



**Northern Ireland
Assembly**

**COMMITTEE FOR
SOCIAL DEVELOPMENT**

**OFFICIAL REPORT
(Hansard)**

**Northern Ireland Housing Executive
Review: PricewaterhouseCoopers**

29 September 2011

NORTHERN IRELAND ASSEMBLY

**COMMITTEE FOR
SOCIAL DEVELOPMENT**

**Northern Ireland Housing Executive Review:
PricewaterhouseCoopers**

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Members present for all or part of the proceedings:

Mr Alex Maskey (Chairperson)
Mr Mickey Brady (Deputy Chairperson)
Mr Gregory Campbell
Mrs Judith Cochrane
Mr Michael Copeland
Mr Sammy Douglas
Mr Alex Easton
Ms Pam Lewis
Mr Fra McCann
Mr David McClarty

Witnesses:

Ms Emma Holden)
Mr Richard Parker) PricewaterhouseCoopers
Mr Stephen Smyth)

The Chairperson:

We will now have a briefing from PricewaterhouseCoopers on the Housing Executive's independent review. Members will be aware that we had a briefing from the PricewaterhouseCoopers representatives who are here today before they undertook a stakeholder engagement. They will now give us an update on that. I welcome Richard Parker, Emma Holden and Stephen Smyth.

Mr Richard Parker (PricewaterhouseCoopers):

Thank you for inviting us back to update you on the second phase of work that we undertook as part of our strategic review of the future delivery options for the Northern Ireland Housing Executive. It is important that Stephen Smyth and Emma Holden are here because they have been undertaking the work on the ground and leading it on a daily basis. I am the partner at PricewaterhouseCoopers who leads our housing work across the UK. I will remind you of the key recommendations that we set out in our report and then update you on the consultation process that we have been undertaking over recent weeks.

It was on 30 June that we last presented to you on our report. If you remember, there were five key components of our recommendations. We recommended that a new social enterprise landlord should be created to operate the stock. That landlord would have a leasehold interest in the stock; it would not own the stock outright. It would be set up as a mutual and have governance arrangements that recognise the interests of tenants.

We also recommended that there should be a strategic housing authority, which would own or have the freehold interest in the stock. It would have a primary responsibility for setting the strategic housing agenda for the whole of Northern Ireland. It would also be responsible for commissioning programmes such as the social housing development programme, and it would have other non-landlord functions, including responsibility for homelessness and supporting people.

We also recommended that there should be an independent housing regulator responsible for rent setting and inspection and governance. We saw that as quite important for getting greater certainty over the rental stream that would be driven from rents under the initiative of the social enterprise. We also suggested that there should be a policy function, which should be retained within the Department, because it should be politicians and Ministers who set housing policy across Northern Ireland. We also recommended that there is an opportunity for a more joined-up citizen's service at a local level, where jobs supporting benefits, housing services and support for work could be co-located in regional offices.

The direction of travel that we suggested and set out was based on a series of discussions with stakeholders. Some notable benefits were driven out of that, including the possibility of attracting

significant levels of investment into the Housing Executive stock.

Subsequent to our presentation here on 30 June, we were asked by the Minister to undertake a series of additional discussions with the key stakeholders on the content of the report. Our aim was to open up discussions around the content of the report with groups including the Housing Executive board, the Housing Council, trade and representative bodies, independent professionals and academics. That work, which is being led by Emma and supported by Stephen and myself, is largely complete. We have some further meetings with funders scheduled over the next two weeks that will complete that process.

Something is very clearly emerging from our work. Across Northern Ireland there is a firm and strong recognition that the status quo is unsustainable. In fact, there is a recognition that, unless we attract additional investment into the Housing Executive stock, the quality of the stock will diminish and so will the reputation of the Housing Executive. It is also recognised that planning out the future and setting out a new route map is not straightforward. In fact, a common comment in our stakeholder discussions was that any future changes are likely to be the most significant changes facing housing in Northern Ireland since the Housing Executive was created.

Although we have been very pleased with the support for our work, which I think is genuine and consistent, the very nature of opening up a consultation process meant that we obtained a wide range of responses from a wide range of interest groups. We sought to capture some of that feedback and those comments in the report that we circulated to you last Friday. I will run through some of the key issues that were raised in the discussions that we had.

It was recognised that the creation of an independent regulator could be a real opportunity for Northern Ireland and, with the creation of a new mutual organisation independent of government, the independence of the regulator will be very important for investor confidence in the new entity's operational independence. We should remember that the ability of any new entity to attract investment will be predicated on that entity demonstrating that it can deliver a rental stream that supports the repayment of any debt drawn down. There were, however, some issues around the role of the regulator, and, quite rightly, more clarification was demanded, particularly with regard to the private rented sector and private sector housing.

We had some very interesting feedback and a wide range of views on the independence of the

strategic housing authority. However, most importantly, there was recognition that real expertise on the strategic function resides within the Northern Ireland Housing Executive. There was a concern that some of those skills might be diluted or lost if its role were to be recalibrated, so we must be conscious that future changes should focus on retaining the quality of services and the expertise in the organisation.

