays a progressively larger role post ballot.

A LA will only go through the experience of a whole stock transfer once. A system to allow for secondments and exchange of experience should be developed to allow the experience and knowledge of previous transfers to be captured and utilised. LAs will also be able to make use of the skills that reside within CS, the RSL sector and from LAs that have previous experience of the transfer process.

It will remain the case that specialist knowledge and advice from consultants will be required. The capacity to be able to manage consultants effectively by both seller and purchaser should be key criteria in the assessment of the seller in accessing the COP and the purchaser's bid being acceptable.

Where consultants are required clear briefs and model tender documents should be drawn up as part of the revised transfer guidance. LAs and RSLs should be expected to use, and keep to, the terms of these documents. As part of the revision of the transfer guidance good practice guidance should be developed on the skill sets required at different stages of the process together with benchmark costings for consultants, to include travel and accommodation costs.

The roles of the different parts of CS and the HAAR Group in the Scottish Executive's Development Department should be more clearly defined. A presentation was given to the group on the work of the joint CS/HAAR Task Group established to clarify the respective roles and responsibilities of CS and HAAR in delivering the COP and developing and implementing community ownership policy. Annex c summarises the Task Group's conclusions about responsibilities through the proposed transfer process.

The key conclusions are that CS should take responsibility for working with local authorities on the COP (and in due course with the receiving RSL), whilst HAAR's role, once a LA is on the COP, should be to advise ministers whether an LA has met the conditions for passing through the key decision gateways. In advocating a case team approach, the Task Group report considered this would provide a "single point of entry" to central government for councils and RSLs on the COP, whilst also reflecting the distinctive roles of the various parts of CS with a role to play and HAAR. We support the approach as set out in the Task Group's conclusions.

In this context CS Regulation and Inspection function has clearly defined and distinct responsibilities, notably for the registration of the receiving RSL which their involvement in the case team must not cut across.

(b) Transfer support costs

There is a cost attached to the successful delivery of the policy objective both in terms of time and money and there is a need for effort to control both to ensure VfM and cost effective spend.

We need a system which allows both LA and receiving landlord the resources to deliver a robust transfer while ensuring that there is adequate pressure to achieve best value.

The regulatory framework and the established registration criteria give CS powers to assess the competency of RSLs. CS/HAAR should audit the capacity of LAs entering the COP to deliver the transfer efficiently and effectively, including their capacity to manage consultants effectively. This would provide an early warning for CS/HAAR on those transfers that are likely to be most resource intensive. Financial competence within all stakeholders is of critical importance.

A revised approach to funding transfer set-up costs should involve:

- Based on their experience of previous transfers CS should establish an evidence base of what costs are to be expected in both whole and partial stock transfers – fixed and variable;
- At the point of entry onto COP an LA should be given an indication by HAAR/CS of the resources that will be available, depending on the number of units transferring;
- LAs should be allowed to make a case for additional resources if they consider they have particular circumstances which merit a bespoke arrangement;
- Whatever resources are agreed at this stage should stand. The LA should have a clearly defined project plan, showing where set-up costs are to be used. LAs should be incentivised to manage the resources spent on getting to transfer. Any increase in spending above the agreed package would have to be agreed with the Scottish Executive in advance and would be taken out of the LA's allocation of regeneration funds. LAs should be allowed to keep a proportion of any savings on set-up costs which could fund further regeneration activity. We would also expect, any grant allocated to the acquiring RSL to be recoverable after the transfer has been concluded.
- CS should proactively manage and regularly monitor actual spending against the project plan probably on a quarterly basis

(c) Pricing the stock and achieving VfM

The current valuation approach should be dropped in favour of a pricing model based on agreed assumptions. The key issue in pricing the stock is the assumptions and as a matter of priority the Scottish Executive should develop clear guidance on the key assumptions, and how they should be determined. This guidance will need to cover: capital costs and other inflation assumptions; rental assumptions; discount rates: treatment of RTB receipts, handling of owner occupiers costs, voids, arrears etc.

The purpose of the model would be to assure the Scottish Executive on VfM and price. We do not wish this new approach to duplicate work by the LA and their advisers: they should either provide a model which can be interrogated by the Scottish Executive, or the necessary data to allow the Scottish Executive model to be used.

