

AUDIT AND RISK MANAGEMENT SCRUTINY COMMITTEE – 12th May 2005

Report of the Deputy Chief Executive

ITEM 5 HOUSING STOCK OPTIONS APPRAISAL AND MEETING THE DECENT HOMES STANDARD – KEY RISKS

Purpose of the Report

To advise the Committee of the risks associated with the stock options appraisal process and the arrangements that have been put in place to enable those risks to be effectively managed. Copies of the full report on the Housing Stock Options Appraisal to be considered by Cabinet on 19th May will be published on 11th May on the Council's website and copies will be available at the meeting.

Recommendation

To endorse the actions taken to manage the risks associated with the Stock Options Appraisal.

Reason

To satisfy the Committee that the stock options process has been properly and adequately managed from a risk perspective.

Policy Context

Decent homes and neighbourhoods – raising the standards of homes, and the surrounding environment. Fostering sustainable communities and providing quality advice to those in housing need.

Background

The Communities Plan requires that all councils with housing stock carry out a rigorous and objective stock option appraisal by July 2005. This appraisal has to be “signed off” by the regional Government Office. This is to ensure that local authorities are in a position to meet the national target of bringing all council housing up to the decent standard by 2010.

The Stock Option Appraisal process has been progressing for the last two years and will culminate in consideration by Cabinet of the recommendations from the Stock option Appraisal steering Group on 19th May with a recommendation from Cabinet for decision by the full Council on 31st May.

Current Position

The Stock Options Appraisal process is identified in the Strategic Risk Register as one of the key risks for the Council. It is also one of the corporate projects. The following mechanism is in the place for managing the Stock Options process: -

Stock Options Appraisal Steering Group – comprising of members, tenants, officers, Independent Tenants Adviser (ITA), Government Office for East Midlands (GOEM), Community Housing Task Force (CHTF). The group meets monthly and ensures that the government guidance on undertaking Stock Options Appraisal is followed. It also considers the range of information required to be evaluated as part of the process. A key part of the groups work has been to agree the tenant empowerment strategy and tenant consultation strategy. The group has approved the project plan.

Housing Improvement Group – comprises members, and officers including the Chief Executive and Deputy Chief Executive. This group meets every three weeks, and monitors progress against the project plan.

Project Team – led by the Head of Housing Services, the team meets weekly to progress actions against the project plan.

In addition, regular monitoring meetings between officers, GOEM and CHTF take place to ensure process is being followed as required.

Tenant Involvement

A key part of the options appraisal process relates to tenants being actively involved in the assessment of options, and in indicating the type of housing service they wish to have. A Tenants Communication Strategy and Tenants Empowerment Strategy, to ensure tenant engagement within the process and beyond was agreed by the Steering Group and signed off by GOEM. Tenants have had a range of opportunities to express their views in relation to the process, and phase 2 of the consultation process was completed at the beginning of March 2005. This included a Test of Opinion Survey of all tenants, a follow up telephone survey and a series of specific focus groups.

Meeting Housing Needs

The appraisal process also requires that the issue of the future need for affordable housing is considered, alongside the provision of additional affordable housing, and an evaluation made of the impact each of the options will have on future needs. The steering group has received a number of reports around housing needs, and it is clear that there remains an ongoing need for all types of accommodation across all locations in the Borough. The appraisal indicates that none of the options brings any certainty of additional homes being provided as a consequence, therefore it is likely that the Council's strategic and enabling housing role will still provide the main route to securing additional affordable housing, particularly through Section 106 agreements, regardless of the option chosen.

Evaluation of the Options

The Stock Options Appraisal Steering Group has undertaken a thorough evaluation of all of the options based on the range of information supplied. Members will note that the Private Finance Initiative (PFI) option is not included here, given the advice from HQN that this option would not be viable or appropriate for the Charnwood Stock.

