



<u>Committee and Date</u>
Council
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<u>Item</u>
10
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THE FUTURE MANAGEMENT OF COUNCIL HOUSING

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1. Summary

An assessment of the options for the future management of Council housing identified the development of an Arms Length Management Organisation (ALMO) as the preferred proposal for the future management of Shropshire Council housing. Having a clearly identifiable housing management service, involving tenants in making decisions about their service is seen as a positive step in ensuring that there is a single minded focus in managing Shropshire Council housing. At a Cabinet meeting on the 12th September this year it was agreed to set up a new Council owned housing company to provide the vehicle for the ALMO. The structure for the Board that will run the Company was also agreed as part of our need to establish clear governance arrangements. The new company will be set up as the future delivery vehicle for the management of Council housing. This was agreed at Cabinet on the 12th September 2012.

The Objects of the Council owned housing company are outlined in the Constitution. The Constitution will be subject to further consideration after the Company is set up so some changes may be made as we further develop how the ALMO will work.

Proposals to manage the Council's housing stock in this way do not require a ballot of tenants but it is necessary to consult tenants and ensure that we have the necessary support of tenants. Over recent months extensive consultation has taken place about the ALMO proposal and we now have the required support to go ahead with the ALMO proposal. Note that setting up the ALMO is subject to the final agreement of the Homes and Communities Agency.

Recommendations to set up an ALMO were considered at the Cabinet meeting were considered at the Cabinet meeting on the 14th November. Council are also asked to approve these recommendations.

2. Recommendations

It is recommended that Council agree:

A. for the purposes of incorporation only to note that:

Mal Price, the Portfolio Holder for Housing and Jake Berriman, Internal Consultant will be appointed as the First Board Members of the Company until they appoint the Board of the ALMO to manage Council housing not later than 31st March 2013.

- B. the work to develop and agree the management agreement and other related documentation between the Council owned housing company and Shropshire Council is completed and that the authority to approve the management agreement is delegated to the Head of Paid Service in consultation with the Portfolio Holder for Housing.
- C. should any changes be required to the Constitution of the Council owned housing company, the authority to approve those changes is delegated to the Head of Paid Service in consultation with the Portfolio Holder for Housing.
- D. approves the delivery of Council housing services as set out in the list of delegated functions (Appendix 1) by the Council owned housing company from April 2013 subject to final agreement by the Homes and Communities Agency under section 27 of the Housing Act 1985.
- E. approves the transfer of staff to the Council owned housing company in accordance with the Transfer of Undertakings and Protection of Employment Regulations 2006 (TUPE) to deliver Council housing services by April 2013 subject to final agreement by the Homes and Communities Agency under section 27 of the Housing Act 1985.
- F. to enter into the agreement for the Council owned housing company to deliver Council housing services and that any further required actions to facilitate this are delegated to the Head of Paid Service in consultation with the Portfolio Holder for Housing.
- G. that a future report will be presented to Cabinet prior to April 2013 regarding the future monitoring and governance of the relationship between the Council owned housing company and Shropshire Council.
- H. that proposals are developed for the delivery of the remaining strategic housing functions.

3. Risk Assessment and Opportunities Appraisal

- 3.1 There is a legal requirement for the ALMO proposal to be approved by the Homes and Communities Agency (HCA) under S27 of the Housing Act 1985. Their approval to our proposals is a mitigation of risk in itself in that it provides independent scrutiny. One of the key factors they will examine will be the extent to which the requirement to demonstrate the support of tenants is fulfilled. With the completion of the consultation this risk has been mitigated. However, there is still a need to work to explain the details of the proposals and to give tenants confidence in the Council owned housing company as their future housing service provider. To further mitigate overall risks, Gill Steward, a Senior Officer who worked on the development of the Cornwall Council ALMO, Cornwall Housing, has carried out a peer review of our proposals. Their comments have been built into an on-going review of the project programme.
- 3.2 New service level agreements are being developed to cover the provision of central support services that will be provided by the Council for the new Council owned housing company. The intention is to ensure that in the short-term the financial impact on the general fund is broadly neutral, i.e. existing service

recharges are covered by service agreements and that there is no significant financial or service impact either for the new company or Shropshire Council. However, it is both anticipated and understood that future cost savings will be realised by the Housing Revenue Account (HRA) in light of efficiencies in the delivery of these services in the future. These provisions mean that through the recycling of efficiencies there will be better and more sustainable investment in the Council housing stock and management services and new housing development.

- 3.3 The costs of the project to set up an ALMO are estimated at £150K. These costs will be borne by the HRA with no impact on the general fund. Clear and robust management of the project timelines and costs are in place. Expenditure is in line with expectations and the project remains on schedule. The risk management framework that is being operated was considered by Cabinet on 12th September and continues to be monitored by the Project Delivery Group.

