

Department for Social Development



Review of the Northern Ireland Housing Executive (NIHE)

Summary of the Strategic Review of options for future service delivery

***This extract contains the Executive Summary and Chapter X11 Summary,
Conclusions & Recommendations, taken from the Final Report dated 24th
June 2011***

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This is a Strategic Review of future service delivery options and, while they provide a sufficient basis to identify the preferred direction of travel, the financial costs and benefits and the budgetary implications identified for each option are indicative estimates based on the information available at this stage of the process.

The purpose of this **strategic review** is to identify the optimum **direction of travel** in relation to the provision of those services currently provided by the Northern Ireland Housing Executive.

The projected financial costs and benefits set out in this strategic review for all of the options are **indicative** in that they are based on:

- cost information provided by a number of sources, that will need to be further validated as detailed solutions are developed; and
- working assumptions that will need to be further validated as detailed solutions are developed.

However, in conducting this strategic review, all reasonable efforts have been made to verify the cost information supplied and to ensure that assumptions were both conservative and realistic. Therefore the **indicative figures** included in this document **do provide a reasonable estimate of the likely scale of the potential costs and benefits** associated with each option for the purposes of identifying the preferred direction of travel. The costs, benefits and budgetary implications of the preferred option shall be subject to further detailed analysis and validation as part of the detailed design stage.

Executive Summary

PricewaterhouseCoopers LLP (PwC) was commissioned by the Department for Social Development (DSD) to undertake a fundamental review of the Northern Ireland Housing Executive (NIHE). This strategic review was developed in order to identify a strategic direction of travel for the delivery of those services currently delivered by NIHE. The objective of this review was to identify a sustainable high-level service delivery model to meet the future challenges that face NIHE in its strategic, landlord and operational roles.

Findings

Proud record of successful delivery

NIHE has, over its organisational lifetime, delivered significant positive social outcomes in Northern Ireland.

NIHE is one of the success stories from Northern Ireland's recent history. Since its introduction nearly 40 years ago it has delivered significant social benefits throughout Northern Ireland with the quality of the housing stock having moved from one of the worst in Western Europe to what is now regarded as best quality stock. It is rightly regarded nationally and internationally as a leading authority on 'best practice' on both housing management and community building, with an unrivalled track record of cohesion and safety initiatives. Perhaps uniquely for such a large organisation that works across Northern Ireland and has had direct input into some of the most disadvantaged and sensitive areas, NIHE has also managed to maintain the confidence of all sides of the community.

Sub-optimal delivery of strategic and landlord functions

Current structures do not allow optimal delivery of either strategy or landlord services by NIHE.

The size and complexity of the landlord function around the housing stock that it maintains provides a strong "gravitational pull" away from the on-going of consideration of strategic issues within NIHE. There is also, in some quarters, a perceived conflict between NIHE's role as an independent strategic housing authority for Northern Ireland while it is also operating as the largest social landlord in the region (and indeed nationally).

This is not to say that current strategy and landlord services are poor but rather by separating them moving forward there is an opportunity to deliver an optimal solution.

Lack of Financial Sustainability

Current structures do not provide NIHE with the necessary financial flexibility to effectively perform its landlord role moving forward.

The current structures, with NIHE receiving supporting funding by DSD, do not provide the financial sustainability that is required to meet the future challenges particularly around the housing investment programme. In order to achieve this financially sustainable, the future structures need to have over the next 30-year period guaranteed access to funding to deal with the projected peaks and troughs of future required expenditure; the ability to carry legitimate levels of reserves which are ring-fenced from government intervention; and a reasonable rental income.

The real challenge is not what will happen next year or even the year after but rather what structures can guarantee financial sustainability over the longer-term.

In order to address these issues, 'do nothing' is not an option – this is not a negative reflection in any way on the current NIHE organisation but rather a simple statement that change is required moving forward.



Time for Change

Identifying and Sifting Options

Effort was made throughout this project to ensure that this was a joint endeavour by all parties in an attempt to minimise any perception that this was something being “done to” NIHE rather than something being “done with” NIHE. The reality is that given the level of knowledge and insight within NIHE it would have been impossible to develop credible options in isolation from it. As part of this inclusive approach, a number of actions were undertaken including, inter alia:

- Extensive schedule of interviews were held with key stakeholders and subject matter experts across NIHE;
- All data in relation to baseline figures (including the allocation of staff to Strategic, Landlord and Operational areas) was sourced from NIHE; and
- Workshops were held at key points of the process, both of which involved participants from Department for Social Development (Housing Division), NIHE Board, NIHE Senior Management team, PwC and Trowers & Hamblins, who brought specialist legal expertise to the PwC project team.

The approach adopted to this assignment is summarised below:

Stage 1 Define the Long-list of options

The first stage of the process focused on understanding the need (if any) for change from the Do Nothing and the development of a long-list of options to meet this need. This was based on the future challenges faced by social housing in Northern Ireland (particularly focused on the projected maintenance investment needs) and drawing on ‘good practice’ from elsewhere. In developing this long-list, new and innovative approaches were actively considered. The long-list consisted of 18 options.

Stage 2 What are the short-list of potential options? (Workshop #1)

A set of strategic objectives and constraints were developed – the objectives concentrated on the achievement of better social outcomes for tenants and taxpayers, while the constraints generally focused on the restrictions and limitations of implementation. The first workshop focused on sifting the long-list of options down to a short-list of options (that meet the stated objectives and addressed the identified constraints). The short-list consisted of 6 options. In line with NIGEAE guidance, the short-list included the Do Nothing option although it was considered by all as not being able of meeting the objectives. At the request of DFP, the short list was subsequently extended to seven to include both a Do Nothing and a Do Minimum option.

Stage 3 What are the likely consequential impacts?

There are a number of potential consequential impacts on a range of matters associated with some or all of the short-listed options. Many of these consequential impacts have a number of potential solutions and often the consideration of these is not against an absolute “right answer” but rather in recognition that there political and operational preferences each with associated pros and cons. A series of working assumptions were made against this set of identified consequential matters in order to build a complete picture for the purposes of assessment. These working assumptions need to be reflected on as and if this programme moves forward.

Stage 4 What is the preferred option (Workshop #2)

Through discussion and assessment of each shortlisted option against a series of monetary and non-monetary factors, the preferred option was agreed as the introduction of a new housing regulator plus the separation of the strategy and landlord functions with the creation of both a new public sector Strategic Housing Authority and a new Social Enterprise landlord organisation outwith the public sector. It was agreed that the public sector should retain ultimate ownership of the housing stock with the new Social Enterprise having leasehold ownership for a defined period. This option was unanimously agreed as the preferred option at the workshop (subject to detailed cost / benefit analysis). A small number of attendees did indicate that a freehold transfer of ownership may give the new Social Enterprise even greater financial sustainability but accepted that this approach would be unlikely to gain political or community support.

Preferred Strategic Direction of Travel

The key characteristics of the overall vision state for social housing in Northern Ireland are:

- ✓ Focused and innovative policy function;
- ✓ Strong independent regulator function for all housing tenure types;
- ✓ Strategic function with a holistic view of housing and with responsibility for the key public sector initiated housing programmes; and
- ✓ Effective and efficient landlord function (for those housing units currently managed by NIHE) – reflecting a split between the landlord and strategic functions of the present NIHE.

In looking at this overall preferred direction of travel, there are a number of issues and ‘consequential impacts’ in relation to the optimum model for delivery of the desired strategic outcomes for the future of housing in Northern Ireland. While we have provided suggested solutions to these challenges, both to ‘paint a tangible picture’ of the proposed future state and to assist readers, we would acknowledge that many of the questions raised have no absolute ‘right answer’ – there are a number of political decisions to be taken.

All recommendations and suggestions made by PwC are subject to the discussion and validation of the working assumptions we have made and to the future detailed design of the new delivery models. In taking this work forward, it will be extremely important to engage stakeholders, including staff and tenants, in discussions which build on the existing strengths of NIHE, using the recommendations in this strategic review as a starting point for debate and dialogue. We see this future debate at the core of a ‘mature conversation’ about the future of social housing (and, indeed, the wider housing sector) in Northern Ireland amongst all the key stakeholders. Revisiting these issues in greater detail, in the recognition that there is no absolute ‘right’ answer to many of them, will be crucial if confidence in this process is to be retained.

The key elements of the vision state that this preferred option will deliver are described below.

1. A new Housing Regulator for Northern Ireland

This new function (building on the current governance and inspection work conducted by DSD) will deliver:

- ✓ Independent inspection and governance across all tenure types, including service and economic regulation; and
- ✓ Independent setting of rent levels for social and affordable landlords.

Staff	30 FTE
Estimated Costs	£1m

PwC’s initial recommendation is that the new Housing Regulator is set up as an Executive Agency within the DSD. We have made this recommendation based on the working assumptions set out in this strategic review but recognise that there are alternative solutions around future delivery structures. Our detailed recommendations in this area should provide the basis for further discussion and issues to be explored in the future ‘mature conversation’ we are proposing include:

- Should there be convergence of rent levels between NIHE and Housing Associations?
- Is the proposed legislative protection from undue political interference sufficient to ensure the independence of the new Housing Regulator?
- Should a new Housing Regulator be established as a totally separate entity from DSD if it is to be, and to be perceived as being, totally independent from political control? What form would such a new entity take?
- Could DSD continue to have responsibility for regulation of governance and performance matters with another independent body being responsible for regulation of financial matters including the setting of rent levels?

