



**OFFICE OF THE
DEPUTY PRIME MINISTER**

Review of the Delivery of the Decent Homes Target for Social Housing

(PSA Plus Review)

housing



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March 2003

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EXECUTIVE SUMMARY AND RECOMMENDATIONS

Introduction

Decent housing is a vitally important component of sustainable communities and it is important for individual households as poor housing conditions can damage health. It is seen by the Department of Health as having an impact on their target of narrowing the gap in life expectancy by area and reducing the difference in infant mortality across local authorities.

To secure delivery of decent housing to all social housing tenants the Government set a target, as part of the 2000 Spending Review to make all social housing decent by 2010. This would result in a marked improvement in the living conditions of households whose homes were part of the 1.6 million that fell below this standard in 2001. This commitment was reaffirmed in July 2002 as part of the 2002 Spending Review.

Since the target was set progress has been made. On available evidence the milestone of one-third reduction in the number of homes below the decent homes standard by 2004 will be met. But there is sufficient evidence from local authorities' current business plans to suggest achievement of the 2010 target is at risk. The PSA Plus Review was set up to assess this risk by identifying shortcomings in the current decent homes delivery plan and recommend changes to improve it.

The Review

The Review was directed by a steering group, primarily of external stakeholders. Evidence for the Review was provided through a number of different workstreams co-ordinated by a project team.

The findings are grouped under three main headings:

- Getting the basics right
- Putting the right framework in place
- Ensuring delivery works

The Review has made a number of recommendations, the key ones of which were published in 'Sustainable Communities: Building for the Future.' The full list is at end of the summary. Throughout the report are lists of key actions through which the recommendations will be implemented, each action will be taken forward in the ODPM's delivery plan and, where appropriate, will be developed with external stakeholders.

Getting the basics right

PUTTING THE TENANT AT THE HEART OF DECENT HOMES

Tenants are the focus of delivery in social housing and meeting their priorities is important to the delivery of decent homes. But landlords also have to consider the needs of future tenants by ensuring that any investment strategy for their stock is developed in the context of the wider housing market.

Tenants need to be fully engaged in decisions about the future of the homes in which they live. Planned revised guidance on options appraisal should clearly state this and set out how best this can be achieved. Tenants also need to be provided with strengthened independent support.

PART OF A WIDER STRATEGY FOR NEIGHBOURHOOD RENEWAL

Decent homes must exist within neighbourhoods that are sustainable in the long term. This increasingly depends on efforts to regenerate areas ensuring that areas of social housing are places in which people are happy to live. Where wider regeneration is an issue the delivery of decent homes should form part of a wider strategy for neighbourhood renewal. Housing providers need to work closely with Local Strategic Partnerships and New Deal for Communities Partnerships where appropriate.

Putting the right framework in place

A LEVEL PLAYING FIELD

Local authorities need to be able to choose the right approach for additional investment in their own stock from the three existing options of stock transfer, the Private Finance Initiative (PFI) and, for high performing authorities, Arms Length Management Organisations (ALMO). Local authorities need to be able to apply different options in different areas to suit local circumstances and tenants priorities as part of an overarching strategy for all council owned stock. To make this possible the Review recommends the removal of barriers identified as unnecessary. These include meeting the cost of early redemption of debt, extending overhanging debt treatment to partial stock transfer, and exploring options for gap funding of negative value housing stock.

IMPROVING THE DIFFERENT WAYS TO DELIVER

Where local authorities retain their stock, best value reviews have shown that management remains the priority whilst other strategic issues can often be overlooked. For those who no longer have stock the wider housing function is often ignored. Separation of the landlord role from the strategic function should be encouraged as a means of improving performance on both fronts. Linking additional resources for decent homes delivery supports this approach.

There are lessons to be learned from the housing inspections of the first round of ALMOs. The key to a sound proposal is the work undertaken in the options appraisal, the outputs of which should show clearly the steps that need to be taken to achieve 2 star rating and their planned investment strategy. Future bids should be required to make clear their governance arrangements at an early stage. Revised ALMO bidding guidance should make these arrangements clear.

Transfer still has a key role to play in delivery. The Review has made great strides in ensuring that future transfers will be better placed to deliver good services to tenants. More robust option appraisals will be the starting point. But the Review has also started some work on alternative funding models for transfers to ensure transfers deliver the best possible service to tenants.

Lessons cannot yet be learned from PFI in practice as the first contracts still need to be signed. But already considerable experience has been gained as to how to make the setting up of contracts more straightforward and a number of actions are being taken forward to ensure that current and future projects can run more smoothly.

Ensuring delivery works

STRENGTHENING THE 'FRONT END'

The Review has shown that a key risk to delivery is right at the start of the process of thinking about investment in decent homes – that is in the option appraisals that local authorities conduct. Many options appraisals are weak, taking a narrow view of the costs and benefits and do not focus on the provision of better service to tenants. The rigour of appraisals is not currently assessed.

More support needs to be provided for the conduct of these appraisals which will ensure the active engagement of tenants. The Community Housing Task Force will expand its role to provide hands-on support and guidance to all authorities as an integral part of their option appraisal work. It is proposed that appraisals will be formally signed off by Government Offices to ensure rigorous approach has been taken. Government Offices will need to develop the necessary expertise to achieve this. As part of their business planning process all authorities need to have finalised the appraisal of their options for delivering decent homes and providing a good service to tenants by July 2005 at the latest if all are to have plans in place that deliver decent homes.

SUPPORT AND CAPACITY BUILDING

Several organisations other than housing associations and local authorities have roles to play in the delivery of decent homes but roles currently overlap. There is work to be done to clarify the roles of the key players both in central and regional government and other agencies in order that co-ordinated support can be offered to those housing providers that need assistance in delivering decent homes.

Lack of capacity in some local authorities and housing associations has been identified throughout the review as a key risk to delivery. These organisations can be supported to get them on the right track but for the improved performance to be sustained this improvement has to be retained within the organisations.

Capacity can be improved through a range of tools. There is a wealth of good practice guidance, and training courses, seminars and conferences exist to cover the decent homes delivery agenda. But users of guidance feel there is too much. There needs to be better co-ordination of what is produced and more effective means of dissemination.

A STAIRCASE OF LEVERS AND INTERVENTION

Central government relies on many agents to deliver the decent homes target. As well as support to those agents, central government needs ways to influence and drive those agents that are not delivering for their tenants. The government is clear that better condition housing is not just for some tenants but for all tenants.

The Review has recommended a number of incentives that will help drive delivery forward. There also needs to be a staircase of support, persuasion, soft levers, hard levers, and intervention that can be used to minimise and respond to delivery risks. Within this the developing role of the Comprehensive Performance Assessment and subsequent improvement plans needs to be fully explored.

IMPLEMENTATION

Without good repairs, maintenance and capital investment strategies decent homes will not be delivered and tenants will not receive a good service which provides value for money. The Audit Commission's 'Learning from Inspection' report identified both good and poor practice in these areas. A particular issue is poor procurement practices and work will be undertaken with the Housing Forum to learn from their demonstration projects in this area.

Lack of capacity in the construction industry is a key risk to the delivery of the decent homes target. The government's agenda requires a significant step change in the outputs, ranging from major infrastructure projects through new housing to refurbishment and repairs and maintenance needed to deliver decent homes. ODPM will engage in more effective dialogue with other government departments that can support the growth in capacity of the construction industry. Regional construction forums need to ensure that capacity issues are tackled in both regional development strategies and regional housing statements. Local authorities and housing associations need to build training opportunities into the contracts which they let for repairs and refurbishment.

Recommendations

GETTING THE BASICS RIGHT

1. Meeting the priorities of tenants is central to delivery of decent homes as they need an environment that they are proud to live in. This must also include future tenants by taking account of the context of the wider housing market.

2. Local authorities should assess which parts of their area require wider regeneration and where it is an issue the delivery of decent homes should form part of a wider strategy for Neighbourhood Renewal and community cohesion.
3. ODPM should endeavour to develop policy on decent homes within wider Government objectives, working with other government departments to secure shared goals.
4. Ensure delivery of decent homes is also about delivery of better services to tenants and that tenants are involved in decision making.

PUTTING THE RIGHT FRAMEWORK IN PLACE

5. ODPM to keep value for money (VFM) analysis of policies that deliver decent homes under regular review to take account of any changing circumstances and ensure that local authorities also make appropriate VFM assessments when determining investment options.
6. On the basis that all options represent acceptable VFM:
 - a. As part of a wider Local Strategic Partnership strategy transfer proposals should identify regeneration elements that can be funded by other partners, outline how delivery can be ensured, and where appropriate make provision within the transfer proposal for those costs that are appropriate to local housing providers to ensure decent homes remain sustainable.
 - b. ALMOs and PFI should also include works to safeguard the sustainability of decent homes.
 - c. Treat premia payments for early redemption in the same way as overhanging debt, while maintaining incentives on local authorities to optimise transfer price.
 - d. Extend overhanging debt treatment to partial transfers subject to a justifiable/auditable method being devised for calculating the debt attributable to the transferred stock.
 - e. Further discussion on gap funding to look at ladder of options for dealing with negative value stock, starting from exploring all possible structures of private finance (e.g. aggregated bond issues, structured finance or repayable dowry/grant), through to loans/grants from the single regional pot.
 - f. Regional bodies should be responsible for any loan or grant to act as gap funding, as they will be responsible for delivery of decent homes, and will act as recipient for any future repayments.
 - g. Allow Social Housing Grant to be used to fund appropriate re-provision through the existing or transfer housing association where there is a clear requirement and when this cannot be accommodated within the business plan.
 - h. Make changes to rules for PFI – see PFI section.

- i. Revoke blanket rule on the upper limit for housing stock transfers, on the grounds solutions should focus on what is right for local communities. Group structures may still be preferable to large new landlords.
7. Allow greater local flexibility to determine the most appropriate solutions for local circumstances as part of the options appraisal, but locally based solutions should be part of an overarching strategy for the whole of the local authority stock.
8. Greater emphasis must be placed on the development of housing strategies which set the framework for investment in social housing.
9. Where local authorities say they can deliver through existing resources there is still a need to challenge the robustness of their plans and performance against plan needs to be closely monitored. Where these are 'excellent' authorities under Comprehensive Performance Assessment (CPA) decisions are needed on how performance might be tracked.
10. Strive to boost both efficiency of capital programmes and delivery of programmes by using existing levers available.
11. The Housing Corporation will provide the ODPM with information from statistical returns, and will take a more proactive role in assessing whether a housing association will deliver decent homes.
12. Government, with the Housing Corporation, to offer guidance and support for stock rationalisation and restructuring where it is appropriate and offers a local solution to a local problem.
13. The Housing Corporation should encourage *sensible* risk taking, backed up by guidance and a balanced approach to failure, to ensure innovation and good incentives to deliver on calculated risks.
14. Government and the Housing Corporation must offer advice on group structures, and in particular must ensure that tenants are offered opportunities to be involved.
15. The ODPM should learn from the inspections of the Housing Inspectorate, feed them into the processes and checks in the ALMO programme before consent is given by the Secretary of State.
16. Revise the management of the ALMO programme to reduce uncertainty and improve incentives to improve service delivery and to encourage partial ALMOs.
17. Develop the proposal for a self-financing approach for 3 star ALMOs ('ALMO PLUS') and work up a detailed proposal as part of the move to a full prudential regime that can be agreed and consulted upon as soon as possible.
18. ODPM should urgently implement the proposals to try to get PFI contracts for refurbishment signed and work underway, focusing on standardisation, boosting capacity in local authorities, to build market confidence.

19. Once the first contracts have been signed, and using the emerging findings of the PFI evaluation, ODPM should explore options for developing PFI for new build as part of a refurbishment scheme.
20. Improve the VFM of stock transfer by pursuing those areas with most potential in the short term (transfer receipt and set-up cost), and by a longer term focus on ensuring the key benefits of transfer proposals for tenants are realised.
21. Develop the three options for alternative funding structures for transfer: considering scope and viability, consulting the financial services industry, and then put out for consultation.
22. Ensure options appraisal process offers tenants a choice of possible successor landlords in determining the model of transfer that would be pursued. Where this isn't the case, offer this choice to tenants as part of the transfer process.

ENSURING DELIVERY WORKS

23. Social landlords must have robust information about their stock and on demand and supply on which to base their investment strategies to deliver decent homes.
24. The requirements for options appraisal must be strengthened, better guidance needs to be produced, the roles of the main players needs to be clarified, and tenants must be fully involved from the start.
25. There needs to be better integration of the roles and responsibilities of the key supporters of delivery facilitated by ODPM, including the Community Housing Task Force and Government Offices. Develop a set of protocols which set out respective roles.
26. Work to improve capacity both within and outside the ODPM, expanding the skills base where necessary, exploring the opportunity for innovative approaches to sharing expertise and improving the co-ordination of, and strategy for, existing guidance and guidance production.
27. ODPM need to set out a staircase of support and praise, persuasion, soft levers, hard levers, and with intervention as a last resort, that will be used to minimise and respond to delivery risks.
28. Local authorities should, as part of their Best Value responsibilities, make the delivery of decent homes a priority. Equally, the decent homes target needs to be an important element of Comprehensive Performance Assessment and related housing inspections, and the inspection of housing associations.
29. Better use must be made of the good practice experience that exists to improve performance and innovative ways must be found to get the message across.
30. ODPM to engage in more effective dialogue with other government departments that can support increasing the capacity of the construction industry (DTI, DWP, DfES) and regional construction forums, to ensure that capacity issues are tackled in both regional development strategies and regional housing strategies.

31. Explore options for solving the problems created by leasehold properties on social housing estates, and give a clear message to prospective RTB purchasers.
32. ODPM should undertake regular monitoring of progress made to date and estimate likely future progress. The information underpinning this monitoring should be as robust and accurate as possible. Progress will be reported through a number of formal mechanisms already established by ODPM.

