

Manchester City Council Report for Resolution

Report to: Economy Scrutiny - 5 November 2020
Executive - 11 November 2020

Subject: Housing Revenue Account Delivery model - Northwards ALMO Review

Report of: The Chief Executive

Summary

This report provides an update to the Executive following reports in June and September 2020. The report provides a summary of the progress in developing the case for tenants leading to a full consultation and “test of opinion”.

Recommendations

Economy Scrutiny Committee asked to comment on and endorse the recommendations to the Executive.

Executive is asked to:

1. Note the outcome of the workshops and the summary of the service offer that will be put to tenants in a “test of opinion”.
 2. Note the support provided by Northwards Board and Executive for the proposal.
 3. Note the proposals contained within the report about how the new council-controlled service will be governed and how tenants will be involved and empowered in the decision making about services to homes and communities.
 4. A final report will be presented in January 2021 with the outcome of the “test of opinion” and to confirm the final decision.
-

Wards Affected:

Higher Blackley, Charlestown, Crumpsall, Harpurhey, Moston, Cheetham, Miles Platting and Newton Heath

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city

The retrofitting of existing homes managed by Northwards is a key aspect of this proposal. The HRA cannot currently support the level of investment required to achieve a level of retrofit to meet Zero Carbon. Measures need to be taken to manage the projected deficit in the HRA in order to meet Zero carbon and other policy aspirations.

Manchester Strategy outcomes	Summary of how this report aligns to the OMS
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	As the largest single landlord in the City the Housing service is a major source of contracts and supplies that ideally are sourced locally
A highly skilled city: world class and home-grown talent sustaining the city's economic success	A major employer the Housing services for the council stock currently employs c350 people and supports apprenticeships and wider skills development.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	The housing service is the largest single community influencer in North Manchester alongside the City Council.
A liveable and low carbon city: a destination of choice to live, visit, work	Central to this report is the investment needed to retrofit existing homes in order to achieve a Zero carbon housing stock.
A connected city: world class infrastructure and connectivity to drive growth	The housing service is a major contributor to the North Manchester infrastructure.

Financial Consequences

The “due diligence” exercise provided robust and externally validated financial analysis of the available options. Indications of the revised HRA budget position has been previously reported.

The budget to conclude the prices and transfer the service into the Council is £1.4m. This can be funded using HRA reserves.

Contact Officers:

Name: Kevin Lowry
Position: Interim Director of Housing and Residential Growth
Telephone: 0161 234 4811
E-mail: kevin.lowry@manchester.gov.uk

Name: Carol Culley
Position: Deputy Chief Executive and City Treasurer
Telephone: 0161 234 3030
E-mail: c.culley@manchester.gov.uk

Name: Fiona Ledden
Position: City Solicitor
Telephone: 0161 234 3030
E-mail: f.ledden@manchester.gov.uk

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.

- Housing Revenue Account 2016/17 to 2018/19, Executive, 17th February 2016.
- Housing Revenue Account 2016/17 to 2018/19, Finance Scrutiny, 25th February 2016.
- Housing Revenue Account and the Council's Housing Management Contracts, Executive, 11th January 2017
- Housing Revenue Account Delivery model- Northwards ALMO Review, Executive 3 June 2020
- Housing Revenue Account Delivery Model-Northwards ALMO review, Executive 9 September.