4. Financial Implications

- 4.1 In April 2012 the Council moved to self financing of Council Housing. This included a one-off debt settlement of £83.35m which was financed by long term borrowing. The financial ring-fence that separates the HRA from the General Fund remains in place which means the cost of supporting the self-financing debt falls on the HRA and current projections indicate that this is sustainable in the short and long term.
- 4.2 Recent changes introduced by the Government have increased the financial incentives for tenants to opt for "Right to Buy" council homes which could potentially impact on the overall rental income stream to the HRA if significant numbers of tenants take this option. The future strength and viability of the service requires a commitment to not only invest and improve existing stock but also looks towards the development of new homes to maintain stock levels. Self financing creates a financial framework which can enable the delivery of these objectives but there is a strong need to maintain a business model that is forward looking and driven by a desire for service improvement. The creation of a Council owned housing company will help to reinforce the commitment towards this by having a dedicated focus on the core business.
- 4.3 The financial arrangements between the Council, HRA and the Council owned housing company will be defined in the management agreement. -The intention is that there will be a service fee which relates to the operational and management activities of the new company (revenue expenditure) and a works fee which relates to planned maintenance and new development (capital expenditure). This separation will help to ensure that financial decisions relating to operational issues do not directly affect major works and allows the capital programme to remain flexible and able to adapt to future needs. However it must be recognised that all expenditure be it revenue, capital or debt financing is ultimately funded by tenants through rent and service charges and the need to maximise value for money within the resources available is a key requirement to deliver the aspirations of all stakeholders.

- 4.4 Under the Management Agreement it is proposed that income arising from Supporting People Grant and Community Alarms will be reflected in the accounts of the Council owned housing company and the management fee will be reduced as a consequence. All other income currently identified will be paid directly into the HRA.

5. Further Details on the Development of the Council owned housing company

5.1 Monitoring progress on key milestones in the development of the ALMO proposal.

5.1.1 The Project Delivery Group, chaired by the Portfolio Holder for Housing, Cllr. Mal Price continues to meet monthly to consider and drive progress on the development of the ALMO proposal. Progress is on schedule.

5.1.2 The Landlord Services Shadow Challenge Board (LSSCB) has also been set up and the LSSCB has been crucial to developing and scrutinising the proposals to set up an ALMO. Members have been supported by an ongoing training programme. We are currently consulting on the proposals to appoint the future Board of the Council owned housing company.

5.2 Outcome of Tenant Consultation

5.2.1 The consultation was carried out by PS Consultants who acted as the 'Independent Tenants Advisor'. A report on the consultation is at Appendix 2.

5.2.2 Consultation carried out included:

- 2 newsletters delivered to all tenants and leaseholders in the consultation process.
- over 70 drop in sessions arranged for tenants across all areas, A reminder was sent to all tenants in the second phase of consultation advising of the nearest drop in event,
- a freephone and email address made available to all tenants and leaseholders to call and raise issues and ask questions about the proposal,
- 6 factsheets produced and made available at drop-ins and online
- an online tenants forum,
- freepost questionnaire to return to express their view on the proposals sent to all tenants and leaseholders,
- 2 tenants conferences,
- development and training sessions with Oswestry Tenants Working Group (the only area based tenants group), a study visit was set up for interested tenants to an established ALMO, Solihull Homes

5.2.3 14.4% of individual tenants actively participated in the consultation process and 2.9% of leaseholders. In total 601 tenants participated in the process. Of these 310 stated they were from the Bridgnorth area and 234 from the Oswestry area. There were also 4 leaseholders who participated in the process.

Tenants and leaseholders got involved more than once in a number of ways. The 5 most popular ways to participate were:

- 446 who completed the questionnaire
- 374 participated through drop-ins,
- 42 posts by 5 active forum members
- 39 freephone calls
- 20 attendees at the Oswestry Tenants Working Group open meeting.

5.2.4 Although the numbers participating were not high there was ample opportunity for tenants to let us know their view of the proposal. There was a questionnaire sent to all tenants as part of the consultation and also available for tenants to fill in at consultation events. In total 446 cards were returned.

The key questions were:

- *Do you think you have enough information to make a decision about the future management of Council housing for rent in Shropshire?*
446 answered this question. Of these 51.6% said 'yes' and 28% said 'no'
- *From what you know now, are you broadly in favour of the Councils proposal to set up an ALMO to manage and maintain Council housing for rent from April 2013?*
446 answered the question. Of these 48.9% said 'yes' and 24.9% said 'No'.

For those who expressed a view the Questionnaire demonstrates the necessary support of tenants for the proposal to set up an ALMO.

However, it is clear that a large number of tenants still want further information about how the Council owned housing company will manage Council housing and we will make this information available to tenants as we further develop how the services will be delivered in the future.

5.3 *Development of the Council owned housing company*

5.3.1 Following the recommendation approved by Cabinet on the 12th September the Constitution has been developed (see Appendix 3) and the Council owned housing company will be set up. However, there will be further review of the Constitution as the arrangements for the delivery of the service develop. The Constitution may therefore require change before it takes on the management of Council housing.

This company has been incorporated but delegation of functions will only take place if approved by the HCA. The Council owned housing company will be set up in name only and responsibilities and staff will not be transferred to the new Company until April 2013.

