



Information Note

Options Appraisal & Stock Transfer

Produced by the Tenants Information Service
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SCOTTISH EXECUTIVE

Aims of the Guide

This Information Note has been produced by the Tenants Information Service and outlines;

- ◆ What an Options Appraisal is
- ◆ What is involved in a stock transfer
- ◆ How tenants can be involved
- ◆ Key issues for tenants

This Information Note is only one of many guides produced by TIS for tenants.

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Since 1997, the Government has promoted stock transfer to Registered Social Landlords as the preferred way to ensure improvements to the standards of tenants' homes .

So far, three councils have transferred their housing stocks - Glasgow, Scottish Borders and Dumfries and Galloway. Six more are on the "Community Ownership" programme, Argyll and Bute, Western Isles, Stirling, Edinburgh, Inverclyde and Renfrewshire. This means they are actively pursuing a stock transfer.

With the introduction of the Scottish Housing Quality Standard (SHQS), a new drive to encourage councils to consider stock transfer has started.

Approximately 10 councils so far appear to have decided to retain ownership of their houses and meet the SHQS that way. The remainder are considering their options.

Repaying Housing Debt

In Scotland anything from about a quarter to a half of tenants' rents goes on the gradual repayment of past borrowing. This is because long pay back periods are used, say from 10 to 30 years.

The average outstanding debt of council houses in Scotland is about £6,000. However, in some councils this figure is as low as £2,000 and in others it is much higher.

Where there is a high outstanding debt AND high investment needs, it is unlikely that councils will be able to afford the new borrowing needed to catch up major repair backlogs and make the necessary improvements.

Important Change in Government Policy - Regulating Landlords

The policies of the Scottish Executive have focused on investing to improve housing conditions and a push to improve housing services to tenants.

The housing services of councils and Registered Social Landlords will be inspected by Communities Scotland. It will look at how well housing services are delivered and identify where landlords should make improvements. It will also look closely at tenant participation and seek local tenants' views about services.

It is important to Communities Scotland to check that landlords know how to identify weaknesses in their services and are committed to continual improvement in them.



Important Change in Government Policy- Setting Standards and Raising Money to Meet Them

After consultation, the Scottish Executive has set a minimum housing standard for councils and registered social landlords in Scotland. The aim is to achieve this standard, called the **Scottish Housing Quality Standard**, no later than the year 2015.(see page 7 for details)

The main way landlords raise money to invest to improve housing conditions is by borrowing. The costs of this borrowing have to be met from the rents tenants pay. Councils are now free to borrow whatever their rent income shows can be afforded. They may also reinvest the income from right to buy sales, again provided this is affordable.

Right to Buy income could also be used to pay off debt on the houses sold.

In some cases, these options may allow councils to raise more money for improvements than previously.

In other cases it will not.

Under current UK and Scottish Government policy, writing off some or all of past debt is available, but only if councils transfer tenants' homes to an alternative not-for-profit landlords. Debt write off is not being offered to councils who retain ownership of their housing stocks.

These options are considered side by side when an "options appraisal" is carried out.



What an Options Appraisal is for

A very important question for councils is, *“how can tenants get good housing standards in the future, alongside good housing services?”*

If they haven't already carried one out, most councils will carry out an **options appraisal**. This will examine how well a council can deliver good housing conditions and services while retaining ownership of their housing stocks. Alongside, it will examine how a stock transfer of some or all of a council's houses to a Registered Social Landlord could perform. A long view is taken, usually 30 years. Although it is very difficult to predict the finances so far ahead, assumptions can be and are made of future rents and costs. The costs will include making judgments about what improvements are needed and when major repair projects are needed.

Although professionals will be heavily involved in this, tenants' views about future standards and rents are clearly important as well. The Scottish Executive expects there to be agreement with tenants about the scale of investment needed. More generally, guidance from Communities Scotland suggests that tenants should be central to decision making on the options and priorities for investment.

If a council wants to pursue a partial or whole stock transfer, after an options appraisal, it applies to the Scottish Executive for entry on to the **Community**



Older housing in need of investment

How an Options Appraisal is done

The process starts by gathering and assessing information about housing conditions and what features of the SHQS are missing from the houses.

The gaps between existing conditions and the SHQS is costed and built into a programme to improve standards gradually. This programme must allow for future major maintenance projects like electrical wiring, renewal of kitchen fittings, etc at the right time.

Calculations are then done of the income needed to meet all spending, whether for improving the housing stock, day to day repairs or housing management costs. In those calculations different assumptions can be made about future rent increases.

The calculations also involve estimates of the need to continue borrowing money and ensuring any new borrowing can be repaid. Because borrowing is repaid gradually over many years, financial plans must make estimates for many years ahead.