Most pleasing was the genuine support for the new social enterprise. As you will be aware, a number of representative bodies have rebutted and challenged our recommendations. However, there is recognition that creating a social enterprise has the ability to deliver for tenants and the wider community and for the policy agenda that the Minister, quite rightly, would need to set. The tenants we met were very positive and, overall, in favour of our proposals.

We cannot overlook the potential financial benefits that the new organisation could attract. In our report we referred to £5.5 billion, the deliverability of which we are testing with funders. That investment potential is a critical element and an advantage of the social enterprise proposition.

The largest concerns that we received, which we listened to carefully and recognise, were raised by those who support homeless people and the most vulnerable in local communities. A particular concern was that some of the expertise, skill and support to which I referred could be diluted if the work that the Housing Executive currently undertakes is placed with the Social Security Agency. We listened very carefully to the issues raised by voluntary organisations and advice centres, and, if the Minister were to progress with any of the proposals, that area would need further work.

There was genuine, positive and interested engagement by all the stakeholders we met during our presentation, and I was genuinely impressed by the comments we received. Much of that engagement was informed by the recognition that, as I said, the status quo is not sustainable and that we need to look for a new way to deliver the housing investment that Northern Ireland needs over the medium to long term.

When we finish our outstanding discussions, primarily with funders — over the next couple of weeks, meetings will take place in Belfast and in London — we will submit an updated report to the Minister, and he will then update the Committee on his thoughts and present his ideas on how

the proposition may or may not be taken forward. That is as much as we want to say today. We are available to listen to your comments and to answer any questions that you might have.

The Chairperson:

Thank you very much.

Mr F McCann:

I welcome the report and your presentation. As I said before, it is probably not an easy job to pull all the threads together. I also said that I was concerned that, although there was a broad review of the Housing Executive, the same mechanism was not put in place to deal with housing associations and, more importantly, the Department. People are saying that there are problems with those two organisations. However, as the Department is, near enough, the parent body of both those organisations, it must have problems also. Therefore, there should have been an overall review of all three and everything could have been put on one footing.

I have a couple of questions. What is your vision on the way in which a mutual society would operate with the Housing Executive? What tenant organisations did you meet? You said that everybody accepted that the status quo was not sustainable. However, there has been so much said about housing, everyone has been brainwashed into believing that the status quo is not sustainable. That has been one of the difficulties. I understand the strategic role of the landlord separation, but when you were looking at strategy, I would have thought that there should be a stand-alone organisation to deal with strategy and policy to feed back to the Department and the Minister, rather than it being lumped into the Department.

Mr Parker:

I will deal with the last couple of points and ask Stephen and Emma to deal with those on the mutual organisation.

I hope that none of us at this end of the table or around the room could be accused of brainwashing; that is not what we are seeking to do. The nature of the discussions that we had for those who were in the stakeholder discussions reflect the fact —

Mr F McCann:

Sorry for cutting across you. From the very outset, people were led to believe that the Housing

Executive was broken and needed to be fixed. That was not by you; you were brought in to do a specific job. However, some people believe that the Housing Executive issue may not have been the whole case.

Mr Parker:

I recognise that. Those whom we met were unanimous in recognising that the very difficult economic environment that we are in is driving the need for a new way of working. The debate then centres on the best way forward. As you know, a range of views were expressed about the way forward, and some people preferred the current arrangement to be retained. However, there is only one difficulty with that approach. As I said, unless we attract new investment, the quality of the stock will diminish, as will the reputation of the Housing Executive.

I will ask Stephen to comment on the mutual organisation, the role of tenants and the representative bodies that we met.

Mr Stephen Smyth (PricewaterhouseCoopers):

I will comment on the social enterprise. We have not done a detailed design of the new organisation, but the characteristics we see are that it will be a social enterprise; a not-for-profit organisation; it will be run against good, sound business principles; and there will be a role for tenants in the governance of the organisation at local and regional level. We believe that it will be a vehicle for empowering tenants and local communities, and there will be an opportunity for a community dividend if the social enterprise performs well. That social dividend may involve investment in community projects. We do not have a detailed design at the minute, but we are exploring similar organisations and similar ideas in other jurisdictions.

We believe that it is a way of changing the dynamic in social housing to give tenants a greater voice and a greater say, and, with those, greater responsibilities. It is an exciting opportunity for tenants and I have faith that the tenants will be able to perform that role.

Ms Emma Holden (PricewaterhouseCoopers):

You asked about who we met and what their views were. We met a group drawn together by Supporting Communities Northern Ireland. Its core staff came along to speak to us and brought along tenants' representatives drawn from the Housing Community Network Northern Ireland, with which the Housing Executive already works closely.

During what was quite an extended meeting, we talked about our proposals and some of their informed and developed thinking around how this may operate. As Richard said, they strongly recognised the need for some elements of change. They wanted the work done to date in building tenant involvement in the Housing Executive recognised, and we did so strongly, particularly the work in the community area and the work that the Central Housing Community Network has done with more than 600 voluntary residents' groups.

As Stephen said, we need to carry out further work to look at the balance of tenant involvement when it comes to operation versus shaping strategy. However, our present thinking is to have representation from tenants from grass roots right up. We have supported and informed tenants so that they can make a real and informed contribution. Overall, they felt that the proposals that we put forward were positive because they allowed for the capital and maintenance investment that they strongly recognised their homes required.

