

Basingstoke & Deane Borough Council Stock Transfer, Ten years on

Introduction

In 1994, after a period of 'consultation' tenants of Basingstoke & Deane Borough Council voted by a narrow margin to support the setting up of two Large Scale Voluntary Transfer Housing Associations. These were to be set up specifically to take over the management of their homes.

At that time this was the largest stock transfer (nearly 10,000 homes) to have been proposed in the UK.

Tenants were informed that if they voted to support this transfer, they would see increased repairs, modernisation and lower rents; by contrast the Council informed them they would need to almost double their rents in order to achieve the same level of improvement.

Ten years later, we now have the opportunity to examine the effects of this transfer on the tenants and see how their circumstances have changed and whether the projected claims regarding improvements have actually occurred.

During the last year I was one of Basingstoke & Deane Borough Council's representatives on one of these transfer Associations, Kingfisher HA. This has given me the opportunity to see at first hand how this particular HA operates, however this report covers the effects on tenants of both Associations.

The reality for tenants is:

- **They are paying substantially higher rents than they would have done had they remained under Council control.**
- **The amount spent on repairs, allowing for inflation has actually fallen.**
- **They now have no democratic control over the management of their properties.**
- **The cost of managing their properties has trebled.**
- **The number of staff employed to manage their properties has nearly doubled.**
- **The majority of their rent now goes to the banks that financed privatisation.**

Needless to say this is not what tenants were led to believe would happen ten years ago.

Back to 1994...

A proposal was put to Council tenants that two new Housing Associations should be set up to manage their homes:

- Basingstoke & Upper Test Housing Association (Now known as Kingfisher Housing Association)
- Basingstoke & North Hampshire Housing Association, later renamed Oakfern (now part of the Sentinel Housing group)

In the formal consultation document, council tenants were told that if this transfer did not take place, by 1999 the average rent in the Borough would have to rise dramatically (see table overleaf).

Projected rents by 1999				
	Now	April 1994	April 1999	
Average Council weekly rent	£44	(say) £50	£81	<i>a rise of 62%</i>
Average Association weekly rent	-	(say) £50	£60	<i>a rise of 5%</i>

(Page 11 of the Formal Consultation Document issued to every tenant in January 1994)

Given this stark and unappealing choice, tenants, unsurprisingly voted by a small majority to accept the transfer of their homes to the two Associations.

Return to the present...

As BDBC no longer owns any housing it's not possible to compare actual rents to see if the claim that the average rent would now be £81/wk is valid. However we can compare the rents charged by the two local Associations with those Councils in the locality that did not transfer.

The average rent charged by the two transfer Association rent last year (2004) was £69/wk. This is around £10/wk more than other local Councils who still own their own housing stock, such as Winchester City Council and Reading Borough Council.

In 1994 BDBC told tenants:

Even if the Council's first increase has to be as much as £10 a week, rents with the Associations would certainly be much lower after 5 years than those which the Council would have to charge.

Last year (2004), contrary to the claims made ten years ago, Housing Association rents were significantly higher than Council rents in every region of England.¹

I have been unable to find any documentary evidence to support the claim that the average Council rent would have needed to rise to £81/week. In fact the average rent in the South East was only £59.58/wk last year, some **£22** less than the level it was claimed they would have reached 6 years ago.

In the last year alone, tenants of the two LSVT Associations paid as much as £520 per household more, (around £5million across the Borough) in rent, than Council tenants in surrounding areas.

It appears that inaccurate forecasting was not confined to rents. It was suggested at the time that one of the reason rents would need to rise so dramatically was to finance the cost of repairs. However as these figures show, this is not supported by the facts.

Average amount spent on repairs (per house)

Basingstoke & Deane BC	1990	£1159
Kingfisher HA	2004	£865 (Allowing for inflation, actual spend £1402)
Sentinel HA	2004	£753 (Allowing for inflation, actual spend £1220)

Allowing for inflation, the amount spent on repairs has actually fallen. In fact the amount of money spent on repairs by both Associations has remained relatively constant throughout their ten year existence. I have used the RPI inflation figure², as anyone involved with the

¹ National Housing Federation, England's Housing Crisis: The Facts 2005.