CHAPTER 1

Introduction

The PSA target

The PSA target for decent homes was set during Spending Review 2000, and was the central focus of the Housing Green paper ‘Quality and Choice: a decent home for all’ published in April 2000. The commitment to the target was reaffirmed in the 2002 spending review and the target was extended to cover private sector housing:

‘By 2010, bring all social housing into decent condition with most of this improvement taking place in deprived areas, and increase the proportion of private housing in decent condition occupied by vulnerable groups.’¹

This review is confined to the social housing strand of the target.

The Challenge

At April 2001² there were 1,200,000 non-decent council homes and 380,000 owned by housing associations. Nearly three quarters of non-decent social rented housing is occupied by households who are more likely to suffer the effects of living in homes below standard – that is older people and households with children under 16.

Provision of decent housing is vitally important to a number of wider government agendas. Too many people do not have access to decent housing in decent surroundings. Across the country there are still homes in poor condition occupied by vulnerable people. Delivery of decent homes is seen by the Department of Health as having an impact on their target of narrowing the gap in life expectancy by area and reducing the difference in infant mortality across local authorities. The target is an important component of the Department Work and Pensions aim of reducing child poverty. Achievement of the target will also make a significant contribution to the joint Department of Trade and Industry/ Department of Environment, Food and Rural Affairs target of eliminating fuel poverty.

Two thirds of non-decent social rented housing is in the 112 most deprived local authorities identified for housing resource allocation purposes. Poor housing conditions are also linked to low demand. The 20 local authorities that make up the market renewal pathfinders own 18% of the non-decent social housing. Delivery of the decent homes agenda is therefore essential to the success of neighbourhood renewal and housing market renewal policies.

¹ 2002 Spending Review: Public Service Agreements 2003-2006 (HM Treasury July 2002).

² 2001 English House Condition Survey.

Achievement so far

Between 1 April 2001 and 31 March 2002 local authorities reduced the number of non decent homes in their stock by 8% and 146 of the 246 stock owning authorities say they will meet the 2010 target. Of these 11 currently plan to do so through transfer and 20 through ALMO. A further 12 authorities hope to sign PFI contracts.

Not all housing associations are yet able to set a baseline for the number of non decent homes in their stock. All will be able to do so in 2003.

Results from the 2002 English House Condition Survey, available in October 2003, will provide independent figures for both housing associations and local authorities on the reduction in non-decent homes 2001-02.

Why PSA Plus Review?

As part of the Spending Review 2002, progress against agreed PSA targets were reviewed. This showed that, on the current delivery plan, the achievement of the 2010 decent homes target was at risk.

DELIVERY RISKS

Government Offices reported in November 2002 that there were 100 local authorities (out of 246 that still own stock and not had positive transfer ballot) at risk of not delivering the 2010 target. Of those at risk:

- 25 are in this position as they had yet to produce a coherent business plan so it was unclear what they could achieve;
- 75 are at risk as, on current levels of resources, they say they are unable to meet the target.

These authorities currently predict that on their present plans they will still own 193,000 non-decent homes in 2010.

However of the authorities at risk 41 are already considering alternative strategies for delivery but the rest do not have plans that will deliver in place. Of these some local authorities have not been able to take forward alternative strategies as they did not have the support of their tenants. To ensure all authorities deliver the target ODPM will have to take a proactive approach to delivery over the next eight years.

The Housing Corporation is confident that all housing associations will meet the 2010 target. Research by the Corporation³ into some of the largest housing associations showed that few had strategies in place for tackling decent homes but most were confident they would deliver. This is supported by housing association investment plans which show, over

³ Housemark Report: Decent Homes – Assessing Housing Association Properties Against the Decent Homes Standard. Greg Trimmer.

a 5 year period, they would be well advanced in reducing the backlog of repairs which is a significant component of non-decent homes. Much of their non-decent stock has been transferred from local authorities.

STRUCTURAL RISKS

In addition to the risks above there were also concerns about some of the processes and structures that were being relied on to deliver the decent homes target:

- the stock transfer programme is the subject of a report by the National Audit Office;
- a number of local authorities had received 0* for the delivery of their repairs and maintenance service.

The Audit Commission had produced a 'Learning from Inspection' report that highlighted failings in repairs and maintenance.

ODPM therefore decided to carry out a fundamental review of the delivery plan for the PSA target.

Objectives of PSA Plus Review

1. Ensure a good deal for tenants over which they have a say;
2. Provide sustainable and decent homes in environments in which tenants are proud to live;
3. Develop simple and positive incentives to perform whilst tackling poor performance of those responsible for delivery;
4. Optimise value for money;
5. Create sufficiently flexible delivery vehicles to cater for different circumstances within and between local authorities; but
6. Within these flexibility's the selection should be decided as part of the overall housing strategy for the authority;
7. Create clear objectives for those with a role in delivering the target;
8. Improve accountability for delivery of outcomes and assess risks;
9. Build capacity in the sector;
10. Ensure information collected and monitoring mechanisms at all levels are robust, sensitive and straight-forward.

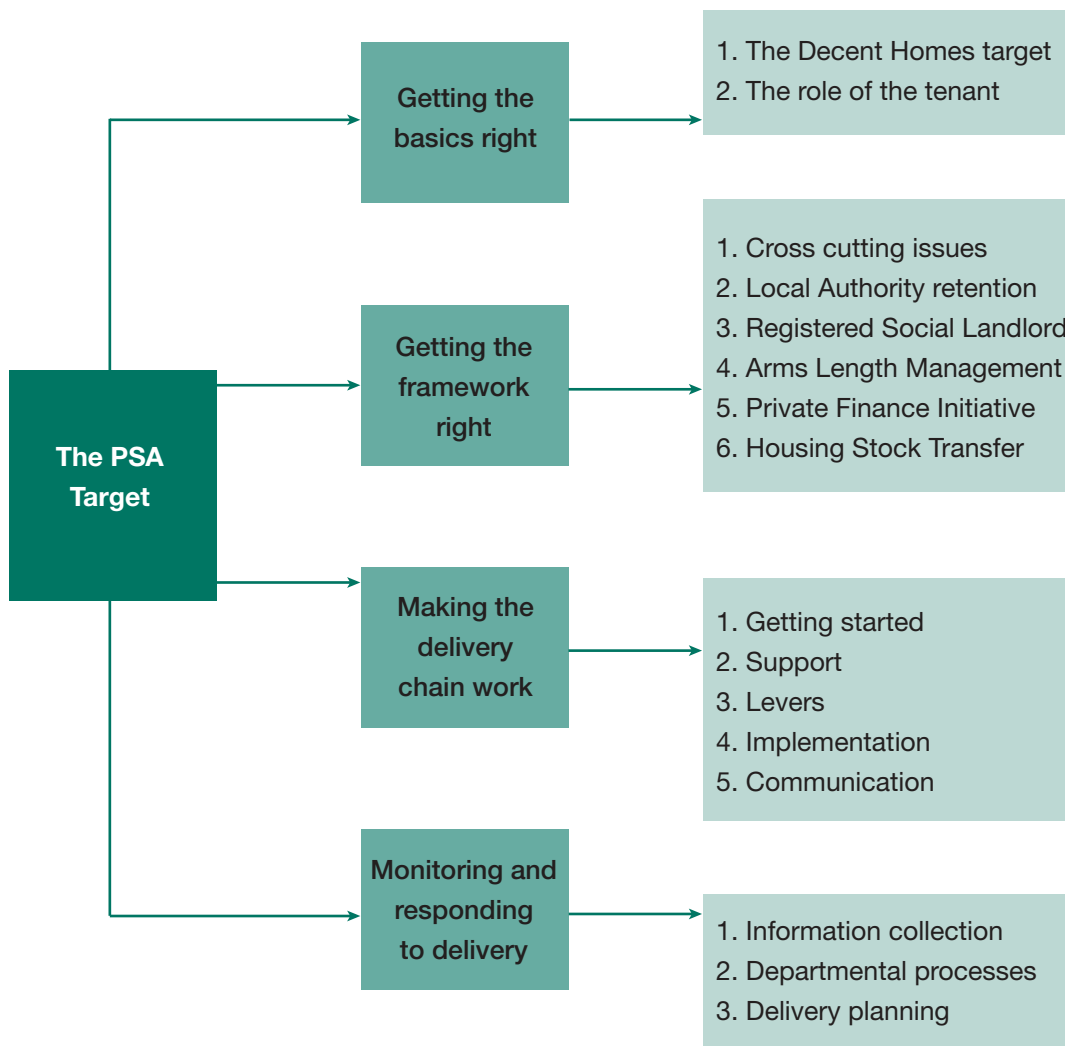
How the PSA Plus Review worked

The PSA Plus Review was an existing process within government that was used as the model for this review. The work has been co-ordinated by a core team. The work of the review was undertaken by a project team that included the Chartered Institute of Housing, Housing Inspectorate, Housing Corporation, HM Treasury and Office of the Deputy Prime Minister. A steering group, that represented key stakeholders, oversaw the work. Membership of the project team and steering groups is at Annex A. During the course of the review the views of groups of stakeholders were sought electronically and these played an important role in the Review.

The steering group met on 6 occasions. Two of these meetings incorporated visits to Sheffield City Council and Whitefriars housing association in Coventry. These visits were very helpful to the steering group in developing their recommendations.

This report is based on of a number of papers written for the review, external research and the views of stakeholders and members of the project team and steering group.

Structure of PSA Plus Review



There is a lot of good practice in both local authorities and housing associations that will secure delivery of the decent homes target and this will have to be harnessed to help others succeed. Many have effective plans in place. This report however focuses on the risks that could prevent delivery and how these can be overcome. It therefore majors on the weaknesses of existing policies and practices and how potential shortfalls can be addressed. It inevitably has a critical focus as a basis for instituting change.

CHAPTER 2

Getting the basics right

Definition of a decent home

DO WE HAVE THE RIGHT DEFINITION – DOES IT ACCORD WITH LANDLORD AND TENANT PRIORITIES?

Since the definition of decent homes was published there have been suggestions to change it, both in terms of the standards applied to the components covered and the range of components included. But the definition is very much a minimum. It provides a standard of housing that all social rented tenants should have access to. Most social landlords aim to have higher standards and do work to achieve this.

The tenant must be the focus of delivery in social housing and the aim of the government is to ensure that tenants get the best deal possible. But the needs of current tenants must be balanced with those of future tenants. Also local needs may not accord with national priorities. This may produce some difference in emphasis between what current tenants want and what landlords seek to provide and what are set as government targets.

The visits to Sheffield City Council and Whitefriars Housing Association in Coventry identified the need, on some occasions, to carry out works above the standard to maintain the lettable of dwellings and the sustainability of the communities in which they are located. They demonstrated that decisions to make homes decent must only be taken in the context of the long term future of the stock. Both Sheffield and Whitefriars housing association had plans to reduce the number of units they owned.

The **findings** of the PSA Plus Review are as follows:

- **All stakeholder groups consulted felt the target was a good idea:** though some commented that the standards set for the individual components of the standard were too low;
- **Differences between PSA target and tenant priorities:** tenant priorities focus on wider environmental issues (lighting, crime, safety etc) as well as the fabric of houses. They see decent homes as too narrow an issue;
- **Decent homes must be sustainable:** including wider environmental issues in the delivery of decent homes ensures the outcome is sustainable and property can be let; but it leads to a bigger bill which requires innovative use of existing alternative and additional funding (e.g. Sheffield);
- **The decent homes standard is very basic:** the target as drafted does not mean all components need replacing (e.g. old but working components), hence its implementation should not drastically reduce the ability to respond to tenant priorities.

Recommendation:

Meeting the priorities of tenants is central to delivery of decent homes as they need an environment that they are proud to live in. This must also include future tenants by taking account of the context of the wider housing market.

Key actions:

- Clarify the decent homes guidance to ensure the definition of the standard is well understood;
- Improve tenant awareness of the target through production of a tenant focused leaflet which stresses the wider context in which decent homes must be delivered;
- Engage in regular, systematic sampling of tenant views on decent homes to gauge customer views;
- Ensure local authorities and housing associations understand that decent homes must be sustainable in the long term, with housing strategies required to make realistic forecasts of future housing demand;
- Ensure local authorities and housing associations consult and involve tenants in the implementation of decent homes and the strategy in which this sits;
- Ancillary work to ensure the sustainability of decent homes should be included as part of any transfer, Arms Length Management Organisation (ALMO) or Private Finance Scheme (PFI) and the guidance adjusted accordingly;
- Encourage local kite marking of homes that are decent so achievement of the target is visible to tenants if landlords feel this is useful;

Decent homes delivery at a local level should be part of a wider Neighbourhood Renewal strategy where one exists (see below).

THE WIDER NEIGHBOURHOOD RENEWAL AGENDA

There is little point in making homes decent if they are located in neighbourhoods that are not sustainable in the long term. Achievement of sustainable neighbourhoods increasingly depends on efforts to regenerate areas. Central government has embarked on a wide programme of neighbourhood renewal, operating at the local level through 'Local Strategic Partnerships' with specific renewal initiatives such as 'New Deals for Communities'. Decent Homes, Low Demand Pathfinders and Neighbourhood Renewal should be co-ordinated and work together towards the same goals at both national and local levels.

Stakeholder groups commented that the definition of decent homes should be wider and include environmental and neighbourhood factors and that it should encompass wider social, economic and sustainability issues. Some commented that the standard wasn't sufficiently sensitive to local circumstances and did not take account of the different starting points of local authorities.