The transfer receipt should be calculated using this new pricing model and should include all expenditure necessary to get the stock up to the SHQS and to maintain it to that standard. This will include demolitions and re-provisioning where this proves to be better VfM than refurbishing stock that is either not needed or where it is more cost effective to demolish and rebuild.

While Scottish Executive should no longer require an independent valuation if this approach is adopted, LAs should be able to undertake an independent valuation if this is felt necessary to reassure elected members but this would be at their own expense.

It is recommended that the Scottish Executive produces a generic cost-benefit analysis for the different options for meeting the SHQS, which would provide a starting point for how LAs should consider these generic issues in their appraisals.

Overall VfM will continue to be undertaken on the basis of the impact at a UK level but proposals for transfer will need to be affordable at both LA and Scottish Executive levels.

(d) The receiving landlord

It is of crucial importance that the receiving landlord is a robust organisation, this was one of the most challenging aspects of the first round of transfers. The identification or creation of a competent acquiring landlord will be a major component of success in the future. Looking at the social housing market in Scotland more generally, it is desirable to enhance tenant choice, which should include a degree of choice within a given area. The scope for enhancing tenant choice in this way should be taken into account in taking decisions on selection of receiving RSL(s).

There are two broad options for the receiving landlord:

- Creation of a new landlord
- Organising a competition to appoint an existing RSL or (RSLs) to take over the stock

While both options have pros and cons the latter provides greater reassurance that the transfer price reflects good value for money and the receiving landlord has experience of various aspects of running a business organisation. An in-house team could bid as part of the competition provided that the appropriate Chinese walls are established and approved in advance by CS.

LAs should be expected to demonstrate that they have explored all options for the acquiring landlord and its selling strategy should not depend solely on the creation of a new organisation without reference to the comparative advantages of using existing RSLs whether local or national. LAs and tenants should collectively decide the most appropriate model for them (within a robust assessment framework which should be set out in the revised transfer guidance).

As set out in the transfer process significant work (an up to date stock condition survey, environmental surveys, indemnities etc) should be carried out by the seller in advance of the start of the process of identifying the buyer. The quality and accuracy of the information is vital as this will reduce cost to the bidding organisations and enable them to carry out an accurate risk assessment.

The seller should be required to prepare a detailed business case on which eligible organisations should then be invited to make bids. The purchasing RSL should ensure that the relevant advisers/consultants have backed up their elements of the bid with solid professional indemnity cover. Bids should be required to demonstrate support of external funders.

The selection of the acquiring landlord should be made by the tenants, within the financial constraints imposed by the requirement by the bidding RSLs to meet the transfer price determined by the pricing model. Evaluation must be robust – large scale transfers will be a step change for most existing RSLs. A report of the evaluation process should form part of the submission to Scottish Executive Ministers for approval to transfer.

Once the prospective buyer has been identified the key financial components of the transaction will be fixed – any variation will only result from changes of fact and should not lead to further negotiation on principles, quality or service delivery.

(e) Tenant consultation and communication

Tenant consultation should be continuous and focused and a commitment to develop a clearly defined joint communications strategy should be one of the criteria for entry onto the COP. The practice of a single ballot should be retained, with other forms of consultation used at the various stages of the process.

Tenants need to be consulted by the seller from the outset so they understand why transfer is being proposed. The seller and purchaser, once identified, should develop and implement a joint communications strategy which would set

out the key points at which consultation should occur. The joint communications strategy should include a tenant involvement strategy explaining how tenants are to be part of the key decision-making processes.

Tender briefs and contracts issued to Independent Tenant Advisors (ITAs) should make clear what is expected from ITAs, stressing the requirement for advice provided to tenants to be balanced and objective. ITAs should only be paid for time spent on activities defined within the brief. It should be clear that it is not the function of the ITA to carry out independent technical and financial assessments.

LAs should be able to promote transfer during the ballot period – in the same way that they would promote other council policies.

3. Criteria for approving partial transfers

The Communities Minister has already identified 2 basic criteria for partial transfers to secure debt write-off:

- The transfers must be part of the coherent overall strategy for meeting the SHQS for the entire stock.
- That the cost to the Scottish Executive of a partial transfer should not exceed what the cost of the whole stock transfer would have been.

