



STOCK OPTION APPRAISAL STEERING GROUP
OUTCOME OF OPTION APPRAISAL AND CONSULTATION REPORT
NOVEMBER 2011

Purpose of the Report

1. To advise Durham County Council of the outcome of financial analysis and consultation on potential options for the future financing, ownership and management of the council's housing stock.

2. This report represents the conclusion of the first part of a housing stock option appraisal project that began in October 2010. The report is divided into the following sections:
 - **Section 1:** The background to the council's decision to undertake an appraisal of the options available to it for the future financing, ownership and management of its housing stock.
 - **Section 2:** Key stakeholder involvement in the option appraisal process.
 - **Section 3:** The findings of a comprehensive financial analysis which has determined the levels of investment required in council owned housing stock over the next 30 years and the options available to the authority to meet these requirements.
 - **Section 4:** The outcomes of consultation with key stakeholders on potential options for the future financing, ownership and management of council owned homes; The risks associated with potential options and the actions the council can take to mitigate against these risks should it choose to pursue options.
 - **Section 5:** A conclusion.
 - **Section 6:** A series of recommendations from the option appraisal's Steering Group to move the council into the next stage of option appraisal and to prepare for imminent changes to council housing finance in England.

All of the annexes referred to in this report are included on a CD of evidence that is available upon request.

Section 1: Background

The Durham Context

3. In April 2009 Durham County Council assumed landlord responsibilities for almost 19,000 homes across County Durham.

4. The council inherited a variety of management arrangements for its housing stock from the former district councils of Durham City, Easington and Wear Valley. This included two Arms Length Management Organisations (ALMOs) – Dale & Valley Homes (D&VH)

operating in the former district of Wear Valley and managing around 4,300 homes; and East Durham Homes (EDH) operating in the former district of Easington and managing around 8,500 homes.

5. An ALMO is an organisation set up by a local authority to manage and improve all or part of its housing stock. The key features of an ALMO are:
 - o Ownership of the housing stock remains with the authority.
 - o The organisation is managed by a Board of directors that includes customers, local authority representatives and independent members of the local community.
 - o The local authority remains the legal landlord.
 - o The relationship between the local authority and the ALMO is defined in a legally binding agreement – a Management Agreement - which sets out the obligations of each party.
 - o An ALMO's primary objective has traditionally been to achieve the Decent Homes Standard across the local authority housing stock they manage.
 - o As its name implies an arms length body has a significant degree of independence from its local authority.
6. The council also assumed responsibility for 6,100 homes in Durham City that are managed by DCH (DCH), an in house management organisation (housing department) that has put in place independent governance arrangements to drive service improvement. This includes a non executive board to contribute to the strategic management of housing in Durham City. This arrangement reflects the governance arrangements of the council's ALMOs.
7. The issues that the council inherited and its housing management organisations face are numerous and very complicated:

The council has a complex combination of ALMOs and an in house provider all of which are in relatively early stages in establishing their relationships with the new unitary county council. An understanding of housing services and housing financial management is developing within the council, but in a challenging financial environment.

EDH has a significant unmet backlog of decent homes works. In February 2011 the Government allocated £70M of decent homes backlog funding to improve council owned homes to the decent homes standard in County Durham. £65M of this funding was allocated to EDH with the remainder being allocated to DVH to complete the decent homes programme in Wear Valley. The backlog funding was £37M less than the original funding application submitted by EDH, DVH and the council.

- DVH has almost completed decent homes works to properties in Wear Valley and has started to look ahead to tackling wider issues of neighbourhood sustainability.
- DCH has some refurbishment backlogs that have been accentuated by a recent history of lower levels of funding than the other two areas.
- Different standards of refurbishment (decent homes improvement works) have applied in each of the three former district areas. This has led to different standards in the quality of council owned homes across the county.
- There are also significant issues with stock design and property types, particularly across some areas of the council's housing stock.
- Relatively low values of land and dwellings in many parts of the county are also limiting opportunities for regeneration and redevelopment.

Audit Commission Inspection Ratings of Housing Management Arrangements

8. Between 2009 and 2010 the Audit Commission inspected D&VH, EDH and the council's strategic landlord function.
9. The Audit Commission found that:
 - EDH is providing a "good, two star service" to its customers and has "excellent prospects for improvement" (July 2009).
 - D&VH is providing a "good, two star service" to its customers and has "excellent prospects for improvement" (December 2009).
 - Durham County Council's strategic housing service is providing a "fair, one star service" and has "promising prospects for improvement" (December 2010).

Customer Satisfaction with Housing Management Arrangements

10. Throughout 2010 D&VH, DCH and EDH commissioned separate Status Surveys to determine the satisfaction of their customers with their services.
11. The Status Survey is a standardised national survey used by all housing providers to determine customer satisfaction with housing services, local neighbourhoods and to identify areas for improvement.

12. D&VH commissioned their Status Survey through MEL Research and surveyed a random sample of 2000 customers. 801 customers (40% response rate) responded to the survey.
13. DCH commissioned their Status Survey through Vision Management Systems (VMS) and surveyed a random sample of 2500 customers. 750 customers (30% response rate) responded to the survey.
14. EDH commissioned their Status Survey through Vision Management Systems (VMS) and surveyed a random sample of 3250 customers. 622 customers (19% response rate) responded to the survey.
15. The status surveys found that overall the council's housing management arrangements are performing well. Services are improving and this is demonstrated in substantial increases in customer satisfaction with the housing services provided by all three organisations since 2008.
16. Large scale and sustained investment into the improvement of customer's homes (decent homes) is also having a positive effect on customer's perceptions of the quality of their homes and neighbourhoods. This coupled with well embedded customer involvement practices in the ALMOs (and developing involvement services in DCH) has meant that a large proportion of customers feel they are getting value for money for their rent. Status Survey findings (headlines) are illustrated in Figure 1:

Figure 1: Status Survey Headline Satisfaction Results

Key Question - Satisfaction with...	D&VH			DCH			EDH		
	2008 %	2010 %		2008 %	2010 %		2008 %	2010 %	
Overall service provided	80	88	↑	80	83	↑	78.9	83.7	↑
Overall quality of home	78	88	↑	82	75	↓	74.1	78.4	↑
General condition of the property	76	86	↑	78.5	75	↓	70.2	74	↑
Neighbourhood as a place to live	82	87	↑	87	87	↔	83	86.3	↑
Value for money for rent	79	86	↑	80.3	79	↓	74.2	78.8	↑
Repairs and maintenance service	78	86	↑	74	83	↑	73.6	81	↑
Keeping tenants informed	78	91	↑	63.3	67	↑	75.5	84.3	↑

17. It is clear that the council's existing housing management arrangements are consistently improving customer satisfaction with the housing services they provide. This can be attributed to the ability of the ALMOs (in particular) to focus exclusively on the delivery of housing services that meet customer needs; invest in homes and neighbourhoods; and actively involve customers in service design, delivery and development.

Costs of Housing Management Arrangements

18. The council pays D&VH and EDH for carrying out services on its behalf, by way of a management fee. The management fee is calculated on the basis of stock size, repairs and maintenance investment requirements and the resources each ALMO needs to provide management arrangements to support the delivery of housing services.

19. The council also allocates resources to DCH for investment in homes and services through its annual HRA budget cycle. This includes the costs for managing and maintaining homes in the Durham City Area. The council reviews DCH annual budget in line with the Medium Term Financial Plan. The budget is set each year and takes into account efficiencies and the external environment that DCH is operating in.

20. The management costs of each of the council's housing management organisations are set out in Figure 2:

Figure 2: Management Costs per Housing Management Organisation 2009 - 2012

Year	D&VH (£)	DCH (£)	EDH (£)
2009/10	5,851,000	8,012,106	12,260,000
2010/11	5,911,000	8,047,572	12,383,000
2011/12	5,911,000	7,486,180	12,355,000

21. The costs of the council's existing housing management arrangements compare well with those of national averages. However preliminary analysis of the total costs of management, support and back office services (undertaken by Consult CIH in May 2011) suggest that:

- There is a variety of experiences of support, management and central cost structures between the three provider organisations, with EDH having a full infrastructure, D&VH partially sharing services with the council and the council supporting both DCH as well as central costs within the HRA.
- Service sharing between the three providers is already underway (i.e. income collection and cashiers).
- The total of support costs is not insignificant and may offer some potential for further detailed exploration of opportunities to meet efficiency targets set in the council's Medium Term Financial Plan.

22. If the council is to undertake a thorough evaluation of the options available to it for the financing and management of its housing stock it must determine how affordable and sustainable its existing arrangements are, within the context of a thirty year business plan.

Reform of Council Housing Subsidy Arrangements

23. In February 2011 the Government published its proposals to dismantle the existing Housing Revenue Account (HRA) subsidy system and introduce a system of self financing for council housing from 1st April 2012.

24. The change is in response to widespread criticism that the existing HRA subsidy system is complicated and does not deliver sufficient funding for councils to manage and maintain their homes in the long term.

25. A system of self financing will allow councils to keep all of their rental income to enable effective long term planning to subsidise improvements to housing services, homes and housing regeneration programmes. However, in order to bring about this change the Government advises that it must readjust each local authority's current housing debt. The Government's intention is to give each authority a level of debt it can support based on a valuation of its housing stock. Valuations are based on assumptions about each local authority's income and its expenditure needs over the next thirty years. Durham County Council's indicative housing valuation (or debt allocation) is £216M. The Government will revisit this figure in November 2011 and confirm a final housing valuation in January 2012.
26. The Government is explicit that prudential borrowing rules will be maintained to ensure that borrowing is affordable locally. The Government is also clear that housing subsidy reforms must not jeopardise its first priority of reducing the national deficit. Therefore the Government will limit the borrowing for council housing in each local authority to the maximum of the housing valuation level (£216M in Durham County Council's case).
27. The Government will introduce the self financing system in April 2012 through the Localism Bill. The introduction of a self financing system for council housing is not an optional change and 171 authorities across the country (including Durham County Council) are required to make arrangements for the implementation of the system in April 2012.
28. It should be noted that the self financing system allows the council to generate and retain significantly more resources than if the current HRA subsidy system were to continue. All of the factors affecting the subsidy settlement will be re-examined by the Department for Communities and Local Government (DCLG) in November 2011. DCLG will check inflation levels and consider projected demolition and disposals of housing stock. This will enable DCLG to recalculate a debt settlement figure. A revised debt settlement figure will be issued in November 2011 and a final debt settlement figure will be confirmed in January 2012. Based on increases in inflation, the council should expect its debt settlement to be increased to somewhere in the region of £230M - £235M.
29. The council is constantly monitoring the factors that affect the subsidy settlement to enable it to prepare a balanced five year (medium term) HRA business plan. This plan will enable the authority to manage resources and direct investment into homes and services effectively and start to repay the debt. The draft medium term HRA business plan will be proposed to the council in December 2011.