The **findings** of the PSA Plus Review are as follows:

- **Sustainable neighbourhoods are the key:** investment in decent homes should take place in neighbourhoods with sustainable demand in the long term; decent homes

strategies need to be co-ordinated with wider neighbourhood regeneration efforts; combining strategies will help to satisfy tenant priorities and deliver sustainable communities;

- **Failure to join up:** housing and neighbourhood renewal policies and strategies are often not joined-up; at the local level the housing provider does not always work with the Local Strategic Partnership or New Deal for Communities schemes and decent homes delivery has not featured prominently in LSP's or Local Renewal Strategies; nationally housing policy and Neighbourhood Renewal policy could be better connected;
- **Role of housing providers:** some housing providers also have successful regeneration strategies, although this depends on a high quality and committed staff.

Recommendation:

Local authorities should assess which parts of their area require wider regeneration and where it is an issue the delivery of decent homes should form part of a wider strategy for Neighbourhood Renewal and community cohesion.

Key actions:

- Local authority option appraisals for their housing stock should take account of any strategies for neighbourhood renewal, including where appropriate those for low demand pathfinder, and/or New Deal for Communities;
- Option appraisal guidance should contain a section explaining how this can be achieved;
- Housing providers should be guided to engage in regeneration efforts so long as (a) it is in line with the Local Strategic Partnership /New Deal for Communities strategy, and (b) lenders are satisfied that this does not create inappropriate risks to the social housing assets;
- Expenditure on decent homes should ensure the sustainability of decent homes and it should help maximise the impact of regeneration spending funded from other sources.

LINKS TO WIDER GOVERNMENT POLICIES

Just as Government policy on housing conditions impacts on other key areas of Government policy, policies of other Government departments can also help to ensure decent homes continue to be sustainable and part of the wider renewal agenda. Hence decent homes should not be seen as an end in itself, but part of a wider government goal to improve public service delivery and the standard of living of vulnerable people and disadvantaged groups.

The links to regeneration strategies and low demand have been covered above but delivery of decent homes makes major contributions to other government policies:

- DTI/DEFRA fuel poverty strategies
- DOH – tackling health inequalities
- DWP – tackling child poverty

Recommendation:

ODPM should endeavour to develop policy on decent homes within wider Government objectives, working with other government departments to secure shared goals.

Key actions:

- The decent homes delivery plan should identify the contribution decent homes makes to other government policies.
- The plan should also identify the contributions that other policies can make to decent homes delivery and its longer term sustainability.

Ensuring tenants are at the centre of decision making on decent homes

The key is tenant involvement. Existing guidance on transfer, ALMO and PFI states that tenants must be involved in the decision to pursue the chosen option. However stakeholders suggest the extent of involvement is limited in discussions on investment options and decent homes especially at the formative stages. Tenants perceive that consideration of options is carried out behind closed doors with the outcome pre-determined.

Many tenants have a preference for local authorities to retain ownership of the stock. They see other models as a worse option. They are concerned about security of tenure, more remote management, the loss of influence through no longer being able to complain to local councillor about the housing service they are getting.

The Community Gateway Model has been developed by Chartered Institute of Housing, the Confederation of Co-operative Housing and the Co-op Union to provide a method for involving tenants at a much earlier stage and building commitment to organisational change, based on tenants' priorities. Preston Borough Council is investigating this model as an alternative to conventional stock transfer,

The findings of the PSA Plus Review are as follows:

- **Lack of clear and accurate information:** this prevents tenants from making informed decisions. Government has not given clear messages about the delivery of decent homes which has fostered a 'wait and see' attitude. The quality of the advice from independent tenant advisors varies widely and tenants often consider them not to be independent as they are paid for by the council.
- **Tenants not involved in option appraisal:** the extent to which tenants are involved varies widely. Poor practice in option appraisals means that councils either fail to address the underlying problems or they give option appraisal a very narrow financial/technical focus that effectively disenfranchises tenants.

- **Tenants can only be involved if they have access to full information:** tenants need to acquire appropriate knowledge and skills so they can fully engage in the development of accessible business plans and options appraisals which are critical to the future of their homes and the services provided.
- **Local authority tenants have negative perceptions about non-council ownership of their homes:** the complexity of local authority housing finance makes any case for a change in management difficult to explain. Some local authority tenants have a negative view of housing associations.

Recommendation:

Ensure delivery of decent homes is also about delivery of better services to tenants and that tenants are involved in decision making.

Key actions:

- ODPM must develop a clear communications strategy that sets out unambiguously the options for delivery of decent homes. Leaflets for tenants on delivery of decent homes are needed setting out the options available and the tenants' role in decision making;
- Independent tenant advisors should be accredited and the contractual relationship and payment authorisation should be with tenants' representatives and ways will be explored of achieving this;
- ODPM must produce better guidance on option appraisal that clarifies its purpose as providing a better service for tenants and provides good practice on tenant involvement;
- Ensure the capacity of tenants to participate is enhanced through use of Section 16 grants and Community Empowerment grants. Focus current tenant training programme to enable them to play a fuller part in options appraisals;
- Community Housing Task Force will work with authorities to secure better tenant engagement in option appraisal, using examples of good practice;
- Consider promotion of Community Gateway model as a means of empowering tenants in decision making about the future of their homes.

CHAPTER 3

Putting the right framework in place

Common issues for all policies that deliver decent homes

VALUE FOR MONEY

The value for money (VFM) of the investment options open to local authorities is important in determining the options to pursue. This is true both at the central government level looking at the VFM of options promoted through different policies and at the local authority level, considering the VFM of the individual projects. A VFM analysis is more commonly known as an investment options appraisal and consists of four main elements:

1. Assessment of the **financial flows** of each option to and from government;
2. Assessment of the **net non-monetary benefits** of each option;
3. Assessment of **optimism bias** to account for the public sector tendency to underestimate costs and overestimate benefits;
4. Assessment of the value of **risk transfer** from public to private sectors.

At the national level this analysis should inform central government that the ‘menu of options’ currently on offer to local authorities is suitable and offers VFM at the policy level.

The **findings** of the PSA Plus Review are as follows:

- **Financial cost varies according to housing market:** the relative level of demand and condition of the housing stock has a critical impact on the financial flows that result from particular decisions, indicating that some options may represent better VFM in some areas than others;
- **Financial cost to government of stock transfer can be high in some cases:** this is the result of the higher cost of borrowing, reflected in the calculation of the transfer price;
- **Optimism bias may offset this:** officials tend to under-estimate both the true cost of public sector capital investment, and the ability of the public sector to complete a project on time; the value of risk transferred under stock transfer and PFI could also offset higher financial costs;

- **Realisation of benefits very important:** the justification of the financial cost of some investment options depends heavily on the realisation of the assumed benefits. A strong, transparent and honest benefits analysis as part of the option appraisal is critical to the VFM assessment. ODPM will work to ensure that the benefits of transfer are fully realised in every case;
- **Currently public expenditure effects of transfer are not recognised at the local level:** in local authority option appraisals the total public expenditure effect of transfers is not recognised or taken account of as appraisals focus on the transfer receipt and borrowing potential for housing associations, not the overall financial flows to and from the public sector;
- **Incomplete information on all options:** ALMOs and PFIs have yet to be fully implemented so benefits and full costs difficult to assess.

Recommendation:

ODPM to keep value for money (VFM) analysis of policies that deliver decent homes under regular review to take account of any changing circumstances and ensure that local authorities also make appropriate VFM assessments when determining investment options.

Key actions:

- Finalise the VFM analysis started as part of the PSA Plus Review by: doing further work on how optimism bias for costs should be included, and extending it to the realisation of benefits; carrying out further work on risk transfer and benefits analysis according to new Green Book;
- Enhance/secure benefits and reduce costs as identified in review – see transfer section;
- Develop VFM model for use by local authorities in option appraisal based on financial flows to and from the public sector as a whole.

LEVELLING THE PLAYING FIELD

There are a number of options open to local authorities for investing in their stock and reaching the decent homes standard. If the VFM of each option is justifiable, then access to each option must not be blocked for an inappropriate reason. Conversely, one option should not have an overriding advantage over the others.

The findings of the PSA Plus Review are set out in the table below:

Issue	Description
Ensuring the sustainability of decent homes	ALMOs are currently funded to undertake only work that delivers decent homes. Stock transfer can carry out a wider range of work that is funded through their business plan.
Inability to fund early debt redemption premia	Transfer receipt does not cover the premia payable on early redemption of debt attributable to housing, preventing transfer from proceeding.
Treatment of overhanging debt in partial transfers	In partial transfers debt stays with the housing revenue account, local authority is not exempted from repayment of overhanging debt attributable to stock transferred, putting partial transfer at a disadvantage.
Negative value housing stock	Future rental income is less than the cost of improving the stock, making the transfer a non-viable investment. A funding gap appears that the local authority or housing association cannot meet.
Housing association formed through transfer not able to bid for ADP	Social Housing Grant is not available to transfer housing association for new build to replace demolished stock where the activity was part of the transfer business plan.
Upper size limit on stock transfer	Where transferring stock greater than 12,000 units stock has to be subdivided between more than one new landlord. This blanket rule is inflexible and does not necessarily accord with local needs.
Myriad barriers to housing PFI	Several barriers, relating to subsidy, legislative and technical issues, are currently preventing PFI contracts from being signed.

Recommendation:

On the basis that all options represent acceptable VFM:

- a. As part of a wider Local Strategic Partnership strategy transfer proposals should identify regeneration elements that can be funded by other partners, outline how delivery can be ensured, and where appropriate make provision within the transfer proposal for those costs that are appropriate to local housing providers to ensure decent homes remain sustainable.
- b. ALMOs and PFI should also include works to safeguard the sustainability of decent homes.
- c. Treat premia payments for early redemption in the same way as overhanging debt, while maintaining incentives on local authorities to optimise transfer price.
- d. Extend overhanging debt treatment to partial transfers subject to a justifiable/ auditable method being devised for calculating the debt attributable to the transferred stock.
- e. Further discussion on gap funding to look at ladder of options for dealing with negative value stock, starting from exploring all possible structures of private finance (e.g. aggregated bond issues, structured finance or repayable dowry/grant), through to loans/grants from the single regional pot.
- f. Regional bodies should be responsible for any loan or grant to act as gap funding, as they will be responsible for delivery of decent homes, and will act as recipient for any future repayments.
- g. Allow Social Housing Grant to be used to fund appropriate re-provision through the existing or transfer housing association where there is a clear requirement and when this cannot be accommodated within the business plan.
- h. Make changes to rules for PFI – see PFI section.
- i. Revoke blanket rule on the upper limit for housing stock transfers, on the grounds solutions should focus on what is right for local communities. Group structures may still be preferable to large new landlords.

PROMOTING MIXED-MODEL SOLUTIONS

In the majority of cases, local authorities have pursued a single solution for the whole of their own housing stock. There have been some smaller scale solutions for particular neighbourhoods, using the Estates Renewal Challenge Fund in the 1990s. For large urban authorities a single solution may not be the best option for tackling decent homes as the circumstances of local housing areas and the priorities of tenants may differ.

Submissions to ODPM from both Manchester and Liverpool City Councils each setting out a case for using different solutions to tackle different parts of their housing stock informed the Steering Group's findings.

The **findings** of the PSA Plus Review are as follows:

- **Local problems need local solution:** whole stock solutions with a central management team are not necessarily best placed to deal with local, neighbourhood-based problems and tenant priorities; different local housing markets require different long term approaches;

- **Role of tenant management:** neighbourhood-based tenant management organisations can be sidelined by whole stock solutions with a central management team;
- **Risks of cherry-picking:** mixed solutions could result in housing associations taking on the best stock leaving the worst in local authority ownership which could increase residualisation. But this may not occur if this approach creates the resources for investing in the worst stock. Where stock is in low demand its retained ownership by the local authority, possibly as an ALMO may facilitate the more effective management of the area in the context of a wider housing strategy;
- **Mixed solutions come under an overarching strategy:** A mixed solution should not be implemented piecemeal. It must be undertaken within a clear overarching strategy for the whole stock;
- **Costs of mixed approach:** administrative cost of a mixed solution are likely to be significant in the short term, and ways would have to be found of overcoming likely scale diseconomies in procurement of refurbishment and repairs.

Recommendation:

Allow greater local flexibility to determine the most appropriate solutions for local circumstances as part of the options appraisal, but locally based solutions should be part of an overarching strategy for the whole of the local authority stock.

Key actions:

- Produce guidance on mixed-model solutions, highlighting strengths and costs of such an approach;
- Amend transfer guidance that discourages transfer housing associations from bidding for stock in their neighbouring local authority;
- Community Housing Task Force to work with local authorities where appropriate on working up mixed solutions within overarching strategy.

Delivery by Local Authorities

STRATEGIC ROLE OF LOCAL AUTHORITIES

Local authorities' strategic view of housing is essential for the effective operation of housing markets in their areas. The government's housing policy statement – 'Quality and choice – a decent home for all' emphasised the importance of the strategic function. Local authorities need to become more market aware and risk conscious and more open with potential landlord and other partners. Increasingly in some areas housing problems lie in the bottom end of the private sector or the focus is on lack of supply.

Where authorities retain their stock Best Value Reviews have shown that its management remains their housing priority and other strategic issues can be overlooked. For those who are no longer landlords the wider housing function is often ignored.

The **findings** of the PSA Plus Review are:

- The best authorities have clear long term cross tenure strategies: **these set the role of social housing in the wider context of the local housing market.**
- Effective separation of the strategic and landlord function: **this should be encouraged both to give greater prominence to the strategic function and to improve the performance of the landlord service.**

Recommendation:

Greater emphasis must be placed on the development of housing strategies which set the framework for investment in social housing.