The issue of whether there should be a minimum size for partial transfers was also identified.

The Group's view was that partial transfer with debt write-off was an important additional option, but that it would probably not be suitable for all local authorities. In particular, partial transfer would not help those authorities which were a long way from being able to meet the SHQS from rental income alone. This would not, of course, exclude a strategy based on transfer of the entire stock through a series of partial transfers.

Partial transfer is more likely to be appropriate for an authority in a more sustainable position, for whom the motivation would be both to make progress towards meeting the SHQS and to include a partial transfer as part of a wider regeneration initiative for a particular area. Partial transfer proposals should therefore be set firmly in a broader regeneration strategy for the area.

As discussed above, it would not make sense for the Scottish Executive to provide funding to cover the negative value of a partial transfer if this was in excess of the cost to the Scottish Executive of the whole stock transfer in that local authority area. If it did do so, it would be providing, in effect, a subsidy to the HRA. It is recognised that any partial transfer would require wider regeneration funding: it is therefore recommended that any benefit to the HRA should be ploughed back in to cover the overall cost of the partial transfer, including both negative value and regeneration costs.

In-principle, partial transfers should be assessed on their merits, and the extent to which they meet local circumstances, rather than on the basis of any particular size threshold. Relevant considerations will include the size of geographic location of the communities involved, and the fit with any existing RSLs. Local authorities will need to look carefully at the resource costs of small transfers, however, and, on ground of affordability, characteristics of partial transfer will need to comply with the Treasury rules relating to debt write-off.

In calculating debt write-off attributable to partial transfer, the calculation should be based on the number of units transferring as a proportion of the total stock.

Where partial transfers are accepted on to the Community Ownership Programme, they should be eligible for access to the regeneration funding linked to stock transfer as well as debt write-off.

4. Access to regeneration funding

Ministers have announced that up to £175m will be made available by 2005/6 for regeneration linked to community ownership. LAs who meet the criteria and are accepted onto the COP will be able to access this funding. Regeneration has been defined widely for these purposes – including pre ballot action to tackle demolitions or new build, environmental aspects such as land reclamation, and support for neighbourhood renewal projects to accompany the physical redevelopment of the housing stock.

The priority for the use of this funding should be to fund regeneration activity which is directly linked to the transfer and ensure that the investment delivers a step change in the regeneration of that area. It should not be available for supporting transfer, dowry funding or costs in the business plan. Funding should be used for new build, environmental improvements and support to meet owner occupier costs. However every transfer will have its own particular needs therefore if a local authority can make a case for other activity which would lead to a significant strengthening of the sustainability of their transfer proposal it should be considered.

To the extent that any such environmental works taking place prior to transfer have implications for assets transferring to the receiving landlord, any guarantees given should be assignable.

Indicative allocations of the regeneration funding available should be given at an early stage so that LAs understand the financial framework within which they are working. The allocation should be based on a combination of units transferring and level of deprivation (which could incorporate issues of rural/urban inclusion or cost issues associated with sparsity). Final allocations should also depend on the quality of proposals, and in particular, the evidence of the impact of the proposals in terms of sustainable regeneration.

For whole stock transfers, the primary objective is likely to be improving the quality of tenants' homes, which means that, though an LA would need to show

broad consistency with their regeneration plans, the stock transfer proposal could be relatively free standing. Clearly, LAs wishing to make a closer link to their regeneration plans should be encouraged to do so.

For partials, the main rationale is likely to be as part of a broader regeneration strategy for the area, so this should be seen as an essential part of any partial transfer proposal

Regeneration is required where there is a market breakdown within a specific geographical area. Therefore the assessment criteria should focus on how this market breakdown is to be resolved within the context of the broader housing market (LA area, town, settlement or community).

While regeneration strategies require the active participation of the local population, strategies should not focus on purely meeting current local requirements. Regeneration proposals must focus on the long term sustainability of a community which could require significant changes. Equally for tenants to get truly involved the outcome must deliver a direct benefit to them.