Mr F McCann:

There seems to be a sizeable amount of uncertainty about what a mutual organisation is. There are some examples of good practice in other jurisdictions of full community participation in community planning, but with some exceptions, there has never been a history of that here.

I am also interested in finding out what you mean when you talk about tenant participation at local and regional level. What will that participation entail? What input will they have? At the minute, the Housing Executive board consists of senior Housing Executive officials and cross-sectoral representatives of tenants, trade unions and others. Are you talking about having something like that at the core of the organisation?

The other question that I did not get in – I probably have quite a number of them — is that an organisation such as this must, obviously, be set up on a firm financial footing. Have there been any discussions about what will happen to the Housing Executive's historical debt? If that is maintained, it could be a lead weight around the new organisation's neck.

Mr Parker:

I will make a couple of important points. I assure you that my answer is not aimed at avoiding the issue. First, we suggest that the debt should reside with the strategic housing authority, which

would own the stock, and that debt would continue to be repaid on the same basis as now, so it would not be carrying that burden.

At this early, strategic phase, we purposely did not want to define the mutual's constitution in a memorandum and articles of association. That was not to avoid doing so, but because further discussions need to be had, informed by the views of those in this room and others. Therefore, we left it in that way because we are open-minded, rather than having a closed view.

However, Stephen is absolutely right about the benefits of the model. I was in London yesterday with a group of large housing associations and government representatives for a three-hour discussion around the mutual model. That model has some profound attractiveness for the sector. It is non-profit-distributing, so profits and surpluses are not distributed to shareholders or other private interests. It needs to have financial discipline, for obvious reasons. The real debate will happen when the surpluses are created after the debt is repaid and the sums that are earmarked for reinvestment are agreed. Then, a debate can take place between policymakers and those who will run the mutual about how those surpluses should be best used, not only in the interests of the tenants and the community that it will serve, but in the wider interests of Northern Ireland.

We did not set out in a firm way how the mutual should work because we did not feel that it was appropriate to do so in this phase of the review. There is still some uncertainty about the whole construct of the regulatory role and other aspects that will have an impact. Our view is that that work is absolutely fabric to further discussions, and if the Minister does proceed with a mutual model, it needs to go to the top of the agenda.

During our discussions on these issues in London yesterday, we worked through ways in which any surpluses could be used and whether they could be used to offset rent increases in the future, to create job opportunities or to invest in new stock. There are a whole series of opportunities and priorities, and they need to be discussed further and established by the Minister and the others who are commissioning the next stage of work.

Mr Campbell:

As the name suggests, the review is looking to move in one of two ways: towards either a fundamental reassessment or a revision and improvement of what we already have. If we break it

down, there are a number of concerns. It is a fine line; if people were assured about certain parameters, they would see this as a very exciting time and would want to embrace the review. However, on the other side of the line, they would start to look for the pitfalls and the dangers that it could involve. It is about getting to the right side of that line to ensure that, as far as possible, everyone is on-board.

From my reading of the review, it looks like a number of the issues will be non-contentious. For example, the policy function will remain as it is and most people will be content with the creation of a regulator. Will the issue not boil down to the nature of the authority, the delivery service that it will have and the contentment or otherwise of tenants and representatives about the new authority's ability to deliver in a better way than the Housing Executive? Other issues that need to be considered are whether the quality of the stock and the security of tenure for tenants will improve under the new regime. I suppose that jobs will also be at stake, and many people will want to see what the next 10, 15 or 20 years will hold for them.

What direction are the discussions that you are having moving in? There is that fine line, and people want to see where the review will move us in relation to that line.

Mr Smyth:

You have quite rightly hit on the key concerns of staff and tenants' groups. The general feedback is that the creation of the new authority is a positive step at a strategic level. However, people are now going to the next stage and, as you correctly said, they are starting to ask questions. They are saying that it sounds like a good idea that will give more power to tenants. However, as Mr McCann said, they are also questioning how the new authority will work on the ground, what specific mechanisms it will have and what the membership of its board will look like. A lot of those issues are for the next phase. There will be options and alternatives around them.

You are right; it is almost setting the parameters in which we think we will work, and, I suppose, reassuring politicians such as yourselves and reassuring tenants' groups that that detailed design is not a group of consultants going into a dark room and emerging three days later saying "Eureka — we have the result." It has to involve politicians setting the social objectives. It has to involve tenants, to ensure that they are confident that their interests will be represented at regional and local levels. Part of what we have found very interesting about the engagement process is that, as people with a range of different views become engaged in the process, that

engagement in itself has started to give more confidence that, as long as it continues and as long as people like yourselves, tenants and other stakeholder groups have a proper say in the design, it is the right direction of travel.

Is there anything from the engagement piece that you would like to mention?

Ms Holden:

You are absolutely right; it is about the level of engagement. When we speak to stakeholders, we are not saying that this is a simple proposition; there are a lot of nuances and complexity in it. As stakeholders try to understand the components of the model — how that fits together — and as that understanding increases, they start to ask questions about what that would mean and how it would operate and so on.

