

**Manchester City Council
Report for Resolution**

Report to: Executive – 11 January 2017

Subject: Housing Revenue Account and the Council's housing management contracts

Report of: The City Treasurer and Strategic Director (Development)

Purpose of Report

To inform Executive of the outcome of the review of the Housing Revenue Account (HRA) and how the City Council delivers its housing management services and the options available.

Recommendation

That the Executive notes the report and approves the ongoing management arrangements described in Section 2 of the report, including the continuing arrangements with Northwards Housing for the purposes of improving housing management efficiency.

That Executive approves the Strategic Objectives as described in Section 7.2 of this report.

That Executive delegates to the City Treasurer and Director of Housing, in consultation with the Deputy Leader and Executive Member for Resources, responsibility to make the necessary adjustments to the Housing Revenue Account in order to ensure it remains viable.

Wards Affected:

Charlestown, Cheetham, Crumpsall, Harpurhey, Higher Blackley, Moston and parts of Ancoats and Clayton and Miles Platting and Newton Heath.

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	All of the Council's housing management contractors will continue to promote economic development in the areas they manage through maintaining homes, including work to develop the local workforce. Northwards Housing in particular is a major employer of north Manchester residents and will continue to target jobs for local residents. The three PFI contractors have performance indicators

	<p>measuring the numbers of local people that they employ and/or train. Northwards Housing works closely with the Council to deliver opportunities for training and employment for north Manchester residents. The management contracts contain strategic objectives which reflect those of the Council.</p>
Reaching full potential in education and employment	All of the contractors support successful communities and aim to ensure the continuity of their Regeneration Strategy to improve employment, health and educational prospects for tenants and residents.
Individual and collective self esteem – mutual respect	Housing management contractors work with the Council to improve the lives of residents across the areas they manage, actively tackling antisocial behaviour, encouraging positive behaviour, safeguarding children and adults, and promoting health and wellbeing.
Neighbourhoods of Choice	The contractors' fundamental role is to develop and improve neighbourhoods.

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The management fee paid to Northwards is reflected in the Housing Revenue Account Budget 2017-20 being considered by the Executive today

Financial Consequences – Capital

None

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

- *HRA Self Financing and Management of Council Homes Executive Report July 2011*
- *Report to executive 27 June 2012 – Miscellaneous and Residual properties*
- *Agreement for the Delivery of Housing Management and other Services Northwards Management Agreement*
- *Report to Executive January 2013 – Housing Revenue Account 2013/14-2015/16*
- *Report to Finance Scrutiny Committee – Housing Revenue Account Business Plan 28 January 2016*
- *Report to Executive February – Housing Revenue Account 2016-17 to 2018-19*

1.0 Introduction

- 1.1 In 2012, Government introduced self-financing for Housing Revenue Accounts which effectively delegated entirely the responsibility for income and expenditure of the HRA to Councils. This was established on a set of published assumptions around rent setting. In 2015 Autumn statement, the government fundamentally changed the rent setting assumptions by introducing a 1% rent cut for four consecutive years. Without corrective action, this will take £24 million out of the HRA in the four years and will have continuing impacts over the life of the business plan eventually turning it into deficit by 2031.
- 1.2 In February 2016, the Executive approved an HRA with some remediation measures to reduce the long term deficit but with a recommendation to carry out a more fundamental review of how the City Council delivers its whole housing management services and the options that are open to it. This was in light of known and anticipated changes being imposed by Government including the 1% rent reduction for tenants in social housing, welfare benefit cuts and the unknown implications of the Housing and Planning Act 2016.

2.0 Housing Management contracts

- 2.1 Manchester City Council had 16,163 rented homes, at April 2016, managed by 8 managing agents of very differing sizes as follows:
- Northwards Housing - the Council's wholly-owned Arms Length Management Organisation manage 12,947 properties
 - Grove Village Limited - a company which was formed to manage 527 council properties in Ardwick for 30 years from 2003 supported by the Government's Private Finance Initiative.
 - .
 - Renaissance Miles Platting Ltd - another PFI contractor managing 1,469 properties in Miles Platting, Ancoats and Bradford for 30 years from 2007
 - Solutions for Brunswick (S4B) - a third PFI contractor managing 741 properties in Brunswick for 25 years from 2014
 - Guinness Partnership - manage 171 recently-built Council properties in West Gorton
 - Peaks and Plains Housing Association - manage 11 bungalows in Alderley Edge
 - Avro Hollows Tenant Management Organisation (TMO) - manage 312 properties in Newton Heath
 - Shout Tenant Management Organisation - manage 94 properties in Harpurhey