Risk Assessment

The Stock Options Appraisal process and the requirements to meet the Decent Homes Standard by 2010 present some significant risks to the Council. These can be summarised as follows: -

Risks applicable to all options

Risk	Probability	Impact	Management Control	Status
Failure to complete the process in accordance with Government Guidance	Low	Would not achieve sign off by GOEM causing significant embarrassment for the Council	A detailed project plan is in place and progress is being monitored weekly. GOEM have attended all meetings of the Housing Stock Options Steering group to be able to observe whether the Guidance is being followed.	The project is now nearing completion and so any failures to follow the Guidance would have occurred by this stage. The risk of failure in the final stages is low.
Failure to engage tenants in the process	Medium/High		Tenant consultation using independent tenants advisors (TPAS). Specialist consultant advised the Council on the second phase of tenant consultation	The consultation phase is now complete. This included the programme of work undertaken by TPAS; the test of opinion with a 34% response rate undertaken by the Council with follow up telephone surveys. This risk has been minimised

Stock condition varies from the survey data extrapolation	Low/Medium	The costs of implementing the Decent Homes programme will increase	The database is being updated as properties are surveyed individually prior to the commencement of any works. This provides the opportunity to test and update the survey data. A copy of the methodology used by the consultants for the preparation of their survey is appended.	Ongoing. The works tendered for the present financial year have been costed and are broadly consistent with the estimates contained in the stock condition survey.
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Specific Risks – Stock transfer

Risk	Probability	Impact	Management Control	Status
In order for this option to succeed, there needs to be a positive formal ballot supporting the transfer. There is a risk that there would not be majority vote in favour of transfer.	High	High. The transfer could not proceed without a majority vote in favour of transfer.	This is an external risk. However as part of the tenant engagement process the test of opinion and other feedback from tenants has been gauged. This factor is considered by the Housing Stock Options appraisal Group in their deliberations.	The test of opinion indicates a relatively low level of support for the transfer option, compared to retention and ALMO, therefore there must be a risk of any ballot failing.
There are costs associated with this process which	High	These would have a substantial adverse impact on the General	This risk is consequential on the	Potential Costs are clearly identified in the financial

would have to be borne if a ballot failed, and these would be taken from the General Fund account		Fund		appraisal undertaken by HQN and are estimated at £2m
Adverse impact on the General Fund. The RSL would be likely to opt to procure its support services from outside the Council.	High	Although precise costings are not available these costs may amount to as much as £1 million per annum. The Council would need to make corresponding cost/service reductions with any irreducible cost falling on the General Fund.	In the event that this risk materializes then the Council would use its normal service planning and budgeting processes to manage these effects.	The RSL would be required to procure its support service costs in readiness for becoming operational i.e. around April 2007.

Specific Risks – ALMO

Risk	Probability	Impact	Management Control	Status
As this is a bid process, not being accepted onto the programme is the initial risk, then not succeeding in achieving the level of bid requested.	Low/Medium	High. This option could not proceed in these circumstances	If this option is selected then a project will be initiated to prepare the bid with the aims of achieving the highest probability of success.	Work would commence following decision of Council on 31 st May.
There is also the risk of not reaching the two star standard to	Medium/High	High. Unless two star status is achieved, resources allocated	Service improvement plans are in place. However, the	Ongoing. Service improvements in key Housing areas are being

access the funding in sufficient time to achieve Decent Homes by 2010.		through the ALMO bid would not be accessible.	achievement of two star status for the Housing Repairs and Maintenance Service is an essential element of the requirement.	monitored by the Housing Improvement Group.
Adverse impact on the General Fund should the ALMO opt to procure its support services from outside the Council.	Medium	Although precise costings are not available these costs may amount to as much as £1 million per annum. If these services were procured elsewhere then the Council would need to make corresponding cost/service reductions with any irreducible cost falling on the General Fund.	In the event that this risk materializes then the Council would use its normal service planning and budgeting processes to manage these effects.	The ALMO would be required to review its support service costs probably within six months of becoming operational i.e. around September 2007.

Specific Risks – Stock Retention

Risk	Probability	Impact	Management Control	Status
Changes to the Governments financial regime may have a significant effect on the ability of the Council to deliver Decent	Medium	High. The financial appraisal is sensitive to changes in the Government financial regime and so this could have a significant impact on	The financial model has been subject to sensitivity analysis to illustrate the impact of changes to the Government formula.	This risk has been appraised. However, future changes to subsidy calculations are beyond the control of the Council.

Homes under this option.		affordability.		
Unforeseen expenditure not anticipated by the stock condition survey.	Medium	This option will have a direct impact on the ability of the Council to maintain its non – housing capital programme at current levels.	All properties will be surveyed prior to the commencement of any works. As the programme progresses it will be possible to quantify the extent of any unforeseen expenditure.	Ongoing. This can only be managed as the programme progresses.

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