



## CABINET

28 September 2011

## REPORT

**Subject Heading:**

Options for the future of the housing management service

**Cabinet Member:**

Councillor Lesley Kelly

**CMT Lead:**

Cynthia Griffin

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**Policy context:**

The Council is responsible for 10,017 tenanted council homes and 2,237 leasehold properties which are currently managed under a Management Agreement by a wholly owned company, Homes in Havering.

**Financial summary:**

This report highlights the potential savings available from keeping Homes in Havering 'as is' and bringing the housing management function back in-house. The report proposes that a budget of £50,000 be established to carry out an extensive consultation exercise to establish the views of tenants on the future of the housing management service.

**Is this a Key Decision?**

Yes

**Is this a Strategic Decision?**

Yes

**When should this matter be reviewed?**

April 2012

**Reviewing OSC:**

Towns and Communities

**The subject matter of this report deals with the following Council Objectives**

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input checked="" type="checkbox"/>
High customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

## **SUMMARY**

The Council's housing stock is currently managed under an agreement with an Arm's Length Management Organisation (ALMO), Homes in Havering. The decision to establish the ALMO was made in order to access Decent Homes Funding to improve the Council's stock. The requirement to have an ALMO in order to access Decent Homes funding has now been removed, and therefore the opportunity arises for the Council to consider whether this remains the best option for the management of the housing stock. This report considers three options, and recommends that the Council consult tenants on the future of the housing management service.

## **RECOMMENDATIONS**

- 1.1 That Cabinet agree to consult tenants and leaseholders about the future of the housing management service, and establish a budget of £50,000 to carry out this work.
- 1.2 That the Council's preferred option is to bring management of the Council's housing stock back in-house, although a final decision will not be taken until Cabinet receives the results of consultation with tenants and leaseholders.
- 1.3 That Cabinet agree to receive a report on the results of the Consultation in March 2012 in order to agree the future management arrangements.
- 1.4 That authority to develop detailed proposals and consultation materials to put to tenants and leaseholders in order to seek their views on the future of the housing management service be delegated to the Lead Member for Housing and Public Protection,.

## **REPORT DETAIL**

### 1. Background

- 1.1 The Council's Arms Length Management Organisation (ALMO), Homes in Havering, was established in July 2006. It had three stated main objectives: to access Decent Homes funding; to improve the quality of services to tenants; and to improve tenant involvement in the management of the housing service. In September 2009, Homes in Havering achieved the required two star standard that enabled the Council to obtain access to potential Decent Homes funding of £112m. However, due to the previous

Government's spending reductions, access to funding was withdrawn, though reinstated following legal action in January 2010. As a result, the Council received £9m of Decent Homes funding, which was spent in 2010/11.

- 1.2 Following the election of a new Government in May 2010, and the Comprehensive Spending Review in October 2010, the Government changed the Decent Homes Programme. The Government substituted a Backlog Funding bidding round which made two key aspects clear: that Decent Homes funding could be accessed by any council, whether it had an ALMO or not, with at least 10% of its stock still non-decent, and that councils were expected to deal with the first 10% of the Decent Homes backlog themselves. Havering Council bid, with the assistance of Homes in Havering, for backlog funding and was successful in obtaining an allocation of £62.7m, of which only the first two years are absolutely guaranteed. These two years (2011/12 and 2012/13) amount to an allocation of £8m in the first year and £16m in the second year, with the HCA agreeing to the Council/Homes in Havering's request to bring forward £1m from 2012/13 into this year. This amends the profile to £9m and £15m in the first two years. It can be seen, however, that the majority of the funding is back loaded.
- 1.3 The Management Agreement which governs the relationship between Homes in Havering and the Council is a ten year agreement with a five year break clause.

## 2. Tenant consultation

- 2.1 The Housing Act 1985 requires landlords to consult tenants on any significant change of housing management. The Guidance on the Review of ALMOs (2006) also states:

“We would expect any work looking at the future direction of an ALMO to, as a minimum; engage with those stakeholder groups who were involved in the original option appraisal process that selected the ALMO option. Any change in the arrangements should also be the subject of a test of opinion that is no less rigorous than the test undertaken to support the establishment of the ALMO.”

It further states:

“Consultation mechanisms

Although the ballot tends to be the preferred mechanism for the majority of authorities in testing their tenants' opinions in respect of changes to management arrangements, it is not a legal requirement. There are a variety of consultation mechanisms available to councils considering issues relating to the management of the housing services. These include questionnaire surveys, telephone surveys and votes at meetings. A combination of options, rather than one single option, may be the most comprehensive way of ascertaining

residents' views. We believe that the process undertaken should be a local decision on the most appropriate method."

2.2 The cost of the consultation and "Test of Tenant Opinion" is likely to be in the region of £50,000, which can be met from the HRA budget.

