



**STANDARD DELIVERY PLAN  
FINANCIAL APPRAISAL REPORT**

**By**



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## 1.0 INTRODUCTION

Falkirk Council has commissioned Docherty Consulting Ltd (DCL) to:

- Provide general consultancy advice and assistance in the preparation of the Local Housing Strategy.
- Assist in the validation and use of existing stock condition information for the purpose of assessing **future** housing investment needs.
- Provide guidance on the preparation of the Standard Delivery Plan to reach the new Scottish Housing Quality Standard Requirements (SHQS)

*Local Authorities and RSL's have been set the task of eliminating 'non-decent dwellings' in the overall time frame (by 2015), and of making an appropriate contribution in the shorter term. The Scottish Housing Quality Standard is the benchmark to which these dwellings will be assessed.*

- Assist in the development and implementation of a whole life asset management approach to Council owned dwellings and other HRA assets

This Appraisal, which comprises Appendix 17 of the Council's first Standard Delivery Plan deals with aspects of the second, third and fourth objectives of the commission and reports on "work in progress" as at April 2005 but focuses on providing evidence in support of the Council's ability to meet and maintain the SHQS. Its main purpose is accordingly to demonstrate that the projected investment of £932.68m at 2004/05 prices to meet and maintain the SHQS can be reasonably afforded pending further detailed investigation.

It should be read in conjunction with the David Adamson *30 Year Forward Maintenance Forecast* at Appendix 18 of the Standard Delivery Plan.

## 2.0 BACKGROUND

The Guidance issued by the Scottish Executive recognises that:

*Most landlords will wish to review their Standard Delivery Plans, for example as better information becomes available about stock condition,.....*

Para 1.22 of Standard Delivery Plan Guidance

Behind this qualification is an expectation on the part of the Scottish Executive that local authorities with large diverse stock holdings such as Falkirk Council would be unlikely to possess the quality and scope of stock specific information to fully meet, at the first attempt, all of the expectations set out in the Delivery Plan Guidance. It is assumed that this recognition will be taken into account during the

forthcoming appraisal of the Council's first Standard Delivery Plan by Communities Scotland.

Prior to the Guidance being issued the Council had previously commissioned a stock condition survey in 1999 as part of its New Housing Partnership Option Appraisal, and during 2004/05 wished to undertake a validation and review of the data collected against SHQS requirements and also to help inform the Council's Local Housing Strategy and contribute to the development of a whole life asset management approach to the maintenance and improvement of its stock and other HRA assets.

A key issue for the Council to consider was the expectation that local authorities were expected to progress very quickly to holding **robust dwelling specific information** and that they would be required to report routinely on dwelling specific SHQS passes and failures

The Council also recognised that this information, even if it could have been quickly generated would not have been sufficient by itself to drive all the changes needed to deliver its ambitions as set out in its Local Housing Strategy but equally they welcomed the challenge as representing the same kind of approach that the Council were already projecting from its whole life asset management process.

In addition the requirement to reach the SHQS by 2015 and at least maintain it thereafter was fully embraced by the Council, and a single timetable, which will generate and deliver the necessary activities, was created in the shape of a provisional 4 year strategic action plan (see below).

The Council's position was helped by a series of informal discussions with Communities Scotland during late 2004, early 2005 on the preparation of this first Standard Delivery Plan. Whilst a great deal of work is still required to develop and deliver this Plan it is nevertheless an important step forward in the Council's commitment to ensure the provision of safe, affordable and comfortable housing for all its residents.

The Council had also, during 2004:

- initiated a major restructuring of its public sector housing service, which is due to complete in 2005
- commissioned a number of studies aimed at improving planned maintenance and voids management services
- taken a decision to procure a new integrated housing management information system
- put in place a strategy to develop a whole life asset management approach for all of its HRA Assets

And it was against this background of strategic and proactive change that the Council needed to respond to the specific challenges placed on them by the new SHQS.