Key actions:

- A statutory duty will be placed on all authorities to put in place a housing strategy for their area.
- Explore the potential of the Comprehensive Performance Assessment to be a key driver in the ensuring effective housing strategies.
- Link additional resources for decent homes delivery to the separation of the landlord and the strategic role.

BUSINESS PLANNING AND DELIVERY

At the end of September 2002 local authority business plans indicated that they were on track to meet the 2004 target of one third reduction in non decent housing but that overall they would fall short of the 2010 target. 115 local authorities said they could deliver the 2010 decent homes target using existing levels of resources. But in some cases Government Offices are uncertain about the robustness of the business plan as they have not been able to sufficiently test the assumptions on which the plans are based. Once a robust plan is in place the authority still has to deliver against it. It is essential for delivery that business plans continue to be evaluated and for progress against them to be monitored.

The **findings** of the PSA Plus Review are as follows:

- **Need robust business plans:** the assumptions in the business plans form the basis of delivery by 2010 and they need to be firm and realistic; the Mott MacDonald⁴ report shows that there is a strong optimism bias in the public sector on the ability to deliver against planned deadlines at estimated procurement costs – local authority delivery of decent homes is unlikely to be an exception, this needs to be taken into account when assessing likelihood of delivery in 2010;
- **Need to deliver against plans:** central government must have confidence in the capacity of the local authority to deliver decent homes on the basis of a robust plan;

4 www.hm-treasury.gov.uk/media//62ABA/greenbook_mott.pdf

- **Local authorities need ownership of plans:** some authorities still consider they are producing business plans because they are required by central government and they don't see the need for them as a key tool in managing their business.

Recommendation:

Where local authorities say they can deliver through existing resources there is still a need to challenge the robustness of their plans and performance against plan needs to be closely monitored. Where these are 'excellent' authorities under Comprehensive Performance Assessment (CPA) decisions are needed on how performance might be tracked.

Key actions:

- Review with Government Offices and the Housing Inspectorate how business plans are to be evaluated under proposed regional pot arrangements; agree how to use housing inspections and the Comprehensive Performance Assessment process to challenge the robustness of plans that say they will deliver.
- Government Offices should track performance against plan on a regular basis.
- Government Offices with the new Regional Housing Bodies need to consider how ability to deliver will influence allocation of resources from the single regional pot.

IMPROVING EFFICIENCY

The varying degree of effectiveness, efficiency and value for money of past investment strategies is one of the prime reasons why local authorities today face different challenges with different levels of resources available. Ensuring efficiency in delivering good quality investment strategies is vital for the goal of achieving decent homes by 2010.

Efficiency gains would have many benefits, but the two most prominent are:

1. **Tenants will reap the reward:** extra resources could be released to meet other tenant priorities;
2. **Cover decent homes shortfall:** a small percentage improvement in efficiency could more than cover the current projected shortfall on decent homes by 2010.

However, local authorities do not face the same pressure to challenge the way they are organised and how they operate if they are not faced with seeking alternative investment options. There is no clear driver to improve the service to tenants (for example, no need to strive for a 2 star rating from the Housing Inspectorate as they do not need extra resources).

The **findings** of the PSA Plus Review are as follows:

- **Efficiency gains benefit all:** the challenge is to generate efficiency gains by better management of long term investment strategies, and self-scrutiny of quality of service offered;

- **Many existing mechanisms can be used:** improving the cost-effectiveness of capital programmes and delivery can be secured using a range of existing policy levers, Best Value Performance Indicators, best practice and benchmarking and the Comprehensive Performance Assessment.

Recommendation:

Strive to boost both efficiency of capital programmes and delivery of programmes by using existing levers available.

Key actions:

- Examine whether cost effectiveness of capital programmes can be taken into account in determining allocations from regional pot.
- Ensure local authorities consider cost-effectiveness in their Best Value reviews of Repairs and Maintenance and/or the Capital Programme, and that this matter features in any subsequent inspections.
- Promote existing housing benchmarking clubs to encourage local authorities to compare their performance with other authorities and housing associations.

Delivery by Housing Associations

PROGRESS AGAINST THE TARGET

There are over 2,000 housing associations owning 1.4m dwellings. Of these 205 own 80% of the stock with the top 20 owning almost one quarter. Almost one third of housing associations are in London.

Research by Greg Trimmer for the Housing Corporation in 2002 showed that, at present, over one-third of social homes in the housing association sector fail the decent homes standard, few housing associations had a decent homes strategy in place, there were real difficulties interpreting the standard, and transfer housing associations had a higher proportion of non-decent stock. However this may in part reflect the fact that the detail of the standard was only finalised in March 2002, leaving little time for housing associations to have developed a strategy for delivering decent homes.

In future, regulatory and statistical returns to the Housing Corporation will require mandatory reporting of progress against the decent homes target. The Audit Commission will inspect housing associations on the same basis as local authorities, offering some benchmarking of progress. In addition, lead regulators will check on asset management and progress towards the target. If a housing association was obviously in difficulty, the Housing Corporation could agree a plan for recovery if necessary. The Housing Corporation, together with the National Housing Federation, have commissioned research into various approaches to delivering decent homes, which will be shared amongst the sector.

The **findings** of the PSA Plus Review are as follows:

- **Risk that smaller housing associations will not meet target:** the Corporation's risk based approach to regulation sensibly looks at the larger housing associations, but as

the government is committed to a 100% target, we also need the smaller housing associations to deliver;

- **ODPM needs data on housing associations when generated:** central government has suffered from a lack of data on decent homes in the housing association sector to date (but this should improve once mandatory returns become available);
- **No requirement to develop and submit delivery plan:** the regulatory and statistical return used by the Housing Corporation focuses on numbers of homes made decent. The regulatory regime looks at business plan/asset management strategies and can pick up and take action on cases where there seems to be a risk that the association will not be able to deliver.

Recommendation:

The Housing Corporation will provide ODPM with information from statistical returns, and will take a more proactive role in assessing whether a housing association will deliver decent homes.

Key actions:

- ODPM and Housing Corporation to promote data sharing and joint working on decent homes monitoring;
- Draw up a concordat/memorandum of understanding to record agreements;
- In developing the inspection role arising from the move of inspection to the Housing Inspectorate, ensure that decent homes has sufficient prominence.

RATIONALISATION AND RESTRUCTURING OF THE SECTOR

Effective delivery of decent homes is affected by the structure of the housing association sector. Therefore work that looks at structural changes is critical to the delivery of decent homes.

Rationalisation means a change in the pattern of management or ownership that does not impact on the size or number of housing associations. **Restructuring** refers to mergers, de-mergers, and the formation of group structures such that there is a substantive change in shape or composition of the sector. These are increasingly being seen as ways in which housing associations can reorganise their management arrangements and organisational structures in order to better respond to local circumstances and to take advantage of economies of scale.

Landlords with small stock holdings can be adversely affected by changing market circumstances. Where several landlords operate in the same area it is often difficult to coordinate effective regeneration and management activity, and smaller organisations find it difficult to take advantage of modern procurement methods. This may be particularly true of some early transfer housing associations.

Rationalisation can promote increased efficiency for example where there is a large number of very small housing associations, or where a housing association has stock that is thinly dispersed over a wider geographical area. This can help the housing association engage in effective strategies for neighbourhood renewal.

Restructuring has the potential to improve the performance of the housing association concerned, whether moving from a moderate to good performer, or whether as a proposed solution to a fundamental lack of performance.

One outstanding question relates to the extent to which the Housing Corporation should be involved in such arrangements, and what role the lenders play.

The **findings** of the PSA Plus Review are:

- **Local circumstances should determine approach:** rationalisation or restructuring may well be an appropriate solution to a particular circumstance, but they do not offer a panacea for improved performance in every case as market trends are also key.
- **Housing Corporation to ensure proper decisions:** there is a need (as in every sector) to avoid regulatory overload, and indeed, in this situation government would expect the lenders to play a part if the changes affect financial viability in the long term, but the Corporation should protect publicly funded assets.

Recommendation:

Government, with the Housing Corporation, to offer guidance and support for stock rationalisation and restructuring where it is appropriate and offers a local solution to a local problem.

Key actions:

- Housing Corporation to complete existing work and then determine what guidance is necessary to produce.

MANAGEMENT OF RISK

A housing association is subject to many risks when delivering social housing, from demand risk, to revenue-related risks of changing housing benefit eligibility and rent arrears. However, many housing associations are increasingly diversifying into new market areas – student accommodation, renting at market rates etc. This exposes them to a whole new set of risks of different markets.

The issue of risk is one fraught with tensions. There is a tension between innovation and financial stability on the one hand, and between housing associations being independent businesses run by boards and the need to protect publicly funded assets on the other.

The aim is to ensure that housing associations engage in ‘sensible risk taking’ whereby they:

- fully understand the implications of the risks they are taking on;
- are joined-up with the strategies of key partners (for example Local Strategic Partnerships);
- are fully informed of the views of their lenders;

- have demonstrated to the Housing Corporation that non-social housing related activities do not put their ‘core business’ of delivering decent social housing at risk.

Risk management in the housing association sector has developed a lot over the past 5 years. Risk appraisal is now an integral part of the business planning cycle for housing associations, and the national regulatory framework has evolved also, with the development of a new financial ratios package that is being shared with individual housing associations.

The regulatory regime is very important. To date no lender has lost any money in the housing association sector, and the Housing Corporation has managed to engineer rescue packages for failing housing associations, usually in the form of a take-over or merger. In terms of protecting publicly funded assets and tenants, this is exactly what is expected of a strong regulatory regime. But, perversely, as a result of such a strong regulatory regime, two key problems could potentially be generated:

- As lenders take a high level of comfort from the Housing Corporation’s regulatory regime it reduces the attractiveness of the market to some lenders, leading to a relatively small pool of lenders, particularly for new stock transfer RSLs’ (the pool for lending to existing RSLs is substantially wider than for LSVTs). Whilst this provides cheap financing for housing associations, it also reduces the attractiveness of the market and effectively creates a barrier to entry for new financiers. The level of innovation in financial products offered to housing associations has been minimal to date.

The **findings** of the PSA Plus Review are as follows:

- **Sensible risk taking:** housing associations should be encouraged to take risks and add value so long as they can offer assurance that the risk is a sensible one;
- **Risk management in housing associations has improved:** over the last 5 years, housing associations have taken a much more proactive approach to managing the risks they face;
- **Little financial innovation:** lending to the sector has developed little over the past decade. This may mean there is scope for the housing associations to achieve better value by looking at innovative financing approaches appropriate to the risks they face.

Recommendation:

The Housing Corporation should encourage sensible risk taking, backed up by guidance and a balanced approach to failure, to ensure innovation and good incentives to deliver on calculated risks.

Key actions:

- Collate guidance on the management of risk, and the taking on of new risks through diversification;
- At the next quinquennial review take stock of the Housing Corporation’s approach to handling failure of a housing association to ensure it is balanced.

ASSESSMENT OF NEW HOUSING ASSOCIATION STRUCTURES

There has been a rapid growth in the incidence of different structures for housing associations in the recent past. More groups than housing associations registered with the Housing Corporation in 2001-02, and 75% of all housing association homes are now part of a group structure of some description.

Groups structures can take many forms, from one dominant stockholding parent housing association, to a series of subsidiary stockholding housing associations, to an ‘umbrella’ group structure.

The attraction of group structures varies depending on the circumstances involved, but ranges from meeting regulatory requirements, reducing tax liabilities, better management of risks, clearer operational focus and enabling future growth. In general, group structures offer advantages in terms of economies of scale – in particular, reduced costs through lower tax liabilities, cheaper borrowing, and purchasing power in procurement. However, one of the key criticisms of group structures to date has been the reduction in tenant accountability as management is further centralised.

The **findings** of the PSA Plus Review are as follows:

- **Group structures have a place:** they are growing in attraction, and can offer many benefits (or cost reductions) that come from economies of scale;
- **Not always appropriate:** group structures may be appropriate depending upon the local circumstances and should not be pursued without a sound rationale and an understanding of the impact;
- **Tenant inclusion must be tackled:** a group structure must find a suitable way in which to account for the needs of the tenant (its prime customer).

Recommendation:

Government and the Housing Corporation must offer advice on group structures, and in particular must ensure that tenants are offered opportunities to be involved.

Key actions:

- Provide guidance for housing associations on group structures using the findings of the Audit Commission research and in relation to proposed mixed solutions and loss of 12,000 ceiling, making clear that group structures are fully considered at options appraisal stage.
- The Housing Corporation will explore how to ensure that tenants are fully involved in new organisation structures.

Delivery by Arms Length Management Organisations (ALMOs)

LESSONS FROM INSPECTION SO FAR

The Housing Inspectorate have undertaken eight inspections of round one ALMOs to date, all of which have been subject to rigorous moderation by senior officials from the Inspectorate. The initial findings of the inspections show that each ALMO can be quite different, with approaches to governance structures and strategic management highly variable usually reflecting their differential histories.

Some ALMOs were clear about their aims and objectives whilst others were less so, and some ALMOs had no financial expertise on their boards. Some ALMOs were more 'arms length' than others, illustrating that the roles and responsibilities of the new ALMO and the parent local authority can be quite confusing.

The **findings** of the PSA Plus Review are:

- **ALMOs provide variable outcomes to date:** some ALMOs are developing well and are being run like the multi-million pound business they are, whereas some will need more support in order to deliver service improvements to tenants;

Recommendation:

The ODPM should learn from the inspections of the Housing Inspectorate, feed them into the processes and checks in the ALMO programme before consent is given by the Secretary of State.

Key action

Modify ALMO guidance to ensure there is greater clarity at bidding stage on governance arrangements and planned investment strategies.