² Office of National Statistics RP04.

construction industry will testify, the actual inflation rate in that particular sector has been running at around 10% in recent years. The reality is that these levels of spend understate the real reduction in the value of repairs.

Despite this, both Associations will meet the Governments 'Decent Homes' target with ease. Around 95% of KHA and Oakfern HA's property already meet the target. This suggests that the stock was in very good condition when it was transferred, this is also borne out by the relatively high valuation put on the properties at the time, an average of £11,000 per property.

Where is all the money going?

If one compares the Housing Revenue Account of BDBC prior to the transfer, with the published accounts of both Kingfisher Housing Association and Sentinel it becomes apparent that there are several reasons why their costs are considerably higher even allowing for inflation. This has inevitably required them to increase their rents to higher levels than Councils.

Before the transfer BDBC was a net contributor to the central government housing fund through the Housing Revenue Account. This basically meant the Council took in more money in rent than it was allowed to keep by the treasury. Council housing was effectively a national asset, despite its local funding and control.

Regardless the cost of managing and repairing the housing stock of BDBC was far less than the amounts received as rental income.

<u>Income/Expenditure</u>					
	Year	Housing Income	Cost of Repairs	No of Properties	Mgmt Costs
BDBC	1990	£26m	£11.9m	10,275	£3.3m
KHA/Sentinel	2004	£46m	£14.4m	11,181	£10m

Even if you ignore inflation, the amount spent on repairs has hardly risen, however the income to fund it has almost doubled, while the cost of managing these properties has trebled.

Across the country the net cost of the HRA system is balanced with some areas paying more in while others received a subsidy, notably London and the North West.

BDBC now funds its housing department from the council tax and contributes nothing to central government funds. Housing Associations are not required to pay anything towards this central fund.

Set-up costs and funding

To enable them to fund the purchase of nearly 10,000 houses from BDBC, the two LSVT associations took out loans of over £110million, to be paid back over 25/30 years. Interest payments on these alone will amount to around £10 million every year over that period.

It should be remembered that these payments cover the interest on the loan only, at some point in the future the actual loan amount itself will need to be repaid.

For this reason the Associations have to set aside an amount similar in size to that paid in interest. This is why they need to make a substantial surplus each year.

From this it is clear that with the average rent being around £70/wk, of the £3,500 tenants pay in rent in a year, over half that amount is going directly to the banks and Building societies that funded this privatisation, and will continue to do so for the foreseeable future.

Money that was previously redistributed nationally to provide funding for other local authority housing expenditure is now redistributed to shareholders of the banks that funded this privatisation exercise.

Employee costs

Back in the early nineties BDBC employed around 145 staff in its housing department. At that time the Council still managed 10,076 houses.

On top of this there was undoubtedly a number of staff employed in other sections that spent a proportion of their time on 'housing' related work. It is therefore not unreasonable to assume a full time equivalent staff figure of around 150.

As far back as 1996 the combined staff level in the two associations had already increased to 172, by 2004 this figure had risen further to 286.

Since the transfer took place BDBC has continued to employ around 20 staff to compile the housing register, operate the strategic housing function and run the homelessness section.

Clearly the decision to set up two separate associations³ would inevitably lead to duplication of existing posts. A further effect of removing the majority of the housing function from Council control was to create a need for more posts within the two Associations to allow for the staff previously shared with other business units at BDBC, notably Legal, IT and Financial.

The net effect was to increase headcount in the two associations considerably, while at the same time reducing the overall efficiency of the Council, as its fixed costs increased, while its revenue decreased.

The cost of running the current 22 housing staff is no longer covered by rental income to the Housing Revenue Account which is now closed; it is now borne entirely by the Council Tax and other Council income. This adds around £1m each year to BDBC 'employee costs'.

The only housing related income being a small charge of around £20K paid by Housing Associations towards the cost of operating the Housing Register.