The following activities timetable has been provisionally agreed with Council's housing officers, which outlines how the Council will deliver the SHQS. The early 2005/06 activities highlighted in bold are considered in more detail below:

### **SHQS and Whole Life Asset Management Draft Action Plan**

#### **2004/5**

- Preparation and submission of the Council's first Local Housing Strategy
- Preparation for the Council's first Standard Delivery Plan
- Agreement in principle to work towards a whole life asset management approach for HRA assets

#### **2005/6**

- Finalisation and submission of the Council's first Standard Delivery Plan
- **Evidence based development of the Council's Whole Life Based Asset Management Approach through Stock Characteristics and Condition Action Plan**
- **Preparation of indicative local area investment strategies**
- **Key stakeholder and resident consultation exercises**
- Identification of Integrated Stock Database suppliers and implementation plan
- Preparation for development of detailed procurement strategies

#### **2006/7**

- Valid and reliable information available for analysis at dwelling specific level
- Introduction of an Integrated Housing Management Information System
- Development of detailed local investment strategies
- Development of detailed procurement strategies
- Key stakeholder and resident 'buy in' to approach

#### **2007/8**

- Implementation of HRA Whole Life Asset Management Strategy

This timetable, coupled with the ongoing preparation activities discussed below and in the David Adamson Report, demonstrates to the Scottish Executive that the Council's approach outlined in the Standard Delivery Plan will meet SHQS requirements and will also result in the progressive and wider creation of a whole life asset management approach for **all** the Council's HRA assets.



### 3.0 PLANNING FOR THE SHQS

During 2004 the Council authorised Docherty Consulting to appoint David Adamson & Partners to undertake a detailed review of the original 1999 stock condition data, collected as part of its Stock Option Appraisal the same year, and to assess its "fitness for purpose" for use in achieving the SHQS.

As this validation exercise progressed it became clear that significant further survey and investigation would be required to improve the source data, for example in respect of the location, number and type of some Council houses as well as the robustness of the condition data in general.

**In essence the David Adamson review of the updated original source stock condition data confirmed earlier work that the Council should continue with its existing 3 year "rolling" capital programming approach until its whole life asset management approach was sufficiently advanced to collect, input, and analyse dwelling specific data to help procure a more objective stock investment programme.**

Based on the above draft timetable full implementation of this approach is scheduled for 2007/8, and recognises that a number of complex activities require to be successfully planned and executed during the next 3 years to achieve this date.

Meantime the Council has fully accepted the need to demonstrate its capacity to deliver the SHQS as part of this Delivery Plan submission and to be seen to be doing so within a transparent monitoring framework. The work, which has been undertaken to date, including the work reported on here by Docherty Consulting and David Adamson confirms that it is reasonable to predict that the Council has the in house resources to match the projected investment required to deliver the SHQS. Appendix 1 is reproduced from the David Adamson report and forms part of the input to the financial appraisal discussed below.

In addition the David Adamson Report, will also form

*An information platform on which to implement development of a robust asset model for longitudinal application and SHQS performance monitoring*

Extract from David Adamson, p53

For example the Council is considering, in light of the Report's findings, how best to commission the next stage of survey work in order to progress to a stock condition dwelling specific dataset. This is scheduled as an early part of its 2005/06 Action Plan.

#### 4.0 RESOURCING THE SHQS

As highlighted above this Appraisal uses the David Adamson *Total Estimated Cost Summary* to generate the forward maintenance expenditure considered sufficient to meet and maintain the SHQS in the terms required by the Scottish Executive. This is confirmed by the following:

*Delivery of whole stock SHQS compliance on or before March 2015, is incorporated within the Report's expenditure forecast and is readily achievable within this investment profile*

Extract from p ii of David Adamson Executive Summary

This financial appraisal, which is presented in detail in Appendix 2 is consistent with the separate Council's finance officers' financial assessment and readily demonstrates, based on a conservative set of assumptions, which at a strategic level the Council can reasonably expect to be able to fund its projected SHQS obligations within anticipated projected resources.

In addition, on the premise that further activities proceed according to the draft timetable it is estimated that the Council will be able to demonstrate by early 2006/7, **at an individual dwelling level**, that it is able to meet its SHQS obligations in the terms set out in the Guidance.