30. In June 2010 the council's Cabinet considered the Government's housing subsidy reform proposals within the context of projected levels of investment required by the housing stock over the next thirty years and the Government's intention to limit the council's ability to borrow to support improvements to homes, services and neighbourhoods.
31. Cabinet concluded that the council must ascertain exactly how much investment is required over the next thirty years to sustain increasing customer satisfaction and high quality homes. Cabinet also concluded that the council must investigate the variety of options available to it to access the funding it requires. The investigation must also consider what funding requirements and potential options may mean in terms of future management and ownership of the housing stock.
32. The council subsequently agreed with D&VH, DCH, EDH and other key stakeholders (including customers, councillors and partners) that it would run an open and transparent stock option appraisal process.
33. The council also committed to placing customers at the heart of decision making; to involve stakeholders in determining the best option or mix of options; and to appoint specialist advisers to guide the council in identifying appropriate options.

Section 2: Stakeholder Involvement in the Option Appraisal

34. The council must have its option appraisal "signed off" by the Department of Communities and Local Government (DCLG) and the Homes and Communities Agency (HCA) if it is to implement its decision. To achieve sign off, the council must provide clear evidence that stakeholders have been given a variety of opportunities to make a meaningful contribution to the process and have some ownership of its conclusions.
35. The council worked with customers, councillors, Board members and staff to draw up a detailed Communication and Consultation Strategy and Tenant Empowerment Statement. The Strategy and Statement are included at Annex A.
36. The Communication and Consultation Strategy and the Tenant Empowerment Statement identified key stakeholders in the option appraisal process as being:
 - Tenants and leaseholders
 - Families and carers of tenants and leaseholders
 - The staff of D&VH, DCH and EDH and their Trade Union representatives

- Durham County Council staff (particularly staff that work closely with the Council's housing services providers) and their Trade Union representatives
- Councillors
- Board members of the Council's housing services providers
- A Project Board that is made up of the Chief Executives of D&VH and EDH and the manager of DCH, the Chairs of each of the company's Boards, the Portfolio Holder for Housing and the Council's Head of Housing
- Joint HRA Board
- Tenants Panels and other Tenant and Resident Associations
- Potential tenants e.g. applicants expressing an interest in a Council owned home and future users of the service
- Partner organisations including other Registered Providers (Housing Associations) and strategic bodies such as the Housing Forum and Area Action Partnerships
- The media

37. The Strategy and Statement also set out the variety of ways that stakeholders can engage in the process, including:

- Publishing newsletters and articles in the County News; staff newsletters and elected member briefing notes.
- Running formal briefing and training sessions for all stakeholders led by council officers and consultants.
- Running special consultation events for all stakeholders (such as surgeries, exhibitions, displays and workshops) so all stakeholders are given an opportunity to discuss the stock option appraisal and potential options.
- Using innovative communication tools such as Facebook, Twitter, blogging and intranets.
- Ensuring information is available in a variety of community meeting places and hubs and in a variety of formats.
- Advertising the stock option appraisal process, potential options and its key outcomes at crucial stages in the project in public places.

38. The Communication and Consultation Strategy and Tenant Empowerment Statement were tested against the council's Equality Impact Assessment (EIA) throughout their preparation and implementation. The EIA was informed by using the customer profile data of D&VH, DCH and EDH. Each organisation also submitted data on staff profiles and Board member information.

39. The EIA suggested that the council would have difficulty engaging with younger customers particularly those in the 18 – 40 years old group. Additional effort was put into engaging with this group including a dedicated option appraisal web page, Twitter, blogging, telephone surveys and text messaging.

40. The council also worked with customers, councillors, Board members and staff to identify a set of eight key objectives to guide the outcomes that any option the council considers must achieve.
41. The objectives were consulted on with customers in a newsletter survey that was distributed to 18,700 homes. The survey asked customers to prioritise the importance of the objectives. 1,162 customers responded to the survey (6.2% response rate). Customers ranked the importance of objectives as being:
- Bringing long term funding to support the improvement and repair of high quality, affordable homes.
 - Protecting tenant's rights.
 - Delivering a good return of new social housing.
 - Local presence and management of housing services.
 - Meeting regeneration needs.
 - Achieving comparable quality between council owned homes and those of housing associations.
 - Improving communication between the owning organisation and customers.
 - Strengthening customer involvement in services.
42. The council also worked with a specially established Customer Working Group to appoint Engage Associates to act as an Independent Tenants Advisor (ITA) to empower and advise tenants and leaseholders throughout the stock option appraisal process. Engage Associates were appointed to:
- Identify and deliver training on option appraisal and support to tenants and leaseholders and other stakeholders.
 - Identify and advise of barriers to meaningful customer involvement.
 - Advise customer representatives at key meetings and prepare them for such meetings.
 - Check facts and assumptions for customers and advise them on some of the key assumptions such as underlying stock condition information, HRA business plans and housing strategies.
 - Advise customers on the detail and deliverability of options.
 - Advise and check the delivery of the empowerment strategy.
43. The Customer Working Group is made up of three customers from the Durham City area; three customers from the Easington area; three customers from the Wear Valley area; and one leaseholder representing leaseholders across all of the areas.
44. The council also established an overarching option appraisal's Steering Group to monitor the project's progress, receive and analyse important information and make recommendations to the council on the best options or mix of options for the council's

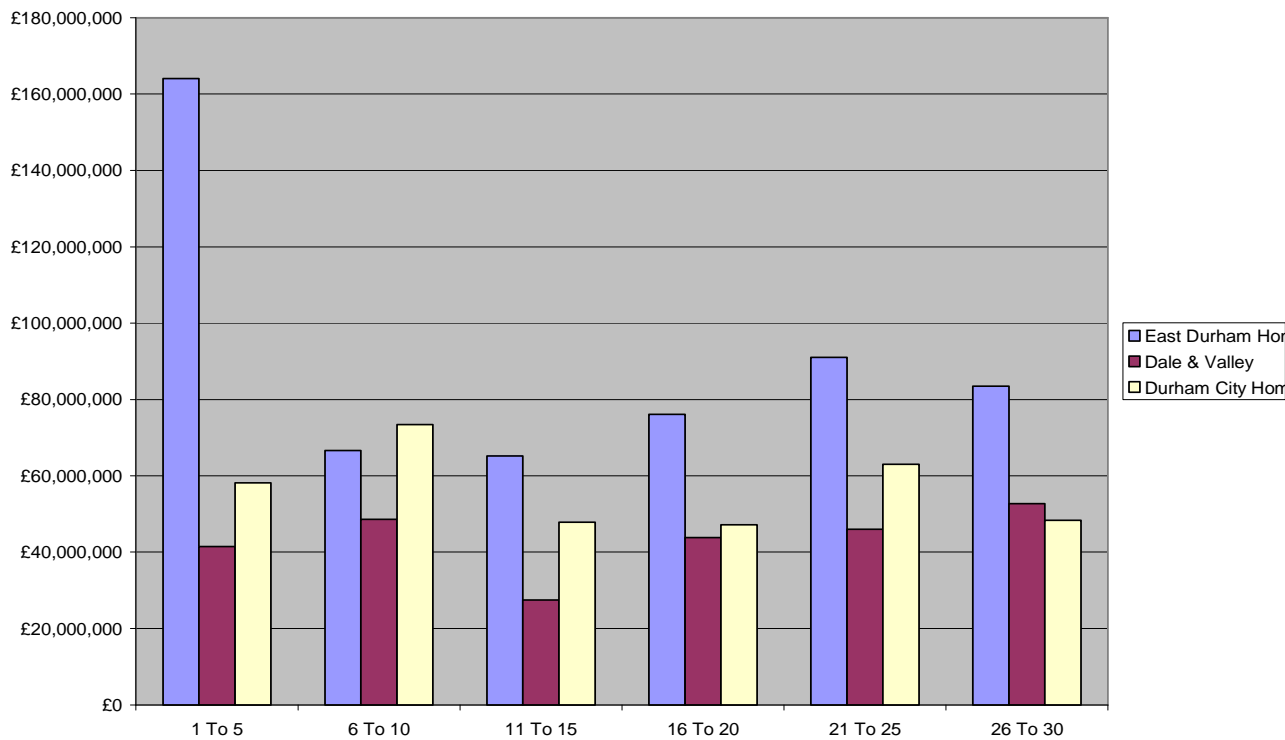
housing stock. The option appraisal's Steering Group brings together members of the already established Customer Working Group and:

- Three staff representatives from each of the Council's housing management organisations.
- Three Councillors each representing one of the Council's major portfolios of housing, economic development and regeneration and resources.

Section 3: Financial Analysis of Stock Investment Requirements

45. Investment in the housing stock is the single largest area of expenditure in the council's HRA business plan and so accurate, up to date data on stock composition, condition and costs of renovation and improvement work is essential to complete an informed stock option appraisal.
46. In December 2010 the council appointed Savills Commercial Ltd to undertake a condition survey of a representative sample of the housing stock. Savills were also asked to provide the council with the necessary warranties in the event that a stock transfer is chosen as the preferred option.
47. Savills validated the stock information already held by EDH. The council and EDH judged that because EDH already held a substantial amount of stock condition data it was not value for money to produce new survey data for EDH. Once further investment work is complete a warrantable stock condition survey will be required for EDH. This is particularly important if the council decides to undertake a transfer of its housing stock in East Durham in the future.
48. The collation of stock condition data and the development of a set of investment profiles were completed at the end of March 2011. Investment profiles include elements of work that are in addition to the decent homes programme. The profiles also referred to work that the council must undertake to keep homes in a good and sustainable condition in the long term.
49. The stock condition survey found that the council's housing stock requires around £797M of investment over the next thirty years. This is roughly equivalent to £40,000 per property.
50. In January 2011 the council was awarded almost £70M of backlog funding to invest in the completion of the decent homes programme in East Durham and in Wear Valley. The stock condition survey found that once this funding is invested the need for renewals and maintenance becomes broadly consistent across the three provider areas. This is represented in the following chart in Figure 3:

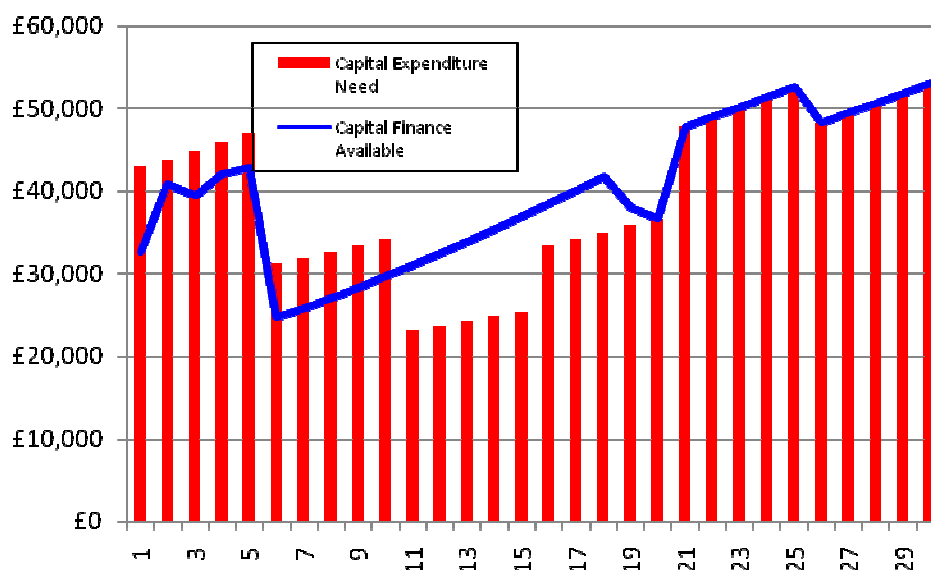
Figure 3: Investment Needs – Thirty Year Profile



51. The profile shows that the need for investment arises at different times in the thirty year business plan for each provider. For EDH, the most pressure to invest is within the first five years of the thirty year business plan. For D&VH and DCH the most pressure to invest arises between years six and ten of the business plan. This is because some of the components in homes will reach the end of their lifecycle and require replacement or significant maintenance.