The actual reduction in staff numbers at BDBC post-transfer was 127.

While the number of staff has almost doubled, this rate of increase has not been the same at both associations. In part this has been due to Oakfern HA having formed a group with Hartvale Housing (another smaller HA) this led to the retention of most of the staff of both Associations which has had a disproportionate effect on their management costs which are now around 60% higher than Kingfisher HA's.

As with BDBC, a small number of staff are employed at Hart District Council to operate their housing department.

The total number of staff now working to manage 11,181 houses is approx 310.

In the ten years since transfer the number of staff employed to manage a similar number of houses has nearly doubled.

At Kingfisher HA, some executive salaries have nearly doubled since transfer, while salaries of junior staff have barely kept pace with inflation. Executives also benefit from performance related bonuses, not available to junior staff. The inevitable result of this is that pay differentials have increased dramatically.

Recent KHA accounts suggest Executive Directors pay has risen by 7% in the past year, while that of junior staff was held to the rate of inflation 2.8%.

Between 1999 and 2005 the cost of employing Directors at KHA has risen by 68%.

³ Govt policy at that time was that no more than 5,000 houses could be transferred to any single association.

Unsurprisingly staff turnover has also increased and at around 20% is currently nearly three times the current level at BDBC.

When I queried this high level of staff turnover with the Chief Executive of KHA recently I was told this is normal for the HA sector. Anecdotal evidence suggests this is correct and may be as high as 30% in some Associations in the SE region.

By contrast staff turnover at BDBC has remained at around 8% for many years.

This massive increase in staffing levels might have been justified if it was a result of increased service levels to tenants, particularly those in sheltered or supported schemes, however many have seen their on-site wardens removed to be replaced by mobile wardens. In my own ward the three on-site wardens previously employed by the Council have been reduced to one, soon to be replaced by an off site mobile warden. While the Associations argue the service level has not been reduced, there is little doubt the tenants do not view these changes in the same light.

In the sheltered schemes in my ward the Association does little to encourage use of the communal facilities whereas when they were under Council control the wardens were encouraged to support residents by helping them to run Bingo sessions, communal meals and similar social events, all of which were highly valued by residents.

Rents

One of the strengths of the two LSVT Associations bid to take over the Councils housing stock was the 'rent guarantee' where they claimed they would limit rent increases to the level of inflation + 1%, for a minimum of 5 years.

This in itself would not have been much of a vote winner if it was not for the far greater increases the Council claimed it would have to impose on tenants. Unsurprisingly both Associations managed to increase the rents at the predicted rate over the five years.

Rent restructuring and target rents

In 2002 the government introduced the rent restructuring regime intended to make rents fairer across the country and to help finance the 'Decent Homes' initiative. For most HA tenants in the Borough of Basingstoke & Deane this will lead to a substantial rise in their rent.

In order to achieve the higher target rents, the landlord is only allowed to increase rents by the guideline amount (inflation + 0.5%), plus a maximum of £2/wk to achieve convergence. To reduce the impact on tenants and the housing benefit budget, the government suggested social landlords should increase rents gradually over the 10 year, or in the case of sheltered housing 11 year implementation period. Regardless they have considerable leeway over the setting of rents.