2. A new Strategic Housing Authority (SHA) for Northern Ireland

A new Strategic Housing Authority is created with responsibility for:

- ✓ Ultimate ownership of existing NIHE housing stock;
- ✓ Development and delivery of holistic housing strategy for Northern Ireland;
- ✓ Independent assessment of need across Northern Ireland;
- ✓ Commissioning / delivery of homelessness services
- ✓ Undertake the role of Energy Conservation Authority; and
- ✓ Commissioning and monitoring of programmes (including Social Housing Development Programme).

Staff	456 FTE
Estimated Costs (including Programme Costs)	£263m

*Excludes loan repayment charge and inflation
Excludes staff and budget which may be allocated to the SHA prior to implementation of Universal Credit*

PwC's initial recommendation is that the new Strategic Housing Authority is set up as an an Non-Departmental Public Body (NDPB), sponsored by DSD. This proposed delivery model reflects the current structure of the existing strategic housing authority (NIHE), albeit that a completely new and reinvigorated organisation is envisaged. We have made this recommendation based on the working assumptions set out in this strategic review but recognise that there are alternative solutions around future delivery structures. Our detailed recommendations in this area should provide the basis for further discussion and issues to be explored in the future 'mature conversation' we are proposing include:

- Should DSD assume the role of the Strategic Housing Authority (perhaps established as an Executive Agency) thereby reducing the additional operating costs and control issues that necessarily arise from the creation of a new non-department public body?
- Should DSD Housing Division take on the role of the Strategic Housing Authority? Would such an arrangement provide the strategic role with the necessary independence and expertise?
- How would local government (i.e. Housing Council) input to housing strategy if this role was subsumed into DSD?

3. A new Social Enterprise landlord for NIHE's existing stock

A new landlord organisation is created providing:

- ✓ Leasehold ownership of existing NIHE housing stock;
- ✓ Maintenance investment programme (with the ability to source non-public sector funding);
- ✓ Landlord housing services with a focus on tenants and communities; and
- ✓ Community cohesion and safety.

Staff	1,400 FTE
Estimated Costs (including Programme Costs)	£260m

Based on projected maintenance spend for Year 10 (2020/21) and includes optimism bias

PwC's initial recommendation is that the new landlord organisation is created as a Social Enterprise outwith the public sector, established as a company limited by guarantee, with charitable status and is governed as a mutual owned by tenants. We recommend that this new organisation should be self-funding (i.e. it should not receive deficit grant funding from the public purse). Such an organisation would be "off balance sheet" in terms of public sector financing. We have made this recommendation based on the working assumptions set out in this strategic review. Our detailed recommendations in this area should provide the basis for further discussion and issues to be explored in the future 'mature conversation' we are proposing include:

- Does the political will exist to pass responsibility, through the granting of a long-term lease, for the provision of 90,000 social homes to non-public sector organisation (albeit a fully regulated Social Enterprise owned by tenants)?

- Is there the potential for this Social Enterprise to become politicised in a way that the existing NIHE never was if, for example, political party nominees were elected by tenants?

4. A new level of joined-up service delivery to citizens

PwC's initial recommendation is for a future coordinated approach to the delivery of services between NIHE (and subsequently the new SHA), Social Security Agency, Department for Employment and Learning and Councils providing coordinated delivery channels for public services (face-to-face, online and telephone) to citizens, joined-up service delivery.

Our recommendations include the establishment of a network of "Jobs, Housing and Benefits" offices across Northern Ireland, and the transfer of some front line housing related services to local government.

We have made this recommendation based on the working assumptions set out in this strategic review but recognise that there are alternative solutions around future delivery structures. Our detailed recommendations in this area should provide the basis for further discussion and issues to be explored in the future 'mature conversation' we are proposing include:

- What are the requirements, in terms of locations and numbers, for local Jobs, Benefits and Housing offices across Northern Ireland (in the context of an overall channel strategy)?
- What functions should be transferred to local government on the introduction of RPA?
- How will the introduction of the proposed new Housing Regulator impact on the existing statutory responsibilities of local government in relation to housing?

A Mature Conversation

The Department for Social Development should now lead a "mature conversation" on the future for housing in Northern Ireland aiming to build on the existing strengths of NIHE and using the initial recommendations we make in this strategic review as a starting point for debate and dialogue. This "mature conversation" should involve all key stakeholders including Political Parties, Northern Ireland Housing Executive, NIHE Staff representatives, NIHE Tenant representatives, Housing Associations in Northern Ireland and the Chartered Institute for Housing. This "mature conversation" should have the aim of building a consensus on the optimum solution and should be held within defined timescales (e.g. 3 months) and should lead into a detailed design phase of work.

In addition to the enhanced service provision, it is projected (based on the financial assumptions made in this strategic review) that this preferred strategic direction of travel has the potential to actually reduce the level of need for government financial support while enabling the funding to be sourced to support maintenance of 90,000 social housing units to the required standard.

Based on the monetary analysis undertaken at this stage it has been identified that the potential financial benefits, over the 30-year period of this strategic review, associated with this option may be in the region of:

- ✓ Benefit to the taxpayer against the Do-Minimum option in real cost terms of approximately £585m (£388m in NPC);
- ✓ Access to maintenance investment funding in excess of £5.5bn; and
- ✓ Transfer of key financial and operational risks to non-public sector Social Enterprise.

It is important to note that these recommendations, and the supporting suggestions, in relation to the preferred option are made subject to the detailed validation of the working assumptions that are set out in this strategic review and the future work that is now required to put the necessary detail in place around the implementation framework that is proposed. This will include a detailed analysis of the monetary and affordability analysis of the preferred option to validate the monetary impacts of the preferred option, including the benefits outlined above.

Better outcomes for Northern Ireland

Social Housing Tenants

Tenants within NIHE's social housing stock will have homes that will receive the necessary maintenance funding.

Tenants will receive maintenance and landlord services from a new Social Enterprise organisation which is operated as a business (albeit being not-for-profit). This Social Enterprise will be financially sustainable in that it will be able to raise funds and retain reserves in support of its investment plans. In this context, tenants will have much greater certainty that their homes will be maintained and the timing of this maintenance.

Tenants will have support from and access to a new Housing Regulator which, as a key part of its role, will look after their interests. Rents will remain fair and extremely good value for money moving forward. However, tenants, over time, may have to pay increased levels of rent but any rent increases will be supported by the Housing Regulator's independent validation of landlord business need balanced against the interests of tenants.

Tenants will be the owners of the new Social Enterprise landlord, which will be created as a mutual organisation. While the details of this new governance model need to be confirmed, it is envisaged that, for example, tenants will have non-executive representation on the Board giving greater influence and sense of ownership.

This Social Enterprise will have defined social objectives clearly stated within its mission statement. By way of a dividend to tenants, it is proposed that a proportion of any trading surplus will be directed into community projects, initiatives and activities which provide support to these stated objectives. This discretionary fund will allow local communities throughout Northern Ireland to benefit directly from an effective and efficient delivery body which they will all have a real sense of ownership in.

Those people in genuine housing need on the 'waiting list' under the common selection scheme will have a much better chance of getting into a new home with both an independent new Strategic Housing Authority focused solely on dealing with strategic issues and the potential for all of the available public sector funding to be directed to the building of new houses and units.

Citizens will benefit from the introduction of a new Strategic Housing Authority and a new Housing Regulator both of which will help support the effective, efficient, fair and equitable delivery of public policy.

Taxpayers will get improved value for money from both the commercial arrangements around the lease with the Social Enterprise and the improved quality of service that is provided to those in receipt of housing benefit.

The strategic direction of travel set out in this strategic review is not without its challenges. However, it does set out a compelling and sustainable future vision for new structures to support the on-going development of housing in Northern Ireland.

Communities

Tenants will own the new Social Enterprise landlord.
A 'social dividend' will be paid to tenants in the form of funding for community based projects and initiatives.

People in Housing Need

The new delivery structures will enable the public sector to focus on both strategy and funding of the new build programmes.

Citizens and Taxpayers

The new delivery structures will protect the interests of society in general delivering improved value for money to taxpayers.