That is the kind of detail that is being asked for at the moment, but they recognise that if we already had that level of detail, some of those answers would have already been set and there would not be the opportunity to shape it. From that perspective, we have had quite a positive view from many of the stakeholders that they are involved in the process. As Stephen said, we feel that that is starting to build confidence.

However, I am not saying that all of those concerns have been answered, but they are at least starting to be voiced and recognised. With those risks and issues out in the open, we can work together to mitigate them and put the right structures in place. As Richard said, if the Minister decides to take this forward and a detailed design phase is commenced, the recognition of those risks means that the structures and objectives can be put in place to absolutely and directly address them.

Mr Campbell:

I have just one final question on the size of the present Housing Executive vis-à-vis any new body. Is it possible at this stage to say what the overall size of the structure may be in comparison with what we have at the moment, given the changes that may well emerge?

Ms Holden:

Yes. In the course of the report, we sought to paint a tangible picture of what the future might look like, to encourage and stimulate debate, so that in the complexity of the recommendations,

there was an opportunity to understand it. So, we have starting figures for the size of staff and so on, so that all those working assumptions could be put through the financial modelling in order to arrive at the proposals that we have. We have details of the size of bodies and that kind of thing, and we have taken into account future changes that we anticipate with other environmental changers such as universal credit and the review of public administration.

Mr Campbell:

Over a long number of years, I and others have been working on the community breakdown of the Housing Executive. In the early years, it was particularly bad and is still very poor, in that there is a huge imbalance as there is an underrepresentation of the Protestant community. In very recent years, it has started to improve, but, whatever the size and structure of the body, a central part of any overall review would have to involve a systematic examination of how to avoid a repetition of the 80s, the 90s and the early part of this new century, when there was a significant imbalance. It is only in the past four or five years that we have started to see that being addressed. I would like to think that any fundamental review would look at that, particularly when one considers that there was not as tight a regime of scrutiny and examination of community backgrounds in the early years. Now there is. Despite there being such a tight regime, this problem has emerged and has not really been dealt with. We need to have that in the mix, regardless of the outcome. That was a statement rather than a question.

The Chairperson:

I was going to say that. We also got a briefing recently that informed us that up to 500 positions in the Housing Executive could be in question, due to budget projections. That is an important figure. I think that that is out of something in the region of 3,000.

Mr Douglas:

Thank you for your presentation. At your previous presentation to us, something that came across very strongly was the Northern Ireland Housing Executive brand and the major work that has been carried out in communities over the years. I see that in my East Belfast constituency, in areas such as Ballybeen, which is the second largest housing estate in Northern Ireland. I have a question for Emma. In your discussions with residents' groups and housing and voluntary groups, did the importance of retaining neighbourhood renewal within the social economy come through? It is an area in which the Housing Executive has been successful.

Ms Holden:

That did come across quite strongly. One of the findings that we presented to you the last time was the proud record of the Housing Executive over the past 40 years and what it has achieved. That was underlined in the majority of the meetings that we had with stakeholders. It was around community renewal and the landlord-plus service, as it has been known. It is not only about the Housing Executive being a landlord that might fix a window latch if it is broken; it is more about the community spaces, community cohesion and community safety. That was one of the reasons why there was strong support among the tenants' groups in particular to keep the stock together. They saw that that scale provided the opportunities to build community cohesion and have that wider social impact. They were very keen to see that continue.

They also emphasised that community cohesion and community safety is not only about tenants; it is about residents. Within those developments, there are Housing Executive tenants, but there are also residents who may have bought their properties. We recognise that they need to be included in any local representation. To go back to what Stephen was saying, the groups see the social enterprise and the mutual as an opportunity for communities to be empowered and to have greater levels of community cohesion, because there is a sense of ownership. However, we should be careful, because it is not ownership in the sense that an individual is now an owner so has sole responsibility for the property, as would be the case with an owner-occupier. There is still a landlord there who has that cohesive part to play. It is a matter of getting that balance right. There was strong recognition of the importance of community cohesion, and we see that as being strengthened in this model, rather than diluted.

Mr Parker:

What came across with regard to support for the proposition, perhaps not explicitly but in the undertones, is that it is better to be in a position to redesign and recreate from a position of strength and a strong reputation than one of failure. Too often in government, as you know, politicians and others are left to deal with redesigning from a point of failure, as opposed to success. You are in a good position now. The challenge will remain if there are not changes, and those around the table will be confronted with a more difficult position five to 10 years hence.

Mr Douglas:

Your recommendation is for the social enterprise to have a lease from 35 to 50 years, as an example. How did you arrive at that figure? I have been involved in various social economy

enterprises over the years, and funders and other agencies often demand a lease of up to 100 years, and 150 years in the case of housing associations. A couple of organisations have asked for a 1,000-year lease, as is the case in America.

Mr Parker:

That period is based on a funding investment cycle. Funding for housing is framed around a 30-year period, so we sought to align it with what funders would expect. Of course, funders always require some headroom or a grace period at the end of any loan in case it does not work out. That is why we arrived at that point. In addition, we were seeking to recognise any initial concerns that politicians and policymakers might have about a longer-term lease. How far out do you go before you can say whether, in essence, the leasehold reflects a freehold interest in substance?