Other complications have to be considered as well. For example, the right to buy will continue to reduce the number of council houses. There may also be areas where demand for the available housing is very poor, or non-existent, or where major regeneration works are needed to help transform areas with multiple difficulties.

Councils typically employ consultants to do most of this work. A group or committee is usually formed to advise and influence the work as it is being carried out. Such groups always include senior council officers, sometimes tenants' representatives and sometimes councillors.

The process can take two years or more. This depends on the detail of what needs to be done. If there is good information already on housing stock conditions, the process may be quicker. If major studies are required into future demand for council housing, the process may take longer.

The Community Ownership Programme

This is the name of the policy under which the Scottish Executive promotes stock transfer to a Registered Social Landlord.

To be accepted on to this Programme, a council has to demonstrate a political commitment to stock transfer and evidence that tenants have been consulted in the decision to seek one. Some councils may receive early money from the Scottish Executive for regeneration, once on the Programme.

Prudential Borrowing

From the outset of councils providing houses, they have borrowed money to build them. Grants from Government used to cover most of the cost of repaying this borrowing. Now the income from tenants' rents has to cover the costs.

Councils must judge how much they can afford to borrow, not just judge how much they need to invest to meet standards.

Each year, some old loans will be completely paid off. Some new loans will be made creating new loan charges.

If councils judge they can afford to reinvest all of the income from continuing right to buy sales, this may help keep new borrowing costs down.

Remember though, that continuing right to buy sales means fewer tenants carrying loan charges from older loans as well as the new loans.

Independent Advice

The complexity and intensity of options appraisals and stock transfer processes make it essential that tenants have access to independent advisers. They can help you engage fully in the processes, help promote wide tenant involvement, provide information and impartial advice on the full range of issues and options. This role must be available to all tenants, although it is likely that tenants playing an active role will require much more detailed information and advice than tenants more generally.

Independent advisers may assist tenants' representatives explain tenant opinion and negotiate, if this assistance is wanted. What they must not do is to make recommendations on any particular option. The basic idea is that tenants should have access to enough information to make their own judgements about this.

If a partial stock transfer is proposed, the independent adviser's role should extend to advising tenants who will remain with their council. The role may also include affected owner occupiers.

TIS can provide more detailed advice about how to choose an independent adviser. The process will include writing down a brief, or "job description", inviting different organisations to apply, interviewing and selection.

TIS recommends that tenants making an independent adviser selection undergo training for the task.

Key issues for Tenants

Housing standards

Housing standards now and for the future are clearly very important to tenants. These days, many council houses offer very good standards and are in good repair condition. Equally, there are also many houses in need of repair and improvement. By setting a standard (see page 7) the Scottish Executive is forcing the issue of improving standards with a timescale for doing so. You should note that the SHQS is a basic standard. It is quite common for councils and tenants to aspire to higher standards than set out in the SHQS. You and other tenants need to make your own judgments about this.

The quality of housing services

Increased tenant participation and the introduction of regulation (see page 2) are helping the drive for improved standards of housing service. Any long term plans for the future, whether under retention or stock transfer will need to consider the costs linked to improving services, particularly as the number of houses the landlord will own is likely to reduce.

Rent levels now and far into the future

Rent is the main source of income to your landlord. It will finance the housing standards and services. The aim to improve these things will always have to be balanced with the affordability of rents to tenants paying the full rent.

How to influence options appraisals and stock transfer processes

There is considerable scope to influence these processes, but only if you go about it in an organised way. Use the checklist on page 5 to help you.

Assessing the tenure options

To assess the tenure options, clearly future rents, standards and services will be important. You should also consider who controls the landlord, tenancy rights and tenant participation. How councils control their landlord role will be familiar to you.

Registered Social Landlords have boards of management that assume a similar role to a council's housing committee. There is scope to include councillor and tenant representation on boards of management. A formula having a third tenants, a third councillors and a third others is becoming quite common, although not the only option.

Tenancy rights would be almost identical whichever landlord option was chosen for the future.

Tenant participation arrangements have more to do with what you want, the landlord's attitude towards it, and how good you are at negotiating the arrangements you want, than about the type of landlord.