Future Vision

XII Summary, Conclusions and Recommendations

Summary

- 12.1 This strategic review considered a number of strategic options for the future delivery of those services within the scope of this fundamental review of NIHE. The seven options short-listed for detailed assessment were as follows:

Figure 1.1 - Summary of Short-listed Options

Short-listed Option
1a Do-Nothing Northern Ireland Housing Executive (NIHE) 'As-Is', assuming that the Housing Maintenance costs and funding are retained at the current levels Existing organisational roles and responsibilities across DSD, NIHE and SSA <i>Option is short-listed in line with NIGEAE guidance.</i>
1b Do-Minimum Northern Ireland Housing Executive (NIHE) 'As-Is', with an increase in the Housing Maintenance costs and funding to meet the recommendations of the Savills Report Existing organisational roles and responsibilities across DSD, NIHE and SSA <i>Option is short-listed in line with NIGEAE guidance.</i>
3b Policy delivered by DSD Regulation of all tenure types by new Housing Regulator Strategy delivered by Northern Ireland Housing Executive (in their role as the Strategic Housing Authority) Landlord services delivered by a new corporate entity within the public sector and wholly owned by NIHE - Housing stock remains with NIHE
4a Policy delivered by DSD Regulation of all tenure types by new Housing Regulator Strategy delivered by Strategic Housing Authority (SHA) Landlord services delivered by new Social Enterprise (branded NIHE Homes Ltd) Housing stock transferred to new Social Enterprise under leasehold i.e. ultimate ownership of stock remaining with public sector (SHA)
4b Policy delivered by DSD Regulation of all tenure types by new Housing Regulator Strategy delivered by Strategic Housing Authority (SHA) Landlord services delivered by new Social Enterprise (branded NIHE Homes Ltd) under a concessionary arrangement Housing stock ownership remaining with public sector (SHA)
5a Policy delivered by DSD Regulation of all tenure types by new Housing Regulator Strategy delivered by Strategic Housing Authority (SHA) Landlord services delivered by Housing Association(s) Bids accepted from Housing Associations to take on existing NIHE Housing Stock on the basis of large scale transfer(s)
6b Policy delivered by DSD Regulation of all tenure types by new Housing Regulator Strategy delivered by Strategic Housing Authority (SHA) Landlord services delivered by private sector - open competition for Private Sector body/bodies to become managing agent Ownership of housing stock remaining with public sector (SHA)

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12.2 These short-listed options were then subjected to a detailed monetary and non-monetary assessment. The monetary assessment included an NPC analysis over the 30 years of this review. It should be noted that the monetary analysis is indicative only at this stage and has been developed based on estimated income and cost outturns for 2010/11 provided by NIHE and DSD as at March 2010. Furthermore the monetary analysis has been developed based on a range of underlying costing assumptions. Both the estimated income and costs, as well as the underlying costing assumptions will be subject to detailed review and validation as part of the detailed design stage in taking forward the preferred option. A summary of this assessment is provided below.

Figure 1.2 - Summary of Monetary and Non-monetary Analysis

	Monetary Rank 2	Non-Monetary Rank 5
Option 1a	<p>Net required contribution by Government is in the region of £955m (NPC including optimism bias).</p> <p>The key factor influencing the scale of this contribution from Government is the projected investment need against relatively low levels of rent.</p>	<p>This option does not provide a sustainable service delivery model for the future. This illustrates compelling and strong agreement for the need for change. <i>This option did not meet the 'acceptability threshold' for several criteria.</i></p>
Option 1b	<p>Monetary Rank 7</p> <p>Net required contribution by Government is in the region of £1,865m (NPC including optimism bias).</p> <p>The key factor influencing the scale of this contribution from Government is the projected investment need against relatively low levels of rent.</p>	<p>Non-Monetary Rank 4</p> <p>This option does not provide a sustainable service delivery model for the future, however it at least provides the level of maintenance recommended by the Savills Report as compared to the Do Nothing option. <i>This option did not meet the 'acceptability threshold' for several criteria.</i></p>
Option 3b	<p>Monetary Rank 3</p> <p>Net required contribution by Government is in the region of £1,161m (NPC including optimism bias) – potential NPC benefit of up to £704m as compared to the Do-Minimum option over next 30 years.</p> <p>The achievement of this reduced financial contribution depends on NIHE being able to both borrow and keep its reserves ring-fenced.</p>	<p>Non-Monetary Rank 3</p> <p>This option will bring some added value over the Do Nothing option, but does not deliver a sustainable delivery model with a positive impact on the housing sector as a whole. <i>This option did not meet the 'acceptability threshold' for several criteria.</i></p>
Option 4a	<p>Monetary Rank 6</p> <p>Net required contribution by Government is in the region of £1,477m (NPC including optimism bias) – potential NPC benefit of up to £388m as compared to the Do-Minimum option over next 30 years.</p> <p>The achievement of this reduced financial contribution depends on an appropriate leasing arrangement and increased rental income.</p>	<p>Non-Monetary Rank 1</p> <p>This option is likely to have with a positive impact for key stakeholders through splitting strategic & landlord functions, and setting up a Social Enterprise.</p>
Option 4b	<p>Monetary Rank =4</p> <p>Net required contribution by Government is in the region of £1,257m (NPC including optimism</p>	<p>Non-Monetary Rank 2</p> <p>This option has considerable advantages but is a less sustainable</p>

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	bias) – potential NPC benefit of up to £608m over next 30 years. The achievement of this reduced financial contribution depends on an appropriate management fee and increased rental income.	option and will not maximise outcomes for stakeholders in comparison with option 4a
Option 5a	Monetary Rank 1 Net surplus for Government is in the region of £397m (NPV including optimism bias) – potential NPC benefit of up to £2,268m over next 30 years. The key factor in delivering this surplus is the projected income from the sale of housing stock to Housing Associations.	Non-Monetary Rank 6 This option is unlikely to maximise value for tenants, or complement public policy aims, and the overall challenge to deliver is high. <i>This option did not meet the ‘acceptability threshold’ for several criteria.</i>
	Monetary Rank =4 Net required contribution by Government is in the region of £1,257m (NPC including optimism bias) – potential NPC benefit of up to £608m over next 30 years. The achievement of this reduced financial contribution depends on an appropriate management fee and increased rental income.	Non-Monetary Rank 7 This option is unlikely to maximise the added value to key stakeholders, and it unlikely to attain the necessary political consensus required to drive the change forward. <i>This option did not meet the ‘acceptability threshold’ for several criteria.</i>

12.3 The key conclusions from this analysis can be summarised as follows:

Options 1a and 1b do not provide viable, sustainable solutions for social housing in Northern Ireland over the next 30 years. This statement is not a negative reflection on the historic performance of NIHE but rather a recognition of the need for a “step-change” in social housing provision if the challenges of the next 30 years are to be met. Options 1a and 1b provide the basis for comparison of the financial and non-financial costs and benefits associated with the Do Something options.

Option 3b provides the potential for a minimum change solution, with the proposed ALMO remaining within the public sector, but it is not considered to provide a sustainable long-term solution given its lack of ability both to raise additional funding (without impacting on the public sector borrowing requirement) and to ring-fence any operational reserves. This option continues to leave social housing at the mercy of government funding peaks and troughs. There is also a fundamental challenge for this option as to whether “minimum change” is what is now required in order to establish a sustainable future.

Option 4a provides the potential for a significant financial gain for the public sector as compared to the Do Minimum option (which is considered to be the most suitable financial baseline for comparison as it includes the maintenance spend recommended in the Savills Report). This option would allow a new Social Enterprise landlord to borrow from financial institutions and to flex its operational spend as per any independent business organisation. While keeping ultimate ownership in the public sector this option gives leasehold ownership of the housing stock to the new Social Enterprise and it would be able to borrow against these assets as well as future rental income. This option provides and fully supports the separation of and focus on distinct (yet mutually beneficial) strategic and landlord roles. No procurement exercise would be required with this option.

Option 4b provides the potential for a significant financial gain for the public sector as compared to the Do Minimum option (which is considered to be the most suitable financial baseline for comparison as it includes the maintenance spend recommended in the Savills Report). This option would allow a new Social Enterprise landlord to borrow from financial institutions and to flex its operational spend as per any independent business organisation. This option keeps the ownership of the housing stock within the public sector and borrowing could only be made against rental income and not the housing stock assets. There would be concerns as to whether this option would provide the necessary separation of roles between the Strategic Housing Authority and the new Social Enterprise landlord, with the SHA undoubtedly having to consider many landlord policy and operational issues. This option would require an open procurement exercise in line with EU guidelines and there is the possibility that the Social Enterprise would not be successful (see Option 6b).

Option 5a provides the potential for the biggest financial gain for the public sector through the sale of the existing NIHE housing stock to Housing Associations (probably based nationally) but it is deemed highly unlikely that this approach will not gain political, community or tenant support. There is also a challenge around whether the significant financial benefit for taxpayers through the sale of the housing assets represents the best financial outcome in the longer-term (especially given the rental income streams associated with these assets).

Option 6b provides the potential for a significant saving for the public sector through the introduction of a private sector landlord service provider as compared to the Do Minimum option (which is considered to be the most suitable financial baseline for comparison as it includes the maintenance spend recommended in the Savills Report). It is considered highly unlikely that such a move would receive the necessary policy, community or tenant support. There are also concerns as to whether this option would provide the necessary separation from operational considerations for the new Strategic Housing Authority. This option would require an open procurement exercise in line with EU guidelines and there is the possibility that an in-house bid, around the creation of a new Social Enterprise, would be submitted (see Option 4b).

- 12.4 In the non-monetary analysis, which was informed by a workshop with key stakeholders, options 3b, 5a and 6b each did not meet the minimum levels of acceptability against one or more of the qualitative criteria. This analysis effectively rules out Option 4b as well given that an open EU procurement would be required to allow this solution to happen, and such a procurement would have to consider tenders from Housing Associations and private sector bidders.