MANAGING THE ALMO PROGRAMME

The current procedures for managing applications, bids and acceptances onto the ALMO programme needs adjusting in the light of experience as they place considerable financial uncertainty on the ODPM. At present, a local authority can express interest in the programme, bid for a place (including resources), be given a conditional allocation and a Section 27 consent to delegate housing management and set up an ALMO, with limited scope to assess whether the ALMO route is realistic or the best option in the circumstances. This could mean that we don't make the best use of the available resources and that an authority pursued the wrong option to achieve decent homes.

A series of issues were discussed for improving the current arrangements that would reduce uncertainty and which would not create unnecessary bureaucracy or slow the approval process:

Issue	Description of change
Option appraisal	Critical stage, the outcomes of which must be: <ul style="list-style-type: none"> ● A plan that shows what the local authorities will change in order to attain 2* ● The investment strategy for delivery of decent homes Without these option appraisal cannot be signed off.
Expression of interest	Can be submitted once option appraisal signed off as satisfactory as above.
Bidding process	Bids must be accompanied by: <ul style="list-style-type: none"> ● Clear investment strategy – the business plan ● Draft governance agreement Criteria to be developed to determine who gets on programme as this guarantees a pre-qualification allocation Those that miss out would have to wait until the next round or revisit their option appraisal.
Inspections	Inspection to be conducted after at least 6 months of ALMO operation. Reports should be used to provide guidance for future rounds.
Checkpoints	Three main checkpoints where the ODPM can influence proceedings are: signing off option appraisal, in accepting bids, and in providing the S.27 consent to delegate housing management. These should be used to ensure the proposals are sound, and that there is a focus on decent homes delivery.
Clarifying and freeing up the criteria	Making clear that partial ALMOs should be actively considered. They fit well with the mixed model approach. The 2* rating would only relate to the services and stock that were part of the ALMO.

The **findings** of the PSA Plus Review are:

- **Climate of uncertainty is a risk to decent homes:** the current procedures could inhibit the delivery of decent homes by creating too much uncertainty around the ALMO programme;
- **Getting local authorities onto a firmer footing:** – ensure that ALMO proposals are underpinned by robust option appraisals;
- **Lack of mechanisms to assess future performance:** continued funding of ALMOs should depend on maintaining/improving level of performance achieved to get on ALMO programme.

Recommendation:

Revise the management of the ALMO programme to reduce uncertainty and improve incentives to improve service delivery and to encourage partial ALMOs.

Key actions:

- Produce new bidding guidance that sets out the need to get the options appraisals right and signed off before allowing expressions of interest; require as part of the bid: (i) a sound investment strategy as part of a business plan which also show how service improvements will be delivered (ii) a draft governance agreement;
- Develop a set of criteria for allowing an authority a place on the programme as the means of managing demand;
- Clarify what is needed for a local authority ALMO to achieve 2* status on inspection, (should cover a decent homes delivery plan, good financial expertise in place, local authority strategic role defined, financially literate board member etc);
- Develop a strategy for using the key checkpoints in the process effectively;
- Develop regime for inspecting ALMOs once they are underway;
- Promote partial ALMOs and allow ancillary works to ensure decent homes are sustainable.

FINANCING OPTIONS FOR HIGHEST PERFORMING ALMOs

Earlier this year the ODPM published 'The way forward for housing capital finance', a document designed to encourage a debate on the future of council housing finance. It set out a series of potential options, one of which was termed the 'Quasi-housing association model' which is effectively a '**self-financing model**'. This model is designed to allow the highest performing ALMOs to take full advantage of the prudential borrowing regime.

The details of such a model are set out briefly below, but it must be set in the context of the aims of the prudential regime. The aim is not to release lots of unchecked investment outside government public expenditure control totals, but to grant greater control of investment decisions to local authorities, ensuring that they develop a better understanding of the consequences of their investment decisions. In public expenditure terms, the borrowing will still score in public expenditure control totals. This is because local authorities are within the public sector and hence represent a liability on the public purse (the only way to free councils from overall borrowing constraints would be to privatise them). It is because of this that there is provision in the Local Government Bill for a national borrowing limit to be applied if borrowing under the prudential regime were to increase to unsustainable macroeconomic levels.

A self-financing model would include a three-stage process:

1. **Calculating borrowing:** this would assess the level of borrowing for an authority, which would equal its housing investment programme (HIP) allocation plus ALMO allowance.
2. **Debt restructuring:** this requires 'sharing' out housing debt over local authorities to put them in a position where they can finance, from expected rental and other

income, all ongoing running costs and future capital investment at the level likely to be possible within normal HIP resources, without recourse to subsidy.

3. **Monitoring borrowing:** development of prudential indicators and, if necessary, a national borrowing limit to protect against unsustainable rises in public spending.

The advantages of this are clear – the ALMO is free to run the business as it sees fit. It is no longer subject to subsidy fluctuations. There would also be savings for central government in running the subsidy and capital systems.

There are also some clear ‘unknowns’ that require investigation before such an option can be pursued:

- the potential borrowing capacity of ALMOs under rent restructuring;
- how to monitor borrowing and maintain any necessary controls over public expenditure;
- how to ensure good investment decisions;
- how to ensure competent financial expertise in place, and whether a debt restructuring would work;
- whether and how debt restructuring will work.

The **findings** of the PSA Plus Review are:

- **Potential as part of full move to prudential regime:** generates the right disciplines and freedoms, and removes central government interference in day to day running of affairs;
- **For ALMOs who get 3*:** provides an incentive for continuous improvement, and fits with freedoms and flexibilities for high performers’ agenda;
- **Potential for misunderstanding:** this not a way of accessing a lot more money and government risks stalling delivery unless this message is very clear;
- **A lot of unknowns:** impact on public expenditure, borrowing potential, how to monitor and cap as appropriate, how to ensure financial competence and good investment decisions.

Recommendation:

Develop the proposal for a self-financing approach for 3 star ALMOs ('ALMO PLUS') and work up a detailed proposal as part of the move to a full prudential regime that can be agreed and consulted upon as soon as possible.

Key actions:

- Model borrowing potential over next few years/decade;
- Draw-up firm criteria for central government monitoring of borrowing, and, if necessary, possible options for control [See above comments on national limits.];
- Ensure ALMOs have a financially literate board member before S.27 consent given;
- Develop framework for good investment decisions;
- Ensure it is clear that self financing approach applies only to ALMOs;
- A lot of unknowns: impact on public expenditure, borrowing potential, how to monitor and cap as appropriate, how to ensure financial competence and good investment decisions.

Delivery by Private Finance Initiative (PFI)

GETTING PFI WORKING

There are currently 18 Housing Revenue Account (HRA)-based PFI schemes and 5 non-HRA based PFI schemes in the procurement stage. However, to date no HRA contracts have yet been signed, and the procurement of HRA-based schemes has taken far longer than expected and has required greater than expected PFI credits.

The main difficulties encountered were around ensuring the output specification and costs of the schemes were right, and the time taken in procurement. Bidders have also raised concerns about the time taken to get to contract signature, bidder costs, and a lack of clarity over what the Special Purpose Vehicle is meant to be delivering.

The **findings** of the PSA Plus Review were:

- **Technical and legislative issues need resolving:** technical barriers to PFI to do with housing management delegation and the way the subsidy system benefits some but not others are a risk to PFI;
- **Standardisation will help:** PFI schemes are very complex and require technical expertise on the part of local authorities that may not always be present and would be helped with common documentation that would speed them through the procurement process;
- **LA capacity represents a key risk:** PFI management expertise of local authorities is in need of improvement if PFI is ever to be a realistic option for delivering decent homes;

- **Decent homes plus ancillary works:** output specifications for housing PFI should focus on the basics of decent homes, and the wider works required to ensure that decent homes are part of sustainable neighbourhoods.

Recommendation:

ODPM should urgently implement the proposals to try to get PFI contracts for refurbishment signed and work underway, focussing on standardisation, boosting capacity in local authorities, to build market confidence.

Key actions:

- Steer Regulatory Reform Order (RRO) through Parliament;
- Resolve outstanding subsidy issues;
- Produce procurement pack with standard documentation once contracts have been signed;
- Extend role of Community Housing Task Force to provide PFI advice;
- Work up a communications strategy for PFI when contracts signed;
- Explore mentoring, guidance and training for local authority staff involved in housing PFI;
- Set guidelines on output specifications to cover decent homes and ancillary works to ensure decent homes sustainable.

CAN PFI BE USED FOR NEW BUILD AS PART OF REFURBISHMENT SCHEMES?

The Steering Group discussed not only ways in which PFI for housing refurbishment could be developed and got off the ground, but also whether PFI was should be used for new build in the context of a refurbishment scheme, creating savings in standard public expenditure which could be redirected back towards the delivery of the decent homes target.

The **findings** of the PSA Plus Review are:

- **PFI may be better suited to new build as part of refurbishment scheme:** risk involved in new build capital project a known quantity (e.g. hospitals and schools) and may be more suited to long term PFI projects;
- **Should release resources to put back into decent homes:** if PFI credits were used for new build, standard public expenditure should be released to put back into decent homes.

Recommendation:

Once the first contracts have been signed, and using the emerging findings of the PFI evaluation, ODPM should explore options for developing PFI for new build as part of a refurbishment scheme.

Key actions:

- Continue with evaluation framework for refurbishment PFI to be used following contract signature;
- Develop proposals for PFI for new build as part of a refurbishment scheme;
- Lessons learned from rounds one and two must be used in launching subsequent rounds;
- Examine whether PFI schemes of different types could be linked together to deliver wider regeneration.

Delivery by Housing Stock Transfer

IMPROVING VALUE FOR MONEY

Questions have been raised about the value for money of housing stock transfer. The National Audit Office (NAO) report to be published this Spring looks at how the value for money of transfer is best determined. Value for money means more than purely financial flows to and from government, and includes the many non-monetary benefits that a particular investment option might offer.

However, there is some variability in the extent to which assumed benefits are realised in every case – some new housing associations provide an exemplary service to tenants, representing a real step change from the preceding local authority, whereas some new housing associations do not achieve this. The aim is to lift ‘the rest’ to the level of ‘the best’.

Many costs and benefits of transfer were discussed as part of the review. Most of the costs were financial costs, whilst a lot of the benefits were non-monetary. Using this information, it should be possible to reduce costs where possible on the one hand, and either secure the realisation of existing benefits, or even examining the possibility of enhancing the benefits of transfer on the other. This should improve the value for money of housing stock transfer, and can be fed into the central value for money analysis of investment options through a benefits analysis as well as a financial costs analysis.

The **findings** of the PSA Plus Review are:

- **Potential for improvement:** the Review highlighted two main areas where there was potential to improve financial VFM – the transfer receipt and the set up costs;
- **Need to secure realisation of non-monetary benefits:** including effective, ongoing tenant involvement – stock transfer has the potential to offer improved VFM if the potential benefits of a better service to tenants are realised in every case;

- **Importance of good management team:** efforts to realise benefits can be severely diminished unless the new housing association has strong leadership and a motivated management team.

Recommendation:

Improve the VFM of stock transfer by pursuing those areas with most potential in the short term (transfer receipt and set-up cost), and by a longer term focus on ensuring the key benefits of transfer proposals for tenants are realised.

Key actions:

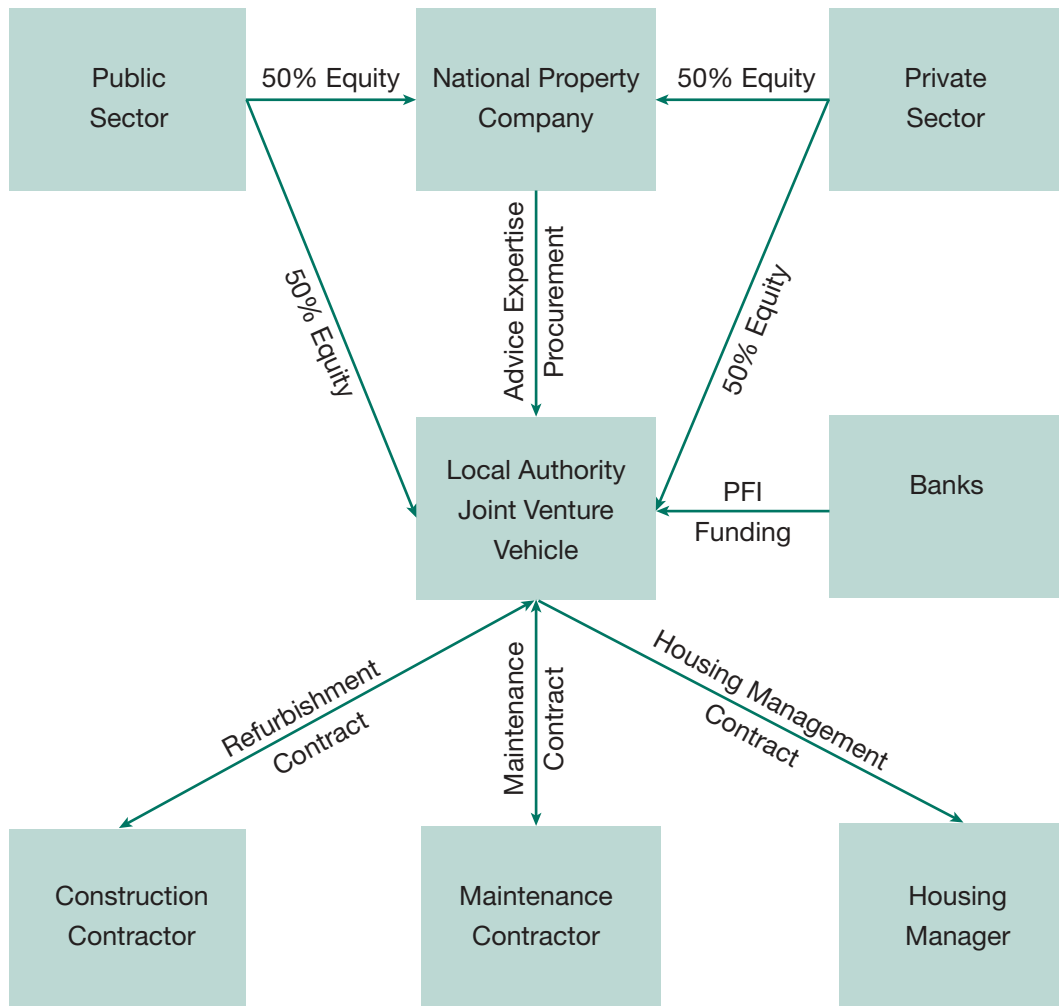
- Transfer receipt – explore the effect of a range of property lives and discount rates in Tenanted Market Value calculation to ensure it is compatible with the Green Book;
- Set-up costs – boost capacity of local authority staff and reduce reliance on expensive consultants (exploring possibility of mentoring), and evaluate the opportunity for set-up costs to be borne by the recipient housing association rather than the vendor local authority;
- Further develop a matrix of costs and benefits with policy proposals for improvements in each case;
- Ensure the monitoring and evaluation framework that is being developed for stock transfers tracks the realisation of benefits, and examines outcomes for tenants (the customer) as well as statistical measures of performance.