52. In summary up to £388M of investment is required by the council's housing stock in the first ten years of the thirty year business plan. Analysis of the council's income and allowances indicate that only £333M is available to the authority over the same period. This leaves a shortfall of £55M rising to £63M with inflation. This is represented in the following chart in Figure 4:

Figure 4: Durham County Council HRA Income and Capital Expenditure Projections



Modelling a Thirty Year Business Plan for Council Housing

53. In April 2011 the council appointed Consult CIH and their partners Savills to provide specialist financial advice to identify options for the future financing of the housing stock and to assist in finalising a thirty year business plan.

54. In formulating the business plan Consult CIH and Savills have considered:

- The budget for 2011/12 complete with management efficiencies of £1.5M and £3M factored in over years two and three in the business plan (respectively).
- The management costs of each provider organisation.
- The latest stock condition survey outputs.
- The latest self financing debt settlement (£216M).
- The availability of £70M of backlog funding available to the authority to bring homes up to the decent homes standard.
- The financial performance of the council's housing stock and how this performance may affect the long term business plan.

55. Consult CIH have advised the council that it can deal with the shortfall in its business plan in a variety of ways. If the council retains ownership of the stock then its ability to borrow to supplement its business plan will be severely restricted in accordance with the borrowing limit imposed by the Government. Therefore the council must seriously consider the ways that it can enable borrowing above the debt cap to invest in its housing stock

and bridge the gap between its investment requirements and available resources.

56. The council could consider the deferral of some improvement works to its homes until year eleven of the business plan. Year eleven marks the beginning of a period when the pressures on the business plan are not so great.
57. Deferral of works across all three areas is a possibility if they are carefully planned and prioritised in a detailed asset management strategy. However, Consult CIH has advised the council to be cautious when deferring works as it can mean departures from industry standards. Deferral can also lead to component failure, high maintenance costs and reductions in customer satisfaction. Deferral of works may also prevent the council from clearing the £216M of debt it has been allocated by the Government. The council could remain in nearly £100M of debt at the end of the thirty year period if it was to choose to defer works.
58. The council is clear that it wishes to implement a stable, affordable business plan that enables investment and the repayment of debt. Consult CIH has advised that in order to do this the authority must make efficiency savings in current management arrangements (to reduce costs) and in ensuring that capital investment is made only in homes and neighbourhoods that are sustainable. This will ensure that the council directs limited funding efficiently and effectively.
59. The council's efficiency savings must equate to £2M and must be sustained each year until the end of the business plan period. The £2M of efficiencies must also be in addition to the £3M of efficiency savings already identified in the council's Medium Term Financial Plan.
60. It is important to note that Consult CIH recommend that the council must achieve efficiency savings to balance the thirty year business plan and repay its debt allocation no matter which option the council selects for the future financing, management and ownership of the stock.
61. To support Consult CIH's financial analysis of potential options, Savills Commercial Ltd have also developed an asset management model to assist the council in understanding how it can increase capacity in the business plan by prioritising strategic investment into the housing stock.
62. The modelling effectively splits the council's homes into "asset groups" - types of properties and their locations. Asset management modelling effectively captures all income and expenditure associated with properties over a thirty year investment period and discounts it back to the present day to produce a Net Present Value

(NPV). This provides a measure of worth. It does not represent a formal valuation of the stock.

63. The thirty year NPV of the council's tenanted housing stock stands at £71,575,000 or £3819 per home. This average reflects other non inner city urban authorities. Savills suggest that 48% of the housing stock is delivering marginal to poor financial performance. This means that the council needs to explore these types and locations of properties in more detail to ensure it is not investing resources into properties that it may never recoup through rental income.
64. Savills are confident that there is some good potential to improve the value of assets through management initiatives such as increases in income or service charges or reductions in underlying maintenance or repair expenditure or a reduction in voids. Savills advise the council to work with D&VH, DCH and EDH to understand this performance and to identify possible efficiency savings that could increase capacity in the business plan.
65. Savills also ask the council to note that the HCA and DCLG will expect to see evidence of the council's consideration of the financial performance of its housing stock. The HCA and DCLG will expect to see:
 - Detailed analysis being used to inform decision making in terms of where to target funding and identification of which assets will return the best value for money from investment.
 - Consideration of the long term sustainability of neighbourhoods and stock types.
 - A comparable investment standard across all areas informed by customer consultation and fully costed.
 - Clear linkages between asset modelling and the need for business plan efficiencies to secure financial viability and used to inform negotiations with DCLG around funding for the delivery of future options, particularly transfer proposals.
66. The council and its housing management organisations have recognised the urgency of identifying efficiencies both in management costs and asset management. Efficiency savings are already the subject of further discussion between the council, D&VH, DCH and EDH at a specially convened Self Financing Task Group. The Group has started to explore the development of an asset management strategy to ensure capital investment is made into sustainable housing stock. The Group has also started to explore degrees of change within the council's existing housing management arrangements to reduce costs.

Potential Options

67. In order to deal with the shortfall in investment, meet customer priority objectives and develop an affordable and sustainable thirty

year business plan, Consult CIH have also modelled a number of potential options for the future financing, ownership and management of the council's housing stock. The models are:

68. Stock Retention: The Council could retain ownership of the housing stock. Potential models include the achievement of efficiencies by collapsing the ALMOs and reabsorbing housing services back into the authority. This could release resources for reinvestment into the business plan to close the funding gap. There are a small number of council's in England that have already chosen this option – Northumberland County Council is the most recent example.
69. There are a number of advantages to the collapse of the ALMOs and a reabsorption of services back into the authority. The council would remain the legal landlord, so customers would remain secure tenants of the authority and their rights would be unaffected. Efficiency savings could be achieved through reductions in management costs and organisational structures. The council could reinvest efficiency savings into service provision and level council housing services to a consistent standard across County Durham. Retention of the housing stock and reorganisation of existing housing management arrangements would also have fairly predictable TUPE implications.
70. There are a number of disadvantages to the council collapsing the ALMOs and reabsorbing housing services back into the authority. The council will continue to face a cap on its ability to borrow after April 2012. In the long term, the efficiencies achieved from the collapse of the ALMOs would be unlikely to close the gap between available resources and required spend. This would mean the delivery of a basic business plan and may mean that the authority is left servicing debt at the end of the thirty year period.
71. Other disadvantages include deterioration in the interface between the landlord and customers, as housing services simply become part of the council's wider customer service function. This could have a major impact on customer satisfaction levels. DCLG Guidance – Review of Arms Length Management Organisations (2006) states that ALMOs should be retained unless there is a demonstrable benefit to tenants; and that an authority contemplating a major change such as bringing the service back in house, should undertake the same level of consultation and engagement with customers as it undertook when establishing the ALMOs. This will include a test of opinion. The significant improvements to homes, services and neighbourhoods delivered by the ALMOs mean it is unlikely that customers of D&VH and EDH would agree to a return of housing services to the council.
72. The council could also consider retaining ownership of the housing stock and continuing to use one or a combination of ALMOs to

manage its housing stock. There are a number of advantages to this option. The ALMO model represents flexibility in adapting to local priorities, as well as being able to deliver efficient high performing housing services. Importantly the ALMO model is also recognised as a useful transfer vehicle. This is demonstrated in a variety of recent successful stock transfers to ALMOs i.e. Bolton at Home. A flexible model that can be used as a transfer opportunity may be useful to the council in the long term.

73. There are also a number of disadvantages to retaining ownership of the housing stock and continuing to use the ALMO model. There will continue to be limited resources available to the council in the long term to invest in its housing stock. An ALMO model cannot improve this position. The council will also continue to face a cap on its ability to borrow after April 2012.
74. The council must also be mindful that from April 2012 it must implement arrangements to deliver the new system of self financing for council housing. At that point the council will still be the owner of 18,700 homes and will continue to operate three housing management organisations to deliver services. The council must assume that it will continue to own the housing stock at least in the medium term (next five years).
75. The ability of the council to access additional funding to ensure that council housing does not slip back into the provision of poorly maintained properties that do not adequately meet customer expectations is a major issue for the council. When implementing self financing arrangements, the council must closely examine ways to raise or release more funds to invest in the housing stock. One of these ways is the achievement of sustainable levels of efficiency savings. If the council chooses to preserve the ALMO model it must explore how savings can be made through revisions to existing arrangements. Consult CIH recommend that the council also explores the savings that could be made through the creation of a single Arms Length Management Organisation (ALMO).
76. As part of its preparations for the implementation of affordable and sustainable self financing arrangements, the council must also consider how it can carefully plan and prioritise capital investment through a detailed asset management strategy. This will enable the council to target funding on assets that deliver the best value for money from investment. It should also assist the council in developing an affordable and comparable investment standard across all areas (following consultation with stakeholders).
77. It is crucial that the council continues to work with D&VH, DCH and EDH to complete a review of the costs of existing housing management organisations and asset management and compares these costs with alternative stock retention models. The council also

needs to consider the relationship of these costs with the needs and aspirations of customers for their homes, neighbourhoods and the services they receive. This piece of work should be completed quickly to support the council in developing a model for self financing that is flexible enough to adapt to changing priorities, is affordable and is sustainable at least in the medium term.

78. The council's customers are clear that their first priority is for the council to access long term funding for investment in the housing stock. On this basis Consult CIH have also modelled a Large Scale Voluntary Transfer (LSVT) for the authority.

79. An LSVT is a term used to describe the transfer of the whole or a substantial part of a council's housing stock to a new or existing social landlord (also known as a Registered Provider – RP). This can include transfer to the council's existing housing management organisations. The key advantages of an LSVT are:

- LSVT's are a familiar process. They have been undertaken since the early 1990's and many stock transfers have taken place successfully in County Durham.
- Transferring tenants are offered benefits such as stock investment programmes and rights as "assured tenants".
- The transfer takes place on the basis of a price (based on the Tenanted Market Value – TMV) offered to the authority for the stock. TMV is calculated by assuming affordable rent levels and good standards of maintenance and forecasting income and expenditure over thirty years. The forecast surplus for the period is used as a basis for calculating the capital value¹.
- Transfers enable increased investment in improvements to the housing stock and to living environments without calling on public sector housing budgets or putting pressure on the public sector borrowing requirement.

80. Consult CIH has advised the council that the LSVT of the whole stock to a new or existing Registered Provider is unlikely. This is because the total stock TMV is valued at £5.6M. If the council was to try to transfer its stock using this valuation (on the basis of the other stock transfers that have taken place in the County) it would require the Government to "write off" almost all of the £216M it has allocated in debt to the authority. It is unlikely that the Government would support such a proposal.