1.0 Introduction

- 1.1 Manchester City Council owns nearly 16,000 council homes. These are managed on behalf of the council by a mix of delivery methods:
- The majority of the homes (13,300) are managed by Northwards Housing Limited (NHL);
 - 527 homes in Ardwick are managed by Grove Village Limited;
 - 1,469 homes in Miles Platting and Newton Heath are managed by Renaissance Miles Platting Ltd;
 - 741 homes in Brunswick are managed by Solutions for Brunswick (S4B); and
 - Guinness Partnership - manage 171 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
- 1.2 The Council established Northwards Housing Limited (NHL) in 2005 with the primary objective of securing government funding to deliver the Decent Homes standard. Although the decent homes funding has now ceased, the Council has retained NHL and continues to commission housing and additional services including the City wide allocations scheme, Manchester Move and the delivery of the capital investment programme for Council housing.
- 1.3 On 3 June 2020 Executive considered the position of the delivery of the Housing service in the context of the Housing Revenue account (HRA). The current HRA 30-year business plan shows that reserves fall below the c£60m level required to avoid having to pay increased interest charges on debt in 2027/28, and the reserves are forecast to be exhausted by the end of the 30-year business plan leaving a deficit of over £11m. The current plan is primarily aimed at maintaining decent homes.
- 1.4 The June report reflected that there is additional pressure and demands on the HRA including enhanced fire safety works, new build schemes and retro-fitting to achieve full Zero carbon of existing homes by 2038. Combined, these areas lead to a projected deficit in excess of £400m by the end of the 30-year business plan.
- 1.5 Following consideration of the issues and options Executive agreed to:
- approve consultation on the preferred option (insourcing) identified as part of the HRA review to bring the ALMO back in-house with a recommendation for the decision to be made in September 2020;
 - approve the commission of due-diligence exercise of the Northwards ALMO, including consultation with staff, unions, tenants and local stakeholders, and will review the costs of options that will assist the HRA and develop a business case; and

- approve that Northwards be asked to make interim arrangements for a suitably qualified Interim Chair and defer any recruitment until the consultation and due diligence exercise is concluded.
- 1.6 It is confirmed that Northwards has now recruited an Interim Chair. The “due diligence” review was undertaken by Campbell Tickell and the conclusions and findings were reported in September. The significant elements of the report were;
- 1.7 Campbell Tickell concluded with some key points about the issues facing all Housing services and in regard to Northwards and North Manchester specifically.
- In common with every other local authority and social housing landlord, MCC has experienced a significantly tougher regulatory and operating environment over recent years, driven by the four-year -1% rent reduction which has reduced expected levels of income, and the ongoing response to the Grenfell tragedy with significant investment being made in life-saving fire-safety improvements. However, complex these challenges may be, the impact of the Covid-19 pandemic is system threatening, and has forced a full reset of operating environment priorities and working models for everyone delivering public services, currently operating in little more than safe mode.
 - Covid-19 has created a new operating reality for public services and its impact on people’s lives, and the increased demand that this will place on housing services will be experienced for many years to come. Against this backdrop, Manchester must examine its own operating model to ensure it is optimally configured to deliver a sustainable level of service, whilst targeting resources in the most cost efficient, productive and needs focused manner possible.
 - Whilst Northwards has demonstrably achieved what the council has expected of it over time, faced with an unforeseen and stark operating reality, it is opportune moment to ask what whether an ALMO represents the best vehicle to deliver the housing service for both the Council on behalf of its tenants.
 - Not unsurprisingly, at fifteen years old, the rolled over Management Agreement is in need of review as in many respects it does not meet the needs of either party in optimising efficiency, making the best use of resources or in raising the quality of services
 - In summary the evaluation of Northwards itself is that it has regard to efficiency, and that annual operating surpluses have been made year-on-year prior to 2019-20. Northwards benchmarks comparatively strongly with other Manchester providers in respect of overall costs per unit, and income collection. However, overhead costs are high compared with other providers.
- 1.8 They also conclude that staying as we are currently operating is not an option and that the ALMO has too many weaknesses in terms of Governance, performance, structure and delivery that need to be addressed. Whatever option is chosen will have to be in the context of a significant service delivery

improvement programme.

1.9 The recommendations from the September Executive were;

1. To note the review had concluded that found that doing nothing was not an option and that there was an opportunity to achieve savings of at least £77m over the 30-year business plan by ending the current arrangements under which the Council's housing stock is managed by Northwards Housing Limited (NHL).
2. To agree that for the service to remain out-sourced there would need to be demonstrable benefits for tenants. To confirm that insourcing the service remains the preferred option and the intention to take over direct management of the Housing Service into the Council from 5 July 2021 subject to a "test of opinion" involving all tenants and leaseholders.
3. To note the proposals contained within the report about how the new council-controlled service offer would be developed and how, in future, tenants were to be involved and empowered in the decision making about services to homes and communities.