In the absence of a detailed risk assessment, which will form part of the 2005/6 work alongside an analysis of the chosen survey approach, in reviewing Appendix 2 it should be recognised that the investment model income assumptions do not rely on:

- Projected income of £1.8m over the next 3 years becoming available to the Council as a result of a likely partnership initiative with Scottish and Southern Energy. *Recent correspondence between the Council and the local energy provider strongly suggests that these additional resources are likely to be achieved;*
- Projected reductions of "high cost" dwellings, which are scheduled for demolition or disposal under the Council's LHS. *The Council is predicting that around 250 dwellings will be removed from the HRA as a result of their disposals strategy. These are dwellings, which are in poor condition and/or suffer from high voids losses. The current appraisal does not allow for this and would almost certainly benefit by this exclusion;*



- Reductions in management and central overheads as a result of projected RTB sales. *No reduction in management or overhead costs has been made for projected stock losses;*

Cash flow profiling. *At this stage the Model is simply being used to demonstrate the "fundability" of reaching and maintaining the SHQS. Significant annual cash surpluses are predicted and a more effective use of balances would release further funds for use as appropriate by the Council*

- Efficiency savings through best value studies;
- Procurement and economies of scale efficiencies generated through a move to whole life HRA asset management;

In conclusion whilst a detailed risk and opportunities assessment will form part of the work scheduled for 2005/06 it is reasonable to assume that the financial model shown in summary in Annex 1 presents a conservative outturn reaffirming that based on known information it is reasonable for the Council to continue to deliver its asset management approach pending further investigation along the terms indicated in the timetable presented above.

## **5.0 CONTINUING PREPARATION FOR WHOLE LIFE ASSET MANAGEMENT**

### **5.1 Introduction**

This Section reviews the local policy context and sets out in outline a description of the initial 3 actions under consideration by the Council for implementation during 2005/06 (see Para 2.0).

### **5.2 Local Policy Context**

The Council's aim is to continue to ensure the provision of good quality affordable homes for local residents and that the stock retained in Council ownership will be:

- In demand
- In good repair and modernised
- In the right area and of the right type to promote sustainable communities

**Strategic Objectives**

The Council will achieve this by:

- Retaining the stock for which it is able to deliver its aims;
- Preparing alternative strategies for stock which is projected to be unlikely to meet one or more of its strategic aims;
- Replacing stock in partnership with other agencies in accordance with local market and community circumstances;
- Identifying stock within regeneration and other priority areas and considering them for improvement and redevelopment within this wider context.

Given the historic and geographical differences of the Council's rented stock and associated assets it is important to prepare an asset management strategy for its own housing stock as a basis for helping to deliver its strategic objectives. Falkirk Council will progressively consider the following 8 geographical areas as the appropriate level on which to base its future strategies coupled with complementary strategies for the future of its tower blocks, other non-traditional properties and sheltered housing:

Falkirk  
Braes  
Bo'ness  
Dawson  
Denny  
Stenhousemuir  
Grangemouth  
Camelon

### 5.3 Projected Early Actions

#### **Evidence based development of the Council's Whole Life Based Asset Management Approach through Stock Characteristics and Condition Action Plan**

As discussed above the Council requires to create, as a priority, a dwelling specific database, which has the quality of stock condition data required to deliver the SHQS.

The following extract from David Adamson's paper explains why:

*In common with most, if not all Scottish Local Authorities, Falkirk Council has resourced best available information with respect to determining its current and future SHQS compliance and delivery, fully recognising that in order to develop dwelling specific programmes of work to realise their SHQS delivery plan, a comprehensive data set shall be required to be collected against SHQS and thereafter included within an IT platform cost generation and programme delivery model. Notwithstanding, we believe that the SHQS Assessment and Costed Delivery Plan as represented within this Report is representative of the total asset and the SHQS obligations conferred on the Landlord.*

Extract from Section 9.1 David Adamson Report

A detailed Action Plan for creating this database is under discussion within the Council and a further extract from the David Adamson Report illustrates the type of approach being assessed:

*In order to monitor SHQS future compliance and obviate risk associated with SHQS compliance programming, Falkirk Council requires to obtain SHQS specific data at dwelling level, this data being incorporated within an IT platform cost generation model capable outputting SHQS strategic and dwelling specific programming information. Clearly, the starting point to this process is a data collection exercise facilitated by a Stock Condition Survey. The survey options open to Falkirk Council are broadly:*