3.0 HRA considerations (except Northwards Housing)

3.1 Private Finance Initiative contracts

- 3.1.1 The Council has entered into 3 long-term contracts with 3 consortia to deliver housing management, maintenance and refurbishment to its properties in Ardwick, Brunswick and Miles Platting/Ancoats/Bradford. Each contractor is also building new homes for rent and sale.
- 3.1.2 At this stage the Council is not seeking to amend or conclude any of the PFI contracts as this will be very costly and will require significant financial and legal resources from within and outside the Council. However the Council will remain open to alternatives should the opportunity to do so arise in future.

3.2 West Gorton

- 3.2.1 The management agreement with Guinness Partnership was for an initial 5 years from October 2011 with an option to extend for up to 5 further years. The Council is negotiating the terms of a rolling 12 month extension to the contract and, at the same time is considering the other options available to it which could include securing a new managing agent or possibly transferring ownership of the properties under a small-scale voluntary transfer arrangement. Full resident consultation will take place before any decisions are made.

3.3 Alderley Edge bungalows

- 3.3.1 Executive agreed in June 2012 that Peaks and Plains Housing Association would manage the bungalows on the same terms that a stock transfer company would. They collect and retain the rent, maintain the properties and have carried out the decent homes refurbishment work to the properties and grounds. As there is currently a legal restriction on the Council transferring the properties to Peaks and Plains it is proposed that the current arrangement continues until the legal restriction is removed and the properties are then transferred.

3.4 Tenant Management Organisations

- 3.4.1 Under the Government's Right to Manage legislation tenants in certain prescribed circumstances, can put forward proposals to take over the management of some, or all, of the housing management services provided in their area, subject to a successful ballot and ongoing support from local residents.
- 3.4.2 The Council has two TMOs, both geographically situated within areas managed by Northwards Housing. As long as the TMOs deliver the services described in the management agreement, and seek the necessary ongoing approval from residents, the Council and Northwards Housing must continue to support them.

4.0 Options appraisal (Northwards Housing)

- 4.1 The ALMO is clearly the Council's largest housing management contractor. They collect around £50m of the Council's £61m rental income (the remainder being collected by the other contractors). Their management fee is currently £21.8m for delivering both a housing management and a comprehensive neighbourhood management service. They also manage the capital programme works to the properties which is currently around £23m per annum, reducing to around £18m in the next 2 years.
- 4.2 In order to carry out an objective fundamental review of Northwards Housing the Council sought advice from independent housing experts, (Altair). This company had carried out a full review of Westminster City Council's ALMO (CityWest Homes) in the 6 months prior to the Council's commission and were ideally-placed to undertake this project.

5.0 Northwards Housing Review

- 5.1 Altair were commissioned to undertake the following:
- a. A review of the ALMO housing management model
 - b. A review of Northwards Housing as a housing manager, and in relation to both the successes, failures, costs and benefits including some comparative/ benchmarking analysis.
 - c. An evaluation of housing management options (including stock transfer to an existing or a new organisation) analyzing the costs, benefits, drawbacks and legal requirements of each option, including the level of consultation required.
 - d. Recommendation – a clear set of evidence-based conclusions for the Council to consider, taking into account the Council's objectives as a landlord and its requirements to secure the high quality and efficient management of its housing stock and deliver high levels of customer satisfaction.