2.0 Developing the service offer

- 2.1 It is recognised that as part of seeking tenant's views through a test of opinion it would be necessary to describe how the service would look and would be delivered if brought back under council control. This has been the subject of a number of workshops in September involving Council colleagues who would play a role in service delivery after transfer. These workshops were supported by their Northwards counterparts who were able to provide information on current delivery, staff structure and resources and current levels of performance. The objective would be to identify any issues, risks, limitations, interdependencies and costs that would need to be considered as part of developing the post-transfer service.
- 2.2 Throughout September there have been 12 workshops to assess core direct core service delivery issues and 9 workshops to consider support (back office) service issues. This was predicated initially on the view that the housing service transferred from Northwards would be delivered within the compatible council service e.g. estate services would be delivered alongside neighbourhood services.
- 2.3 Whilst the need to address the pressures on the HRA has been a key driver, the overriding consideration always has been protecting and improving services to tenants. The workshop exercise has raised some legitimate issues that have been incorporated into the proposed post-transfer delivery model.
- 2.4 Amongst the issues are a number of risk areas that could have an effect on our ability to sustain a high-quality service to tenants;
 - 2.4.1 Covid related budget impacts. The Council will have to manage the budgetary consequences of Covid-19. This will require consideration of current council structures and budgetary savings. It is likely that there will be organisational and structure changes at the same time as the Housing Services would be

being assimilated into the Council. This presents a risk to the continuity of the housing service to tenants.

2.4.2 New repairs contractor. In April 2021 a new contract for the delivery of the Repairs and maintenance service will have been issued. Establishing a new contract is a challenging exercise even when the repairs administration function (delivered by Northwards) is stable and established. Making changes to the administration at the same time as the contracted service is highly risky and could have an adverse impact on the service.

2.4.3 ICT issues. There are a range of challenges to the ICT system that support the housing management and maintenance functions. The Council's ICT team have had no direct experience of working with and supporting the software packages and hardware of Northwards ICT and telephony. There are a number of software contracts that require extension or re-tendering and other infrastructure considerations. The resource commitment required in the short term is extensive, but without this there is a risk to service continuity.

2.4.4 As identified by Campbell Tickell the main risk with returning the service to Council control is the loss the momentum gained by Northwards and loss of focus when the service demonstrably needs to achieve more

2.5 Northwards, as part of their contributions to the workshops, were also able to share their experience of service delivery and make suggestions on future service design. This included a proposal from the new Chair of Northwards Board extracts of which include:

"... approach ... predicated on winding up Northwards as a separate legal entity and creating a housing management and maintenance business unit within MCC, thereby offering governance and regulatory savings.

".. a pragmatic solution which could maintain continuity of services to Council tenants in North Manchester and is based on these assumptions:

- restructuring the service delivery and associated management structure to meet tenant priorities and achieve demonstrable service improvements, but ensuring it is an integrated unit, rather than a collection of different departments and systems*
- meet the savings range set out in the last Executive Report, notwithstanding this model needs costing*

- alignment with North Manchester investment strategy, other capital programmes delivered by the Council or its partners and allow further long-term choices on investment in homes and places Northwards ceases to be a separate legal entity, effectively becoming a housing management and maintenance business unit within MCC.*

- The business unit would deliver the following services:*
 - tenancy management*
 - management of retirement housing*

- *multi-storey caretaking and estates services, including mobile cleaning of low-rise blocks and specified gardening grounds maintenance services not covered by MCC operational teams*
 - *tenant and leaseholder engagement*
 - *allocations and lettings within the Council's allocations policy*
 - *management of the repairs and maintenance contract*
 - *repairs and property condition inspections*
 - *legal disrepair investigations- linking in with MCC Legal Services*
 - *rent collection/income collection including money advice*
 - *energy advice and fuel poverty mitigation*
 - *contact centre service to tenants and leaseholders*
 - *IT servers/support on which QL will sit in Northwards until integrated with Council ICT*
 - *HR team to support above services and including internal communications until integrated with Council HR*
- *Full integration within the Council*
 - *Capital Programme design and delivery*
 - *Asset Management including Zero carbon*
 - *Financial Services (budget and HRA)*
 - *External Communications*
 - *Premises-retain 3 local offices-withdraw from Hexagon and Hendham Vale (Mears lease)-possible co location of R and M staff with new Contract^o*

2.6 The principle of a “soft” collapse of the legal structure, but initial retention of the operating function significantly mitigates the risks outlined whilst achieving the costs savings in terms of overheads.