81. The council may be able to reflect the benefits of a VAT shelter in its business plan in which case the valuation of the housing stock

¹ The council is paid the TMV for the housing stock by the RP and usually uses the proceeds to repay HRA debt. Sometimes the TMV is lower than the level of debt the council has. This situation is often referred to as "overhanging debt" and in these circumstances the council tends to ask the government to fund the difference.

would increase to around £55.9M. The council may also be able to negotiate a reduction in the debt settlement figure to take account of VAT. Consult CIH reckon that this could equate to a reduction of £66M, perhaps lowering the overall HRA debt to around £150M. However, the lower debt settlement and a more positive valuation would still leave a “value for money gap” of around £94M of “overhanging” debt. Initial indications are that the Government are reluctant to clear overhanging debt and so the council would be required to demonstrate how it could manage the “gap” through its own contribution of land or resources, support from a purchasing Registered Provider or through loan agreements with funders. It is likely that the council would also need to enter into robust negotiations with the Government for further reductions in the overall HRA debt.

82. The valuation of Durham City stock is positive because of high decency levels and good rent levels. This could make DCH stock eligible for a partial stock transfer. D&VH stock is also positively valued (albeit significantly lower than DCH stock). Therefore D&VH could also qualify for a partial stock transfer or a joint transfer with DCH.
83. The removal of DCH and D&VH from the council’s portfolio of housing services will reduce the overall debt, but the authority may be left servicing substantial debt with a low level of rental income and high levels of investment need. The council is committed to ensuring that all of its stock receives the investment if requires and will not take a decision that favours one part of the stock over another. Therefore the council would favour an option or mix of options that provide a solution for the “whole stock” and enables investment to be made when required in all areas.
84. There are a number of disadvantages to the council transferring ownership of its housing stock. Government policy on traditional LSVT is unclear. The Government is currently revising the Housing Transfer Manual, with a view to reissuing guidance on stock transfer in the autumn of 2011. The new guidance will represent a refreshed approach to stock transfer, which may preclude sufficient support (i.e. debt write off) to achieve a fundable valuation. It is also anticipated that a new approach to stock transfer will also include a rigorous value for money assessment and an expectation that councils will also provide financial support for transfer proposals.
85. Other disadvantages to LSVT include the requirement that a proposal to transfer the housing stock must also be supported by a majority of customers in a formal ballot. LSVTs often require significant set up costs, especially in terms of funding fees and running ballot processes.

86. In light of the valuation of the housing stock and the fact that LSVT does not provide a whole stock solution for the authority, Consult CIH has also modelled an alternative stock transfer as a potential option for the authority. This would require the transfer of the housing stock to a charitable organisation (possibly one or all three of the existing providers) that is one third owned by the council and two thirds owned by tenants and the local community – a CoCo.
87. A CoCo is an alternative stock transfer because it retains a financial relationship with the council. It would do this through a covenant to service the council's HRA debt, which would remain with the council after the transfer has taken place. The CoCo would covenant to meet the council's interest and repayment obligations on its HRA loans (most of which are likely to be from the Public Works Loan Board).
88. A CoCo has several advantages compared with LSVT or with retaining ownership of the housing stock.
- As with a traditional stock transfer the CoCo model would allow the council to access private sector finance, enabling increased investment in improvements to the housing stock and to living environments without calling on public sector housing budgets or putting pressure on the public sector borrowing requirement.
 - The CoCo effectively avoids the Government's restrictions on debt write off associated with LSVT because it effectively leaves self financing debt in place (at low loan rates).
 - The CoCo effectively creates a community/council ownership structure that represents partnership rather than separation.
89. The new landlord could be one or all three of the council's existing providers. Most of the staff required to run the housing service provided by the CoCo would have already transferred from the council to its ALMOs when they were set up. There would be a few staff (mostly working for DCH) that would transfer from the council under the new model.
90. There are some clear advantages in transferring the stock to a CoCo for the council and its customers. The model works financially for each of the council's housing management areas. Borrowing would be enabled and so investment could be made when required.
91. Efficiencies would still be required, but could achieve even greater benefits to the business plan. The CoCo model makes excellent use of existing ALMOs arrangements because it enables customers to continue to play an active role in influencing and shaping housing services. This could also have a positive affect on a ballot of customers to transfer the housing stock to a CoCo.

92. There are also some disadvantages to the CoCo model. The Government's approach to the whole concept of stock transfer is uncertain and the Government have not made their views on the innovative model known yet. The CoCo model has never been implemented anywhere else; although in September 2011 Gloucester City Council and its ALMO Gloucester City Homes announced that they plan to transfer the council's housing stock to a CoCo.
93. Other disadvantages include the fact that the CoCo would be required to pay VAT and would require the Government to account for this in its debt settlement, adjusting it accordingly (reducing it from £216M to £150M). The model is also reliant on the Government's agreement to provide a fifteen year VAT shelter. The landlord would also change from the council to the CoCo (as with a conventional LSVT) so a tenant ballot would be required to demonstrate tenant support. Unfamiliarity with the model and its novel relationship with the council could have a negative affect on a ballot of customers to transfer the housing stock to a CoCo.

Identifying Options for Consultation

94. The council is committed to ensuring that the identification of potential options and models is as transparent as possible. To achieve transparency the council decided to undertake a stakeholder jury session to provide an opportunity for stakeholders to weigh up the advantages and disadvantages of each option; discuss potential implications; and agree the most appropriate options to go forward for full consultation.
95. The stakeholder jury session went ahead on Friday 24 June 2011. The session was facilitated by Engage Associates (Independent Tenant Adviser). The session was attended by the option appraisal's Steering Group, which includes three Councillors (Cllr Robson, Cllr Napier and Cllr Foster); the Customer Working Group; and three staff members representing each of the provider organisations.
96. The stakeholder jury were provided with expert advice on the most financially viable options and the affect each option could have on the long term business plan. The stakeholder jury also received presentations from D&VH, DCH, EDH and Durham County Council on their preferred options. The stakeholder jury used this information to rank options against the project's key objectives. The results of these discussions are illustrated in the table set out at Figure 5.

Figure 5: Ranking of Potential Options

Objectives	Potential Options		
	Retention	LSVT	Alternative Stock Transfer
Bring long term funding to support the improvement and repair of high quality affordable homes	X	✓	✓
Improve communication between the owning organisation and customers	X	✓	✓
Protect tenant rights		X	✓
Strengthen customer involvement in housing services	X	X	✓
Deliver a good return of new social housing	X	✓	✓
Ensure there is a comparable quality between the homes of council customers and those of Housing Associations	X		✓
Local presence and management of housing services	✓	X	✓
Regeneration needs are met	X	✓	✓

X = No

✓ = Yes

97. The stakeholder jury found that the council's should consider making its long term aim the transfer of the housing stock to enable borrowing abilities to ensure that funding is obtained to continue to invest in homes, neighbourhoods and services (customer's first priority objective). However, the jury also expressed concern that tenant's rights may be affected by a traditional stock transfer; and that transfer to a large existing Registered Provider may impact on the local delivery of services.

98. The jury recognised the various issues associated with the pursuit of a stock transfer proposal, but suggested that stock retention could not achieve the required levels of investment over the long term, which would widen the gap between the quality of a council owned home and homes managed by Registered Providers. The stakeholder jury was also concerned that a collapse of the ALMO model may significantly undermine communication with customers and their involvement in service improvement.

99. Therefore, the stakeholder jury recommended that the council consult with its stakeholders on the possibility of a transfer of the

housing stock. The stakeholder jury also identified five potential models to implement the transfer option and recommended that the council also consult on these five models. The models are represented in the table set out at Figure 6.

Figure 6: Potential Models for Full Consultation

	EDH	DCH	DVH	Comments
1	CoCo	CoCo		Debt write down £66m - £2m efficiencies needed – could be a Group (synergy)
2	CoCo	ALMO		Debt write down £48m - £1m efficiencies CoCo/£1-2m HRA
3	CoCo	LSVT	CoCo	Debt write down £66m – receipt £50m - £2m efficiencies needed in CoCo’s and Council
4	CoCo	LSVT	LSVT	Debt write down £66m – receipt £64m - £2m efficiencies needed in CoCo and Council
5	CoCo	LSVT		Debt write down £66m – receipt £64m - £2m efficiencies needed in CoCo and Council

- 100. The stakeholder jury also recommended that the council begin discussions with the Government immediately to determine the likelihood of agreement to a proposal to transfer the housing stock.
- 101. The stakeholder jury took account of the risk that the government could refuse the council’s proposal on a basis of valuations, or value for money issues or could ask that any transfer of the housing stock be postponed until the new system of self financing is embedded.
- 102. To mitigate against this risk and to ensure that the council makes the necessary efficiencies to be able to implement affordable self financing arrangements the stakeholder jury also requested that the consultation process also include discussions on potential efficiency savings, proactive asset management and the reorganisation of existing housing management arrangements.

Section 4: Outcomes of Consultation

Customer Consultation: Communication and Consultation Strategy and Tenant Empowerment Statement

103. Full consultation with customers began at the end of June 2011.
104. Engage Associates (ITA) led consultation and communication with customers on potential options for the housing stock. This was to ensure that customers were provided with balanced, impartial advice on the future of their home, neighbourhood and the services they receive. A copy of Engage Associates final report on the outcomes of customer consultation is set out at Annex B.
105. The customer consultation programme was designed by Engage Associates, the Customer Working Group and the council. A copy of the customer consultation programme is set out at Annex C.
106. Overall, the response rate of customers to the consultation process varied between 4.6% and 6.3%.
107. Over ninety separate events were offered ranging from summer suppers and quizzes, to presentations at well established residents associations. In total 876 people engaged in face to face discussions about the options (4.6% response rate).
108. Two newsletters were distributed to all 18,700 of the council's homes setting out the objectives of the project and explaining potential options. Each newsletter included a free post section that customers could complete return to the ITA. 1,162 customers responded to the first newsletter (6.2% response rate) asking customers to prioritise objectives and 1,099 customers responded to the second newsletter (5.8% response rate) that tested understanding of the option appraisal and potential options.
109. In August 2011 the Customer Working Group led a review of progress in consultation activities and found that customers aged between 18 and 40 years were not actively engaging in the process. A text message was subsequently sent to 1000 customers aged 18 – 25 years asking them if they had heard about the option appraisal process. 63 customers responded to the text message (6.3% response rate) and stated that they did know the council was exploring options for the future financing ownership and management of its housing stock.
110. A telephone survey was undertaken with 100 customers aged 26 to 40 years. 91 customers agreed to complete the survey (91% response rate). 93% of respondents said they were aware that the

council was exploring options for the future financing, ownership and management of its housing stock. However, only 46% of respondents said they understand why and a disappointing 40% of respondents were aware of what the options actually are. Engage Associates advise that as the council progresses into the next phase of its option appraisal it is crucial that it concentrates on engaging with younger customers to improve awareness of options and their implications for customers. This is particularly important if the council is to undertake a ballot on a stock transfer proposal in the future.

111. Formal responses to the consultation process were also submitted by the customer representative forums of D&VH, DCH and EDH. This included:

- DCH Tenants Panel.
- Housing Partnership (the customer group associated with East Durham Homes).
- Wear Valley Customer Panel (the customer panel associated with D&VH).

112. Engage Associates found that the most successful methods of engagement with customers were:

- Newsletters.
- Attendance at community groups and resident association meetings.
- Freephone number.
- Social activities such as pie and pea and summer suppers;
- Focus groups – where interested customers could be actively encouraged to attend.
- Text messaging and telephone surveys.
- Website.