We are seeking to align those two issues, and further work and discussions around that are a key part of the funder discussions that we are having now. In the second phase of our report that will go to the Minister in the next two to three weeks, we will comment on any subsequent views that funders have on that lease period. We all recognise that financial markets are uncertain, and that uncertainty may have caused some of those funders to reflect on the positions that they held six or nine months ago. We will capture that in our next report.

Mr Douglas:

Am I right in saying that the Department's demand is that housing associations have a 150-year lease?

Mr Parker:

Yes.

Mr Douglas:

The report is positive across the board, apart from the comments from the Northern Ireland Federation of Housing Associations (NIFHA), which calls itself your "critical friend". It says:

"We have identified some flaws that will fatally injure the whole exercise".

What is your response to that very strong statement?

Mr Smyth:

Obviously, that is a response from the perspective of housing associations. It does not meet the

key objective that we were set, which was to come up with sustainable structures for the next 40 years. NIFHA's proposal is that a number of houses, anything from 3,000 to 30,000, should get transferred to housing associations over the next 10 years at zero cost or a very low cost, with a further review of the Housing Executive in 10 years' time, as it would then sit. That alternative proposal does not meet the objective that we were set.

Mr Easton:

Reviews are usually started with the intention of saving money, and I can understand that. Some can be successful and others can be an absolute disaster. We are dealing with the most vulnerable in society, in working class communities. For example, pensioners' bungalows in the Bloomfield estate in Bangor need upgraded, and I know that there is no money in the current budget to do that. Perhaps the only way is for them to be transferred to private housing associations. If all of the stock were transferred, would tenants be guaranteed the same rights as they had as Housing Executive tenants?

Would the regulator be totally independent? The last thing that I want is huge hikes in people's rents, especially for the most vulnerable in those communities. That is a major concern of mine. I know that housing associations want to make money, but there is making money and there is making a situation worse.

Do you have a rough figure of the potential savings that would be made if this were to go ahead? It was mentioned that staff numbers would be reduced by around 500. Would those staff go through natural wastage or, maybe, transfer to housing associations if this goes ahead? One last question: will the housing list remain within the Housing Executive? That is very important.

Ms Holden:

I understand that the planned reduction in Housing Executive staff by 500, which Mr Maskey mentioned, is outside the scope of this review. We put staffing figures against the components of the model in order to undertake detailed financial analysis. The projected efficiencies and reductions in staffing as a direct result of these proposals, if they go ahead, are around the 270 mark. Those are our working assumptions at the moment.

I am sorry; I cannot comment on the 500 figure that the Housing Executive mentioned, which I believe is part of its modernisation programme. We would expect any reductions that may or

may not result from this exercise to be done through natural wastage and vacancy control. At the moment, we do not see the requirement for any redundancy programme. We had detailed conversations about that with the trade union side.

With regard to the independence of the regulator and the possibility of rent increases, I will kick that off and then pass it over to Stephen and Richard to make a final comment. The mechanism for setting rent is an area where detailed design is needed. However, we have a view on how that may happen.

With the new organisation being a social enterprise, it would have social objectives at its core. Those objectives will be set and shaped by stakeholders such as you, the Committee, and the Minister, in setting up the body. The regulation of rent and rent increases that it would be able to place on the vulnerable people to whom you referred would, in our view, be set in conjunction with the independent regulator, based on its business and maintenance plans. There would not be an expectation that it could hike rents while not investing in the properties. It would be based on its maintenance strategy and the level of investment that it puts into properties to upgrade the sorts of properties that you mentioned.

Mr Parker:

What we set out quite clearly in our first report, and again when we came to the Committee on 30 June, was that rents will have to increase if the funding gap that exists is to be resolved. Those rent increases are, ultimately, the way that any future investment will be repaid. However, the process of setting those rents and agreeing increases needs to be framed in a way that recognises the needs of the community that the Housing Executive currently serves and that any future social enterprise will serve. It is important that the business plan for the new social enterprise is framed recognising those requirements, which are critical. As Emma said, it will have social and financial objectives, and the two need to fit together clearly.

The benefit of retaining the stock in one entity is that the enterprise will be responsible for a portfolio of assets, and some of those assets need more or less investment than others. Therefore, the vulnerable elderly people whom you mentioned will benefit from rental increases across the whole stock. They will not bear a disproportionate series of rent increases because there is not a direct relationship between the investment that they receive and their rent increases. There are some portfolio benefits from retaining the organisation in the way that we have set out. Those

will be reinforced by the values of the organisation that will be established.

You also asked about waiting lists and allocations; perhaps Stephen could comment on that.

Mr Smyth:

I will take the remaining points. The waiting list will be maintained by the strategic housing authority; it will not pass to the social enterprise. The social enterprise will be outwith the public sector. The strategic housing authority, which will remain in the public sector, will retain responsibility for the waiting list. We have had some interesting suggestions from various stakeholders about how the waiting list could be updated by various groups, housing associations and other interested parties. That is something for detailed design.