5.2 Process

- 5.2.1 The work took place during Spring 2016 and included a review of the contractual and performance documentation, interviews with key stakeholders (including councillors) and cost and performance benchmarking against a range of other ALMOs.
- 5.2.2 The specific options considered were:
- a. bring the management of the properties managed by Northwards Housing back in-house
 - b. retain Northwards Housing and continue to focus on neighbourhood and housing management
 - c. retain Northwards Housing and look to add further Council or other services into it

- d. discuss with other Greater Manchester councils (Stockport, Wigan and Bury) the option to create a Super ALMO
- e. transfer the stock to an existing Registered Provider
- f. transfer the stock to a new Registered Provider

6.0 Summary Option Appraisal and Recommendations

6.1 Stock Transfer

- 6.1.1 The current housing debt attached to the 16,000 properties is £121m and the maximum stock valuation would be around £43m meaning that gap funding of nearly £80m would be required. The Government is absolutely clear that there will no longer be any gap funding to support stock transfer (which is how the Council could afford to transfer properties in the past to organisations such as Eastlands Homes and Willow Park etc.).
- 6.1.2 The current estimate is that there will be HRA reserves at the end of this financial year totalling £82m. However, during the next 2 years the Council has committed to fund developments in Collyhurst and Brunswick , 56 new Council homes in north Manchester, along with ongoing work to properties managed by Northwards which means that the reserves reduce to around £54m by 2019/20.
- 6.1.3 The Council holds two significant reserves to mitigate against the risks arising from increases in the cost of the 3 PFI contracts and those risks which might arise following the many stock transfers negotiated during the past 19 years based on the warranties provided by the Council to the companies receiving the properties (residual liabilities reserve). Currently these two reserves are set at £10m and £24m respectively. The Council's insurers reviewed the residual liabilities reserve two years ago and confirmed that the level of £24 million was an appropriate level. The City Treasurer believes it would be prudent to retain this total level of "insurance".
- 6.1.4 This means, therefore, that any organisation wishing to take over ownership of the properties managed by Northwards would require over £50m to bridge the gap between the stock valuation and the debt even if the Council was prepared to use the remainder of its available reserves to enable the transfer to happen. This would leave the Council with no HRA reserve and PFI and residual liability risk. If the Council didn't provide support to fund the gap the resources required would be in the region of £80m.
- 6.1.5 On the basis of the funding required the stock transfer options, to an existing Registered Provider or to one newly created, were both, discounted on financial grounds alone.

6.2 Bring back in house

- 6.2.1 A number of local authorities have brought their housing management services back in house in recent years. Whilst the driver has often been to reduce management costs it is not uncommon for anticipated savings not to

be realised. These have also exclusively involved whole city or whole district managed services. The City Council has had a consistent approach of, where appropriate, transferring stock and management and as such has no retained housing management function and has created a mix of approaches. Bringing the service in house would add both cost and performance risk to the Council and fundamentally, because the stock is only in part of the City, would create an imbalance between partners and neighbourhoods at a time when significant change is taking place and our partnership working is producing very positive outcomes, especially in the public sector reform agenda. For this reason, this option was discounted.

6.3 Expanded ALMO

6.3.1 The review identified a number of key areas where Northwards Housing needed to improve either its costs or its performance in comparison with its peers. The recommendation was that until such time as these improvements were made, the ALMO should remain in its current scope, delivering neighbourhood and housing management services. In future the Council and Northwards Housing should consider adding new services where economical to do so or where a better service could be achieved.

6.4 Super ALMO

6.4.1 This would be the creation of a larger ALMO created by merging smaller ALMOs. To date only one group of ALMOs has combined to create a super ALMO in East Kent. Whilst this option might lead to overhead cost savings it requires support from each of the local authorities involved and, in the case of East Kent, it took 3 years to deliver. Initial sounding out of the 3 ALMOs and respective Districts in Greater Manchester did not lead to any interest. At this stage it was recommended not to pursue the super ALMO model.

6.5 Existing ALMO

6.5.1 After careful consideration of all of the options available the report strongly recommended that the Council retain the ALMO arrangement with Northwards, work with it to improve some key areas of performance and cost and consider, in the medium term whether to transfer any other Council functions into it.

7 HRA Board Conclusions

7.1 An HRA Board was established to oversee the review of Northwards and the HRA and consists of senior council officers and the Executive member for Finance and the Deputy Leader. Whilst accepting the recommendations of the report, the Board wished to establish a set of strategic objectives to guide the development of a vision for the future direction of the housing stock and available MCC land in North Manchester. The strategic objectives agreed by the Board are set out below and Executive is recommended to approve them to enable more detailed work to be carried out on creating and delivering that

vision. The HRA Board will oversee the project work this work and it is expected that it will be concluded during early summer with a report to Executive in September 2017.