Conclusions – opportunities and challenges

- 12.5 The overarching conclusion from the quantitative and qualitative assessment of the short-listed options is that **Option 4a (New Strategic Housing Authority with Social Enterprise delivering Landlord function against existing NIHE stock under a leasehold model)** represents the optimum solution. It is not financially the most beneficial option for the public sector but does provide the best balance between the interests of tenants, staff, citizens and taxpayers.
- 12.6 This option provides the opportunity to invest, in a sustainable manner, the £5.5bn recommended by Savills into the social housing stock in Northern Ireland while keeping ultimate ownership of the stock in the public sector. It also provides for a range of non-financial benefits including the introduction of a Housing Regulator for Northern Ireland and the structures necessary to support a holistic and comprehensive joined-up housing strategy across all tenure types.
- 12.7 However, this option can only be successfully delivered if the following enablers are put in place:
- The Landlord function is created as an organisation outwith the public sector (albeit as a not-for-profit Social Enterprise structured as a mutual and owned by tenants) giving it commercial and financial independence.

The public sector will no longer be able to direct or control specific decisions of the landlord function and politicians (including Ministers) are likely to have significantly less influence in the operation of this new organisation. As long as it meets its legal and regulatory obligations against its stated social objectives, this new Social Enterprise will be able to take its own decisions, as any private sector organisation, on where its resources are deployed, located, etc. including any commercial partnerships and ventures it enters into.

This is not to say that the future Social Enterprise will not be responsive to the demands of local politicians and communities (indeed its governance will be structured to ensure this) but the nature of the relationship between this new organisation and Government, and the political class generally, will have a very different dynamic.

- Rent levels within social housing increase at a level above RPI in a general policy of convergence with the rent levels charged by Housing Associations

Levels of rent increases will have to be guaranteed, subject to the performance and the business plan requirements, of any new Social Enterprise landlord organisation if it is to access funding from private financial institutions. Ministers will no longer be able to set rates of rent increases for social housing within NIHE (or its “successor” organisation) as the new Housing Regulator will perform this role for the proposed Social Enterprise and all other Housing Associations in Northern Ireland.

- Additional funding is directed at least initially into specific programmes as the existing cross-subsidy from other NIHE income and funding, including rent and DSD grant payments.

Politicians will have to accept that they may have to initially invest a relatively small additional amount into social housing if they are to create the environment which releases the very large financial external inputs from private funders.

- 12.8 Option 4a does present the optimum balance between of unlocking investment while maintaining both ultimate ownership of the stock and protecting the interests of landlords but it is not an option without consequences. These enablers represent a set of significant and far-reaching political decisions (many with no easy opportunity for reversal) that need to be taken in a manner that, as far as possible, ensures on-going consensus.

Recommendations

- 12.9 In the context of the conclusions made above, the overarching recommendation within this strategic review is that **Option 4a** is adopted as a strategic direction of travel in providing a solution to the challenges that currently face NIHE and the wider housing sector. There are a number of specific recommendations associated with this overarching conclusion and these are explored in further detail in the remainder of this section.

- 12.10 Although describing a strategic direction of travel, we have tried to ‘paint a tangible picture’ of the proposed future state to assist readers by providing suggested solutions on a range of consequential impacts associated with these recommendations. These recommendations and suggestions are made subject to the following considerations:

- **Validation of working assumptions** – we have provided a high-level assessment of a range of options against a number of consequential impact areas typically for which there is no absolute “right answer”. Given the strategic nature of this strategic review this is necessarily high-level and each of the working assumptions we have made will need to be challenged and validated as this process moves forward.

- **Detailed design of the proposed new organisations** – The preferred option, if adopted as the agreed way forward, will need to be described in much greater detail. For each of the new organisations, there needs to be a clear definition of, amongst other things, statutory role and responsibilities (if applicable), what services they will provide, how they will provide these services, how many staff they will need, where these staff will be based, what enabling technology they will require and what supporting facilities they have to deploy. Only when this detailed design is completed can final decisions be made in relation to costs, benefits, budgets and timescales.
- **Commercial negotiations** – The separation of the strategic, landlord and operational functions of the existing NIHE will involve a series of commercial negotiations in relation to, for example, the mapping of existing posts to one of the new organisations; the allocation of resources, assets and liabilities; and the level of lease payments. These future commercial negotiations will drive out the final detailed business case content as representatives from each of the new organisations (particularly the proposed Social Enterprise in relation to the leasehold arrangement) will seek quite legitimately to protect their future interests.
- **Negotiation with staff side representatives** – The potential future allocation of existing posts to new organisations, the development of new job descriptions, the introduction of new employers for staff and the re-deployment of staff will need to be fully discussed with staff side representatives (e.g. trade unions). There are other staffing issues such as vacancy control and recruitment to senior roles in the new organisations which need to be fully discussed with staff side representatives. There are both statutory and moral obligations to staff which we are confident all of the involved organisations will want to adhere to as this process moves forward.

The basis of a mature conversation....

The strategic direction of travel that is articulated here provides a compelling vision for the future. The specific recommendations we have made are intended to provide the basis for a mature conversation amongst all key stakeholders about the future of social housing and, indeed, the wider housing sector. We have made a series of working assumptions that underpin the recommendations and suggestions in support of the preferred option and these issues will need to be revisited in greater detail (working in conjunction with key stakeholders) if confidence is to be retained in this process.

The need for this mature conversation must not be used as an excuse for not progressing the change that is required or for delaying this change for an unreasonable period of time.

Recommendation 1 – DSD should continue to build its focus on housing policy

It is recommended that DSD should focus on setting policy direction and defining outcome priorities. DSD should have responsibility for the following services:

- ✓ development and implementation of housing policy for Northern Ireland;
- ✓ development and drafting of all legislative change necessary to support housing policy; and
- ✓ funding for housing from DFP and allocation of funding, primarily through the proposed new Strategic Housing Authority (see below).

We envisage, subject to detailed design, a DSD Housing Division with staffing of approximately 57 FTE and an annual operating budget in the region of approximately £9.7m.

It is suggested, based on the working assumptions we have made, that:

1(a) Structure and Governance

- i. DSD should maintain its Housing Division with a focus on setting policy direction for housing in general across Northern Ireland (e.g. identifying the priority outcomes to be achieved) and, working with DFP, the provision of funding for social and affordable housing.

1(b) Service Delivery

- i. DSD should design and implement a new operating model that supports the effective and efficient delivery of its range of services.

1(c) Staffing

- i. All posts within DSD's Housing Division Governance and Inspections team should transfer to the new Housing Regulator (see below). These posts will remain within the Northern Ireland Civil Service given the proposed Executive Agency constitution of the new Housing Regulator.
- ii. Identified posts within DSD's Housing Division should transfer to the new Strategic Housing Authority. We have assumed that there are posts, albeit a relatively small number, within DSD that are focused on the development of housing strategy rather than policy – these posts need to be allocated to the new SHA (which is proposed as a NDPB). As an interim solution, it is suggested that impacted staff could transfer on secondment to the SHA until these posts are filled on a permanent basis.

1(c) Finance

- i. DSD will allocate continue to allocate funding (e.g. to the Social Housing Development Programme and other initiatives) to reflect Executive and Ministerial priorities.
- ii. DSD should commence formal discussions with DFP and HMT in relation to the potential restructuring of the outstanding legacy NIHE debt in line with Sir David Varney's Review of the Competitiveness of Northern Ireland (2008).

A Mature Conversation

Our recommendations provide the basis for a 'mature conversation' on the future of housing in Northern Ireland – issues to be explored include:

- Should a future DSD Housing Division be "limited" to policy and legislation, in support of ministerial priorities, or should it also assume responsibilities for regulation and strategy (see recommendations below)?

See Section V of the full report for an assessment of potential variant models.

Recommendation 2 – A new Housing Regulator for Northern Ireland should be established

It is recommended that a new Housing Regulator for Northern Ireland should be established focused on providing a regulatory function for all tenure types across the Housing Sector (including social, affordable, private rented and owner occupier segments).

This Housing Regulator should be independent from political direction and should have responsibility for the following services:

- ✓ service regulation (focused on quality of service provision); and
- ✓ economic regulation (focused on financial viability, governance, risk and value for money); and
- ✓ levels of annual rent increase across Housing Associations and the new Social Enterprise (against an overarching policy of convergence, over a reasonable period of time, in rent levels across the new Social Enterprise and existing Housing Associations). We would suggest that the Housing Regulator should submit, against a defined timetable, its independent recommendations on rent increases to the Minister for Social Development for information (but without the need for approval) prior to implementation.

We envisage, subject to detailed design, a Housing Regulator organisation established as an Executive Agency within DSD with staffing of approximately 30 FTE and an annual operating budget of approximately £1.1m.

It is suggested, based on the working assumptions we have made, that:

2(a) Structure and Governance

- i. The new Housing Regulator should be created as an arms-length Executive Agency within DSD;
- ii. The role and responsibilities (including its investigative and enforcement powers) of the new Housing Regulator should be defined in new primary legislation
- iii. The legislation governing the new Housing Regulator should also clearly set out the independence of this new body from Ministerial direction, or other undue political intervention, in the conduct of its regulatory function;
- iv. All Housing Associations and the new Social Enterprise envisaged in this strategic review (see below) should be required to submit a business plan to the new Housing Regulator. The content and timescales of this business plan will be determined during the detailed design phase.
- v. The new regulator should be branded “**Housing Regulator for Northern Ireland**”.