FINANCING IN STOCK TRANSFER

Housing stock transfer is reliant on leveraging-in large sums of private finance. Government is keen that financing arrangements offer quality private sector involvement that provides the right incentives to deliver the best possible service for tenants.

National Joint Venture

This would be a variant of the model developed for procuring investment to refurbish and develop new GPs surgeries known as NHS Lift. NHS Lift is a joint venture between the NHS and Partnerships UK (itself a private sector company half owned by HM Treasury).

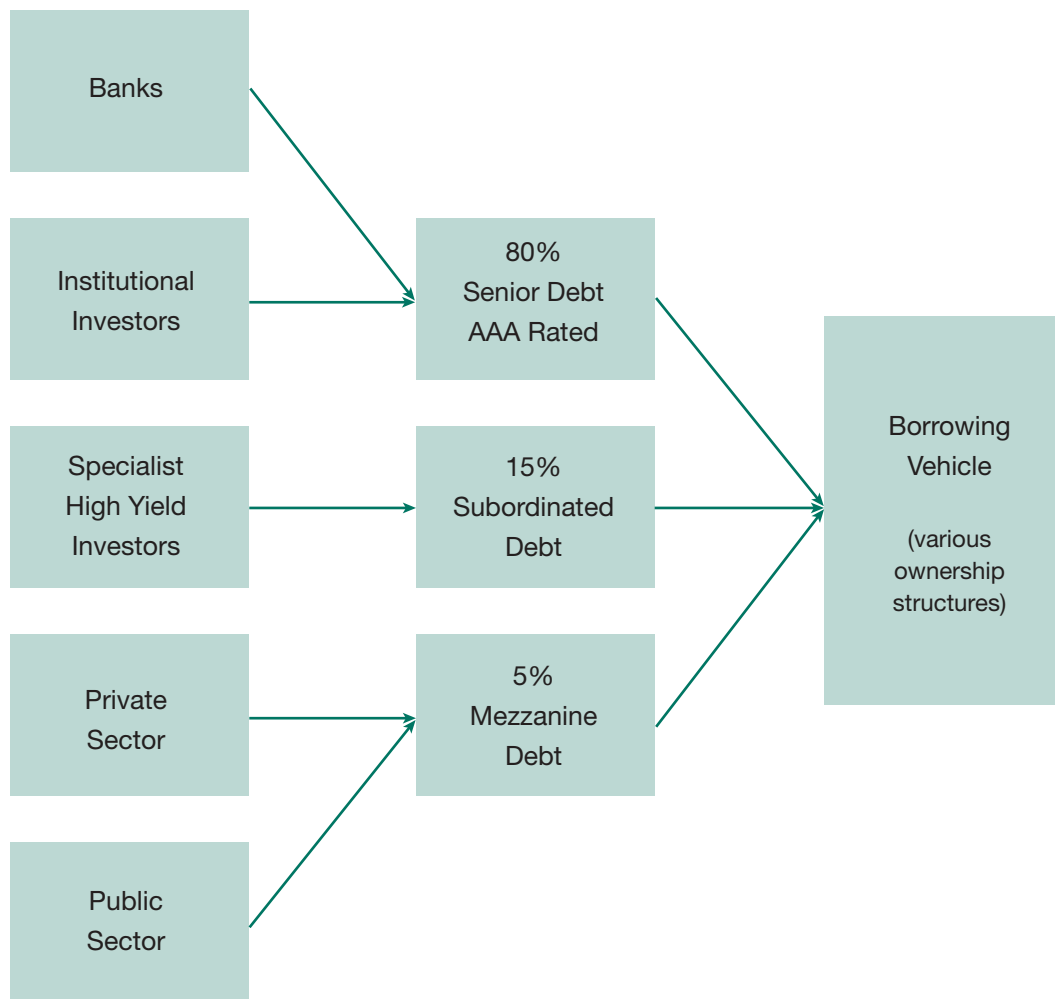


This model could provide economies of scale by enabling larger procurement contracts, with the National Property Management Company acting as a centre of excellence for stock transfer offering advisory services on procurement, business planning, stock condition surveys, and funding structures. The procurement possibilities for housing would have to be tested. The contracting arrangements should ensure that the joint venture vehicle delivers better value for money by virtue of its purchasing power and through the standardisation of contracts.

Structured Finance

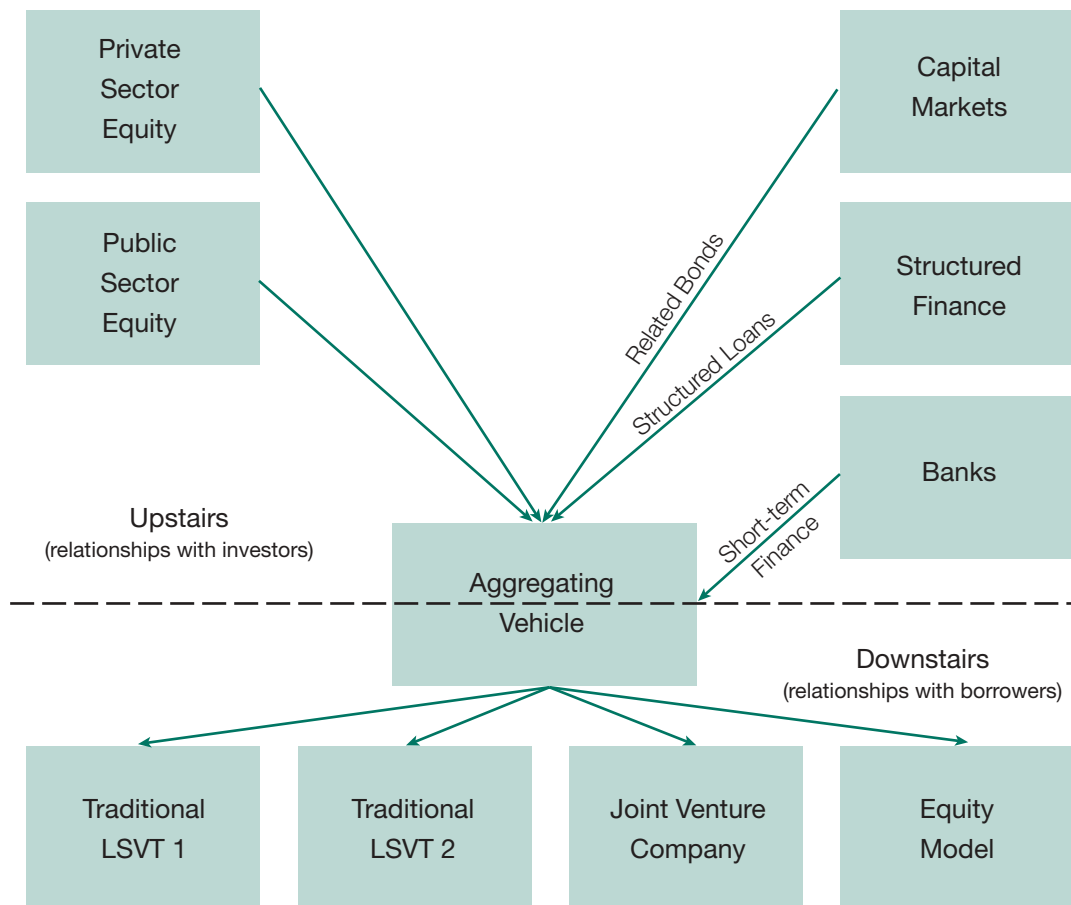
This would be an additional funding model for use in conventional stock transfer housing associations. It could involve a mixture of financial assets with a range of credit profiles, including some risk capital at the margins to boost incentives to deliver for tenants.

Although the cost may average out to be similar to the existing funding options, the inclusion of risk capital could provide a greater incentive on the housing management to perform or reduce or estimate the requirement for gap funding.



Capital market aggregation vehicle

The creation of a vehicle to aggregate demand to create a bond issue would allow smaller housing associations to tap the capital markets for long term fixed rate funds efficiently. It could also offer services to local authorities on the various funding options available, with the ability to provide short term bridging finance to traditional stock transfers. This would require the vehicle to have its own resources to allow it to package deals. It could achieve economies of scale, highly rate low cost funding, structured finance for difficult transactions, and flexible finance etc. It would have to balance risky and less risky transfers.



The findings of the PSA Plus Review are:

- **Develop incentives:** incentives to deliver will help to ensure the benefits of stock transfer offered to tenants are realised;
- **Financial innovation:** potential for alternative funding structures that will have many benefits alongside the creation of better incentives to perform, including advice and economies of scale etc. – will need testing.

Recommendation:

Develop these three options in detail: considering scope and viability, consulting the financial services industry, and then put out for consultation.

Key actions:

- Set up a working group to discuss the options in more detail, including people with a policy background and those with a corporate finance background; this should focus on the benefits and costs of each, as well as any barriers to implementation;
- Ensure that key message is that additional ways of financing stock transfer are being developed, not new investment models.

THE ROUTE FOR POOR PERFORMERS?

The ALMO route to additional investment requires local authorities to generate improved performance before they have access to additional funds. Housing stock transfer on the other hand does not, and it could therefore be seen as a route for poor performing local authorities. This has many risks attached to it, not least because of the greater risks of an organisation with a poor performance record as a local authority borrowing large sums of money on the private market as a housing association.

To address this concern local authorities need to involve their tenants in considering the nature of any successor landlord where transfer is an option. Ideally this should feature at the option appraisal stage. Where it hasn't, tenants should be fully involved in choosing the successor landlord.

There is a known level of interest from existing housing associations in taking on more stock through stock transfer, and indeed, they may have the reserves available to cover partial transfers of negative value stock. The Housing Corporation and lenders will of course play their role in ensuring the applicant housing association is suitable to be subject to tenant choice, based on financial viability.

The **findings** of the PSA Plus Review are:

- **Stock transfer not a route for poor performers:** enabling local authorities with a poor track record to transfer and borrow on the private market is a risky strategy for the housing association sector, and will not of its own accord create better performance;
- **Choice offers a solution:** to promote more varied outcomes that reflect local housing market differences and levels of tenant support. Stock transfer is not one concept – there are many options for tenants to choose from (tenant led, mixed solution, group structures etc).

Recommendation:

Ensure options appraisal process offers tenants a choice of possible successor landlords in determining the model of transfer that would be pursued. Where this isn't the case, offer this choice to tenants as part of the transfer process.

Key actions:

- Draw up suitable support/guidance for local authorities to assist in delivering choice of landlord;
- Amend options appraisal guidance to reflect this requirement;
- In order to minimise the risk of poor performance as part of the stock transfer process, ensure that the key landlord services have been the subject of inspection to create a thorough baseline assessment upon which performance improvement can be built before, during and after transfer.

CHAPTER 4

Ensuring the delivery chain works

Getting the right delivery vehicles in place is only the first step in successfully delivering the decent homes target. They need to be used effectively. Once a strategy has been adopted it needs to be implemented as efficiently as possible. The path to successful delivery can be complex, particularly for local authorities. The Review has identified a number of steps along the way where delivery is impeded. These problems arise from:

- the delivery process not getting off to a good start through lack of adequate information and poor planning.
- Insufficient support to help all those engaged in delivery to do the job effectively. There is some overlap in the roles of the main agencies involved as well as gaps in responsibilities.
- Some lack of co-ordination in the use of existing levers which help drive delivery forward.
- Risks to delivery through less than effective implementation of both capital programmes and repair and maintenance.
- The construction industry does not have the capacity to support the necessary level of investment to meet the decent homes target.
- Poor communication down the delivery chain resulting in mixed messages.

BASIC INFORMATION

Robust information is critical to the delivery of decent homes. The detailed definition of decent homes was introduced in 2001 and finalised in 2002.

Local authorities and housing associations have had to adapt the information they collect and change the way they hold information in order to report on decent homes. The ease with which smaller organisations are able to assemble the right information is variable. Government Offices report that the majority of local authorities now have decent home baselines but it is difficult for Government Offices to validate their robustness.

The Housing Corporation and National Housing Federation conducted a pilot exercise to establish whether housing associations could set baselines and monitor delivery of the targets. This demonstrated a possible variation in the interpretation of the standard. They are now conducting a more detailed case study which will result in good practice guidance.

Recommendation:

Social landlords must have robust information about their stock and on demand and supply on which to base their investment strategies to deliver decent homes.