Any rules set down should be flexible but the assessment criteria should focus on:

- How future demands will be met;
- The sustainability of the proposal;
- How the area will function in the broader housing market;
- How regeneration activity will link to other strategies, initiatives and proposals;
- How non-housing issues are to be addressed.

The Scottish Executive should also consider how it could help to resolve the tension between its requirement for LAs to make a long-term commitment to regeneration while only giving LAs a short-term commitment to funding. This may result in an extension of the approach adopted in PPP and the agreements

with Glasgow Housing Association where a long term funding commitment has been given to match the long term policy objective.

There was also some discussion of the situation of local authorities with sustainable housing stock and significant regeneration needs with some group members advocating the extension of eligibility to this funding to this group.

In all cases LAs should be expected not just to rely on regeneration funding from the Scottish Executive and should be expected to show that all sources of regeneration funding have been explored and where possible captured - including the use of LA's own resources. Good practice should be issued illustrating where this has been successfully achieved.

5. Links to other sources of funding

The Group also looked at the Scottish Executive's own range of funding instruments that are available for regeneration purposes. Some members considered that to help reduce the complexity that can result steps should be taken to ensure that internal Scottish Executive budgeting does not create structural barriers. The role of Urban Regeneration Companies in facilitating the management of all stream of regeneration funding, including European, should be explored.

One approach suggested by some group members would be for regeneration funding or credits to be included in the next Spending Review to facilitate an integrated approach to area based renewal. This would provide a proper focus for concerted activity, rather than the best endeavours model that exists at present.

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Remit of COR Group

In the light of experience so far, to consider and make recommendations to Ministers on streamlining and improving the stock transfer process. This will include consideration of

- the case for transfer - both at the local authority level as well as at the Executive level
- eligibility for inclusion on a Community Ownership programme
- how to manage the future Community Ownership programme, taking into account a) the key stakeholders of RSLs, local authorities, funders, the Executive, Communities Scotland and the Regulator; and b) the management of funds allocated to develop transfer proposals
- process of transfer - what skills and competencies are needed and how best to co-ordinate them to ensure a timely and cost effective delivery, including project and financial management requirements
- concluding transfer - how to ensure the objectives of all stakeholders are accommodated and maintained throughout the process

In the light of recent policy developments, to consider and make recommendations to Ministers on the roles of (a) partial transfers as an option open to local authorities and (b) regeneration funds in securing / underpinning successful community ownership. In addressing these issues, the Group should make recommendations on the criteria for:

- approving partial transfers
- accessing the Executive's regeneration funds

Membership of COR Group

Mike Neilson	Head of Housing and Area Regeneration	(Chair)
Angiolina Foster	Chief Executive Communities Scotland	
Jo Armstrong	ex Policy Adviser	
Dougald Middleton	Ernst & Young	
David Orr	Chief Executive, SFHA	
Ian Drummond	Glasgow City Council	
Andrew McLaughlin	Royal Bank of Scotland	
Douglas Johnston	Arneil Johnston	
Elaine Zwirlein	Dundee City Council (from September 2003)	
Gill Glass	Housing Division 1	

Secretariat : SE Housing Division 1

The Gateway process

Each stock transfer needs a challenging but realistic project plan in which dates and deadlines are expected to be met. The timeline shows that it should be possible to get from entry onto COP to completed transfer within a period of 2½ to 3 years. However there are many specific factors in relation to individual transfers which will mean that each transfer will need its own detailed project plan agreed by all stakeholders at this early stage.

Gateway 1

At this point the LA should gain access to the Community Ownership Programme and from this point should be supported by Communities Scotland. The COP should be a tightly managed programme where deadlines will be clearly set out and realistic.

LAs seeking to join the COP should be expected, at the point of entry, to be able to demonstrate

- the political support of elected members for the move to community ownership
- the capacity and skills within the management team to deliver, or robust plans to put this in place
- evidence of tenant involvement in the development of the proposal and a commitment to develop a joint communications strategy
- a broad financial assessment of their proposal set out in their outline business case.

More detail on these criteria should be provided in the revised transfer guidance.