2(b) Service Delivery

- i. The new Housing Regulator should design and implement a new operating model that supports the effective and efficient delivery of its range of services.
- ii. The Housing Regulator should define and articulate a transparent process for setting rent levels in social housing moving forward.
- iii. The Housing Regulator should work with councils and other potential partner organisations to deliver services. For example, it is noted that councils already have statutory responsibilities for regulating the private rented sector, and there will be a requirement to define the role and responsibilities of the new Housing Regulator (e.g. will it regulate councils in the exercise of their responsibilities or will it assume these responsibilities and commission delivery services from councils)?

2(c) Staffing

- i. The existing relevant posts from DSD Housing Division (e.g. Governance and Inspection Unit) should be allocated to the new Housing Regulatory Executive Agency;
- ii. Staff currently in these posts should be redeployed to the new Housing Regulator; and
- iii. There should be an open competition for the Chief Executive of this new Housing Regulator organisation.

2(c) Finance

- i. All private and social landlords (including Housing Associations and the new Social Enterprise envisaged below) should be obliged to register with the new Housing Regulator;
- ii. The Housing Regulator should charge an annual registration fee from each private and social landlord based on the number of properties / units that they have tenants in. We have assumed a registration fee of £25 per annum for each property / unit. However, the level of this fee will be confirmed during the detailed design phase.
- iii. The operational running costs of the Housing Regulator agency should be funded from this registration fee (with any excess monies directed into supporting the grant allocation to the new Strategic Housing Authority envisaged below).

2(d) Assets and Facilities

- i. The Housing Regulator should (subject to retaining its independence) share premises, facilities and support services as far as possible with DSD in order to minimise its running costs.

A Mature Conversation

Our recommendations provide the basis for a ‘mature conversation’ on the future of housing in Northern Ireland – issues to be explored include:

- Does the political will exist to support a policy of convergence of rent levels between NIHE and Housing Associations?
- Is the proposed legislative protection from undue political interference sufficient to ensure the independence of the new Housing Regulator?
- Should a new Housing Regulator be established as a totally separate entity from the Department for Social Development if it is to be, and to be perceived as being, totally independent from political control? What form would such a new entity take?
- Could the Department for Social Development continue to have responsibility for regulation of governance and performance matters with another independent body being responsible for regulation of financial matters including the setting of rent levels?

See Section V of the full report for an initial assessment of potential variant models.

Recommendation 3 – A new Strategic Housing Authority for Northern Ireland should be established

It is recommended that a new Strategic Housing Authority (SHA) for Northern Ireland is created with responsibility for the following services:

- ✓ development and implementation of a holistic strategy (supported by research) for all tenure types across Northern Ireland;
- ✓ development and implementation of a holistic strategy for housing across each of the new council areas in Northern Ireland;
- ✓ ownership and definition of a common selection scheme for social housing in Northern Ireland;
- ✓ development of homelessness policy across Northern Ireland (supported by provision of short-term hostel accommodation);
- ✓ undertaking role of Energy Conservation Authority for Northern Ireland working closely with local government (see below);
- ✓ management of the Social Housing Development Programme; and
- ✓ management of a range of strategic programmes including Supporting People, Warm Homes and Private Sector Grants.

We envisage, subject to detailed design, a new SHA organisation with an initial allocation of approximately 486 FTE and an annual operating budget of approximately £267m excluding loan cost repayment charges and inflation (see also Transfer of functions to Social Security Agency below).

It is suggested, based on the working assumptions we have made, that:

3(a) Structure and Governance

- i. The new SHA should be created as an Non-Departmental Public Body
- ii. DSD should be the sponsoring department for this new organisation supported by a new and dynamic system of controls.
- iii. The role and responsibilities of the new SHA should be defined in new primary legislation;
- iv. Housing Council should have a statutory role in both advising and scrutinising the work of the SHA. In this context of a continuing statutory role for Housing Council in the development of housing strategy in Northern Ireland (and the proposed introduction of RPA), it is recommended that the following actions are undertaken:
 - A review of the overall mandate and the specific responsibilities of the Housing Council;
 - A review of the structure and composition of the Housing Council; and
 - A capacity building programme is designed for the Housing Council to ensure that it remains an effective and efficient voice for local government in the development of housing strategy.
- v. The board of SHA should include non-executive representation from
 - Housing Council (see above); and
 - Individuals with specific subject matter expertise appointed by Minister following public competition.
- vi. The new SHA should be branded “**Strategic Housing Authority for Northern Ireland**”.

3(b) Service Delivery

- i. The new SHA should design and implement a new operating model that supports the effective and efficient delivery of its range of services.
- ii. SHA should aim to deliver efficiency savings against its service delivery costs of 10% by the end of the proposed 5-year implementation period.
- iii. SHA should endeavour to commission other organisations to deliver services on its behalf rather than deliver these services itself (e.g. homelessness hostels).
- iv. SHA should implement an enhanced allocation mechanism for funding within the Social Housing Development Programme based on 'open competition' principles.

3(c) Staffing

- i. The existing relevant posts from DSD and NIHE should be allocated to the new SHA organisation;
- ii. Subject to consultation, staff in these posts at Day 1 should transfer under TUPE to the new SHA; and
- iii. There should be an open competition for the Chief Executive, and other senior posts, in this new SHA organisation.

3(c) Finance

- i. The SHA take on responsibility for paying the loan repayment charges against the legacy NIHE organisation (and that the SHA should, as required, receive grant funding from DSD to cover these loan charge payments); and
- ii. The SHA should receive revenue from payments for the leasehold ownership of the housing stock, for which it will have ultimate ownership.

3(d) Assets and Facilities

- i. The new SHA should retain ultimate ownership of the existing NIHE housing stock which should be allocated to a new Social Enterprise (see below) on a leasehold basis
- ii. The new SHA should assume ownership of:
 - the majority of existing NIHE offices subject to an allocation exercise – we would envisage a programme of rationalisation of these assets (in conjunction with the introduction of a new network of Jobs, Benefits and Housing offices) in order to generate a capital receipt;
 - existing NIHE homelessness hostels
 - existing NIHE development land – it should be given discretion to use this land in support of social housing development schemes as it sees fit, in line with its stated objectives; and
 - all other existing NIHE assets (subject to a fair and transparent allocation exercise).
- iii. The new SHA should work with the Social Security Agency and the Department of Employment and Learning to design and implement a new network of Jobs, Benefits and Housing offices providing citizens with a holistic service (in the context of an overall channel strategy for delivering public services).

A Mature Conversation

Our recommendations provide the basis for a ‘mature conversation’ on the future of housing in Northern Ireland – issues to be explored include:

- Could DSD assume the role of the Strategic Housing Authority for Northern Ireland (perhaps established as an Executive Agency of the department) thereby reducing the additional operating costs and control issues that necessarily arise from the creation of a new non-department public body?
- Could DSD Housing Division take on the role of the Strategic Housing Authority for Northern Ireland? Would such an arrangement provide the strategic role with the necessary independence and expertise?
- How would local government (i.e. Housing Council) input to housing strategy if this role was subsumed into DSD?

See Section V of the full report for an initial assessment of potential variant models.

Recommendation 4 – A new Social Enterprise should be established

It is recommended that a new Social Enterprise is created with responsibility for the following services:

- ✓ maintenance of the publically owned social housing stock;
- ✓ housing management and services to tenants within this social housing stock;
- ✓ provision of community cohesion and community safety initiatives within this social housing stock; and
- ✓ management of property sales within this social housing stock.

It should be noted that this organisation will not be in the direct control of the public sector and, albeit subject to regulatory control, it will be for itself to determine its own budgetary and staffing arrangements.

We envisage, subject to detailed design, a new Social Enterprise organisation with an initial allocation of staffing of approximately 1,640 FTE and an annual operating budget of approximately £268m (which includes maintenance investment costs as at 2014/15). The cost of service delivery for this new organisation is included in this figure is initially estimated at approximately £70m per annum (before efficiency savings are realised).

It is suggested, based on the working assumptions we have made, that:

4(a) Structure and Governance

- i. The new Social Enterprise should be created as a company limited by guarantee with charitable status (and as such will be subject to the regulation of the Charities Commission for Northern Ireland);
- ii. The Social Enterprise, although run as a business, will have clearly stated social objectives which govern its service provision, maintenance and investment;
- iii. The Social Enterprise will be run as a not-for-profit business with any trading surplus reinvested into the achievement of its social objectives;
- iv. The new Social Enterprise should be established as a mutual, owned by its tenants with tenant representation on the board as non-executive representatives – however, tenants should have no direct say in the day-to-day operation of the new organisation;

- v. Other non-executive director posts should be subject to open competition; and
- vi. The new Social Enterprise should be branded “**NIHE Homes Ltd**” (or a suitable variant which retains the NIHE brand).

4(b) Service Delivery

- i. The new Social Enterprise should design and implement a new operating model that supports the effective and efficient delivery of its range of services.
- ii. The Social Enterprise should aim to deliver efficiency savings against its service delivery costs of 15% by the end of the proposed 5-year implementation period.
- iii. The Social Enterprise should seek to deliver services to the SHA, existing Housing Associations and other organisations as it sees fit in order to generate additional revenue (subject to compatibility with its social objectives).