- 5.3.2 As part of the process of incorporation named Directors have to be appointed. These initial appointments are only to enable the vehicle for the ALMO to be set up and the Company to adopt a company name. Their only role is to appoint the Board that will run the Council owned housing company from April 2013. They are known as the First Members of the Board.
- 5.4 *Management Agreement between the Council owned housing company and Shropshire Council*
- 5.4.1 Shropshire Council will enter into a management agreement with the Council owned housing company. The key features of the management agreement are:
- The functions to be delegated to and carried out by the Council owned housing company (see Appendix 1)
 - The standards to which they are to be carried out.
 - The financial relationship between the Council and the Council owned housing company.
 - Arrangements for liaison and consultation between the Council and the Council owned housing company.
 - Requirement for tenant involvement in decision making
 - The length of the agreement, which is 10 years with possible extensions of 5 years each.
 - Managing performance, the need for intervention and action to be taken in the event of non-compliance or failure.
- 5.4.2 The management agreement can only be amended with the consent of both parties. It will be for the Council to decide at the end of the agreement the management arrangements for Council housing.
- 5.4.3 The management agreement is currently in development. It is likely that it will need to be submitted with the section 27 application to the HCA but will be finalised prior to the transfer of services as outlined in the Schedule of Delegations (Appendix 1).
- 5.5 *Staffing*
- 5.5.1 Staff will be transferred to the Council owned housing company if they spend most of their time on providing Council housing services or managing the HRA. We will agree this on a case by case basis. Staff transferring will do so under TUPE with their employment rights protected. Staff will transfer with existing terms and conditions including pay structures.
- 5.5.2 It is agreed that staff will continue to be offered the Local Government Pension Scheme and that the scheme will be open to new members.

- 5.5.3 The majority of staff will continue to work in the same places as they do now although some groups of staff may be brought together. The exception is for staff currently based at Shirehall who will relocate to another base within Shrewsbury as soon as possible after the proposal is approved. Discussions regarding suitable available accommodation are in hand.
- 5.5.4 Formal consultation with Unions and all staff expected to transfer will commence late this year.
- 5.6 *Future Council Support and Service Arrangements*
- 5.6.1 Initially and for the first year of operation, it is intended that the Council owned housing company will continue to use Council Support services. The cost and services provided will be set out in schedules to the management agreement.
- 5.6.2 As the Council owned housing company reviews and develops its service offer it is anticipated that the support requirements will be reviewed and the service cost and or service provider may change.
- 5.6.3 With the transfer of Council housing services to the Council owned housing company the Council will review its arrangements regarding the management of its strategic housing functions both in the interim from April 2013 and in the longer term from 2014. The final arrangements will be the subject of a future report to Cabinet.

6. Next Steps

- 6.1 We are currently working to the summary timetable as outlined in Table 1 which highlights the key milestones in the process.
- 6.2 The delegation of functions as outlined in Appendix 1 by April 2013 is subject to the approval of full Council.
- 6.3 Approval will also be required from the HCA under section 27 of the Housing Act 1985 which will then allow the delegated functions to transfer from the Council to the Council owned housing company. We have agreed with the HCA as to their information requirements and are confident that we will be able to provide the required information.
- 6.3 Once the arrangements for selection of the Board of the Council owned housing company are finalised the 'First Board Members' will appoint the Board of the Council owned housing company.
- 6.4 A list of existing services provided by the Council that support the delivery of Council housing services has been drawn up and discussions are on-going to develop the arrangements which will be appended to the finalised management agreement. This will include costings and service standards for the various services procured by the new company.
- 6.5 The Objects of the company are as outlined in its Constitution and the expected service KPIs will be as outlined in the management agreement. However, there

is further work that needs to be done to make sure that the Council owned housing company runs successfully and delivers benefits for the Council and its tenants. In order to do this, policies in key service areas are being drawn up. In addition, a business plan will be developed by March 2013 and approved by the Council owned housing company to guide the new organisation. This will outline the organisation's vision and key areas of focus for the new company. In order to develop the plan there will be consultation with tenants, the Council, staff and other key stakeholders that will inform the Council owned housing company's vision and focus.

- 6.6 The Council will develop and implement arrangements regarding the transfer of staff to the Council owned housing company as outlined in 5.5 above but subject to approvals as outlined in 6.2 and 6.3.

Key Activity	From	To
Discussions with HCA re project proposal	Oct 11	Nov 12
Recruit and train shadow board	Jan 12	Jan 13
Develop service agreements with existing support and other services	Mar 12	Nov 12
Develop and submit S27 application to HCA	Aug 12	Dec 12
Develop the Business Plan	Nov 12	Mar 13
Development and sign off of management agreement and delivery planning	Jan 12	Mar 13
Discuss and develop with staff arrangements for the ALMO	Jan 12	Mar 13

*Table 1
Project Timetable*

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Cabinet Report 11th January 2012 'Transforming Landlord Services'
Cabinet Report 12th September 2012 'Update on the Future Management of Council Housing'.

Cabinet Member

Mal Price Portfolio Holder for Housing and Planning

Local Member

Members who cover wards with Council housing (principally in the Oswestry and Bridgnorth areas)

Appendices

Appendix 1	Schedule of Delegations
Appendix 2	Report from PS Consultants
Appendix 3	Proposed Constitution of the Council owned housing company