Key actions:

- Ensure mechanisms are in place that are capable of validating the robustness of the information held by social landlords this should be an integral part of the inspection regime;
- For small organisations Government Offices and the Housing Corporation/National Housing Federation to encourage sharing of information gathering exercises and

Once the NHF has completed their good practice guidance ODPM will review its applicability to local authorities.

BUSINESS PLANS AND OPTIONS APPRAISAL

Each local authority is now required to produce a **Housing Revenue Account (HRA) Business Plan** that sets out the plans for long term investment and management plans for the stock. This long term business plan should include plans for delivering decent homes, and should be based on an appraisal of investment options.

An **options appraisal** is a comprehensive appraisal of the various options open to the local authority to invest in their housing stock. It is used to determine which option represents the best value for money and meets stakeholder objectives, and is hence used as a key decision making tool. It should focus on not only the financial flows to and from the local authority, but also the non-monetary costs and benefits of each option. As the tenant is the customer of social housing, the best possible service from their perspective should feature highly as a non-monetary benefit.

The options appraisal is a vital link in the delivery chain. If it is not completed then it is highly likely that either decent homes are not delivered, or that the investment choice pursued is inappropriate.

The **findings** of the PSA Plus Review are as follows:

- **Options appraisals can be skewed:** they have money rather than the best service for tenants as the prime focus; are carried-out by consultants who may be encouraged to suggest a predetermined 'right answer' comes out of the appraisal; do not involve tenants from the outset; do not form part of a wider strategy for neighbourhood renewal.
- **Options appraisals are not rigorous:** some local authorities have not produced an options appraisal; some local authorities pursue an option that either does not deliver decent homes or will be highly inappropriate; some authorities focus purely on financial costs and benefits and omit better service for tenants.
- **Central assessment procedures weak:** the rigour of appraisals is not assessed; responsibilities for monitoring and evaluation in central and regional government are diffuse and unclear; there is a lack of communication as to what requirements are – yet the Deputy Prime Minister and Accounting Officer are ultimately responsible.

Recommendation:

The requirements for options appraisal must be strengthened, better guidance needs to be produced, the roles of the main players needs to be clarified, and tenants must be fully involved from the start.

Key actions:

- Every local authority must have produced an options appraisal for delivery of decent homes that has been signed off by July 2005 as part of HRA business planning where they have not already produced a robust appraisal as part of their Business Plan;
- A requirement that the rigour of options appraisals must be signed-off by central government, a task to be performed by Government Offices;
- Roles and responsibilities of key players in central and regional government must be clarified, and narrow skills base tackled, with the Community Housing Task Force providing options appraisal support; protocols should be drawn up that set out the roles;
- Guidance to local authorities on options appraisals will be strengthened, clarifying the need to involve tenants from the outset, and to fit the appraisal within a wider Neighbourhood Renewal strategy;
- Options appraisals will be subject to tenant scrutiny;
- Central government must provide sufficient support and use appropriate levers to ensure local authorities can meet the requirements;
- Create a 'template' for VFM/options appraisals for local authorities;
- Pursue role of 'honest broker' whereby someone within the local authority other than the Housing Director undertakes options appraisals to avoid conflict of interest.

Support

ROLES AND RESPONSIBILITIES

Several organisations have a key role to play in delivery other than local authorities and housing associations: ODPM policy divisions; Community Housing Task Force; Housing Inspectorate; Government Offices; Housing Corporation; National Housing Federation; Chartered Institute of Housing, and independent consultants. The roles of these different organisations are evolving as requirements and responsibilities change for example with the introduction of the Comprehensive Performance Assessment and the extension of the Housing Inspectorate's role to housing associations. The introduction of a single regional housing pot will change the role of Government Offices. Implementation of the findings of this Review will also bring about changes.

Notwithstanding these changes the current roles are not clear in all cases and many stakeholders commented that it was important to clarify roles.

The **findings** of the PSA Plus review are:

- **Overlapping roles:** Government Offices and the Housing Inspectorate both have had roles in the assessment of local authority performance that impacts on the delivery of the decent homes target. They also both have roles in providing support to authorities to improve their performance.
- **Specialist support role of Community Housing Task Force:** has developed as policies have changed and now covers ALMOs as well as transfer. They have also started to provide some support in developing options appraisal. However they have no role in PFI and cannot at present offer any support to help local authorities understand the complexities of the financial arrangements that underpin the alternatives. Community Housing Task Force should work with local authorities when they have identified – through the Government Offices – their intention to explore alternative investment models.
- **The move to Comprehensive Performance Assessment:** has resulted in inspection information being available for all single tier authorities' housing services. But this will not necessarily have covered an aspect of the housing service relevant to decent homes delivery. Where it does cover decent homes related services it could be part of the evidenced used by Regional Housing Boards in the development of their strategic priorities which will determine allocations from the regional housing pot.
- **Comprehensive Performance Assessment for Districts has not been settled:** the Housing Inspectorate are planning to introduce a thematic inspection based on the concept of 'Balanced Housing Markets'. This would assess the strategic approach to housing issues as well how the planning system can address different levels of demand for all types of housing. Service level inspections, which could cover areas relevant to decent homes delivery, may follow as part of the improvement planning process in areas where performance needs to be improved. They are also looking at strengthening the self-assessment process and are developing an equivalent thematic on the achievement of the Decent Homes standard where the District Council has retained its stock.
- **Role for service inspections:** the Housing Inspectorate should, when inspecting relevant services, test out the reality of the authority's business plan and for their findings on this to inform their inspection judgements. Where Government Offices have concerns about the business plans they should ask the Housing Inspectorate to consider inspecting/ re-inspecting in order to check on the robustness of the plans and current performance'.
- **Improvement plans post Comprehensive Performance Assessment:** potentially overlap with what Government Offices currently engage in with some local authorities either for decent homes delivery or in improving business plans more generally. Improvement plans could be used as the main way of driving delivery of decent homes forward.
- **The single regional housing pot:** Regional Housing Boards will be responsible for advising on the allocation of capital resources from the single regional housing pot. They will need to consider the extent to which the ability to deliver against plans for delivery of decent homes will impact on allocation decisions. Progress against the improvement plans and performance against local authority business plans could be used.

- **Housing Inspectorate providing housing association inspections:** creates the potential for inspections to be carried out on the same basis for local authorities and housing associations with any subsequent improvement plans to be developed on the same basis.
- **Better working with of other organisations to provide support:** Chartered Institute of Housing and National Housing Federation are key organisations who provide support and services to local authorities and housing associations. They have key roles to play in providing guidance, developing training opportunities and supporting benchmarking.

Recommendation:

There needs to be better integration of the roles and responsibilities of the key supporters of delivery facilitated by ODPM, including the Community Housing Task Force and Government Offices. Develop a set of protocols which set out respective roles.

Key actions:

- ODPM to discuss with key delivery supporters and those developing Comprehensive Performance Assessment (CPA) the suggested action points below:

Housing Inspectorate

- To lead in performance assessment through the Comprehensive Performance Assessment with delivery of decent homes becoming a key part of the CPA process for single tier authorities in future and for the planned district level assessments in 2003.
- Following the CPA, consider extent to which improvement plans can include delivery of decent homes. Work with each authority and the Government Offices to develop a relevant improvement plan. Where improvement plans include housing services ensure this includes clear set of actions for getting strategy in place for meeting decent homes target and for executing that strategy.
- Where there are indications that the decent homes target will not be met and there are related service failures (in effect a 0* authority for housing services), re-inspection may be necessary. Such re-inspections would normally be at least 12 months after the originals. The Housing Inspectorate would look to see a clear strategy for hitting the decent homes target plus a track record of delivery. Where these are absent and improvement planning fails, intervention may be necessary. Efforts may have to be focussed on local authorities with the largest stock to ensure that resources are most effectively utilised.
- Ensure that decent homes delivery is an important component of the 'Refresh' process to be introduced for top tier authorities, this could be base on work being developed for District CPA.

Government Offices

- No longer carry out formal scored assessment of business plans but consider use of material from CPA and implementation of improvement plans as part of the evidence base for the Regional Housing Boards as part of the development of regional priorities used in determining allocation of resources.
- Support local authorities in implementation of improvement plans that flow from CPAs. Explore using these as the vehicle for providing ODPM with quarterly progress reports on those at risk of delivery. If they are not appropriate continue with current quarterly reporting.

- Consider asking the Housing Inspectorate to inspect where there are serious concerns about the HRA business plan or the delivery of decent homes where there has been no inspection activity.
- Facilitate use by local authorities of appropriate support services, for example set up mentoring opportunities between authorities.
- Sign off option appraisals.

Community Housing Task Force

- Expand role in supporting local authorities in option appraisals and in ensuring that tenants are effectively engaged in this process.
- Develop the capacity of local authorities engaged in exploring alternative investment options (including PFI) so that they develop the right skills to enable them to deliver.

ODPM

- Extend the role of Community Housing Task Force to support PFI for housing and to offer support on financial issues.
- [Ensure that new regional support arrangements, following on from CPA will cover delivery of decent homes particularly in those authorities that had poor CPAs]

Housing Corporation

- The Corporation should consider how it can give enhanced importance to the delivery of the decent homes standard in its regulatory regime.

Other organisations

- National Housing Federation/Chartered Institute of Housing, in discussion with ODPM/HC/HI identify skills gaps that hamper local authorities/ housing associations from delivery and develop appropriate training vehicles.

CAPACITY BUILDING

Both those responsible for delivery and those who support them need to increase their skills and capacity. New roles have been suggested for Community Housing Task Force and Government Offices and they need to have the right skills in order to deliver. Greater tenant engagement as set out in Chapter 2 requires capacity building and support.

Lack of capacity in some local authorities and housing associations has been identified throughout the review as a key risk to delivery. These organisations can be supported to get on the right track but for the improved performance to be sustained this improvement has to be retained within the organisations if there is to be a step change in delivery.

Capacity can be improved through a range of tools. There is a wealth of good practice guidance, and training courses, seminars and conferences exist to cover the decent homes delivery agenda. A number of consultancies provide hands on support.

But stakeholder groups and ODPM research has clearly shown that there is too much guidance from too many different sources. But as well as views that there is too much guidance many stakeholders identified gaps where further support is required.

The **findings** of the PSA Plus Review are:

- **Government Offices:** play the role of critical friend to local authorities but they have lacked expertise in local authority business plans and option appraisal, many were plugging this gap through employing consultants or secondees. ODPM tried to plug some of the skills gap by providing a training seminar on business plan assessment.
- **Community Housing Task Force:** their responsibilities have widened since their inception and some stakeholders felt they did not have sufficient resources to provide the level of support required at local authority level, in particular there is a need for corporate finance expertise and in depth experience with detailed option appraisal techniques.
- **Housing Corporation/National Housing Federation:** have employed an asset **management** specialist to help develop the right tools for supporting housing associations. The Corporation are producing guidance for board members as well as practitioners on asset management and procurement, and they will be monitoring performance (again through its regulators who have an on-going relationship with associations) and taking action where necessary.
- **Lack of co-ordination in guidance production:** suppliers of guidance must work together to avoid duplication and they need to better understand the context in which the guidance will be implemented.
- **Barriers to using good practice:** ODPM's research showed that there was a low transferability of learning within local authorities across service boundaries.
- **More imagination required in the form in which guidance is disseminated:** guidance needs to be produced at different levels for different audiences with less emphasis on the production of long manuals. Hands on support should accompany written material.
- **Intensive training programmes are required for staff in failing authorities:** a range of resources need to be brought to bear to provide support including experienced specialists; intervention teams from government.

Recommendation:

Work to improve capacity both within and outside the ODPM, expanding the skills base where necessary, exploring the opportunity for innovative approaches to sharing expertise and improving the co-ordination of, and strategy for, existing guidance and guidance production.

Key actions:

- Reassess the skills profile needed in the Community Housing Task Force and urgently fill identified gaps (such as corporate finance and option appraisal expertise) through future recruitment;
- Make sure that all Government Office Regions (GORs) are equipped for their added role of signing off options appraisals and they are able to provide the range of support required by local authorities to deliver;
- ODPM will work with housing professional, academic, and representative bodies to improve skill standards and identify means to attract quality staff into housing;
- Set requirement for local authorities to have expertise in option appraisal;
- Consolidate guidance under a new format of 'Decent Homes Guidance' so publications are clearly about decent homes;
- Promote the use of benchmarking as a means of performance improvement;
- Re-organise the website accordingly, and explore potential for a 'decent homes website' linked from ODPM main site;
- Build guidance into communication strategy;
- Arrange for one point of contact for clearance and co-ordination of decent homes guidance.

Levers

EXISTING LEVERS

Central government relies on many agents to deliver the decent homes target. As well as support to those agents who deliver decent homes, central government needs ways to influence and drive delivery in agents that are not delivering for their tenants.

The findings of the PSA Plus Review are:

- **Support not enough:** although the preferred way to make progress other mechanisms will need to be used to ensure delivery of decent homes in some cases;
- **'Soft' levers available:** ranging from personal official visits, letters, press releases, publicising inspectorate scores, ministerial persuasion (letters, meetings, visits etc);
- **'Hard' levers available:** where soft levers are ineffective, central government has a range of levers with more tangible effects, ranging from a great many statutory consents to proceed, approvals, and control over funding streams;

- **Used at different stages:** some levers are used at different stages in the delivery chain, offering a 'way in' at all stages of delivery.

Recommendation:

ODPM need to set out a staircase of support and praise, persuasion, soft levers, hard levers, and with intervention as a last resort, that will be used to minimise and respond to delivery risks.

Key actions:

- Provide a full map of available which shows the staircase of support and soft and hard levers;
- Communicate the staircase to the agents that central government relies on, to give a clear message that decent homes must be delivered.