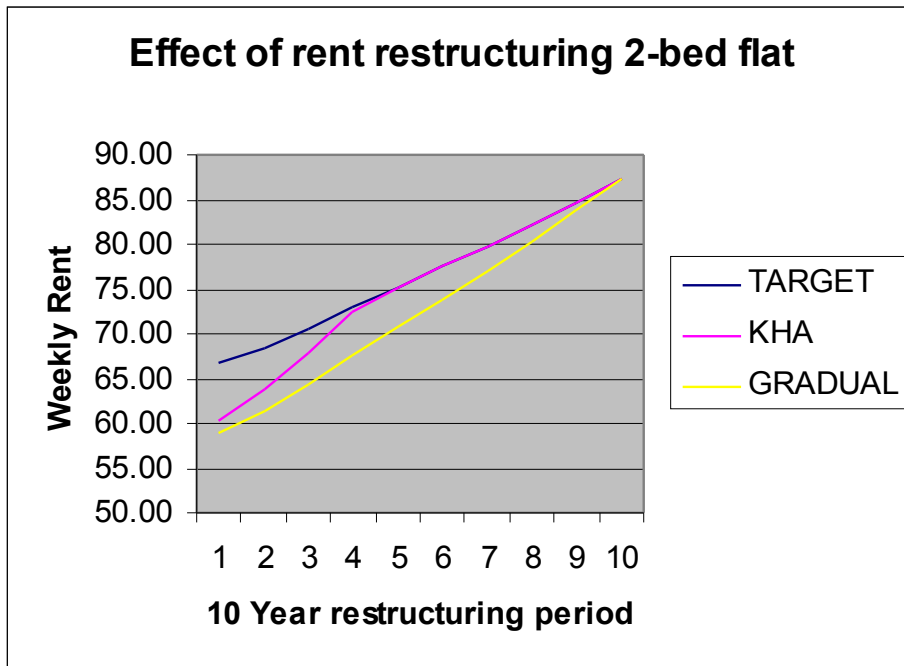
Shortly after resigning from the Board of Kingfisher Housing Association I was asked by a group of tenants to check the level of service charges and rents that the association was charging them.

This highlighted a practice which is being operated by both local LSVT associations and undoubtedly many others across the country.

Both have used rent restructuring to maximise their income at the tenants and taxpayers expense.

By applying the maximum possible target increase of £2 wherever possible since 2002, they have already reached the target rent on many of their properties or will reach it well inside the ten or eleven year period.

Had they done as the government requested and introduced these increases gradually, the impact on tenants throughout the ten year period would have been minimal, however the approach taken has led to rent rises as high as 8% in a year in the initial stages. While this annual rate drops to the guideline rate of inflation +0.5% once the target rent is reached, the cumulative effect over the ten year period can be seen in the graph overleaf.



In this example the impact of Kingfisher’s “dash for cash” approach is that a typical tenant in a 2 bed flat is currently paying nearly £5 a week more on a weekly rent of £73 than they actually need to. The effect of this is that over the 10 years allowed for rent restructuring, this tenant will pay an additional **£1,200** in rent, assuming current levels of inflation.

In this case it would have been possible to limit the target increase to around £1 over ten years. This may not sound like a major difference, however the effect this has in reducing weekly rent over that period is dramatic.

For tenants who pay all their own rent, particularly those on fixed incomes this is clearly bad news, for those eligible for housing benefit this increase will be passed onto the general taxpayer, this may partly explain why BDBC paid out an additional £2 million, (a 9% increase) in Housing Benefit payments last year and seen a rise in those eligible to claim.

Reading Borough Council and Winchester City Council whose average rents are currently around £10/wk less than either KHA or Sentinel’s but who have similarly high target rents have been spreading rises over the entire ten years. This appears to be the case with most Local Authorities who still own their housing stock.

I would suggest that the reason for this is simple, were they to impose rent rises as high as 8% on their tenants, I suspect the councillors responsible would probably be thrown out of office at the next election.

However tenants of KHA and Sentinel have no democratic control over their landlords. Apart from complaining to their Tenants Federation there is little they can do. Neither can they expect any help from the Housing Corporation who regulate the actions of these Associations. I have raised this issue with the Corporation only to find that this “dash for cash” approach has been sanctioned by them.

It is a simple fact of life that Housing Associations for a variety of reasons i.e. high debt, overstaffing, inefficiencies of scale, High executive salaries, etc, have rents which are far higher than Local Authorities without exception, across the country:

Average rents across Southern England

	<u>SE</u>	<u>SW</u>	<u>London</u>
Housing Associations	£66.68	£58.34	£69.86
Local Authorities	£59.58	£50.50	£66.91

From the National Housing Federation’s ‘England’s Housing Crisis’: The Facts (2005)

Service Charges

Since privatisation HA tenants particularly those in flats have increasingly found themselves being forced to pay for services that homeowners take for granted. In many previously Council owned estates new HA residents in flats find themselves paying for communal cleaning and grass cutting around the blocks while those who bought their homes under the 'Right to Buy' pay nothing.