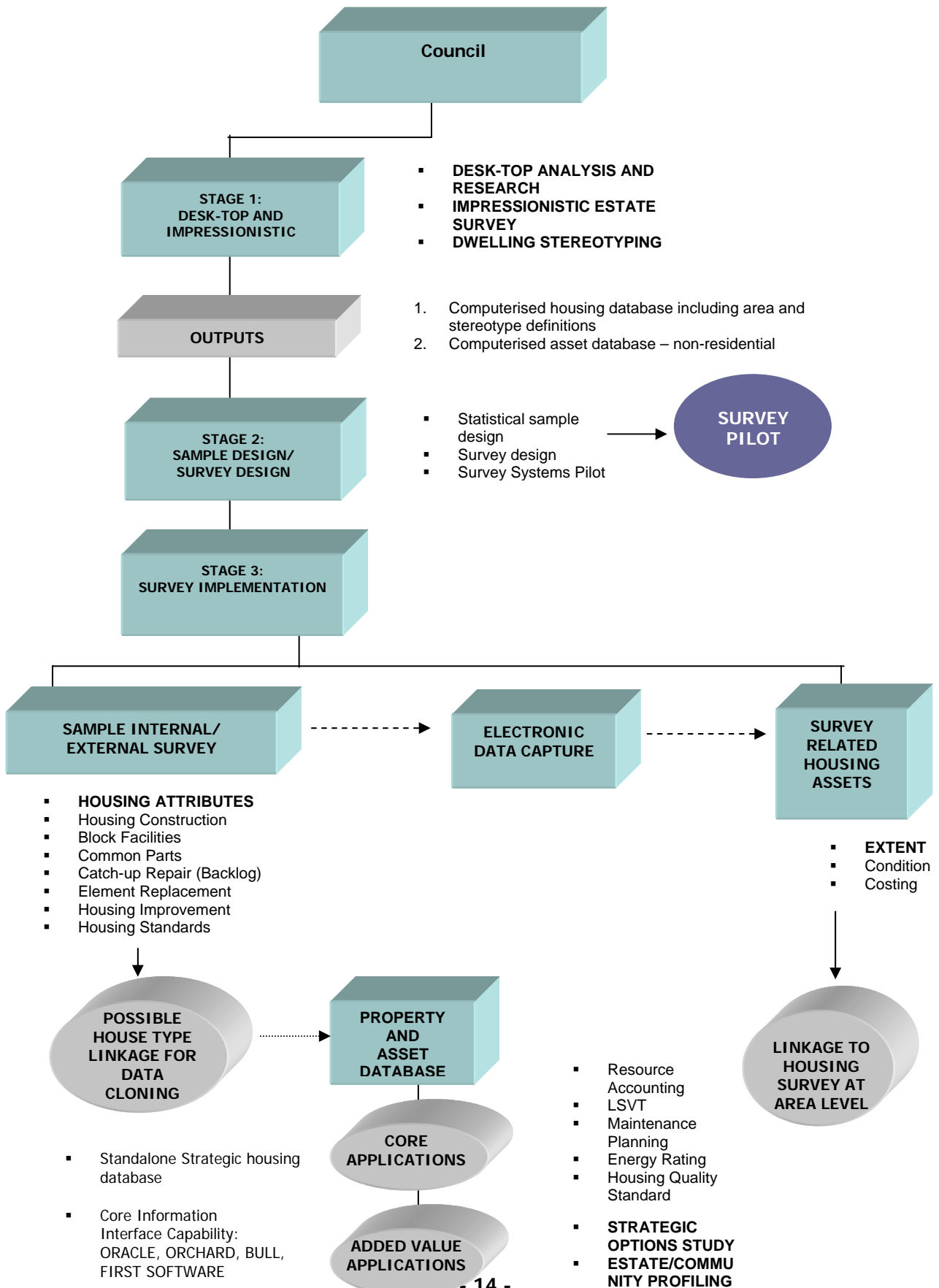
- *Implement a stratified random sample survey controlled at dwelling archetype and estate level and thereafter “cloning” data by archetype and main variant in order to provide a 100% Stock Database planning tool. Thereafter, undertake a rolling programme of surveys to achieve the 100% Survey of the total stock; or*
- *A 100% survey of the total stock, in the first instance.*

*The latter survey option is clearly preferable with respect to data reliability and works programming, although the Authority would be required to make financial and personnel resourcing provision in order to implement such an exercise within a typical 12 month programme. The former survey option affords greater flexibility in terms of resourcing, however the adequacy of the “cloned” data set for programming purposes will be heavily reliant on the robustness of sample design controls and the Authority’s involvement in the cloning process so as to optimise the accuracy of the 100% interim cloned data set.*