7.2 Strategic Objectives

To determine the best model for housing management delivery that maximises HRA investment in order to:

- a. enable more new homes to be built which include a mix and range of tenures and prices
- b. maintain our existing stock at the Decent Homes Plus standard where our asset management strategy supports such investment
- c. identify regeneration opportunities within council housing estates to drive neighbourhood change.
- d. use capital investment as the catalyst in engaging with and developing community.
- e. lever as much non-HRA capital as possible.

7.3 In order to ensure a balanced HRA and to enable options for the future to be kept as open as possible, the HRA Board recognised the need to improve efficiencies both within the Council and Northwards Housing. A joint action plan has been developed to ensure that all the recommendations are delivered, including establishing a 3 year budget process aligned to the Council's budget setting. This means that by September 2017, the report to Executive referred to above, will also present a two year revenue budget for the HRA.

7.4 Some changes and improvements identified in the action plan have been relatively simple to introduce and have already resulted in savings without affecting services.

7.5 One key area of focus has been the reduction in the time it takes to relet each property and Northwards have reorganised this service to deliver faster relets and reduce overall housing management costs.

7.6 Northwards and the Council have agreed a programme of service redesigns which will address each of the points raised in the fundamental review. During this period the Council will have completed the procurement of a new repairs and maintenance contractor and a new housing management IT system which will enable Northwards to develop 21st century delivery models which, until now, have not been available to them such as mobile working, direct debit payments and other areas of online service.

7.7 Governance; Northwards Housing have recently reviewed their governance arrangements and have continued to operate with a 12-person board

consisting of 4 representatives from the Council, 4 resident representatives and 4 independents. This model of governance has been developed by many Registered Providers but in recent years, under pressure from the Homes and Communities Agency many organisations now consist of fewer people and have a greater proportion of independents to reflect the significant financial and other organisational risks associated with a multi-million pound company.

- 7.8 It has been agreed that during 2017 a further review of governance will be undertaken, with the Council, to determine the appropriate size and make-up of the board, with particular reference to skills going forwards.
- 7.9 Management fee; Currently there is an annual negotiation around the fee payable to Northwards Housing which does not enable them to plan with certainty. It has been recommended that the Council and Northwards Housing agree a 3-year fee going forwards. A separate report on this agenda will recommend the level of fee for 2017-18.
- 7.10 Northwards Housing will complete a programme of service redesigns and understand more clearly the impact of the new IT system in delivering Value for Money initiatives in order to inform the level of fee required going forwards.

8.0 Conclusion

- 8.1 That the Executive notes the report and approves the ongoing management arrangements described in Section 2 of the report, including the continuing arrangements with Northwards Housing.
- 8.2 That Executive approves the Strategic Objectives as described in Section 7.2 of this report
- 8.3 That Executive delegates to the City Treasurer and Director of Housing, in consultation with the Deputy Leader and Executive Member for Resources, responsibility to make the necessary adjustments to the Housing Revenue Account in order to ensure it remains viable.

9.0 Contributing to the Community Strategy

- (a) Performance of the economy of the region and sub region**
People living in energy efficient housing in good repair are more likely to stay in good health and so be able to obtain employment and to stay in employment.
- (b) Reaching full potential in education and employment**
Appropriate housing is vital to ensuring that residents achieve their full potential. Children living in energy efficient housing in good repair and of adequate size are more likely to stay in good health and have suitable conditions and space for studying.
- (c) Individual and collective self esteem – mutual respect**

Quality housing is intrinsically linked to residents' health, well being and feeling about their community.

(d) Neighbourhoods of Choice

Improving the quality and management of the housing offer is fundamental to creating neighbourhoods where people choose to live.

10.0 Key Policies and Considerations

(a) Equal Opportunities

The Council's contractors provide universal housing management services to all tenants and residents and there are, therefore, no Equal Opportunities considerations relating to the management contractors.

(b) Risk Management

Under the provisions of the Local Government and Housing Act 1989, the Authority must ensure that the Housing Revenue Account does not result in a debit balance. The proposals in the report are aimed at ensuring this, together with regular budget monitoring will assist in managing this risk.

(c) Legal Considerations

The City Solicitor has reviewed this report and provided a commentary which has been incorporated within.