It is recommended that LAs planning partial transfer as well as those planning whole stock transfers should be eligible for entry onto the COP providing they meet the criteria set out. At this stage proposals for partials should also need to

demonstrate they comply with the additional specific criteria identified for partials' eligibility – i.e. part of a coherent strategy for the entire stock to reach the SHQS and no more expensive than whole stock transfer, except to the extent that additional regeneration benefits can be achieved.

Gateway 2

The key input for Gateway 2 would be the LA's fully developed and fully costed business case for transfer, reflecting the outcome of stock condition surveys, structural surveys, with an estimate of the transfer price based on a price model with agreed assumptions. The proposal should be sufficiently developed to allow the Scottish Executive and LA to make a VfM assessment and to form the basis for RSL to put forward bids to become the receiving landlord.

It is at this stage that the basic shape of the overall proposal would be established. In particular, the local authority's proposal would need to be based on the "data book" of assumptions provided by the Scottish Executive, so that the overall value for money and price to be paid for the stock can be confirmed.

Some of the key policy choices would be made at this stage: the balance between refurbishment and replacement of properties, timescale for upgrading of the properties, customer service standards etc. These should be based on the best available information at the time, which should include up to date stock condition surveys, and environmental assessments.

It is at this stage also that the public sector funding package for the transfer would need to be established. Apart from debt write-off and related breakage costs, the proposal will need to cover funding requirements if the stock has a negative value, estimates of set-up costs, and requirements for demolition and new build funding directly related to the transfer.

The presumption should be that the public sector funding package agreed at this point, as part of the Scottish Executive's VfM analysis, would be the upper limit on funding.

Against this background, the local authority's proposal will need to explain how risk will be managed in order to live within the funding package. This will mean:

- Identifying the key risks both to the overall project and to the financial assessment.
- What mechanisms will be put in place to manage these risks, and to make any adjustments necessary to maintain the affordability and VfM of the proposal.

Scottish Executive guidance will need to make clear what needs to have been done by Gateway 2 in terms of the stock condition survey, environmental surveys etc. Model warranties/indemnities should be developed which are acceptable to all stakeholders including funders. The approach being adopted to indemnities including wording should be incorporated at a broad level in the funding prospectus while retaining sufficient scope for negotiation to reflect the individual circumstances of each transfer – however broad agreement should be reached by Gateway 2.

The completed transfer proposal from the LA should show how the proposals link to its regeneration strategy. LA should also demonstrate the process for identifying the receiving landlord which could be to establish a new organisation or to select an existing RSL, or RSLs, through a competitive tendering process. Tenant involvement in this decision would be expected.

At this point the LA would gain access to regeneration funding. Where regeneration includes demolition and new build the LA will be required to identify not only the future investment budget but the risk factors associated with the plans and how the potential costs of those risks would be met if they materialised.

Gateway 3

Ballot to take place following completion of landlord's business plan and approval by LA and Scottish Executive. The business plan should be consistent with the transfer proposal agreed at Gateway 2, with any material divergences explained. The receiving landlord would need to demonstrate that the business plan was fundable, based on the advice of their financial advisors. Any matters of fact that could lead to changes in the Business Plan should be clearly identified and explained. Post successful ballot project management of transfer to begin to pass from LA to RSL.