4(c) Staffing

- i. The existing relevant posts from NIHE should be allocated to the new Social Enterprise organisation;
- ii. Subject to consultation, staff in these posts at Day 1 should transfer under TUPE to the new Social Enterprise; and
- iii. There should be an open competition for the Chief Executive, and other senior posts, in this new Social Enterprise organisation.

4(c) Finance

- i. The Social Enterprise should make reasonable payments to the new Strategic Housing Authority for the leasehold ownership of the housing stock.

We have assumed payments of £8m per annum from the point of housing stock transfer. However, the levels of these payments need to be confirmed through the detailed design phase.

- ii. The Social Enterprise should be self-financing and should not be in receipt of any government “deficit” funding – it will be able to seek funding from financial institutions in support of its business plans (any such funding will not count as public sector borrowing);
- iii. The Social Enterprise should be able to seek funding from other sources including:
 - Government programme funding;
 - European programme funding; and
 - Service delivery to / on behalf of other organisations.
- iv. The Social Enterprise should not be eligible for HAG funding for a defined period (this period is to be confirmed but could be up to 10 ten years).
- v. The Social Enterprise should, in conjunction with the new Strategic Housing Authority, establish VAT Shelter arrangements to ensure optimum value on major planned investment over the new organisation’s first 15 years.
- vi. The Social Enterprise should have a stated threshold above which any excess trading surplus will be reinvested, in conjunction with the Strategic Housing Authority, into social housing projects and initiatives across Northern Ireland. This “gain/share” mechanism should be used to ensure that the Social Enterprise does not accumulate reserves over and above what it requires to meet its business plan.

4(d) Assets and Facilities

- i. The new Social Enterprise should assume ownership, on a leasehold basis, of the existing NIHE housing stock with the ultimate ownership remaining with the new SHA;

We have assumed a leasehold arrangement of between 35 and 50 years. The exact duration of the envisaged lease will be defined during the detailed design phase.

- ii. The new Social Enterprise should receive a fair and reasonable allocation of other relevant existing NIHE assets including offices, depots and other facilities (including technology). It is assumed that ownership of the relevant offices and depots will transfer to the new Social Enterprise under leasehold arrangements over the same duration as the Housing Stock.

A Mature Conversation

Our recommendations provide the basis for a ‘mature conversation’ on the future of housing in Northern Ireland – issues to be explored include:

- Does the political will exist to pass responsibility for the provision of social housing to approximately 90,000 homes to a non-public sector organisation (albeit a fully regulated Social Enterprise owned by tenants)?
- Does the political will exist to grant a long-term, and very arms-length lease, of approximately 90,000 units to a non-public sector organisation? What characteristics would such a lease have?
- Is there the potential for this Social Enterprise to become politicised in a way that the existing NIHE never was if, for example, political party nominees were elected by tenants? Should political parties agree not to nominate for the tenant representative body within the new Social Enterprise?

See Section V of the full report for an initial assessment of potential variant

Recommendation 5 – Transfer of housing related functions to Social Security Agency

It is recommended that the Social Security Agency (SSA) should ultimately assume responsibility for the delivery of a range of front-line housing support services:

- ✓ housing benefit (to those in social housing) on behalf of DSD;
- ✓ housing advice services (e.g. registration on common selection scheme, signposting to social housing providers); and
- ✓ homelessness assessment and signposting to new SHA and relevant charity organisations.

We are making a working assumption that SHA will continue (as the direct descendant of NIHE) to have responsibility for the delivery of Housing Benefit during the implementation phase. We do not make any recommendations about the implementation of this transfer of functions in terms of the allocation of resources (staff and / or finance) to SSA or the associated timescales as these decisions fall within the remit of the Universal Credit programme.

While there is a possibility that the initial implementation of Universal Credit may coincide, or even precede, the implementation of the new organisations set out above, we are making the working assumption that the responsibility for delivering Housing Benefit will be allocated, as an interim measure, to the SHA. It will be for the NIHE (as the current employer of these staff) and subsequently the Strategic Housing Authority, to negotiate the transfer of resource to SSA as Universal Credit is implemented. We are assuming that the NIHE and subsequently the new SHA will be represented on the Universal Credit Programme Board.

Our understanding is that Universal Credit is scheduled to 'go live' in 2013/14 with a subsequent take-on period of five years. In this context, we envisage that the new SHA will get an additional allocation of staffing of approximately 827 FTE (maybe initially on secondment from the NIHE/SHA) and an annual operating budget of approximately £24m excluding inflation. This will be an interim allocation as the new Universal Credit is implemented and, as stated above, the responsibility for defining any redeployment of resources will be the responsibility of the Universal Credit Programme Board. We would suggest that this approach be revisited if the implementation and / or take-on of Universal Credit is delayed for a significant period but will obviously leave such considerations to the Universal Credit Programme Board.

We also envisage that a network of "one-stop shops" to be established (together with online and telephone services) in order to provide holistic advice to citizens on Jobs, Housing and Benefits. We envisage that the current services offered by the existing set of Jobs & Benefits Offices (currently operated jointly by DEL and SSA) will be expanded to include a range of non-landlord specific housing services. A scoping project should be initiated within the scope of the overall proposed programme of work (see below).

It is suggested, based on the working assumptions we have made, that:

5(a) Transfer of Functions

- i. A project is established (within the auspices of the overarching change programme and linked into the Universal Credit programme) to transfer the set of identified housing-related benefit and advice functions to SSA. These functions will include:
 - Management and administration of housing benefit;
 - Provision of homelessness assessment service; and
 - Provision of housing advice and guidance to those receiving benefits.
- ii. A detailed implementation plan for this transfer of functions should be developed in the context of the introduction of Universal Credit.

- iii. SHA retain responsibility for provision of these services until implementation is complete. The SHA should in the interim receive a fair and reasonable allocation of other relevant existing NIHE assets including offices (for example the seven offices from which housing benefit is currently processed) and other facilities (including technology) with existing contracts novating to SHA as appropriate.

5(b) Jobs, Benefits and Housing

- i. A network of “Jobs, Benefits and Housing” offices is established under the auspices of the new Strategic Housing Authority, the Social Security Agency and the Department for Employment and Learning to provide a holistic one-stop-shop for citizens.
- ii. The full range of other service delivery channels (e.g. internet, email, phone, etc.) are also designed to provide a holistic service to citizens for Jobs, Benefits and Housing.

A Mature Conversation

Our recommendations provide the basis for a ‘mature conversation’ on the future of housing in Northern Ireland – issues to be explored include:

- What will the impact be on the proposed interim arrangements (e.g. SHA assuming responsibility for Housing Benefit) if the introduction of Universal Credit is delayed?
- What are the requirements, in terms of locations and numbers, for local Jobs, Benefits and Housing offices across Northern Ireland (in the context of an overall channel strategy)?

See Section V of the full report for an initial assessment of potential variant models.

Recommendation 6 – Transfer of housing related functions to Local Government

It is recommended that Local Government should ultimately assume responsibility for the delivery of a range of front-line housing support services including:

- ✓ Houses with Multiple Occupancy;
- ✓ Housing Unfitness;
- ✓ Travellers;
- ✓ Living above the Shop Initiative; and
- ✓ Local Energy Conservation.

It is also suggested that the Housing Regulator should work with the new councils in the delivery of some of its regulatory services (particularly in respect of the private rented sector).

It is suggested, based on the working assumptions we have made, that:

6(a) Transfer of Functions

- i. A project is established (within the auspices of the overarching change programme and linked into Local Government's RPA programme) to define and implement the transfer the set of identified housing-related functions to the 11 new local councils.
- ii. The new Housing Regulator should work with councils to agree how a range of regulatory services may be delivered locally with, for example, the new Housing Regulator commissioning services from councils in relation to the private rental sector.

A Mature Conversation

Our recommendations provide the basis for a 'mature conversation' on the future of housing in Northern Ireland – issues to be explored include:

- What functions should be transferred to local government on the introduction of RPA (should responsibility for traveller sites transfer to councils)?
- How will the introduction of the proposed new Housing Regulator impact on the existing statutory responsibilities of local government in relation to housing?

See Section V of the full report for an initial assessment of potential variant models.

Recommendation 7 – An implementation programme of work is defined and progressed

It is recommended that a programme of work is now established to take forward the recommendations made in this strategic review, subject to its formal consultation and approval. This programme of work should cover all aspects of the required implementation and should be supported by appropriate structures that involve all key stakeholders.

It is suggested, based on the working assumptions we have made, that:

7(a) Implementation Approach

- i. The Implementation Approach set out in this strategic review should be adopted as the way forward with:
 - Period of shadow operation and transition from September 2012;
 - Day 1 for all organisations of 1st April 2014;
 - Post-Day 1 focus on optimising the new organisations;
 - Interim measures being considered for the delivery of Housing Benefit (subject to the programme to introduce Universal Credit);
 - Robust approaches to Benefits Realisation and Programme Evaluation.
- ii. There should be an immediate focus on developing greater detail around the initial high-level plan (approach and timescales). As part of this detailed planning work, there will be a need to ensure that the implementation of this programme dovetails with any on-going or planned reform within NIHE and other relevant programmes including Universal Credit.