113. Engage Associates found that the following methods of communication were not successful:

- Attendance at Sure Start Groups.
- Attendance at public events that were not held in areas with a high concentration of council owned homes.
- The Launchpad Bus - unless it is located in council owned neighbourhoods.

Outcomes: Newsletter

114. In August 2011 Engage Associates distributed a newsletter to all 18,700 council customers asking:

- Are you aware that Durham County Council is your landlord?
- Are you aware that Durham County Council is looking at the options available to it for investing in your home and neighbourhood in the future?

- Do you feel you've had enough information to help you to understand:
 - Why the council is looking at options for the future financing, ownership and management of its homes?
 - How the options may affect you?
 - What the options are?
- Do you think the council should explore the options available to it to access more money to invest in your home, neighbourhood and the services you receive?
- How do you think the council should keep you informed about the options it is looking at?
 - More newsletters
 - Regular meetings with customers
 - Roadshows and displays
 - Websites
 - Freephone number
 - Other

115. 1,099 customers responded to this survey (5.8% response rate):

- 98% of respondents stated that they knew the council was their landlord.
- 83% of respondents said they were aware that Durham County Council was exploring options for the future financing, ownership and management of its homes.
- 70% of respondents said they understand why the council is exploring options.
- 65% of respondents said they know what the options are.
- 58% of respondents felt they had had enough information to understand how the options may affect them.
- 91% of respondents agreed that the council should explore the options available in order to access more money.
- 78% of customers would prefer more newsletters from the council to keep them informed about the options it is exploring.

Customer Consultation: General Outcomes

116. Engage Associates report that there is some evidence of a general awareness of the option appraisal process and potential options. This is particularly evident in the responses of customers that are actively engaged in the option appraisal process or are regularly involved in the activities of the council's housing management organisations. The appetite for transfer was high amongst these customer groups.

117. The response rate to the consultation process is regarded as adequate by Engage Associates (reaching 6.3%). However, Engage Associates emphasise that this response rate does not

guarantee an accurate reflection of the views of the wider customer population.

118. During face to face consultation with customers Engage Associates found that a number of customers do not understand or recognise that Durham County Council is their landlord. Some customers referred to the former district council as their landlord. Other customers referred to their local ALMO as their landlord. Engage Associates advise that it is imperative that customer's awareness of the role and responsibility of the council as landlord and the role and responsibilities of the ALMOs as managing organisations is improved as the council moves into the next phase of option appraisal.
119. Engage Associates also found that the complexity of the options, confusion over existing housing management arrangements and a need for a solution for the whole stock was a clear barrier to understanding for a majority of customers that engaged in the consultation.
120. Engage Associates found that for the understanding of customers who are not involved in the option appraisal process or do not regularly engage with one of the council's housing management organisations, was weak. Engage Associates did spend some time with small groups of uninvolved customers explaining the process and potential options. These sessions resulted in uninvolved customers reporting that they had a better understanding and would consider the possibility of stock transfer.
121. Engage Associates advise that if the council is to pursue a transfer of its housing stock it must make a significant investment in a concentrated programme to raise awareness amongst all customer groups of transfer options and their implications to achieve a positive ballot outcome. The programme should also build in plans to engage with hard to reach groups to ensure their understanding of proposals to maximise turn out at a ballot.
122. Engage Associates reported that customers consistently expressed concerns that their views will not be taken into account when decisions are taken on the future of the housing stock. Engage Associates advise that if the council chooses to pursue a transfer of its housing stock the programme of awareness raising it develops should also include a plan for consistently reassuring customers that the outcome of a tenant ballot will be observed.
123. Throughout the consultation process customers stated that they were concerned that too much emphasis was being placed on the CoCo model instead of other transfer models. Uncertainty about the Government's acceptance of the CoCo model and its unusual name also inhibited enthusiasm for it. Engage Associates also reported

that customers had difficulty in understanding how the model could work and the relationship of the CoCo with the council. These are important issues to consider if the council chooses to transfer all or part of its housing stock to a CoCo as they could impact on a ballot.

124. Engage Associates also found that throughout the consultation process customers were concerned about apparent disparities in rent levels, the differing standards of service received by customers across the County and differences in the quality of council owned homes. These concerns were exacerbated when customers considered of the different levels of investment required in each area. This made it difficult for customers to see the need for a whole stock solution. Engage Associates report that a majority of the customers that engaged in the consultation process continue to regard the area they live in as distinct and not part of a larger picture of council owned housing.

125. Engage Associates found evidence of differences in the views of customers in each housing management area. This made it difficult for the ITA to discern a particular option or options that customers agreed upon:

- For customers who engaged in the process from the Durham City area, protecting tenant's rights and ensuring a consistency in the quality of homes, rents and services are very important.
- For customers who engaged in the process from the East Durham area the local management of services is very important. Customers consistently suggested that local management of services had improved significantly since the establishment of EDH.
- For customers who engaged in the process from the Wear Valley area ensuring access to finance to complete the decent homes programme, sustain improvements and to deliver regeneration and renewal is very important.

126. Engage associates recommend that the council spends some time with customers that are closely involved in the option appraisal to examine and explore all possible governance and management arrangements involved in all potential options. This may assist the council in balancing the different views and priorities of its customers when moving forward into the next phase of its option appraisal.

Outcomes of Customer Consultation: Formal Customer Responses

127. In September 2011 each of the representative customer groups from the housing management areas submitted formal responses to the consultation process. Responses were based on a series of three questions. The questions were:

- What are your thoughts and feelings about the proposal to transfer the housing stock?
 - What concerns do you have?
 - What's good about the proposal?
 - What's bad about the proposal?
- What are your thoughts on the proposed models?
 - What do you think about the combinations?
 - Which model do you prefer and why?
 - What concerns do you have?
- If a transfer proposal is not accepted by the Government what do you think about be done to make the Business Plan more affordable?
 - What efficiencies do you think could be made in existing housing management arrangements?
 - What changes do you think could be made?
 - What affect do you think efficiencies and changes could have on existing housing management providers?
 - How do you feel about this?

128. All of the panels stated that they would support a proposal to transfer the housing stock to access additional funding.

129. All of the panels expressed concern that the CoCo model is untried and untested. This was a particular concern for customers living in East Durham.

130. The Housing Partnership supported the CoCo model in principle as it represents a viable transfer solution for the housing stock in East Durham and it has a strong resemblance to existing ALMO arrangements.

131. All of the panels were concerned that a ballot on a proposal to transfer the housing stock would not achieve a positive result and were anxious as to what that may mean for the long term retention of the housing stock.

132. All of the panels expressed a wish for customers to continue to be involved in the option appraisal process, particularly in the shaping of affordable and sustainable self financing (stock retention) arrangements for however long they are required.

133. Wear Valley Customer Panel proposed a merger of D&VH with DCH to become one ALMO (or CoCo if the stock is transferred). The Wear Valley Customer Panel stated that this may achieve substantial efficiency savings for reinvestment back into the Business Plan.

134. The Wear Valley Customer Panel stated that they favour a CoCo transfer model as this will maintain existing ALMO standards. The Wear Valley Customer Panel were not in favour of any options

where D&VH remains a single housing provider as they feel this does not allow the company to grow.

135. DCH Tenants Panel stated that they would prefer a transfer of housing stock in their area to DCH as a stand alone organisation. DCH Tenants Panel reported that they have little appetite for a merger with D&VH that does not involve a transfer or access to additional funding.

136. DCH Tenants Panel also requested that the council address disparities in rent levels and service provision across the three management areas before seeking further efficiencies.

137. The Housing Partnership recognised that efficiencies are necessary to balance the business plan over the long term. However, the Housing Partnership feels that the council should ensure, where possible, that there is minimal impact on front line services and they should be protected.

Outcomes of Stakeholder Consultation

138. The council's Stock Option Appraisal Project Team also delivered a programme of consultation with key stakeholder groups from the end of June 2011 until the end of September 2011. These groups included:

- The staff of D&VH, DCH and EDH and their Trade Union representatives.
- Durham County Council staff (particularly staff that work closely with the Council's housing services providers) and their Trade Union representatives.
- Councillors, including Overview and Scrutiny Committee.
- Board members of the Council's housing services providers.
- A Project Board that is made up of the Chief Executives of D&VH and EDH and the manager of DCH, the Chairs of each of the company's Boards, the Portfolio Holder for Housing and the Council's Head of Housing.
- The Joint HRA Board.
- Partners of the council and its provider organisations including other Registered Providers, contractors and service partners such as the Citizens Advice Bureau and Shelter.

The programme of consultation for stakeholder groups is set out at Annex D.

139. The programme of consultation included newsletters, focus groups, formal briefing sessions, informal meetings, drop in sessions, exhibitions, displays and suggestion boxes. The activities were well attended and responded to. All stakeholders attended at least one

briefing session. Nine groups submitted a formal response to the consultation process. All formal responses are set out at Annex E.

140. Stakeholder groups were asked the same series of questions as the customer representative groups (set out at point 121).

Stakeholder Consultation: General Outcomes

141. All stakeholder groups have commended the open and transparent approach the council has taken to consultation on potential options for the future of its housing stock. Stakeholders have also congratulated the council on the resources it has made available for a thorough and inclusive option appraisal and the high quality of information it has produced throughout the process.

142. All stakeholders that have taken part in consultation on potential options have asked that the council observe the following principles in reaching its decision:

- The council's decision on the future of its housing stock should be based on a "whole stock solution". This may involve the implementation of a mix of options, but no one part of the stock should benefit to the disadvantage of another part of the housing stock.
- The council's approach to implementing options, determining efficiencies and apportioning debt to determine transfer solutions should be transparent, fair and equitable.
- Any option or options that the council implements must meet customer's key priority objectives of bringing additional long term funding, protecting local services and enabling improved customer involvement.
- The council should also use any capital receipt it receives from a transfer of part or all of its stock to reduce self financing debt.
- If the council retains ownership of the housing stock it must strive to ensure that a council owned home is of the same quality as that of a Registered Provider.

Outcomes of Consultation: Board Members

143. The Boards of D&VH, DCH and EDH strongly support the transfer of the council's homes to enable access to additional funding; maximise investment in homes, neighbourhoods and services; and to regenerate estates.

144. The Boards of each organisation strongly support the transfer of the housing stock to their own organisations. The Board's believe that this

would maximise benefits to communities; focus regeneration activity on individual areas and preserve the organisational identity and excellence of each existing organisation. This would create three new Registered Providers in County Durham.