Gateway 4

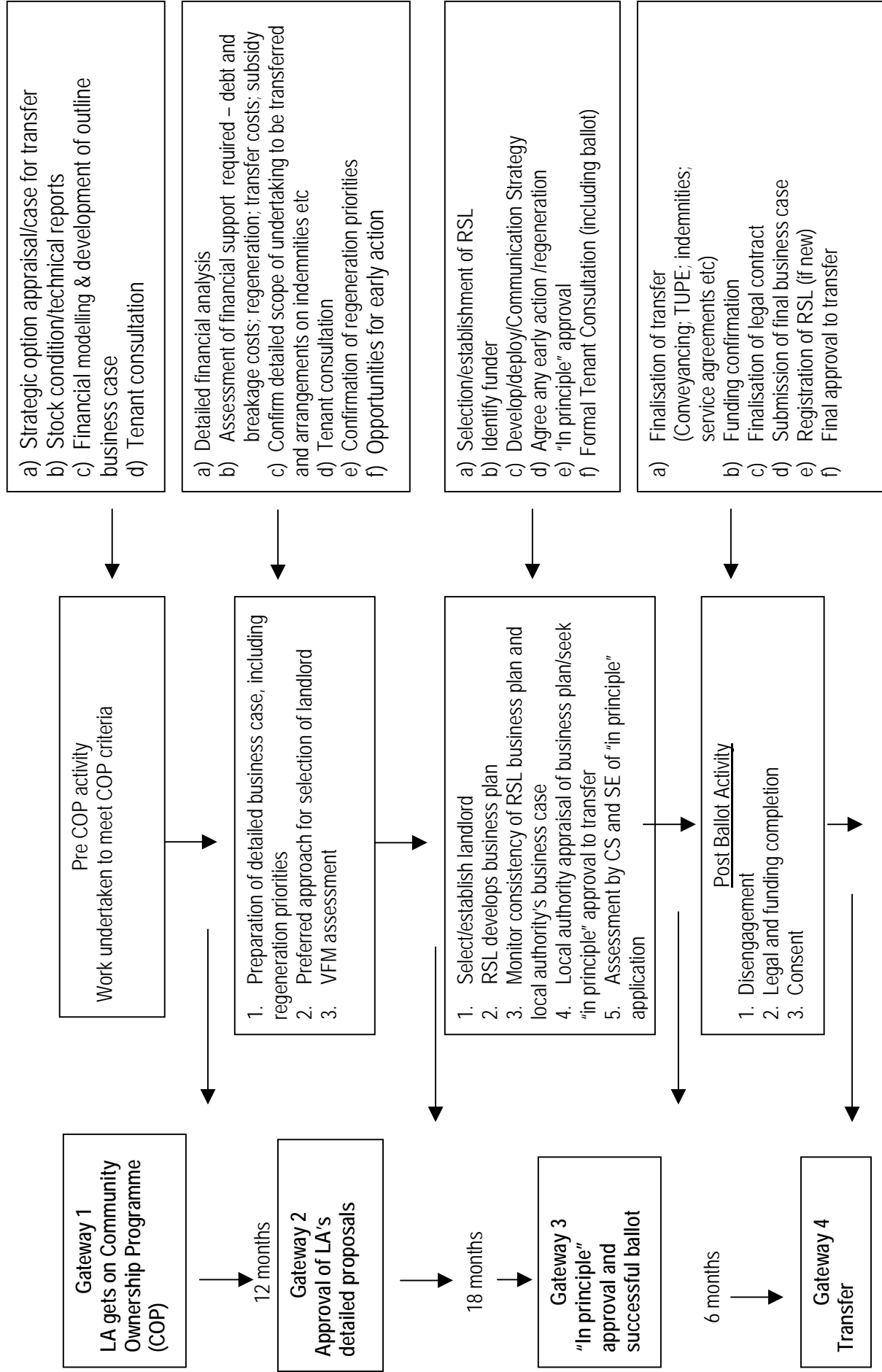
Transfer takes place following completion of post ballot administration including closure of legal and financial aspects of the transfer, together with the development and registration of purchasing RSL.

CHART A: TRANSFER DECISION GATEWAYS, KEY TASKS AND MAIN ELEMENTS OF EACH TASK

DECISION GATEWAY

KEY TASKS

MAIN ELEMENTS OF EACH TASK



Up to 36 months from acceptance onto COP to completion

SUMMARY OF COMMUNITY OWNERSHIP TASK GROUP REPORT

The principle objectives of the Community Ownership Task Group were to:

- Define clear lines of accountability for the delivery of the new Community Ownership Programme (COP);
- Agree the division of responsibilities between HAAR Group and Communities Scotland for the development and implementation of Community Ownership policy.

The main recommendations were as follows:

Roles and responsibilities

The Task Group:

- recommended that the HAAR Group should retain responsibility for the development of Community Ownership policy, the overall management and allocation of the Community Ownership budget and the preparation of recommendations to Ministers at key stages in the transfer process.
- recommended that Communities Scotland should have responsibility for the delivery of the Community Ownership Programme, including supporting councils and RSLs, and appraising transfer proposals.
- recognised the key role of Communities Scotland Regulation & Inspection in deciding on any new RSL's fitness for registration, including assessment of the acquiring landlord's Business Plan.