You asked about savings. With all the usual caveats and assumptions that are intrinsic to a business case at this stage, we have identified savings of just over £580 million in the public sector. However, that is a secondary thought. The primary objective of our work was not to identify that level of savings; it was to facilitate and enable the level of investment that is required, which is £5.5 billion. If that does not come from the public sector because it is not available, it has to come from elsewhere. The enablement of that £5.5 billion is critical for houses and will allow the bungalows that you talked about to be repaired.

It is also worth pointing out that the consensus among some of the stakeholders we talked to is that, for every £1 that is invested in social housing, just under £3 of a total benefit arises consequentially for the rest of the economy. Think about that multiplier against our £5.5 billion investment over the next 30 years. It has the potential to radically and positively reform housing and inject a significant amount into the economy.

Mr Copeland:

Mr McCann suggested that the issue of the Housing Executive had been so groundbaited as to make people think that it is incapable of reform or that something, by necessity, has to be done. In response to that, Richard, you began by referring to the current economic climate, which struck me as a clue to the real driving force behind the need for change. If the Housing Executive has a failing that has led it to its current position, it is its inability to borrow money to invest without it being reflected in the public purse. Was any thought given to changing that aspect of the Housing Executive to allow it to be competitive in the market in which it trades?

You then referred to that mythical concept “surplus”, about which we hear much but seldom see. Is there any particular time frame when the fruits of plenty and bounty that arise from those manoeuvres will give rise to a surplus? Is there any indication as to what size that surplus is liable to be?

On the issue of the reorganisation and the transfer of stock, could you give us some indication as to the potential location of the land, which constitutes a substantial proportion of the Housing Executive portfolio? Will you give some indication of your view of the potential value of that land? I use the word “potential” advisedly, because it would not be done at the same time.

I share Sammy Douglas’s queries about lease. I spoke to a number of people who are involved with hedge funds and stuff like that, and I asked them whether there was a rainy day or a Sunday on which they would ever part with the amount of money that is required to be parted with, on the basis of a 30- or 40-year lease. I think I could be forgiven for saying that they would not go into a dark room with politicians on that basis for any reason. So, that might have to be rethought.

At the conclusion, we came back to the start. So, we have come full circle, and there is talk of £580 million of savings potentially. Is that the net figure? In other words, is that the amount after all the increased expenditure in other areas has been taken into account or is that the pure saving from the operation in which we are engaged?

The Chairperson:

You have half an hour to answer that.

Mr Parker:

I will ask Emma to deal with the land issue and I will come back to Stephen on savings. I do not want to go into the history. People in this room understand the history of the Northern Ireland Housing Executive far better than I do, although I have been here for five or six years having meetings with senior people in the Housing Executive about the design of its future.

The Northern Ireland Housing Executive is not unique. Organisations that I have worked with recently had business models and governance arrangements that were very well suited to a time in

the past when government funding was more generous and deficits could be funded by fiscal arrangements that are no longer in place. You will all know that discussions about the sustainability of that model have been ongoing, if only informally, for a number of years, and reviews prior to ours have sought to bring attention to that matter, including the review that was chaired by Lord Best. So, the issues that the Housing Executive faces are not new, and the issues that Lord Best sought to address largely arose from the fact that the funding model that had developed, which is dependent on right to buy purchases, was being eroded because the ongoing revenue gap in its finances could no longer be met through that process.

So, there has been a series of delays in addressing those issues, but we are in a very stark position now where funding and investment is needed. As I said, without it, the quality of the stock will diminish, as will the reputation of the Housing Executive. There are no current means that we know of to conveniently allow the Housing Executive to borrow. It would not be allowed, and government here or in London would not be able or willing to support it. The models that we have been discussing here, which would allow a level of influence and indirect control via a regulator, are there to protect service delivery, enhance standards and allow the new organisation to attract funding, albeit from the private markets, in a way that it would not otherwise be able to.

It is not surprising that, two weeks ago, I met two London authorities that are run by different political parties and are seeking to establish very similar models for their stock. They have arrived at those views completely independently of any work that we have done, because we have not started any work yet. So, the model is evolving to meet the requirement to attract investment and create service delivery objectives that are fair, responsible and responsive.

In the current economic environment, the most difficult issue for us all is that we could be running through a period of five to 10 years of zero growth in this part of Europe. So, we are not in a position to say that it is just current, that we will come out of that period and that it will be rosy afterwards. We are addressing what might previously have been a reality gap for all of us. However, increasingly, our view is that the model that we have set out deals with the current challenges facing the Housing Executive and is likely to be the best response going forward.

With regard to the investment and the issues you have raised, we are having discussions with funders and will report the findings from those discussions in the next report to the Minister.

However, to be clear, I would not expect any hedge funds to be interested in investing in them.

I am not going to comment on what Ed Miliband may or may not have said earlier this week. There may be a role for hedge funds, but the returns are not going to be reinvested in the stock. So, we have to attract funds from more traditional investors, and we will be discussing the quantum that is available. We will not draw on it all from day one; we want to talk about scale, because that gives us an understanding of the potential. However, we will not be going out to raise £5 billion in day one; we have a medium- to long-term investment strategy. Some of that funding will come from rent increases, which will go into reserves that will be used to support investment, and some will be supported by borrowing.