For tenants in sheltered schemes the situation is far worse with service charges being raised at up to 4 times the rate of inflation, despite the Government suggesting they be limited to Inflation + 0.5%. Again complaints to the Housing Corporation have led to no action.

Governance

One of the more disturbing aspects of my time on the Board of KHA was the gradual realisation that tenants have little or no ability to influence the actions of the Association.

During the transfer tenants were led to believe that they would have representatives on the board or as it was at that time described, committee of management⁴, whose role it would be to represent them.

"Four are tenants who will represent the tenants."

However this statement was shown to be hopelessly inaccurate. All Board members are obliged to support the decisions of the Board. With only 4 out of the 15 members being tenants; it is inevitable that the views of tenants become sidelined. Not helped by the fact that many of the other Board members work for other Housing Associations. The recent governance changes at KHA have led to the total number of board members being reduced to 12. This resulted in a reduction in the number of tenants to 3. It has also led to the Chief Executive becoming a board member.

Board members who fundamentally disagree with Board decisions are given this helpful piece of advice by the National Housing Federation, resign.⁵

This is precisely the position I found myself in when the Board agreed 'savings' i.e. service cuts while at the same time proposing to start paying themselves for a role they had originally volunteered for. The last straw, being their decision to attend a two day residential 'conference' in a luxury hotel at enormous cost to the tenants.

In theory the Board is held to account by the shareholders of the Association. However on attending the shareholders meeting where it was proposed to bring in numerous rule changes, in particular the payment of Board members. I queried the justification for this level of payment, in particular the claim that Board members were working 7 hours each week for the Association. By that time I had been on the Board for 9 months and was of the opinion that 4 hours a month was probably closer to reality.

I made this point at the meeting only to find out that the other Board Members present were present in their capacity as shareholders. When the vote was taken there was a clear majority in favour of payment, helped by the fact that Board members are apparently entitled to vote as both Board members and shareholders.

Under Housing Association rules this does not apparently, constitute a conflict of interest. However I subsequently received an email from the Chair of the Board suggesting I was "undermining the board" by raising this issue.

The total number of shareholding attendees, including Board members was around 10. The actual number of shareholders is small, approx 50.

It might be thought that tenants could better influence the Board by becoming shareholders; however this leads to another problem, tenants are not allowed to make up more than 25% of the total number of shareholders. So even if tenants did wish to become shareholders their numbers are limited by the total number of shareholders, therefore unless a tenant can persuade three other people, who are not tenants to become shareholders they can only fill 'vacancies'.

⁴ Formal Consultation Document, p6

⁵ NHF 'In Control' p29

However they still have a potentially more difficult hurdle to face as all shareholders have to be vetted by the Board.

This circular and unrepresentative arrangement probably explains the low number of shareholders and the general lack of interest in Board matters shown by tenants. At no Board meeting I attended was there ever any tenant participation other than the two tenants on the Board.

Recent research for the Housing Corporation shows the role of tenant Board Members is “primarily symbolic, providing a fig leaf to cover the unpalatable fact that the real power lies elsewhere.” Boards are “subject to processes of manipulation, screening and institutionalised pre-emption ... hapless and manipulated by chief executives and other executive directors.”⁶

This was certainly my experience during my time on the Board of KHA.

Tenant satisfaction

Both local Associations would undoubtedly point to their tenant satisfaction surveys as proof that their tenants are content. However just how tenants perceive their satisfaction, undoubtedly relates to the information given to them.

Having been told in 1994 that the Council would double their rent, it is reasonable to expect they see their current rent as being low, or at least relative to where they expected to be. In most years KHA has informed tenants that their rent is lower than ‘similar’ Housing Associations in the area, a claim that is open to interpretation and of debatable accuracy; particularly as it neglects other social housing providers, such as local authorities in the same geographical area whose rents are far lower.