*Risks associated with Stock Condition Surveys are now well established and predominantly relate to surveying error, surveyor bias, accuracy of component quantities and the schedule of rates adopted for cost generation purposes. Assuming a competent Consultant is appointed to implement this exercise and that the Authority fully engages in contributing to the robustness of the survey data set, we believe the risks associated with achieving an SHQS compliant survey data set on an IT platform programming tool, within an approximate 12 month period, are minimal.*

*The following diagram depicts a typical survey implementation process, culminating in the delivery of an Housing Asset Cost Generation and Investment modelling and works programming operating system.*

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*Risk associated with delivery of the SHQS compliance are common to most Social Landlords and principally relate to procuring and implementing the required work, having particular regard to minimising tenant disruption, achieving value for money, completing within budget and programme. Risks associated with the implementation phase may be substantially obviated by appointment of a suitably skilled and experienced Design Team, with a focus on procuring in a manner, which minimises risk of budget overrun and substandard works delivery.*

*Proficient application of value engineering, use of benchmarking, site performance objectives, and key performance indicator approaches, within a partnering framework, will minimise but not eliminate project risk identified from the Risk Assessment.*

*Once the Design Team has been appointed and the procurement strategy finalised, the Design Team would be instrumental in developing and contributing the Risk Assessment.*

*We believe that the forward maintenance and SHQS compliance cost forecast presented within this Report are realistic and achievable under prevailing market conditions, assuming a best practice procurement strategy is adopted with respect to Design Team appointment and works procurement.*

Extract from Section 9.3.1 of David Adamson Report

It is anticipated that a decision will be reached by the Council over the next few months influenced by factors such as cost, timescales, in house capacity and other key decision areas such as the procurement of the Council's new integrated Housing Management Information System and finalisation of staff restructuring.

***Intention to Prepare Local Investment Strategies and Housing Asset Plans***

These plans, presently at a conceptual stage of development, will present the detailed actions and resources required to deliver the Council's strategic objectives for each designated area and provide guidance on working in partnership in determining the best course of action for that area.

By focusing on those strategies best suited at an area level the nature and scope of rented housing present there can be considered against:

- The investment requirements of the Council's stock
- The conditions present in the local housing context
- Other HRA Assets to be considered

And will typically employ different delivery and procurement options to achieve its objectives within the Council's wider aims. These are likely to include:

- Detailed investment strategies for stock and other assets to be retained, recognising the complexities raised by the right to buy
- The provision of new and refurbished housing in partnership with other agencies driven by; wider regeneration initiatives, contemporary housing needs and demand studies and land availability
- The development of a private sector housing strategy
- Selective demolition and redevelopment through partnership working with other agencies
- Clear linkages to other plans and strategies, for example the Community Plan, Local Housing Strategy, and the Standard Delivery Plan, which will set out how Falkirk will achieve the SHQS by 2015.

***Key stakeholder and resident consultation exercises***

The statutory framework for tenant participation as set out in the Housing (Scotland) Act 2001 requires social landlords to consult tenants either individually or collectively through a Registered Tenants Organisation, on matters including:



- Its policy in relation to housing management, repairs or maintenance, where the proposal if implemented, is likely to significantly affect the tenant;
- The standard of service in relation to housing management, repairs and maintenance which it intends to provide.

Falkirk Council are required to develop a strategy to involve tenants in the preparation of their Standard Delivery Plan and ensure that tenants are as involved as possible in shaping the process as pointed out in the guidance,:

*The Standard Delivery Plan should...include evidence of some consultation with tenants...and take every opportunity to involve tenants as fully as possible as the plan is implemented and, if necessary, revised over time*

Extract from The Scottish Housing Quality Standard: delivery plan guidance.

The Council has, in the short time available, undertaken some preliminary consultation with tenants, but has received a very limited response.

During 2005/06 the Council will also be reviewing its overall consultation strategy following its recent restructuring exercise. This will require incorporating issues in relation to the Local Housing Strategy and the Standard Delivery Plan.

## 6.0 CONCLUSION

In considering whether the Council can reasonably demonstrate that it has the financial capacity to deliver the SHQS the Council has considered the level of investment, which is likely to be required to meet the SHQS, and this is reported on separately.

This investment is appraised, facilitated by a financial model, which adopts a conservative view of the total investment that is required to continue to deliver the Council's Housing Function and meet the expenditure projected for meeting and maintaining the SHQS.

This outcome of this appraisal is that at a strategic level the projected SHQS investment of £932.68m at 2004/05 prices can be reasonably afforded.