Case teams

The Task Group recommended a case team approach in progressing transfer proposals. Council specific case teams, led by Communities Scotland, will provide the various CS and SE interests described above with a focus for liaison, discussion, decision making and implementing the actions required to maintain progress through to completion of the transfer. The case teams will provide guidance to the main parties to the transfer and ensure that difficulties or matters requiring policy decisions are dealt with in an effective and consistent manner. They will provide an assessment report to the HAAR Group at each of the key stages. The HAAR Group will, in the context of the available resources, then make recommendations to Ministers.

Membership of the case teams may vary over the life of each team. Staff from Community Ownership Initiatives (COI), the CS Area Team and Regulation & Inspection will form the core membership, with representation from HAAR Group, SE technical staff, Press Communities and Press Communities Scotland, as appropriate.

The Task Group further recommended that an appointment should be made at senior level, directly accountable to the Communities Scotland Chief Executive, for the delivery of the Community Ownership Programme and the management of the case teams. It is possible that this role could be extended to include delivery of the Scottish Housing Standard.

Communities Scotland R & I have very specific responsibilities as Regulator but also will contribute as a member of the case team for each transfer. As Regulator, they will be responsible for decisions on any new RSL's fitness for registration, including assessment of the acquiring landlord's Business Plan, R&I involvement in the case team must not cut across these responsibilities. Working within the case team, they will monitor a new landlord's progress towards registration and keep the case team informed of any issues arising that may impact on this progress and how they will be managed.

This case team approach will

- provide a continual loop through policy development to implementation
- provide both councils and RSLs with a single point of entry to the Executive
- distinguish the roles of the three key Executive functions (ie HAAR Group, CS and R&I), whilst also ensuring consistency of advice and decision making.

Gateways

The Task Group recommended there should be a series of clearly defined Gateways in the development of a transfer proposal. These are described below.

Gateway 1 – Pre COP activity up to acceptance on the Programme

The case team (led by CS) will provide support to councils in preparing their strategic option appraisals within the Local Housing Strategy process. Where a council applies to join the COP, the case team will assess the submission and provide a report to HAAR Group where, in the context of the available financial resources, recommendations, to Ministers will be made. In the interests of a smooth transition HAAR Group will continue to take the lead with those councils already actively considering participation on the COP until the point at which they are accepted on the COP.

Gateway 2 – Detailed business case and identification of transfer vehicle

Once on the Programme, the council will develop a detailed business case for transfer and associated regeneration activity, together with an estimate of the COP funding required. The CS case team will provide support throughout – on the preparation of the business case, on regeneration planning and R&I on new landlord options. At the end of this process, the case team will provide a report to HAAR Group, where, in the context of the available financial resources, a recommendation to Ministers will be made. HAAR Group will advise Ministers on the allocation of funding for the delivery of each council's proposal and the management of that allocation will lie with Communities Scotland.

Gateway 3 – Development of the new landlord's business plan, early regeneration activity, leading to application for "in principle" approval and a successful ballot

The CS case team will provide advice and support to the council and to the acquiring landlord, designed to ensure that the final submission will satisfy the Executive's VfM and appraisal requirements. The Area Team will assess and support the commissioning of early action projects to be undertaken by either the council or the acquiring landlord. Where a new RSL is being established, R&I will support the development of the new organisation and undertake its own evaluation of the business plan as part of the registration process. Following receipt of the assessment report from Communities Scotland, HAAR Group will be responsible for recommendations to Ministers on "in principle" consent to the transfer proposal required to enable the council to undertake the statutory consultation process, including tenants' ballot.

Gateway 4 - Disengagement, completion and consent

This stage will focus on the legal, financial and consultation requirements of concluding the transfer, as well as the detailed disengagement activities required by the council. The case team will allocate experienced resources to support the council to complete these activities and, particularly through R&I, will increasingly support the RSL as it finalises its business plan, formalises its funding arrangements and moves towards satisfying any outstanding conditions of formal registration with Communities Scotland. Following receipt of the final assessment report from Communities Scotland, HAAR Group will complete its VfM assessment and seek Ministers' formal consent to the transfer.

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