7(b) Implementation Structures

- i. The Implementation Structures (Programme and Project level) set out in this strategic review should be established as soon as possible. The implementation programme should begin initial preparatory work as a final decision of next steps is awaited from the next Minister.
- ii. A Representative Body should be established to guide, inform and challenge the Programme Board. This Representative Body should include nominees from, inter alia, Tenants (e.g. Tenant Bodies); Staff (e.g. Trade Unions); Housing Associations (e.g. NIFHA); and Private rented sector (landlords and tenants).
- iii. DSD, NIHE and SSA should confirm their internal capacity and capability to commit the necessary resources to this programme.

7(c) Tenants

Tenants will own the new Social Enterprise under appropriate mutual arrangements. The details of these governance arrangements will be defined during the detailed design phase.

- i. Discussions with tenant representative bodies (within NIHE's housing stock) should commence as soon as possible. These discussions should aim to agree, inter alia:
 - Structures and processes for dealing with tenant related matters during the implementation project (including a schedule of regular meetings);
 - Structures and processes for tenant representation on the future board of the new Social Enterprise; and
 - Communication strategy for tenants.

7(d) Staff

It is not possible to be precise about the details at this stage but there can be no doubt that these proposals potentially provide significant implications for existing staff within NIHE and, to a lesser extent, within DSD. NIHE Staff will have a new employer, some staff will be required to move location and some staff will be required to take on new and different responsibilities as job roles change. As a counter-balance to this, the recommendations contained in this strategic review present an exciting opportunity for many staff in terms of their future career opportunities.

- i. Discussions with staff side representatives should commence as soon as possible within NIHE and DSD. These discussions should aim to agree, inter alia:
 - Structures and processes for dealing with staff related matters during the implementation project (including a schedule of regular meetings);
 - Communication strategy for staff.
- ii. Staff should have representation on the Implementation Programme Board.

7(e) Strategic Delivery Partner

DSD and NIHE should consider their need for a strategic partner to deliver this proposed transformation programme. The reward for such a delivery partner should be linked to defined outcomes (i.e. payment for results).

- i. DSD should identify the change capacity and capabilities that it will have access to internally to deliver this programme.
- ii. If this is not sufficient then DSD should issue an outcome-based specification for a strategic partner to assist in the delivery of this programme of work. This strategic partner should be retained on a basis which links payment to outcomes.

7(f) VAT Shelter

PwC has had a ruling from HMRC, in relation to another client assignment, which confirms that a VAT Shelter can be applied to leasehold structures but we would recommend that a specific pre-transaction ruling was obtained before any structure was put in place because of the subtle differences between the structure proposed in this strategic review and others that have been implemented in the past.

- i. DSD and NIHE should engage with HMRC in order to obtain a pre-transaction ruling in relation to a VAT Shelter for the proposed new Social Enterprise landlord organisation.

7(g) Equality Impact Assessments

We have made the working assumption at this time that none of the strategic proposals contained in this strategic review require an Equality Impact Assessment (EIA) at this stage. However, we would suggest that the next stage, i.e. detailed design, will consider and recommend specific configuration options which will require consideration of the need for EIAs to be conducted.

- i. The implementation programme should ensure that an Equality Impact Assessment is conducted to support any relevant specific design decisions taken within any of the sub-programmes, projects and initiatives within this programme of work.

A Mature Conversation

The Department for Social Development should now lead a “mature conversation” on the future for housing in Northern Ireland around the recommendations, and the associated working assumptions, emerging from this fundamental review of the Northern Ireland Housing Executive (NIHE).

This “mature conversation” should aim to build on the existing strengths of NIHE and should use the recommendations we make in this business case as a starting point for debate and dialogue. This “mature conversation” should involve stakeholders including, amongst others:

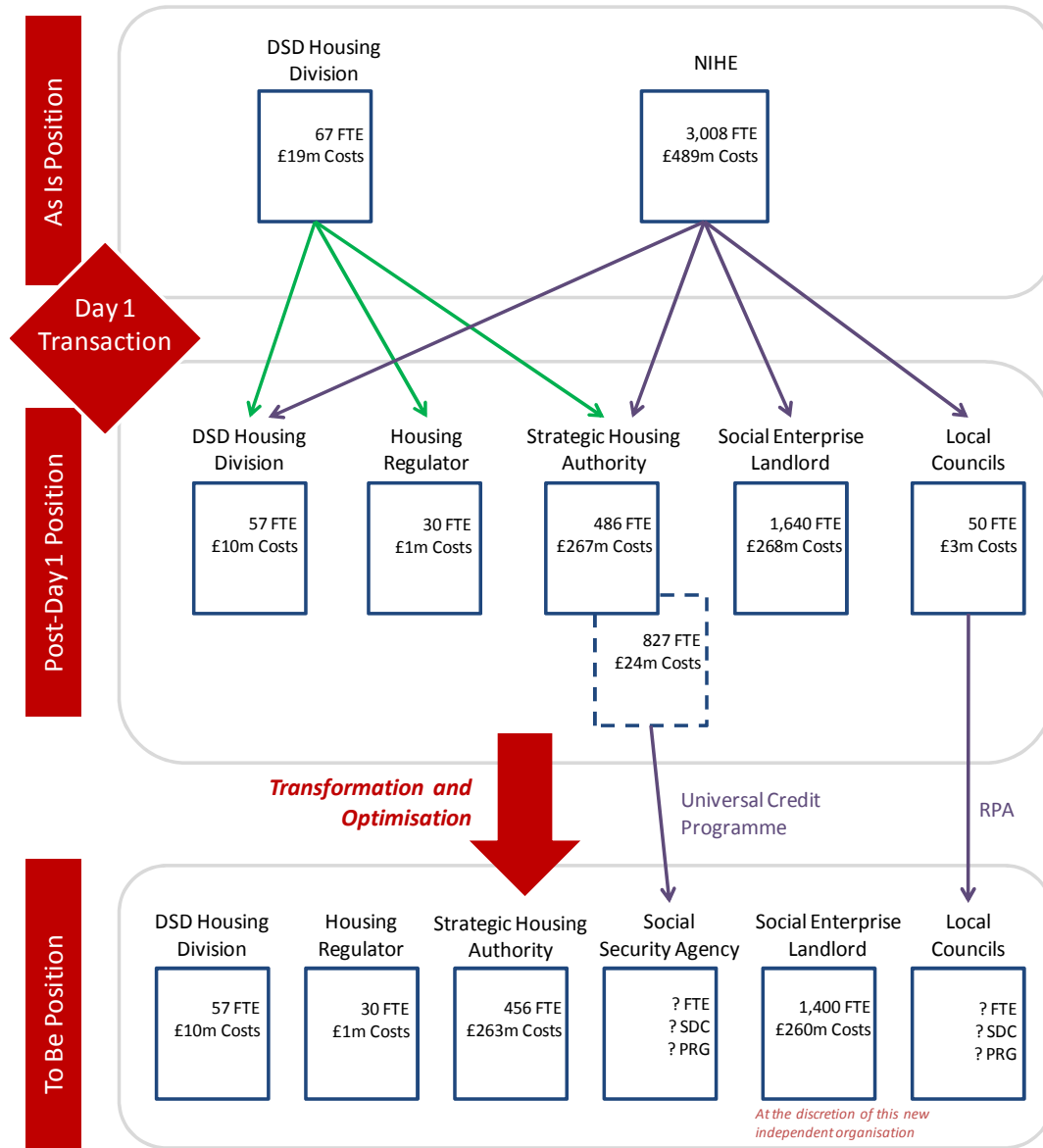
- Political Parties
- Northern Ireland Housing Executive
- NIHE Staff representatives
- NIHE Tenant representatives
- Housing Associations in Northern Ireland;
- Chartered Institute for Housing;
- Other relevant bodies (e.g. SSA and DEL); and
- Potential funders.

This “mature conversation” should have the aim of building a consensus on the optimum solution and should be held within defined timescales (e.g. 3 months) and should lead into a detailed design phase of work.

Review of Northern Ireland Housing Executive Options for Future Service Delivery

- 12.11 An overview of the future allocation of existing roles and responsibilities as set out in the recommendations detailed in this document is set out below:

Figure 1.3 – **Summary of Recommendations (Allocation of Resources)**



FTE Estimated Full-Time Equivalent

Costs Estimated costs of direct staff, indirect staff, support, facilities and capital and revenue programme costs

Note – The above estimated costs are based on projected 2014/15 costs, moving to 2017/18 costs in the 'to-be position' (all excluding inflation, optimism bias and loan charge repayments)

What will be the impact of these recommendations?

12.12 This section sets out an initial response to anticipated questions which may arise against the proposals and recommendations contained in this strategic review. More detailed responses to such questions will be a necessary component of the initial stages of the Design phase of the programme, and the resulting communications strategy.

What will the impact be on NIHE Tenants?

One of the key strategic objectives of this fundamental review was improved outcomes for existing NIHE tenants and they will be positively impacted in a number of ways, including increased investment levels in the maintenance of their houses and landlord services delivered by an organisation which is run as a business, ensuring effective and efficient responses to tenant needs.