Coming back to the surplus issue, we can rework some things as we finesse our business planning. However, this organisation will have to generate surpluses. Why? Because no business can operate on an annual basis if it has to work on the basis that there is a balanced budget. You cannot operate any activity on that basis. Every organisation needs some headroom to deal with uncertainty, financial risk, etc.

Mr Copeland:

Have you factored in the impact of the downward pressures on things like housing benefit, which constitutes a substantial proportion of social housing income? They are sort of in a vice —

Mr Parker:

They are. The rents are now significantly lower than those in the housing association sector. As we said before, rents will need to increase, but they will have to remain affordable to those who need access to this housing.

Mr Copeland:

They are barely affordable now.

Mr Parker:

Those people who are fortunate enough to live in Housing Executive properties are paying rents at a significant discount. There is no alternative. The challenge is to ensure that any rent increases do not impact more adversely than they need to and are as tolerable as possible to the most vulnerable. That goes without saying. That is an important issue.

This organisation will create surpluses. It has to, in order to deal with the uncertainty that I mentioned, to repay loans to banks and to reinvest in its stock on an ongoing basis. We are saying that sums that remain on its balance sheet over and above those sums will be available, and should be available, to be distributed in a way that policymakers, politicians and the regulator feel is right. I outlined earlier the ways in which that might happen.

We purposefully did not set out specifically how the waterfall of cash and revenues should be distributed. We did that for one reason only: we did not think that it was our responsibility to do so. That needs to be determined as the business model is firmed up. That is as much as I want to say on that issue. Stephen, did you want to come back on the savings?

Mr Smyth:

The savings are the net savings to the public sector in Northern Ireland after the investment in, and implementation of, the new structures.

Mr Copeland:

Is it a net saving that allows for possible increases elsewhere?

Mr Smyth:

It is a net saving within the scope of the work that we have done.

You also asked about the land. With the strategic housing authority, which will remain in the public sector, the development land — if I can call it that — within the Housing Executive will stay in the public sector. That development land will be used as the strategic housing authority sees fit, to support newbuild programmes and developments across Northern Ireland.

Mr Copeland:

What is the value of that?

Mr Smyth:

I do not have that figure at my fingertips, but I can get that information to you quickly. It is in the report.

Mr Brady:

Thank you for your presentation. One of the emerging themes that you highlighted in your submission is the creation of joined-up citizen services in job, benefits and housing offices. That component of the model has, I am sure, rightly sparked a significant amount of debate. You talked about:

“the possible dilution of housing skills at the front line, and any risk this may pose to the delivery of homelessness services.”

A study was recently carried out by the University of York in England and Heriot-Watt University in Edinburgh that proved that there is a direct link between the dilution of benefits and homelessness. There is other evidence of that; Channel 4 news has done some research on it. As benefits go down, more people will become homeless and more pressure will be put on the market. With the so-called welfare reform coming at us down the line, has any of that been factored in? Social security offices are under extreme pressure, and that pressure will undoubtedly increase.

There was an article in ‘The Daily Telegraph’ recently, reporting that the Treasury has warned that welfare reform will not be achievable within the time frame that has been set. That will cause more problems, because the offices are already gearing up for the migration of benefits. Has all of that been factored in? In Britain, they have integrated offices where all benefits are dealt with, whereas we tend to be more decentralised. In principle, it sounds great to be able to go to a one-stop-shop. However, in practice, it will not work at this time, and it will certainly not work three or four years down the road.

Mr Smyth:

Mr Brady, those are fair comments that reflect the challenge that we heard regarding that area. In the report, we saw synergies between the various services to citizens across jobs, benefits and housing and felt that there could be — I hate to use the phrase — a one-stop-shop approach, so citizens could have all their concerns and issues dealt with under one roof. The challenge back on that was very much about the potential impact of universal credit as it is introduced, because the social security offices are already very busy. We also received positive feedback about the existing regional offices of the Housing Executive. There was a feeling among a wide range of stakeholders that they did not want that expertise and skill to be diluted, and we must reflect on that.

In principle, joining up those services is the right thing to do; it looks good on an A4 page and in a PowerPoint presentation. However, we are trying to be a bit more pragmatic and practical, and we will need to reflect on what has been said. That is the purpose of the mature conversation and why we recommended that approach. We need to road test these ideas with people like yourselves who are dealing in the real world day in, day out. We have received those challenges and we will reflect that in our next report.

Mr Parker:

If the next phase of work is commissioned, we would be keen to look at tenants individually or at the different categories of tenants who are housed by the Housing Executive to understand how vulnerable they would be to rent increases and any future benefit settlement. That has to inform any future decision on rent increases and the revenue take of any new organisation. That may indirectly inform the business plan and investment decisions. That work is of paramount importance in framing the role and developing the business plan of any future housing organisation.

Mr Brady:

Tremendous problems are coming down the line. In George Osborne's list of prices, universal credit has already overtaken any Ministry of Defence stuff that he may have been worrying about and dealing with. He has been told by Treasury officials that universal credit is simply not doable in the time frame; the money is not there and the IT system is not fit for purpose. That needs to be looked at very closely. There is no point in introducing a scheme when the majority of those who can avail themselves of it will be in crisis.

Mr Parker:

Agreed.