Checklist : Five Steps to Successful Tenant influence

A framework should be developed for tenant participation during options appraisals and stock transfer processes. This should anticipate the need for the full involvement of [actively interested tenants](#) throughout, as well as allowing [all affected tenants](#) to have a say at important stages. At the final stages of a stock transfer process there are legal requirements about the information tenants must have and the use of a ballot to determine the level of support for a transfer. For tenants wishing to take an active part you should consider the following:

- 1. Organise effective tenant representation. Use any existing registered tenants' organisations; consider supplementing this with additional tenant interest; or work out representative arrangements just for this process, if none already exists. Whatever the arrangement, it is vital that all affected tenants are properly represented. Where there is little or no history of tenant participation, expect your landlord to offer considerable assistance to promote active tenant involvement. This might also include an additional role for the independent tenants' adviser.**
- 2. Assess the tenant participation resources needed for the process. This might include use of premises, administrative support, capacity building support, expenses related to information sharing and discussion, for example tenants' conferences, or local tenants' meetings.**
- 3. Establish a group to co-ordinate the process, along with your landlord. Make sure this group really takes charge of the process and that there is adequate tenant representation. Such a group will consider progress against aims, share information and provide opportunities for the different parties to influence each other.**
- 4. Sort out any potential conflicts of role. For example, some tenants may take up places on a steering group or shadow board of management for the landlord aspiring to acquire the housing stock. Their role would be to take part in developing a proposal from this landlord to put to the vote. The role of tenants in representing tenants generally, selecting an independent adviser, and scrutinising proposals coming forward from a possible new landlord is quite different. The same tenants should avoid involvement in both roles.**
- 5. Take enough time. For tenants, influencing an options appraisal or stock transfer is intensive and time consuming. Others may be in a great hurry. Get agreement to the time needed for proper consideration of everything which comes up.**

YOU CAN MAKE A DIFFERENCE

Code of Practice for Tenant Participation in Stock Transfers

In 2000, the Scottish Executive published a code of practice for tenant participation in stock transfers. Although it has no legal standing, it was prepared in consultation with tenants representatives, landlords, Communities Scotland (its predecessor Scottish Homes), and the Scottish Executive. It was part of the partnership approach to tenant participation in the run up to legislating for tenant participation.

The Code provides useful guidance on how to gear up for genuine participation. You can refer to it when preparing a joint approach with your landlord, or trying to resolve a disagreement about how to proceed with tenant participation.

Important Points About Any Stock Transfer Process

- ◆ Deciding whether to promote a transfer to an **existing Registered Social Landlord** or set up a **new one**

- ◆ Establishing a **Group, which includes tenant representation, to co-ordinate the whole process**

- ◆ Appointing an **independent tenants adviser**

- ◆ Legally, there must be a **two stage consultation** with all affected tenants

- ◆ Stock transfer can only proceed if a **majority** of tenants, who vote, vote in favour



Councils wishing to pursue a stock transfer do so in stages. First there is a general commitment to promote one. Any Council doing this joins the Scottish Executive's "Community Ownership Programme."

The next step relates to deciding about alternative landlord options. Usually, a council considering the transfer of all of its housing stock will set up a new landlord organisation. This would initially have a steering committee or shadow board of management at its head.

How a stock transfer process works

Important steps in the process are

1. Setting up a group to co-ordinate the whole process. Tenants should be represented on this group.
2. Independent adviser appointed.
3. Decide on what alternative landlord, or landlords should prepare proposals.
4. Set up a new landlord, if that is what is wanted
5. The Council, bidding landlord and the Scottish Executive settle financial terms for a stock transfer using a "pricing model" to do the calculation.
6. The "bidding" landlord prepares detailed policies and a business plan.
7. Various parties assess the proposals. Tenants can do this with the help of your independent adviser
8. Legal consultation with all affected tenants happens in two stages. They include having full details of the proposals and a chance to make representations to the selling council and to Scottish Ministers.
9. Postal ballot.
10. Scottish Ministers consent.
11. Legal documents are drawn up to formalise the transfer.

When a decision is taken to go for stock transfer

Councillors, tenants and others could be on this board. This new landlord would then have to develop a detailed proposal.

Existing Registered Social Landlords could be invited to prepare proposals to take over instead.

Eventually tenants have to vote in a postal ballot. Only if a majority voting in such a ballot, vote in favour, can a stock transfer proceed. The transfer also needs the approval of Scottish Ministers.