THE ROLE OF BEST VALUE AND COMPREHENSIVE PERFORMANCE ASSESSMENT

'Best Value' covers the local authority performance management framework that addresses their duties under Part 1 of the Local Government Act 1999. Best Value was introduced as a process to help local authorities deliver locally defined priorities, and to a lesser extent as a means of assessing delivery of central government targets.

Best Value Performance Indicators (BVPIs), which are reported on annually, are an important element of the framework. BV184 is the decent homes performance indicator, introduced in March 2002. It will not be reported upon until June 2003, and the audited results will not be published until early 2004. The indicator is based upon the stock condition data collected by the authority, and is heavily reliant upon the quality of that data

Comprehensive Performance Assessment (CPA), and especially the improvement planning which is its key output, offers an opportunity for central government to ensure that local authorities make it their business to deliver important services in line with national government policy.

The **findings** of the PSA Plus Review are:

- **Tension between Best Value and the Decent Homes Target:** decent homes should be a key local priority and hence should be picked-up fully in the Best Value regime;
- **Not enough emphasis on Decent Homes:** Decent homes is one of two high national priority targets for housing but the Comprehensive Performance Assessment (CPA) process that was developed for top tier authorities did not assemble enough evidence to differentiate local authority performance on this specific aspect of the housing service;
- **CPA for Districts still on drawing board:** the framework for districts is subject to further development;

Recommendation:

Local authorities should, as part of their Best Value responsibilities, make the delivery of decent homes a priority. Equally, the decent homes target needs to be an important element of Comprehensive Performance Assessment and related housing inspections, and the inspection of housing associations.

Key actions:

- Increase the weighting of failure to deliver decent homes in the Comprehensive Performance Assessment scoring model and in any subsequent Refresh exercise, to increase the likelihood of poor performance in this area being reflected in the overall CPA score;
- Review the relevance of the existing Decent Homes Best Value Performance Indicator, and replace with a more pertinent indicator if necessary;
- Communicate this policy to the agents we rely on to deliver decent homes.

Implementation

EFFECTIVE REPAIRS AND MAINTENANCE AND CAPITAL INVESTMENT STRATEGY

Without good repairs, maintenance and capital investment strategies decent homes will not be delivered and tenants will not get a good service which provides value for money. The Audit Commission's 'Learning from Inspection' report identified both good and poor practice in these areas. Similar information is not available for housing associations. Best value reviews have shown 30 authorities to be 0* or 1* and not improving on their repairs and maintenance service and only 12 have 3* or 2* and 'likely to improve'.

The **findings** of the PSA Plus Review are:

- **There is much good practice about but too many local authorities still deliver a poor repair and improvement service to their tenants:** ODPM's research shows that there is low transferability of learning within local authorities. Organisational factors all compound the capacity of landlords to incorporate evidence from others into the design of their own practices;
- **Poor performance can be turned round by a variety of intervention techniques:** intensive training, employment of consultants, use of intervention teams and assistance from the Audit Commission are all means of improving performance;
- **Sound procurement practice is essential:** partnering is used where appropriate and contractors are employed with flexible working practices and multi-skilled teams;
- **Capital programmes should be planned over a long time scale.**

Recommendation:

Better use must be made of the good practice experience that exists to improve performance and innovative ways must be found to get the message across.

Key actions:

- ODPM must explore the barriers that prevent some organisations from employing the positive practice that others use to good effect;
- ODPM/Housing Corporation/Housing Inspectorate should ensure that good practice guidance needs to be accompanied by hands on support which could be achieved through employment of specialist staff or through partnering with high performers to oversee change programmes to get a step change in delivery;
- ODPM will complete a research project with the Housing Forum to develop more effective guidance on procurement using the good practice from their demonstration projects and this should be disseminated to local authorities and housing associations;
- ODPM to work with Housing Forum Refurbishment Group to develop innovative ways of delivering more effective refurbishment and repairs and maintenance.

CAPACITY OF THE CONSTRUCTION INDUSTRY

Lack of capacity in the construction industry is a key risk to the delivery of the decent homes target. The government's agenda requires a significant step change in the outputs ranging from major infrastructure projects through new housing to refurbishment and repairs and maintenance needed to deliver decent homes.

The construction labour market is expected to remain tight and the industry is likely to experience difficulties in meeting its skill requirements. Although training of construction workers has increased recently most of the increase is needed to replace manpower leaving the industry.

The **findings** of the PSA Plus Review are:

- **The industry has a reluctance to expand:** the tendency is to only expand its business when it sees certainty of investment levels over the medium term.
- **Work is in hand to improve training opportunities:** there are many national initiatives underway sponsored by different government departments. Much activity is developed at the regional level where Regional Development Agencies should be key players. Locally local authorities and housing associations are ensuring that training of new construction workers is an integral part of partnering contracts in procurement.
- **The planned expansion in the industry does not take into account the step change in public sector sponsored demand:** ODPM are completing an analysis of the impact on the industry of the level of construction work generated by the housing investment set out in the Communities Plan.
- **The mixed model approach can work against effective procurement:** the creation of smaller organisations to secure better tenant services loses the economies of scale need

for effective partnering contracts. Co-operative working between neighbouring organisations can help overcome this.

DEALING WITH LEASEHOLDERS

A small number of social landlords experience problems in delivering the decent homes standard to some tenants who live in blocks of flats which are a mix of their own tenants and leaseholders who have acquired their homes under right to buy (or subsequent re-sales). This affects works to the exterior of the blocks and internal common areas and services – not works to the interiors of the flats themselves. The difficulties arise through leaseholders not wishing to/not being able to afford their share of the costs.

Landlords have three options:

- press with the recharging of leaseholders with leaseholders having recourse to the Land Valuation Tribunal (LVT) who will adjudicate on whether the works proposed by the landlord are reasonable. This process takes time through negotiation and adds to the landlords cost and the approaches applied by the different tribunals may not be consistent. The costs to leaseholders are capped at £10,000.
- carry out the work and forgo recharging. This gets the work done but the landlord is effectively paying for work that may enhance the asset of the leaseholder. This cost is effectively borne by tenants through their rents.
- do no work at all if it is impossible to do only part of the work. These works are generally necessary to maintain the functionality of the block for example replacing lifts, replacing windows that leak, re-roofing. Doing nothing would provide tenants in the block with a poor service as well as not achieving the decent homes target.

Leaseholders may not want the work undertaken for a variety of reasons:

- The nature and scale of the work comes as a surprise as the likely level of future work was not made clear. On a right to buy sale the landlord need only set out for the next five years the service charges and any costs of repairs and improvements. Major works to deliver the decent homes standards are likely to fall outside that time frame.
- The lessee may not agree with the nature and scale of the work to be undertaken, considering some of it to be unnecessary. In these circumstances they could use the LVT to determine what work is reasonable.

The **findings** of the PSA Plus Review are:

- **Review the measures which improve cost recovery for landlords:** ensure costs are more likely to be recovered through promoting a more consistent approach by LVTs and providing guidance on decent homes standards; allowing greater flexibility in the capping of costs; advise on more effective business planning to ensure landlords have resources available to cover costs;
- **Consider more support for leaseholders:** creative use of the new renovation powers to help cover leaseholder costs, encourage recovery of costs by indirect methods;

- **Ensure leaseholders are aware of responsibilities from the outset:** prospective RTB purchasers need clear information on their responsibilities and the long term costs associated with the block of flats they are buying into. They also need to be involved in planning future maintenance and improvement work.

Recommendation:

Explore options for solving the problems created by leasehold properties on social housing estates, and give a clear message to prospective RTB purchasers.

Key actions:

- Set out pros and cons of each option, including the effect it could have on RTB sales, and choose a policy response;
- Work with Chartered Institute of Housing to update good practice guidance.

CHAPTER 5

Monitoring and responding to delivery

Why monitor?

This is the only way to keep track of whether the target is being delivered. It is important both nationally and locally:

- Locally an essential element of successful investment planning is for local authorities and housing associations to monitor progress made against the plans set. Frequent monitoring and reporting of progress to stakeholders (including tenants), will identify refinements needed to their plans to keep them on track to delivering decent homes.
- National monitoring is needed to show whether outcomes are being delivered in relation to resources made available. Monitoring will need to cover the current position, recent progress, and social landlords' future plans to assess whether all are on track to deliver the 2010 target and to take appropriate action if it appears there will be a shortfall.

What to monitor?

To deliver the target social landlords need to have appropriate plans in place, the policies that support the target have to operate effectively and the right mix of resources need to be in place. Monitoring therefore needs a number of strands that can capture whether the right plans are in place, the outcomes are being delivered and the policies are working effectively. It is also important that the results produced locally by individual social landlords can be audited nationally ensuring that a common interpretation standards is being applied. To inform this process ODPM commissioned some research to investigate what monitoring arrangements would work with local authorities for decent homes.⁵

The findings of the PSA Plus Review are:

Outcome data: are already in place at national and local level. The English House Condition Survey (EHCS) is used to formally assess national progress made each year. The 2001 EHCS provides the 2001 baseline and annual surveys will track change. Local authorities provide outcome figures in their Business Plan Statistical Appendices and housing associations will provide figures in their Regulatory Statistical Returns from 2003.

Data on investment plans: are supplied by local authorities through their business plans and supporting statistical material. These are evaluated by Government Offices who have identified which authorities are at risk of not delivering the target. Government Offices report on progress quarterly of those at risk. This progress reporting needs to be

⁵ Options for Decent Homes Monitoring Arrangements for ODPM and Local Authorities.

strengthened to ensure that all authorities get plans in place. Mechanisms that enable tracking of excellent authorities under Comprehensive Performance Assessment need to be found. Information on housing associations at risk of non delivery is not yet available.

Tracking plans against out-turn: Focus to date has been on getting effective plans in place. Some thought must be given to making sure that plan implementation is tracked, with appropriate frequency.

Put a trajectory in place: ODPM provide the review with projections on the deliverability of the decent homes target. This model needs to be kept up to date taking into account the changes implemented by the review and estimating the likely use of the different policy solutions. The model should also cover likely housing association outcomes.

Is policy and practice effective: this can be established from a number of sources – formal policy evaluations which are in place for ALMO, PFI and local authority retention, outcomes of Best Value Inspections and the CPA process Government Office views of local authorities plans and practice and the operation of the Housing Corporation’s regulatory regime. ODPM needs a strategy that pulls all these strands together.

What do tenants think: current monitoring arrangements take no account of tenants views on the implementation of decent homes. This must be rectified.

Contributions from other policies: delivery of decent homes is supported by a range of other policies: New Deal for Communities, Neighbourhood Renewal Fund; Market Renewal Pathfinders; Fuel poverty Strategy and Energy Efficiency Commitment. ODPM must ensure it captures the outcomes of these initiatives in relation to decent homes delivery and evaluates their impact in supporting sustainability.

Recommendation:

ODPM should undertake regular monitoring of progress made to date and estimate likely future progress. The information underpinning this monitoring should be as robust and accurate as possible. Progress will be reported through a number of formal mechanisms already established by ODPM.

Key actions:

National monitoring to be undertaken by ODPM, Government Offices and the Housing Corporation and local monitoring by individual local authorities and housing associations. The detail of the national monitoring strategy will be developed in the delivery plan but will include monitoring the following aspects:

- tenants’ views on their homes and service delivery;
- annual national estimates of progress to date;
- assessment of individual landlords’ progress and plans – by Government Offices and the Housing Corporation (including Best Value Performance Indicators), with a means being found of keeping in touch with the contribution, made by ‘CPA excellent authorities’.

Producing a Delivery Plan

This Report of the Review will inform a detailed delivery plan for use as a tool by the ODPM. This will include:

- **Trajectory and statistical milestones:** Markers between the present and 2010 setting out how many homes will be made decent by set dates, creating a trajectory between now and 2010;
- **System milestones:** set dates for the completion of various policy and system changes. This will include processes and requirements on delivery agents to be completed by set dates, and policy changes set out in this document for implementation by the ODPM;
- **Programme management:** how the ODPM will develop its systems and lines of accountability to support delivery of this target;
- **Risk register:** a detailed risk log setting out what the key risks to delivery might be, how likely they are to occur, who is responsible for minimising the likelihood of that risk maturing, and the response of the ODPM if the risk does materialise;
- **Communication strategy:** how and when central government will communicate with all the relevant stakeholders, and how those communications will be organised within the ODPM.

ANNEX A

Steering Group and Project Team Membership

PSA + STEERING GROUP

Michael Gahagan	Director of Housing, Office of the Deputy Prime Minister – Chair
David Butler	Chartered Institute of Housing
Sir Ian Byatt	Public Sector Productivity Panel
Ian Cole	Sheffield Hallam University
Phil Davies	Derby Homes
Shona Dunn	Corporate Business & Delivery Division/Office for the Deputy Prime Minister
Howard Farrand	Whitefriars Housing Association
Roy Irwin	The Housing Inspectorate
Joe Montgomery	Neighbourhood Renewal Unit/Office for the Deputy Prime Minister
Norman Perry	The Housing Corporation
Terry Spencer	Tenant Inspection Advisor
Howard Webb	Independent housing finance consultant
Martin Wheatley	HM Treasury

PSA + PROJECT TEAM

Anne Kirkham*	Housing delivery Unit/Office of the Deputy Prime Minister
Dan Micklethwaite*	HM Treasury
Lesley Maley*	Housing Delivery Unit/Office of the Deputy Prime Minister
Angela Ayton	The Housing Corporation
Helen Giles	Research Analysis & Evaluation Branch/Office of the Deputy Prime Minister
Richard Horsman	Housing Associations & Private Finance/Office of the Deputy Prime Minister
Michael Kell	Central Economic Advice Division/Office of the Deputy Prime Minister
Roger Jarman	Housing Inspectorate
Neil McDonald	Communities Plan Directorate/Office of the Deputy Prime Minister
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