Mr Copeland:

You will be assessing the vulnerability of the people who will be on the receiving end of this. We have debated the issue of fuel poverty several times in the House. There are two parameters for it: that which appears to be used in the rest of the United Kingdom, which indicates that 44% of our people, almost 500,000 people, are in fuel poverty; and there is the one that we appear to use, the severe level, which includes 13% or 75,000 people here. I would appreciate it if you could

tell me on which of those particular indicative figures you will base your research; not now, but at some point in the future.

Mr Parker:

I will. Thank you.

Mr Douglas:

I have a very quick question; I know that time is moving on, but it is an important subject. I see Gerry Flynn in the Public Gallery, so he will correct me if I misquote Housing Executive figures. A few years ago, the Savills report said that we had probably the best housing stock in the whole of the United Kingdom, but at the bottom of that, there were between 3,000 and 5,000 homes that did not meet the decent homes standard. Earlier, Stephen mentioned the potential for 5,000 to 30,000 of those homes. From what I know, between 3,000 and 5,000 homes, at the very bottom, need intervention. Obviously, things are very tight. What are your views about the social enterprise hiving off those 3,000 to 5,000 homes to housing associations, which would have the money to renovate them?

Mr Smyth:

That refers back to what I said earlier about the NIFHA submission, which did not provide a long-term, 40-year strategy. In fact, it suggested doing the review again in 10 years' time, by which time I will be too old. You members will be OK, but I will be gone.

The Chairperson:

I was going to say.

Mr Smyth:

That was a good recovery. I did not know where I was going on that one.

The Chairperson:

You swerved yourself back out of it.

Mr Smyth:

We note the development in Rinmore. We note the fact that 55 houses were in a very poor state, simply because the Housing Executive did not have the money available to invest in them. We

note that that was successful.

Mr Douglas:

Is that the housing estate in Londonderry?

Mr Smyth:

Yes, it is. That short-term, tactical approach, where houses in dire need of investment are offered to housing associations, does not conflict with the long-term view of the social enterprise. We do not rule that out as a short-term, tactical solution.

The Chairperson:

My grace is being tested; Fra, you are allowed to make a last comment.

Mr F McCann:

My comment picks up on a number of questions. You talked about the amalgamation of services within jobs and benefits offices in England, but it is not like-for-like. Councils control most of the services in Britain, but that is not the case here, so there is no real record of that being done. The vulnerability of people, especially those applying for houses, will be seen as completely different.

Mr Smyth:

That point is well made and is taken on board. We see synergies between what people here are asking about. In a regional market town here in the North, an individual will have to go to the jobs and benefit office for some queries, and then he will be directed round the corner to go to the Housing Executive office for other queries. We see potential synergies there. We can deal with all the citizen's concerns and point out any opportunities for them across the full range of benefits, or indeed, God willing, some job opportunities. However, I accept the point that there are a specific group of vulnerable people who are presenting as homeless at any time. They can present at any Housing Executive office, and we have to come up with a solution that ensures that those vulnerable people are dealt with suitably and appropriately. We will reflect on what has been said across this mature conversation.

The Chairperson:

If no other members want to make even a small intervention, I thank Richard, Stephen and Emma

for their presentation and their update, and for dealing comprehensively with members' queries and concerns. I understand that you have some more work to do, after which you will present a final report to the Minister. We are expecting the Minister here in November, or earlier. Obviously, the Committee will have a view on this. Do you expect the Committee to speak to you to help with your final report, or do you expect us to respond directly to the Minister, or both?

Mr Parker:

We would be very pleased to receive further comments from the Committee and to meet again. From our perspective, it is imperative that we capture the most important views held on the document and the way forward.

The Chairperson:

A lot of substantive items were raised this morning, some of which have been responded to very well. Members may have received satisfactory responses to their queries, but I think that it may be impossible for us to give a full response this morning. We want to advise the Minister of the Committee's views as soon as possible. Therefore, I suggest that we table this as a substantive agenda item next week in order to agree a response. That will allow members to absorb the information that they received this morning and go back to their party groups with it. In fairness to you and the Minister, we want to be able to give as comprehensive a response as we can. Are members content to agree to deal with this matter next week?

Members indicated assent.

Mr F McCann:

It is crucial to the debate that there is flesh on the bones of the mutuality of the new body. There are probably a number of instances in other regions where that works well and others where it may not. We need information so that, when we look at what we are voting on, we can base our decision on the facts.

The Chairperson:

I do not know about that. I know that Richard mentioned that earlier.

Mr Parker:

We will seek to pitch that at the right level in our report. For the purposes of decision-making, we will set out the key components of a mutual. There are examples of good and bad practice, if you like. We will outline that in our report. We all have the potential to frame the future governance and the constituency of that mutual. The points that you have raised are undoubtedly very important, and we will seek to capture and respond to some of those in the report. At the same time, however, as is the case with many of the issues raised today, they should, in my view, be used to set the parameters if the Minister decides to proceed. Some of them cannot be used for now, but others will help and should inform the way forward.

The Chairperson:

I presume that, in response to the direct proposals, the Committee will agree or not agree on our position in principle. We will then seek to underpin the values and ethos of the social enterprise. Are members content that we do that?

Members indicated assent.

The Chairperson:

Thank you very much for your attention to detail this morning.