The Scottish Housing Quality Standard (SHQS)

Free from Serious Disrepair

Walls, floors, foundations, roofs

Roof coverings, rainwater goods, wall finishes, access decks, stairs and landings, damp proof course, windows, doors, underground drainage

Energy Efficient

Cavity fill insulation where possible

At least 100 mm (4in) loft insulation

Insulated hot water tanks and pipes

Full central heating

Energy rating at least NHER5 or SAP50 (these are measures of energy efficiency)

Modern facilities

WC, bath or shower, wash hand basin

Kitchen fittings to meet Building Regulations, safe layout and at least 6 kitchen electrical sockets

Healthy, Safe and Secure

Extractor fans in kitchen and bathroom if persistent condensation problems



Lead free water supply pipes

Insulation from excess traffic or factory noise

Smoke detector

Safe electrical, gas or oil systems and appliances

Stairwells, lifts, lobbies and any bin stores in good and safe condition

Adequate lighting in common internal and external areas within house curtilages

Secure front and rear access doors

Front door entry systems and secure rear access to enclosed common areas

Delivering the Scottish Housing Quality Standard

Whether your landlord is a council or registered social landlord, they must show how they will ensure tenants have at least the housing standards set out in the SHQS by the year 2015.

If your council is retaining ownership of the housing stock, it will produce a "Standard Delivery Plan" showing in detail what investment in improvements and major maintenance it will make to achieve the SHQS and how it will be paid for. Some councils might be under pressure to increase rents to finance the SHQS.

If an alternative landlord is hoping to take over your council's housing stock, its business plan must show how the SHQS, or better, will be provided no later than 2015.

NOT Included in the SHQS

Windows being double glazed

Modern fully fitted kitchen with adequate storage space

Extractor fans in ALL kitchens and bathrooms

Showers as well as baths

A second WC in large family houses

Bin stores being required in blocks of flats

Improvements to the surroundings of the houses

Additional electrical sockets, TV and phone connections

Insulation from sound generated from within a building

Some houses being adapted to suit people with disabilities

There may be other things important to you in your area

Jargon Buster

Board of Management—the group of people in charge of a landlord such as a registered social landlord

Business plan—a landlord's plan for judging the money coming in and going out each year, for many years ahead, often for 30 years ahead.

Community Ownership Programme—The promotion of stock transfer of council housing by the Scottish Executive. And the list of councils pursuing stock transfer options in anticipation of debt write off.

Communities Scotland—a Government agency responsible directly to Scottish Ministers with housing and community regeneration responsibilities. It promotes better housing, better housing services initiatives in estates with intensive problems. It also helps councils run stock transfer processes.

Consultants—firms which specialise in developing housing policies and business plans for landlords.

Debt write off—when the Government takes over some or all of a council's housing debt.

Housing Association—a not-for-profit type of landlord registered with Communities Scotland.

Housing Debt—The debt councils owe from past borrowing to build and improve their housing stocks.

Independent Tenants Advisers—people who offer impartial independent advice to tenants during options appraisals and stock transfers.

Inflation + 1% - quite a common rate of yearly rent increase used in business plans. It means each year, rents rising to cover inflation then 1% more on top of that. For example, a £40 rent rising at inflation + 1%, while inflation is running at 2.5% per year, would become £41.40 a year on and £54.52 after ten years.

Investment—spending substantial amounts of money to renew worn out parts of houses or build new houses.

Major Component Replacement—replacing worn out or obsolete parts of houses such as electrical wiring, heating systems, kitchen fittings and so on.

Options Appraisal—when a council compares the option of staying as owner of council housing with its transfer to an alternative landlord (an RSL)

Partial stock transfer—when a council considers a stock transfer of some of its houses, while remaining owner of the rest.

Planned Maintenance—the same as major component replacement

Pricing Model—a complex financial formula for calculating how much debt write off and possibly government grant is needed to make a stock transfer proposal work financially. It replaces using an independent valuation.

Prudential Borrowing—limiting the amount of borrowing money for investment, to the amounts which can gradually be repaid from rent income.

Regulation—a process of promoting good standards and checking the standard of the housing services of council landlords and housing associations.

Retention—the option of a council remaining owners of its housing stock.

RSL— Registered Social landlord—a type of landlord which does not run for profit, but exists to meet housing need, and is registered with Communities Scotland. Hence—Registered Social Landlord. These types of landlord, including housing associations, ownership co-operative are regulated by Communities Scotland.

Shadow Board—the board of management, or governing body, of a landlord in the process of being set up, and which for the time being does not own any houses.

SHQS—the Scottish Housing Quality Standard—a standard for rented housing in Scotland established by the Scottish Executive in consultation with landlords and tenants. Strictly speaking it is not a legally binding standard, but all councils and RSLs will be attempting to meet or improve on this standard no later than 2015.

Standard Delivery Plan—a detailed programme with costs for showing how a council intends to meet or exceed the SHQS, no later than 2015.

Tenure—different types of tenure are different sets of relationships between who owns and who lives in a house.

Whole stock transfer—when a council considers selling all of its housing stock to an RSL.

What Can TIS Do For You?

TIS can advise you about any issues mentioned in this information note. We also provide independent adviser services.

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