145. D&VH Board recognises that the housing stock in Wear Valley has a positive valuation. Therefore the Board support the traditional LSVT of the housing stock to D&VH. However, the Board have also expressed a preference for alternative transfer to a D&VH CoCo. This is because the Board believe that the CoCo model will make the best use of existing ALMO arrangements and will continue to place customers at the heart of service design, delivery and development.
146. DCH Board recognises that the housing stock in Durham City has a positive valuation. Therefore the Board believe that a transfer to DCH a stand alone organisation will maximise benefits to customers and ensure a locally managed organisation that will prioritise Durham City and its regeneration.
147. DCH Board also notes that there is a possibility of joint transfer with D&VH to maximise a capital receipt from the transfer. The Board suggests that the council could also consider a merger with another existing Registered Provider and the benefits this could bring should be considered as part of any further work on transfer options.
148. EDH Board support the alternative transfer of the housing stock in East Durham to EDH as a CoCo. The Board recognise the benefits that access to additional funding could bring and the excellent use of existing ALMO arrangements that the CoCo model would make.
149. EDH Board are also aware that because of a negative valuation of the housing stock in East Durham a transfer of the stock to a CoCo is the only viable transfer option. However, the Board attach a number of concerns to their preference for a CoCo model in East Durham:
- The CoCo model is untried.
 - Customer involvement in and support for the CoCo model could be poor because of a lack of understanding of the model and reluctance to engage in consultation processes.
 - Savings required by the HRA Business Plan may affect service delivery and this may lead to a negative ballot result in the future.
 - The apportionment of self financing debt between the three housing management organisations (an exercise the council must undertake to finalise valuations of its housing stock) could have a major impact on the CoCo model. If debt apportionment is not undertaken

sensitively, the partial stock transfers of D&VH and DCH could mean that an East Durham CoCo is left to service an unmanageable amount of HRA debt.

150. All of the Board's highlighted the apportionment of debt as a key issue in need of resolution if the authority is to pursue a stock transfer proposal.
151. The Boards also encourage the council to maximise any capital receipt it receives from the transfer of its housing stock and use that receipt to reduce any remaining HRA debt. This will enable the council to achieve an equitable solution for all of its housing stock.
152. All of the Boards recommend that the council does not implement any changes to existing arrangements that could reduce possible options in the future. A preference for the continuation of the ALMO model was expressed by stakeholders in D&VH and EDH.
153. All of the Boards expressed a strong belief that organisational identity and local service provision should be preserved as far as possible. They believe this as necessary to the achievement of a positive ballot result in the future and to reassure customers that the excellent services delivered by the council's housing management organisations will continue.
154. The Boards of DCH and EDH advocated a merger of D&VH and DCH as soon as possible. In this scenario the council would own two ALMOs. Both Boards feel that a merger would achieve substantial efficiency savings for reinvestment into the business plan and would create a flexible interim solution for self financing as the council further explores a stock transfer proposal.
155. DCH Board is firmly of the view that no moves to merge DCH with D&VH or with EDH should be made until the issue of potential transfer is resolved. DCH Board advise the council that DCH is an organisation of limited capacity and the work required to achieve a successful merger may drain limited capacity further as it is undertaken.
156. All of the Boards expressed their views on the achievement of efficiency savings to enable the delivery of an affordable and sustainable thirty year HRA Business Plan.
157. D&VH Board recommend that:

- Required efficiency savings are achievable under all of the options the council is considering, including the continuation of existing arrangements.
- The council should contribute to the achievement of efficiency savings and make efforts to reduce the levels of General Fund charges to the HRA.
- There is a synergy between D&VH and DCH. A reduction in council control over how and where DCH procures its services may lead to major cost efficiencies for the HRA. D&VH can support this either informally (as a matter of common interest) or more formally through a change in governance structures (merger).

158. DCH Board recommended that:

- There is a recognition that there is a need to increase funding to front line services in Durham City.
- There is a need to move towards a more equitable distribution of resources for housing management services across the three areas and to agree transparent service level agreements that offer good value for money with the council's corporate centre.
- Improved efficiency is required in proactive asset management and the delivery of capital improvement works. The council must ensure that only sustainable homes are invested in; and that modern procurement methods are used to deliver the best possible value for money from investment programmes.

159. EDH Board recommended that:

- The level of required efficiencies should not be restricted to the housing management providers as significant savings may impact on front line services. This may affect the achievement of a successful ballot on transfer proposals in the future.
- Efficiency savings should protect the delivery of EDH capital programme as years three and four funding (potentially £38.4M) are partly dependent on the successful and efficient delivery of years one and two.
- The council and its housing management organisations continue to work together to identify efficiency savings.
- The advantages and disadvantages of establishing a joint ALMO between D&VH and DCH be explored; and D&VH and EDH initially explore the sharing of one back office service as a pilot project.
- Local identity, customer involvement and quality of service are maintained throughout the process.

Outcomes of Consultation: Staff

160. The staff forums of D&VH and EDH each submitted formal responses to the option appraisal consultation process in August 2011.

D&VH Employee Representative Forum: Formal Response

161. D&VH Employee Representative Forum said that following consultation with staff they believe that the transfer of the housing stock in Wear Valley (either traditionally, or to a CoCo) would be the most viable option for future investment in the housing stock and in services to customers in the area and to better safeguard jobs.

162. D&VH Employee Representative Forum suggested that a majority of D&VH staff were generally very positive about the possibility of a stock transfer, but to remain as a stand alone transfer organisation would be preferred. This is because staff felt that the local identity of D&VH is well established and customer satisfaction is high. A merger of all of the organisations may lead to a negative impact on performance and could reduce customer satisfaction.

163. D&VH Employee Representative Forum also expressed deep concern that all transfer options appear to be dependent on the Government's agreement to debt write off, reductions or tax shelters. The Forum were also concerned that the CoCo model is completely untried.

164. D&VH Employee Representative Forum suggested that D&VH staff were not opposed to some form of merger with DCH, especially as part of a transfer proposal. D&VH staff regard the creation of a larger organisation as being a business opportunity and capable of preventing a "take over" by a larger Registered Provider; and as being more cost effective.

165. However, D&VH Employee Representative Forum was clear that D&VH staff felt far less positive about any form of merger involving EDH. This was for a variety of reasons primarily around the condition of EDH stock and that the size and scale of EDH as an organisation may mean that a merger could effectively become a take over. Staff were also concerned that customers would be more reluctant to vote for a stock transfer proposal that represented a merger option as customers may feel that they will lose locally based services.

166. D&VH Employee Representative Forum also reported that staff were aware that all stock retention options could mean significant consequences for jobs security and service delivery. Staff were particularly concerned that:

- Homes in Wear Valley should continue to be improved and maintained to the Decent Homes Standard. There should not be a return to the under investment of the past;
- A return of housing services to the authority would be a regressive step for D&VH services and for customers of the organisation.
- Efficiency savings could lead to larger scale job cuts and could impact negatively on customers. D&VH staff have recently experienced a restructure, and they feel that any further reorganisation involving job losses would have a severe and negative impact on service delivery.
- Any merger of all three providers (with the council remaining as landlord) should take account of the efficiency savings D&VH has already made through restructure when further efficiency savings are considered.

167. The Employee Representative Forum did recognise that for a variety of reasons a proposal to transfer the housing stock may not be an option for the authority in the medium term. In this case the Employee Representative Forum recommended that the council consider an “interim solution” to the shortfall in its HRA Business Plan, and implement an affordable and sustainable solution for the medium term. The Forum suggested that this should involve the creation of a joint ALMO between D&VH and DCH. The Employee Representative Forum suggested that this could achieve efficiency savings in back office functions and would ensure a flexible short to medium term solution for the authority. The newly created ALMO could ultimately be used as a transfer vehicle once the financial atmosphere has improved and Government policy on stock transfer is clear.

EDH Staff Forum: Formal Response

168. EDH Staff Forum’s formal response reflects the views of Forum members only. However the response was circulated to all staff for comment.

169. EDH Staff Forum felt that based on the financial information available the CoCo model is the only real option available to EDH in order that future investment in the housing stock and services be maintained. Therefore EDH Staff Forum supports the recommendation of transferring the housing stock in East Durham.

170. The Staff Forum’s key concerns were:

- The CoCo model is untried and the Government don't appear to be about to approve the model as a viable transfer opportunity any time soon.
- The Staff Forum believes that staff working for EDH are unsure as to what the alternative solution is for homes and services in East Durham should the CoCo model not be a viable option.
- The Staff Forum perceives that customers from the East Durham area are not engaging in the stock option appraisal process as much as they might.
- Efficiency savings will impact on jobs and the services provided to customers.
- More information should be provided on potential timescales for a transfer proposal. The projected shortfalls in Business Plan resources suggest that there is a degree of urgency in obtaining Government agreement for a transfer proposal.
- In order to understand the validity of the CoCo model, and its responsibility for HRA debt, there is a need for a greater level of detail around possible debt apportionments and transfer combination models.

171. EDH Staff Forum advised that they have already proposed suggestions for possible efficiency savings to EDH Executive Team. The Forum remains concerned about the potential for job losses and hope that every alternative to this is fully considered.

DCH: Staff Response

172. DCH staff did not submit a formal response to consultation. However, all staff took part in at least one formal consultation briefing session. Consultation was also undertaken with Trade Union representatives.

173. Throughout the consultation process DCH staff highlighted that they have a different perspective on potential options than colleagues working in the ALMOs. DCH staff recognised and understood that staff working for arms length organisations may be resistant to the reabsorption of housing services back into the authority. However, DCH staff also recommended that the council determine the affordability and sustainability of existing housing management arrangements and consider the costs associated with three, two or one housing management organisations.

174. DCH staff stated that they could see a benefit of the continuation of the ALMO model in County Durham, however they also recognised that as a retention option the ALMO would also be restricted in its ability to

borrow and that the council's ultimate aim should be to access additional funding to preserve decent homes and increase investment into front line services in Durham City. DCH staff also expressed concern that one ALMO to manage all of the council's housing stock may be too large and could diminish local service delivery.

175. DCH staff reported a small amount of reticence as to what stock transfer may mean for the security of employment and terms and conditions of employment in the future. DCH Staff also continually referred to the findings of a survey on options for the housing stock completed by Durham City Council in 2004. The survey found that around 95% of DCH customers would prefer to receive their services from the council than transfer to a Registered Provider. DCH staff were concerned that a stock transfer proposal could be rejected by customers in Durham City.

176. The council's Direct Services representatives also expressed concern about the potential impact that stock transfer or the merger of organisations could have on employment. Representatives of Durham County Council's Direct Services workforce requested further clarification on what all of the options may mean in terms of implications for employment, pensions, terms and conditions and places of work for Direct Services staff. It is important that the council is mindful of these concerns if it is to proceed with a transfer proposal. Direct Services staff are often the council's main contact with customers and their understanding and support for a transfer proposal is paramount in achieving a successful ballot outcome.

Consultation with Trade Unions

177. Consultation with Trade Union representatives including Unison, Unite and GMB was undertaken from the end of June 2011 until the end of September 2011. Trade Union representatives of the council's Direct Services workforce submitted a formal response to the consultation process in September 2011.

178. Trade Union representatives were concerned that:

- The council has undertaken consultation on potential transfer options when the Government's policy on stock transfer is unclear.
- The workforce does not feel informed enough to determine a preferred option at this stage because there is a lack of clarity as to how the workforce could be affected by any potential option, particularly in terms of job security and employment rights.

- Customers may be confused by the complexity of potential options and this could impact negatively on a future ballot to transfer the housing stock.

179. Trade Union representatives have recommended that:

- More information is provided to the workforce on potential options and their implications for job security and for terms and conditions.
- The council should meet regularly with workforce managers as the option appraisal progresses into its next phase.
- Before the council proceeds with the implementation of a transfer option it should work with workforce members to explore issues related to pensions; terms and conditions; the location of employment premises and potential travel implications.
- Before the council proceeds with the implementation of a stock transfer proposal or a reorganisation of existing arrangements, it should work with workforce members to prepare a plan that sets out efficiency savings; how services will be delivered locally; and how transfers or mergers of organisations will be managed, particularly in relation to staff issues and TUPE arrangements.
- The council and its provider organisations should explore all opportunities and possibilities for efficiency savings regardless of which option the council chooses to pursue. Efficiency savings should not fall disproportionately on reductions in the workforce.
- The council must ensure that its workforce understands potential options and their implications before a transfer option is pursued. The council should include the development of this understanding as part of a larger action plan to prepare for a ballot of customers on transfer proposals.