In a recent newspaper article⁷ David Orr Chief Executive of the National Housing Federation rejects criticism of the Housing Association sector of which the NHF is the ‘trade’ body, suggesting that 84% of transfer tenants are satisfied with their new landlords. Further claiming that “this explains why there is no popular clamour to transfer back.”

Given that these tenants had been effectively rejected by their previous local authority landlords, who in virtually all cases had informed them they would be better off out of Local Authority control, is it any wonder they are ‘satisfied’ to be under the control of an organisation that actually welcomes them?

Even more disingenuous is the idea that transferring back is in anyway an option.

Where to, the same Council that rejected them in the first place?

Regardless there is no available mechanism in most Housing Associations to facilitate such a transfer, even if tenants wished to do so. Transfer is a one way road...

Mergers and Group Structures

KHA are currently in talks with another Housing Association HVHS to form a group structure which will require a third Board, to be called Wessex Housing Partnerships to oversee their operation.

They argue this will lead to greater efficiency, economies of scale, etc. However whenever I have queried this no clear business reasons were put forward to support this move.

However on the other side of the Borough, Sentinel HA went down this particular route five years ago forming a similar group structure consisting of Oakfern HA and Hartvale HA. They have now merged all three to produce one single Association, arguing that they could not work as:

Effectively, and efficiently as if they were ONE.⁸

This leads to the obvious question, why given the similarities in the sizes and their common origins, is KHA going down a route Sentinel HA has rejected as being inefficient?

⁶ ‘Changing Boards, Emerging tensions’ Liz Cairncross, Oxford Brookes University 2004

⁷ Guardian 5/10/2005

⁸ Sentinel information pack sent to all BDBC councillors.

What is increasingly obvious is that some smaller associations will struggle to survive in the longer term, more worryingly they are failing to build more housing. Despite the large increase in the total number of Housing Associations, largely due to the creation of LSVT Associations, the number of houses built by the sector, having increased substantially in the mid nineties has now plummeted and is now lower than it was in 1990.⁹

New properties built by Housing Associations in	1990/1	19,342
	1995/6	38,471
	2003/4	18,345

The Housing Association sector is currently undergoing merger mania in order to cut costs, this will further erode the position of tenants who have little influence over their landlords at present, but will have none whatsoever when they are part of a regional or national group.

Conclusion

The position of tenants within the Borough has clearly worsened financially relative to where they would be had they not agreed to the transfer of their homes. The number of households on the waiting list has increased. This is not surprising given that both LSVT HA's have struggled to increase the number of socially rented properties locally, not helped by their continuing loss of stock due to the preserved 'right to buy' of former council tenants.

While both Associations management costs have risen dramatically, the fundamental problem is that money that previously went into the central government housing pot to be redistributed to other areas of the country, now flows directly or indirectly to the banks that funded this privatisation, not into regeneration or house building.

This is not just a local problem; stock transfers across the country have led to similar problems of rents rising faster than necessary, no real improvements in repairs and disenfranchisement of tenants. The recent report by the House of Commons Council Housing Group¹⁰ paints a stark picture of the plight of tenants nationwide.

A recent Audit Commission report has highlighted the inequity of the current funding system for Council Housing¹¹, but also points out that the more properties that disappear out of the Council sector the greater the future subsidy that will be needed from central government. Increasingly the tax payer will be forced to pay. At the same time HA's burdened with debt are forced to raise rents and or cut services, increasing the cost to the Housing Benefit system further increasing the burden on the taxpayer.

It is clear that the cost of transfer is not only being borne by the tenants, but is also increasingly being passed on to the general tax payer.

The only real winners have been the shareholders and owners of the Banks who are making large profits from money that could and should have been reinvested to improve existing housing or providing new housing.

**Ian Tilbury
Independent Councillor
Basingstoke & Deane BC**

October 2005

⁹ ODPM

¹⁰ HOCCHG, 'Support for the 'Fourth Option' for Council Housing. 2004/5

¹¹ Audit Commission report into the funding of Council Housing 2005