Tenants will be the owners (members) of the new 'mutual' Social Enterprise and as such:

- Tenants will have representation on the board of the new organisation (we have suggested this representation is in the form of a number of non-executive directors) – with this representation tenants will be able to both provide direct feedback on service delivery as well as shaping the future direction and priorities of the landlord;
- Tenants will, subject to the availability of a trading surplus, benefit from a "dividend" in the form of funded community-focused projects and initiatives. While the exact mechanisms and parameters for this 'dividend' have yet to be defined, this concept provides an innovative and new investment stream for local communities; and
- Priority may be given to suppliers who will host schemes to train and employ those tenants, currently seeking employment, on its build and maintenance programmes.

It is likely that levels of rent in the housing stock currently owned by NIHE will increase over time, against a general policy of convergence with the levels of rent charged by Housing Associations to social tenants. While the vast majority of tenants (circa 85%) get their rent paid through housing benefit, there is a minority of tenants who pay the rent without any benefit support. Some of this minority will undoubtedly find these rent increases difficult and appropriate support mechanisms will need to be put in place. However, the fact is that the rent currently charged in NIHE housing is so low as not to be sustainable and, in the absence of government funding, if the necessary investment is to be made then rents will have to increase to a higher, albeit still very reasonable, level.

What will the impact be on Staff?

The recommendations contained in this strategic review will have a significant impact on staff:

- All staff currently within NIHE will have their employer changed (as NIHE transitions into a the vision state with new organisations in the Strategic Housing Authority and NIHE Homes Ltd taking on responsibility for the delivery of its core functions);
- Some staff will move out of the public sector, as landlord related posts are allocated to the new Social Enterprise (NIHE Homes Ltd). One possibility is that staff could be represented, perhaps by a nominated trade union official, on the board of the new Social Enterprise although governance arrangements here would need to be clarified; and
- Some staff will have to change their location and/or their job description as the new organisations take on different roles and responsibilities.

While no detailed design work has been undertaken at this stage, it is hoped that any potential for redundancies will be minimised through measures such as vacancy control

(and up to 400 people are scheduled to retire from NIHE in the next 3 years). There will be a strong focus on ensuring the knowledge and skills built up in NIHE and DSD to date are retained, as these will be vital to the success of the new organisations.

There will undoubtedly be challenges for staff and there will be an imperative to treat staff in a respectful and reasonable manner throughout this process. However, the recommendations made in this strategic review represent an exciting opportunity for staff in terms of new job and career opportunities.

What will the impact be on citizens?

The recommendations made in this strategic review will provide a range of beneficial impacts for citizens and taxpayers.

Primarily, the landlord function (with its commitments to future maintenance investment programmes) will be self-financing moving forward, with reasonable levels of rent and the ability to borrow from private sector funders as it requires. The taxpayer will no longer be required to support the investment into the maintenance of public sector housing.

The introduction of a self-financing Social Enterprise landlord (and the payments it will make for leasehold ownership) will allow more public sector grant to be directed to the Social Housing Development Programme, and other programmes, as funding becomes available to the Department for Social Development.

The introduction of an independent Housing Regulator will also have a positive impact on citizens who are tenants in Housing Association properties or indeed the private rented sector as they will now have a champion in terms of the quality and the value for money of the services they receive. The introduction of a Strategic Housing Authority with responsibility for the development of a housing strategy across all tenures types will allow for greater levels of coherence for tenants and owner-occupiers, with the aim of promoting stability and investment in the housing market at a whole.

The redeployment of a significant number of posts outwith the public sector is also in line with the Government and Executive policy to move Northern Ireland from a public sector based economy to a more mixed economy, and the social (voluntary & community) sector will certainly play a major role in this process.

What will the impact be on Housing Associations?

This strategic review makes no direct recommendations on the number or configuration of Housing Associations in Northern Ireland as this was outside the scope of work of the Fundamental Review of NIHE. However, there are a number of the recommendations which (while the detail has to be confirmed) will undoubtedly impact significantly on Housing Associations including:

- The introduction of a new Strategic Housing Authority (SHA) with a holistic and comprehensive housing strategy for Northern Ireland – the SHA will provide truly independent management of the common selection scheme and the Social Housing Development Programme as well as other government funded initiatives;
- The introduction of an open competition for schemes under the Social Housing Development Programme;
- The introduction of a Housing Regulator will bring a new level of independent rigour and robustness to Housing Associations (as it will to all tenure types). This formal regulation should improve external confidence in the sustainability of the sector and ensure that Housing Associations find access to external financing is both easier and cheaper.
- The powers of this new Housing Regulator to set future rent levels for Housing Associations based, for example, on the condition of their housing stock and their future business plans; and

- The introduction of a registration fee for each social and affordable housing unit that a Housing Association manages.

Of course, the existing Housing Associations will have to decide if and how they interact with the new Social Enterprise (NIHE Homes Ltd). Do they regard NIHE Homes Ltd as a threat in terms of its scale or as an opportunity to consolidate procurement and resources to further reduce maintenance costs. While it is extremely difficult to predict the impacts of these changes on Housing Association and without, in any way, trying to be prescriptive we would suggest that the recommendations made in this document may provide a catalyst for a natural evolution of some degree of consolidation in this sector.

Next Steps

- 12.13 We have set out a strategic direction of travel for the delivery of social housing in Northern Ireland. However, this is simply the first step on the journey of transformation that needs to be undertaken and, below, we have set out the next steps that we suggest need to taken.

1. Validate the model

The high-level service delivery model we have described is based on a number of working assumptions. These assumptions reflect the need for political and policy direction to be given in a number of areas where there is typically a range of possible solutions, and typically no one solution that can be described as being “absolutely right”. Ministers and senior officials will want to debate these issues and form their own opinions and preferences about the way forward.

2. Engage with staff and tenants

Now that a broad strategic direction of travel has been articulated, it is time to start engagement with both staff and tenants to ensure both that their concerns are addressed through open and honest communication and that they can have appropriate input to the next detailed design phase.

3. Form the team

The programme of work that is required to deliver this strategic direction of travel is significant and, given its importance, it should be resourced with the best available staff. There is also a requirement for specialist resource in a range of areas including operating model definition, organisation design, change management and legislation. The first step in forming this team is to conduct an internal capacity and capability change readiness survey to identify what, if any, gaps exist internally and then seeking a strategic delivery partner to fill these gaps.

4. Start the Work

There are many activities that can be commenced immediately and, indeed, should be started as soon as possible to avoid future nugatory delays. Areas that such work could focus on before any final decisions are taken around the strategic direction of travel include establishment of programme governance and support mechanisms (e.g. Programme Management Office) and the preparatory work for the detailed design phase.

- 12.14 This strategic review does not articulate a specific solution which is “set in stone” but rather a strategic direction of travel that needs to be refined and built on moving forward.

A new start for Social Housing, a new vision for Housing

12.15 The recommendations in this document set out a broad strategic direction of travel, building on for housing in Northern Ireland which would see the introduction of:

<p>✓ A new Housing Regulator for Northern Ireland</p> <p><i>A new Executive Agency within DSD with legislative independence in the conduct of its regulatory function.</i></p>	<ul style="list-style-type: none"> • Independent inspection and governance across all tenure types • Independent setting of rent levels for social and affordable landlords
<p>✓ A new Strategic Housing Authority for Northern Ireland</p> <p><i>A new NDPB with DSD as sponsoring department.</i></p> <p><i>Housing Council with on-going role in provision of governance, guidance and challenge to this strategic function.</i></p>	<ul style="list-style-type: none"> • Independent assessment of need across Northern Ireland • Development and delivery of holistic housing strategy to meet identified need • Commissioning / delivery of homelessness services • Commissioning and monitoring of programmes
<p>✓ A new Social Enterprise landlord for NIHE's existing stock</p> <p><i>A new social enterprise (company limited by guarantee), established as a charity and governed as a mutual owned by tenants</i></p>	<ul style="list-style-type: none"> • Maintenance investment programme • Landlord housing services • Community cohesion and safety
<p>✓ A new level of joined-up service delivery to citizens</p> <p><i>Coordinated approach to the delivery of services between new SHA, SSA and DEL.</i></p>	<ul style="list-style-type: none"> • Coordination of delivery channels for public services (face-to-face, online and telephone) to citizens • A consolidated network of "Jobs, Housing and Benefits" offices across Northern Ireland

Note: As a consequence of these recommendations the existing NIHE organisation will be wound-up, with a date for implementation of the proposed new service delivery structures of 1st April 2014. Prior to this it is envisaged that there will be a period of shadow operations from September 2012.

12.16 The compelling vision for new structures to deliver social housing, and to contribute generally to all housing, in Northern Ireland can potentially be delivered for a much reduced government financial intervention than the Do Minimum scenario moving forward. In fact we estimate that, based on current assumptions, the proposed strategic direction of travel will result in a **benefit to the taxpayer in real cost terms against the Do-Minimum option of approximately £585m** (£388m in NPC including optimism bias) over the next 30 year period of this review.

12.17 This strategic review sets out a vision that, while it will present many political and operational challenges, represents a positive step-change for housing in Northern Ireland.