Consultation with Councillors

180. A variety of consultation activities were held with councillors representing wards in Durham City, East Durham and Wear Valley. This included formal briefing sessions; drop ins and exhibitions and focus groups.

181. Consultation activities were also available for all councillors including seminar sessions, formal briefing sessions, exhibitions and displays, suggestion boxes newsletters and presentations to Overview and Scrutiny Committee.

182. Councillors across all three of the areas affected by the stock option appraisal were concerned that:

- Stock transfer may mean the removal of the housing stock from the control of the public sector.
- The construction of a transfer proposal for the Government and for customers (including a ballot) is a lengthy and costly piece of work. Government policy on transfer is unclear, and customers in Durham City have rejected the suggestion of a transfer in the past.
- The level of self financing debt proposed by the Government appears to be very high. The council must base its decision on the future of its housing stock on whether it repays this debt or simply services it.
- The council must also prepare for the implementation of self financing in April 2012. Any arrangements the council puts in place, must be sustainable and affordable in the long term, in case a transfer proposal fails.
- In order to determine the best possible combination of transfer options self financing debt must be apportioned between the provider organisations. This must be undertaken in a fair and equitable way.
- The views of customers must be taken into account when the council makes its decision on the best option or mix of options for its housing stock.

183. The council's Economy and Enterprise Overview and Scrutiny Committee submitted a formal response to consultation in September 2011.

184. The Committee examined the consultation process undertaken to date and considered that the steps taken within the project's Communication and Consultation Strategy were robust, inclusive and widespread. The Committee was particularly pleased with the number of consultation events offered and the range of stakeholders involved in the process.

185. The Committee was happy to endorse the work undertaken to date as part of the option appraisal process. The Committee emphasised the importance of ensuring that whatever the preferred option agreed upon there must be opportunities for community involvement and engagement within the organisational operating processes of that model.

186. The Committee accepted that significant levels of investment are needed in the thirty year HRA Business Plan and that a large proportion of these are required in the first ten years of the business plan. The

Committee recommended that the council begin negotiations with the Department for Communities and Local Government as soon as possible on the possibility of stock transfer and the conditions of self financing.

Consultation with Partners

Joint HRA Board

187. A formal response to consultation was also received from the Joint HRA Board. The Joint HRA Board brings together Board members, Councillors and officers from the Council's three housing management organisations. The HRA Board assists in the development of the HRA business plan and financial plans ensuring that resources are appropriately and fairly distributed in a transparent manner.

188. The Joint HRA Board asked the council to consider the following principles when reaching a decision on potential options for the housing stock:

- The option or mix of options considered by the council should be beneficial to the whole of the council's housing stock. The council should not consider options that may be of detriment to any part of the housing stock.
- The council should favour options that bring the maximum levels of investment in homes, neighbourhoods and services and create employment.
- The council should favour options that enable the improvement of services and should consider the implementation of options that support a continuation of high quality service delivery.
- Strengthened and meaningful customer involvement in service design, development and delivery should be a key consideration when deciding on an option or mix of options for the housing stock.

189. The Joint HRA Board also recommended that the council:

- Begin discussions with the Department for Communities and Local Government (DCLG) on issues with self financing and a possible transfer of the housing stock.
- Explore the rationalisation of its existing housing management arrangements as part of its consultation on potential options. This will assist in the development of a solution should stock transfer proposals be rejected by DCLG.

- Undertake more work on proactive asset management to achieve efficiencies and to ensure that capital investment is made in sustainable homes and neighbourhoods. This piece of work should be led by the Self Financing Task Group – a sub group of the Joint HRA Board.

Consultation with Key Partners

190. On 16 September 2011, the council, Consult CIH and Trowers and Hamlins hosted a short seminar session on potential options for key partners. Attendees included:

- MPs representing wards in areas affected by the option appraisal process.
- The Homes and Communities Agency.
- Chief Executives and Finance Directors of local Registered Providers.
- Chief Executives of the council's housing management organisations and the manager of DCH.
- Decent Homes and repairs and maintenance contractors, including Gentoo, Morrison and Dunelm.
- Partner organisations including the Citizens Advice Bureau and Shelter.

191. Partners were interested in the possibility of the transfer of the council's housing stock and the various combinations of transfer that could take place. Questions and observations included:

- The availability of private finance for the CoCo model that effectively retains responsibility for the servicing of HRA debt.
- The affect that the apportionment of debt may have on the ability of an existing Registered Provider.
- The council may wish to test the appetite of stakeholders for a possible transfer to an existing Registered Provider. This is important if stakeholders are reporting that they prefer to transfer to D&VH, DCH or EDH but transfer to an existing Registered Provider is the only financially viable transfer option.
- The council will need to undertake a significant amount of communication with stakeholders to ensure an understanding of a transfer proposal and its implications for customers and staff to achieve a positive ballot. The council may also need to consider retaining existing brand identities in any transfer proposals to ensure a positive ballot.

- A clear vision of what the council wishes to achieve for its homes and customers is important in moving forward. This will inform the development of consistent standards for services and for the quality of homes. Evidence of this work and understanding will be imperative if the council is to approach the Government with a transfer proposal in the future.
- Evidence of proactive asset management, in terms of investing in sustainable homes and neighbourhoods, is vital in ensuring Government agreement to a transfer proposal.

192. Partners commended the inclusive approach the council has taken to the option appraisal and requested that the council continue to involve them in the next phase of the option appraisal process.

Consultation with the Department for Communities and Local Government (DCLG)

193. In August 2011 the council's Head of Housing, the Portfolio Holder for Housing, Consult CIH and Trowers and Hamlins met with DCLG to discuss the option appraisal and potential options.

194. DCLG recognised the council's option appraisal process as one of the most comprehensive and complicated currently running in England. DCLG made a commitment to working with the council as it progresses with the option appraisal and as it develops a long term Business Plan to implement self financing in April 2012.

195. DCLG confirmed that under self financing, whole and partial stock transfers remain an option for councils and their customers. However, the Government's policy on the extent of financial support for stock transfer has changed to better align it with funding for self financing. Consequently the Government plans to introduce a much more rigorous assessment of value for money in transfer proposals.

196. The Government plans to issue a revised Housing Transfer Manual in autumn 2011. It is expected that the Manual will state that the Government's starting point for consenting to stock transfer is that the transfer business plan is justifiable in comparison with the financial settlement for self financing. This means that the Government will only consider transfer proposals against the costs assumed under self financing including dealing with backlogs, the costs of future management, maintenance and major repairs and the costs of essential refurbishment or regeneration works due to be undertaken through the

proposed transfer. Allowance should also be made within the valuation to account for taxation impacts.

197. DCLG were clear that if the council was to pursue a transfer of its stock it will need to demonstrate what additional investment transfer could deliver and how it will also fund proposals. Again, the Government will take self financing as the norm. Any gap between the two approaches and DCLG will expect the council and the organisation(s) it is transferring its stock to, to bridge that gap using corporate financial support, reserves or other assets.
198. DCLG also explained that should the council pursue a transfer of its housing stock it must provide clear supporting evidence of need and explain why the re-profiling of spend; the achievement of efficiencies and use of borrowing headroom is not possible. DCLG will expect to see a detailed and robust asset management plan that ensures that stock is not being refurbished if there is a valid case for disposal or regeneration.
199. DCLG were very clear that even if the council opts to pursue a stock transfer proposal it must take a “twin track” approach i.e. it must put arrangements in place to deliver self financing from April 2012. This will ensure that self financing can proceed if for any reason the transfer is delayed or rejected. DCLG recommended that as the council undertakes this work, it explores making its existing arrangements more affordable.
200. DCLG agreed to work closely with the council’s advisers to explore the CoCo model felt and determine how it may be used as a transfer model. The department agreed to work with Consult CIH and Trowers and Hamlins to examine the CoCo model in more detail. The department also agreed to meet with the council in January 2012 to discuss progress.

Options and Associated Risks

201. A detailed risk register of the risks associated with each option and the actions the council can take to protect itself against these risks has been developed by the option appraisal’s Steering Group. A copy of the risk register is set out at Annex F.
202. Financial analysis and the outcomes of the extensive consultation undertaken on potential options have highlighted a catalogue of fundamental risks that are significant enough to influence the council’s decisions as it progresses into the next phase of the option appraisal.

203. The Government's approach to stock transfer is unclear, particularly stock transfer to a CoCo model. This is a cause for considerable anxiety for stakeholders, who are concerned that the council may invest a great deal of time and resources in developing a transfer proposal, only to have the proposal rejected. If the council chooses to continue to explore a transfer of its housing stock it can mitigate against this risk by observing the criteria for successful transfer applications set out in the revised Housing Transfer Manual. The council would continue to meet with DCLG and the HCA as it prepares a transfer proposal to ensure it fully understands the information that will be required to ensure approval.
204. Stakeholders have also expressed concern that financial projections suggest that the level of financial support required from the Government to make a stock transfer viable is high (potentially unobtainable). This may mean that a stock transfer proposal is rejected by the Government. If the council chooses to explore the transfer of its housing stock it can mitigate against this risk by developing a detailed transfer proposal that demonstrates how a stock transfer proposal compares with self financing arrangements. The council will also be required to show how it will contribute to the proposal to make it financially viable. The council would continue to work with DCLG and the HCA to prepare a transfer proposal that would meet the criteria set by the Government's value for money tests.
205. All stakeholders encourage the council to take a decision on the future of its housing stock that is fair and equitable to all areas. Stakeholders are particularly concerned that the council could choose transfer options that will adversely impact on part of the housing stock. If the council chooses to continue to explore a transfer of its housing stock it can mitigate against this risk by completing the final stages of an investigation into: investment needs across each of its housing management areas; customer needs and aspirations; a consistent approach to asset management to ensure equity in investment and quality of homes; and a fair apportionment of debt to determine the optimum transfer combination to maximise investment into homes, neighbourhoods and services. This work will enable the council to select the optimum combination of transfer options to maximise investment.
206. Consultation has found that customer understanding of the role and responsibilities of the council and its provider organisations is varied. Consultation also suggests that stakeholder awareness of the options the council is considering must be improved. Consequently stakeholders are concerned that a proposal to transfer the housing stock could be rejected by customers at a ballot and the council would be unable to transfer the housing stock. If the council chooses to transfer its housing stock it can mitigate against this risk by preparing a comprehensive plan

for communication and consultation that regularly checks customer understanding and appetite for transfer. The programme should be based on the findings of the consultation undertaken as part of the option appraisal process. The council should also be mindful that it can take up to two years to prepare for a ballot of customers on a transfer proposal.

207. Consultation also found that stakeholders are concerned that the council may implement self financing arrangements that are inflexible, and unable to respond to possible transfer opportunities; make arbitrary efficiency savings that affect front line services and jeopardise performance and satisfaction; and that are unsustainable in the long term.