3. Current position

3.1 The early review of the options available has identified three main options. These are:

- the structure remaining "As is" with some additional savings
- a joint services approach with the London Borough of Redbridge/Redbridge Homes, and
- bringing the service back "in house" and integrating it into the Retained Housing Service.

The review, which has been conducted in part jointly with Redbridge, shows that financial savings can be achieved through all three options. The savings vary, but are in the region of:

"As is"	£210,000
Joint services Year 1	£425,000
"In house"	£380,000 - £535,000

The joint services option also yields additional savings in Year 3 onwards should the two companies merge, rather than just provide joint services.

4. Alternative routes

4.1 Option 1 – As is

If the results of the consultation support remaining with the current arrangement, and the members decide this option, then there is no need to make any changes to the structure and constitution, other than to confirm the extension of the Management Agreement to 2016. There may be variations to the Agreement that the Council would also like to see. The savings of £210,000 are available under this option, and these can be implemented in 2012. The savings have been identified in the following areas:

<b>Savings Area</b>	<b>Estimated Saving pa</b>
Performance monitoring	£100,000
Reduced support to budget holders	£90,000

<b>Savings Area</b>	<b>Estimated Saving pa</b>
Use of ISS procurement advice & assistance	£20,000
Total	£210,000

The advantage of this option is that it is a tried and tested method of delivering the housing management service, and it has over time made improvements to the quality of the services provided to tenants and leaseholders. In addition, there is a great deal of change in the field of housing policy at this time (for example, the introduction of Self Financing for the Housing Revenue Account) and therefore it may not be considered the best time to make significant changes in the management of the housing service. However if savings are available to be made, then there seems no reason to delay achieving them, and plans can be put in place to ensure that there is a smooth transition to alternative management arrangements, if this is what the tenants approve.

#### **4.2 Option 2 – Joint Services with the London Borough of Redbridge / Redbridge Homes**

There is a high level of savings that could be achieved with joint services over time. There are also significant costs and staffing time required to deliver them. There are other issues to be considered in developing joint services. The level of quality of service and standards would need to be negotiated and there would inevitably be a loss of local control. There may not be tenant support for the idea of a joint management company delivering services to Havering tenants, as there would be a concern about local accountability and local control. There would also inevitably be some concern, that the focus on the needs and preferences of Havering tenants might be lost in a joint company.

The advantage of this option is that it achieves the greatest level of financial savings, especially at a time when the housing service is about to embark on thirty year business planning, meeting new financial obligations in the form of large long term loans. However, there would be a loss of local control, and there would be serious difficulties in developing joint services with partners who do not have the same objectives or have the same direction of travel.

Just as Havering Council did, the London Borough of Redbridge continued to explore the pros and cons of a variety of housing management options while exploring the shared service option with the Council. Housing officers have been informed that the London Borough of Redbridge no longer wishes to pursue the shared services approach, feeling that a 'bring back in-house' approach is better suited to their particular circumstances.

**4.3 Option 3 – Bring the service back in house**

4.4 Financial savings

If tenants support the re-integration of the housing management service with the Retained Housing Service, there are significant opportunities for savings. The savings for this option are between £380,000 and £535,000, which can be achieved by removing duplication of functions between the Council and Homes in Havering. There would also be a greater degree of control that the Council could achieve through direct management of the housing service, rather than through the mechanism of a Management Agreement and a client function based in the Retained Housing Service.

The disadvantages of this option are that the Council would not have a company wholly devoted to improving the quality of the service, and consulting with tenants. The Council inevitably has a range of other objectives to achieve, and there would no longer be a body whose sole objective would be to improve the quality of service for tenants and leaseholders.

4.5 Decent Homes

Homes in Havering are currently leading on the delivery of the Decent Homes Programme, which is a major capital programme to upgrade the Council's housing stock. It is essential that the capital delivery team should therefore be maintained and supported to continue the programme which stretches out from 2011/2 to 2014/15 at the earliest depending on HRA self-financing decision to be taken by the Council. The current level of non-decency is 57% and will rise before it falls in the final years of the programme given the profiling of the additional resources being made available by Government.

4.6 Governance structure and the company

Should the decision be to bring the service back in house, there would no longer be a need for the ALMO company structure. It is important if the tenants support the proposal that the housing management service return to Council control, that there should be an appropriate governance structure that enables tenants to have an influence on the standard and quality of the service. It would be appropriate to establish a Tenant Consultative body, which could consider both strategic and operational aspects of the housing management service, chaired by an independent person who is able to represent their views. It could include the membership of councillors of all parties representing part of the borough where there are significant numbers of council homes.

The Tenant Consultative Panel could meet on a regular basis with the Lead Member for Housing and would be able to discuss a wide range of subjects, including the strategic topics relating to the management and maintenance

of the Council's housing stock, and operational policies such as antisocial behaviour, service charges, and regular service reviews.