208. The council can mitigate against this risk by working with D&VH, DCH and EDH and other stakeholders to complete a review of existing management arrangements; the costs of potential retention models and the most suitable configuration of future housing management arrangements. The findings of the review can then be used to prepare a plan for the introduction of arrangements that are flexible; represent optimum organisational structures to ensure efficiency; ensure excellent local service provision continues; and are affordable enough to be sustained.

Section 5: Conclusion

209. The council has landlord responsibility for almost 19,000 homes across County Durham. The council currently uses a variety of housing management arrangements to deliver services to customers. These arrangements include two ALMOs and one in house management organisation.

210. From April 2012 the Government proposes to introduce a system of self financing that will allow the council to retain its rental income in exchange for a one off debt allocation to settle existing HRA housing subsidy arrangements. Durham's debt settlement is projected to be in excess of £216M. The Government also proposes to cap the council's ability to borrow at the debt settlement level to control public sector borrowing.

211. Stock condition surveys and financial profiling suggests that the council needs to invest £797M in its homes over the next thirty years. £388M of this investment needs to be made in the first ten years of the business plan. Analysis of the council's income and allowances indicate that only £333M is available to the authority over the same period. This

leaves a shortfall of £55M rising to £63M with inflation. Therefore the council must investigate the variety of options available to it to access the funding required and appraise what these funding opportunities mean in terms of management and ownership of the housing stock.

212. Consult CIH have worked with Savills Commercial to model a series of financial options for the authority, to access resources and to improve capacity in the business plan. They have recommended that the council:

- Make substantial efficiency savings in existing housing management arrangements of £2M. This is in addition to the £3M of efficiency savings already identified in the council's Medium Term Financial Plan.
- Develop a proactive Asset Management Strategy that any deferral of works is carefully planned and prioritised by ensuring investment is made in sustainable housing stock. This can make a significant contribution to efficiency savings as it can increase capacity in the business plan.

213. Consult CIH have also recommended that the council can consider the following options:

- Retaining ownership of the housing stock but making significant efficiency savings and strengthening asset management arrangements to increase capacity in the business plan. The council will continue to be unable to access additional resources above its debt cap.
- Transferring the housing stock through a traditional Large Scale Voluntary Transfer (LSVT). This option is appropriate for only part of the council's housing stock.
- Transferring the housing stock to a Council Owned, Community Owned organisation (CoCo). This is an alternative stock transfer because the transferred organisation retains a financial relationship with the council. This option is appropriate for all of the council's housing stock.

214. The financial landscape for traditional LSVT has changed significantly and transfer can now only proceed on the basis that expenditure assumptions are in line with those made under self financing. For Durham County Council the maximum transfer valuation for the whole stock is around £56M (including backlog funding and VAT shelter for 15 years). This could reduce the debt settlement to £150M upon transfer, but would leave a gap of £94M that the council or potential transfer organisations would need to bridge.

215. In June 2011 the option appraisal's Steering Group recommended that the council undertake consultation on all of these options, but specifically test views on potential combinations of transfer options.
216. Consultation with customers found that there is a good understanding of option appraisal and potential options among customers that are actively involved in the option appraisal process or are regularly involved in the activities of the council's housing management organisations. There was also an appetite amongst this group for stock transfer. However, a clear preference of this group is for the council to transfer its stock to its existing housing management organisations. This reflected a strong desire to preserve local focus and service delivery. Transfer to an existing Registered Provider was not a popular proposal.
217. Consultation with customers also found that for customers that are not involved in the option appraisal process and are not regularly involved in the activities of the housing management organisations there is a varied understanding of the option appraisal and the options the council is considering. There is some reticence amongst this group towards transfer options. This can be attributed to a lack of understanding of the purpose and benefits of the option.
218. Consultation with involved customers found a strong preference for the CoCo model as it could make good use of existing ALMO arrangements and would enhance customer involvement in service design, delivery and development.
219. Consultation with "uninvolved" customers suggested that this group found the CoCo model to be complicated. The name of the model also inhibited enthusiasm for it. If the council is to pursue a transfer of its housing stock to a CoCo it will need to spend some time carefully explaining the model and its benefits to customers to achieve a successful ballot.
220. Consultation with customers also found that there is a considerable amount of confusion among customers as to the role and responsibilities of the council and the role and responsibilities of its housing management organisations. The council must take steps to improve this understanding if it is to pursue a stock transfer or make any changes to existing housing management arrangements. This work should be part of a wider awareness raising campaign for all stakeholders on options and their implications for all stakeholder groups.

221. Consultation with customers also found some concern amongst customers that their views may not influence the council's decision making on potential options. The council can improve this by explaining to customers how their views have influenced decisions at the end of this part of the option appraisal project; and increasing focus on persuading customers that customer involvement in option appraisal and implementation is crucial to identifying a positive solution for the housing stock.
222. Consultation with stakeholder groups (other than customers) found that there is a strong appetite for a transfer of the housing stock. A clear preference of a majority of stakeholder groups is for the council to transfer its stock to its existing housing management organisations. This reflected the strong desire of customers to preserve local focus and service delivery. Again, transfer of the housing stock to an existing Registered Provider was not a popular proposal.
223. A majority of all stakeholders (customers included) consulted on potential options expressed a preference for the principles of the CoCo model. However some groups of customers believed that too much emphasis was being placed on the CoCo model and found it complicated to understand. All stakeholders requested clarification on the relationship of the CoCo with the council and the Government's support for the model.
224. All stakeholders (customers included) were concerned about the need for efficiencies. This is particularly evident in staff groups. Stakeholders have requested that the council and the Self Financing Task Group involve them in the identification and planning of efficiency savings.
225. The opinions of all groups consulted on potential options as part of the option appraisal were divided over the best set of self financing arrangements (stock retention) to implement from April 2012. All groups suggested the continuation of existing arrangements; some groups suggested the creation of two ALMOs to achieve efficiencies; and other groups suggested that the council consider the creation of one ALMO to manage the housing stock.
226. However, there was some consistency in the principles that all stakeholder groups would like the council to observe in developing and implementing self financing arrangements:
- Stakeholders should be as involved in the development of self financing arrangements as they were in option appraisal.

- The continued local delivery of services should be a key consideration.
- The objectives of the option appraisal should continue to be observed.
- Efficiency savings should ensure that front line services are protected to prevent a decline in performance and reduction in customer satisfaction.
- Service standards, rents and the quality of homes should be made consistent across the area.
- Decisions on self financing and possible changes to existing housing management arrangements should be fully informed, transparent and implemented as quickly as possible to provide certainty to customers and to staff members.

227. Financial analysis and the outcomes of consultation have underlined some clear risks for the council when moving into the next phase of its option appraisal. Risks include:

- The council's proposal to transfer the housing stock (either LSVT or to a CoCo) is rejected by the Government on the basis of value for money.
- The council's proposal to transfer the housing stock (either LSVT or to a CoCo) is rejected by customers at a ballot.
- The council's proposal to transfer the housing stock (either LSVR or to a CoCo) is inequitable and does not achieve a whole stock solution.
- The council's self financing arrangements are inflexible, unable to respond to potential transfer opportunities in the future and are unaffordable and unsustainable.

228. A majority of the identified risks are linked to a decision to pursue a stock transfer. The council can undertake a series of actions to mitigate against these risks and reduce their likelihood. These actions include:

- Observe the guidelines set out in the revised Housing Transfer Manual (due to be reissued in autumn 2011) and continue to work with DCLG and the HCA to prepare a stock transfer proposal that meets Government requirements.
- Develop and implement a comprehensive communication and consultation strategy for stock transfer that explains the role of the council; the transfer option and implications for all stakeholders. The strategy should be projected over a two year time frame and its central aim should be the achievement of a positive ballot.
- Undertake a detailed analysis of the final debt settlement and determine a fair apportionment of the debt between the three

housing management areas. The council can then determine final valuations of the housing stock which will inform the identification of optimum transfer combinations to maximise investment in all areas.

- Work with stakeholders to complete a transparent review of the costs associated with a variety of self financing arrangements. The investigation should also consider the project objectives of the option appraisal; local service delivery; and efficiency savings.

229. The findings of the financial analysis and consultation suggest that the council is in a position to continue into the next phase of exploring the transfer of its housing stock. The next phase will include:

- Consideration of the guidelines set out in the revised Housing Transfer Manual.
- Development of a detailed project plan for the preparation of a transfer proposal and possible implementation timescales.
- A review of the apportionment of debt, the issues associated with debt reduction and value for money and determine optimum transfer combinations that maximise investment for the whole stock.
- An increase in communication with DCLG and the HCA.
- The submission of a proposal to transfer the housing stock at the end of 2012.

230. The council must continue to put arrangements in place to deliver self financing from April 2012. Even if the authority chooses to pursue a stock transfer proposal, it must assume that it will continue to own the housing stock for at least the medium term. Therefore the council must determine the best, most affordable and sustainable arrangements for the delivery of housing services over this period.

231. The council should work with stakeholders and use the suggestions made throughout the option appraisal consultation to investigate whether it should operate three, two or one housing management organisations in the future.

Section 6: Recommendations

1. The option appraisal's Steering Group recommends that the council considers continuing into the next phase of exploring the transfer of its housing stock.

2. If the council chooses to move into the next phase of exploring the transfer of its housing stock the option appraisal's Steering Group recommends that the council:
 - Considers the guidelines set out in the revised Housing Transfer Manual.
 - Develops a detailed project plan for the preparation of a transfer proposal and possible implementation timescales.
 - A review of the apportionment of debt, the issues associated with debt reduction and value for money and determine optimum transfer combinations that maximise investment for the whole stock.
 - Increases communication with DCLG and the HCA.
 - Develops a comprehensive communication and consultation strategy to raise awareness amongst all stakeholders of the role of the council, promote transfer options, explain the implications of stock transfer and include a plan for engaging with hard to reach groups.
 - Aims to submit a proposal to transfer the housing stock to DCLG and the HCA at the end of 2012.

3. The option appraisal's Steering Group recommends that the council make arrangements for the implementation of self financing from April 2012. The council should:
 - Work with stakeholders to complete a transparent review of self financing, including a final analysis of the number, shape and organisational structures of retained housing management arrangements. The review should also consider flexible management arrangements, option appraisal project objectives and efficiency savings.
 - Work with stakeholders to develop a comprehensive Asset Management Strategy that considers the long term sustainability of neighbourhoods and stock types; develops a comparable investment standard across all areas informed by customer consultation; and links asset modelling and business plan efficiencies to secure financial viability and inform negotiations with DCLG around funding for the delivery of future options, particularly transfer proposals.
 - Ensure that the Self Financing Task Group work with stakeholders to identify efficiency savings and develop a clear plan for their achievement.
 - Develop a communication and consultation plan for self financing that enables stakeholders to be involved in the design and development of self financing arrangements; and ensures change messages are communicated regularly and consistently.

4. The option appraisal's Steering Group also recommends that the council spends some time with stakeholders that are closely involved in the option appraisal to examine and explore all possible governance and management arrangements linked to potential options.
5. The option appraisal's Steering Group also recommends that the council spends some time with key stakeholders to revise and refine governance and project management arrangements to enable a shift into the next phase of option appraisal.
6. The option appraisal's Steering Group recommends that the council share the findings of this report with stakeholders to demonstrate how their involvement has influenced decision making. The council should also share the findings of this report with DCLG and the HCA.