5 Preferred option

5.1 This report seeks Cabinet agreement that the Council's preferred option is option 3 in the above list, that is, that the housing management of the Council's housing stock should be brought back in house. This is because it is felt this option provides greater scope for financial efficiencies over the other option considered and still available, that is, keep the ALMO arrangement 'as is'. Also, this would give the Council a more direct means of control over housing management while maintaining the distinct benefits of tenant and leaseholder involvement and influence.

5.2 In order to consult tenants and leaseholders on the future of the housing management service, the Council will need to set out its offer, in other words, what it is proposed will change if tenants and leaseholders indicate through a 'test of opinion' that they favour of returning to a situation of direct housing management by Havering Council. It is clear that improvements in housing management and maintenance witnessed under Homes in Havering stewardship of the service should be recognised and acknowledged; notably, the service has reached a level assessed as "two stars" by the Audit commission, and tenant satisfaction has also improved. A clear view of how the service would operate if brought back in-house should also be provided.

5.3 There will need to be specific proposals, in order to enable tenants and leaseholders to assess the proposals to change the management arrangements. The offer can be centred on:

- the Decent Homes funding remains in place, and the Council is committed to delivering the programme, within the overall Business Plan under the new financial regime. As under the ALMO option, this depends upon the continued funding of the Decent Homes programme by Government
- the level of savings that have been identified in the proposed "in-house" option. Savings of between £380,000 and £535,000 have been identified, depending upon final proposals for the new housing service, and the Council will commit to investing this in services for tenants and leaseholders or planned maintenance works, and
- maintaining the level of tenant and leaseholder engagement with the Council, through a Tenant Consultative structure, jointly with Councillors to meet regularly with the Lead Member for Housing

6. Conclusion

6.1 The process of establishing and managing the Council's housing stock through an Arm's Length Management Organisation has been beneficial to the Council. The quality of the management service has improved, and the Council has embarked upon a significant programme of capital

improvements, which are appreciated by the tenants. However, the rules governing the allocation of Decent Homes funding have changed, and the Council therefore has the opportunity of choosing an alternative structure to manage its council homes.

- 6.2 It is possible to obtain financial improvements through any of the three options discussed in this report. However the highest level of financial benefits is to be obtained by re-integrating the housing management service with other council services under its direct control. It is proposed that these facts are presented to tenants and leaseholders over the next six months. The consultation exercise will be extensive in order to obtain a wide range of views from tenants and leaseholders. The results will be reported to Cabinet next March, when a final decision on the future of the management of the Council's housing stock can be made, with the benefit of those views.

## **REASONS AND OPTIONS**

The changes to the funding of the Decent Homes programme open up options to the Council to decide how the housing management service should be organised in the future. This report proposes that bringing management of the stock back in-house has the greatest potential for delivering financial efficiencies while maintaining service quality and tenants and leaseholder involvement and influence. There should be an extensive consultation exercise with tenants and leaseholders, who are the users of the service, about their preferences. The implications for tenants, including the future of the Decent Homes programme, the financial positive of the options, and their opportunities for involvement need to be put to the tenants in order to enable them to express their views on the future of the service. These views will feed into the decision of the Cabinet in March 2012.

If no decision is taken to go out to consultation, a significant opportunity to make savings in the service would be missed.

## **IMPLICATIONS AND RISKS**

### **7.1 Financial implications and risks:**

This report proposes to establish a budget to carry out an extensive consultation exercise with tenants, costing £50,000. The HRA contingency has sufficient resources to meet this expenditure. Section 4 provides indicative savings for the three options identified.

There are likely to be financial costs associated with any future decision to manage the stock differently than at present. These costs will be made

clear in the March 2012 Cabinet report relaying the results of the consultation exercise and seeking Cabinet approval on the way forward.

**7.2 Legal implications and risks:**

Section 105 of the Housing Act 1985 requires local authorities to consult tenants on matters of housing management. This means that the Council must ensure that tenants are aware of the Council's proposals, and that they have sufficient opportunity of commenting on them. The Council must then take the views of tenants into account before coming to a decision.

**7.3 Human Resources implications and risks:**

There are no direct implications for staffing from this report. There are likely to be extensive implications for staff if the consultation indicates tenants and leaseholders favour of re-integrating the housing management services with other council services. These implications will be made clear in the March 2012 Cabinet report relaying the results of the consultation exercise and seeking Cabinet approval on the way forward.

**7.4 Equalities implications and risks:**

In carrying out the consultation exercise, it is important to ensure that all tenants and leaseholders can participate. This means that attention must be paid to ensuring that elderly tenants are able to communicate in formats that are suitable to their needs. Consultation materials need to be available for all sections of the community.

**BACKGROUND PAPERS**

Working Papers in the Housing and Public Protection Service.