3.0 Return the service to the council option

3.1 The proposal that is being recommended and would be put to tenants is known as a “lift and shift”. It allows the council to take the service into direct supervision whilst minimising the initial impacts on service and tenants’ experience.

3.2 The practicalities of the proposal are:

3.2.1 Northwards Housing Limited (Registered Company 05435061) would cease to trade on 5 July 2021. At that point all assets and liabilities would transfer to the council. From that date no payments, income or orders would be processed or transacted by NHL. This will allow the company to be wound down and struck off from Companies House.

3.2.2 All staff deemed to qualify under the Transfer of Undertaking (Protection of Employment) Regulations 2006 (TUPE) will transfer to the council.

3.2.3 The delivery of the Capital Investment programme is not a core service defined under the management agreement. It is an additional service for which the council has been paying an additional fee over and above the management fee. To address the underperformance and underspend over recent years this service may be taken back into the council at earlier stage

and will then be wholly delivered by the council. This is intended to achieve full commitment and maximisation of the programme, significantly improved performance and customer satisfaction and social value, as well as economies of scale in delivery.

- 3.2.4 At the point of transfer the finance function that relates to holistic budgets and HRA related spend will revert to the council. Tenant finance services including arrears recovery and money advice will remain initially with Northwards.
- 3.2.5 Communications services, both internal and external will need to be aligned and structures will be considered.
- 3.2.6 The Board of NHL would need to be retained in some form for the company wind down process to be progressed. This will take around 6-12 months after the transfer date of 5 July 2021.
- 3.2.7 There is consideration to be given to retain Northwards as a Brand name for the housing service, even though it will become a council service. This is a model followed by other insourced services. The benefit is that it is a brand recognised by tenants, avoids costly rebranding of stationery and livery on vehicles and reinforces the offer to tenants
- 3.3 Manchester Move. Northwards manage Manchester Move on behalf of the City Council and the 15 registered providers who are members of the scheme. The Council pays additional fees to reflect that most members are agreeing to allocate using Council Allocation policy. Manchester Move is overseen by a Housing Access Board which is made up of the members of the scheme. There will need to be a dialogue with the members about the future management of Manchester Move. This will be progressed as a specific and separate workstream.
- 3.4 YES. YES is a wholly owned subsidiary of NHL. Once NHL ceases to trade as a legal entity YES would, by default, transfer to the council. There is a stated commitment to retaining and developing YES. There will be a specific workstream that will manage this process to create the long-term framing of YES. It is likely that we will find a new way of YES being governed which will allow it to retain a level of independence. By being part of the council some of it's grant funding and fund raising would be impaired.
- 3.5 The strength of returning the service to the Council is that it gives back direct control over the service at a time of considerable operating challenge and a background of uncertainty.
- 3.6 The cost of returning the ALMO to the council is estimated as £1,482,000 covering the legal costs of closing the ALMO, administering TUPE and pension arrangements, and management of change costs, which would be chargeable to the HRA, with retained surpluses used to meet these costs.
- 3.7 The message to tenants would focus on the continuity of service, with an improvement programme and enhanced opportunities to be involved and influence the service. Tenants would be assured that the way that they access

services and who they deal with would not change at the point of transfer. What changes is the legal structure but this is unlikely to be a matter that tenants would have issues with. Tenants would be assured that there would be action on the messages including in their survey response and that they would be involved in developing and monitoring a service improvement programme. Tenants would be given more opportunities to be involved in their services.

- 3.8 It is recognised that even with a “lift and shift” some jobs in Northwards would be at risk. These would be those roles that are directly involved in operating the Company as a separate legal entity and the Governance and infrastructure that supports this. Once a final council decision is taken, the Council’s HR Department as the importing agency, would undertake a full due diligence of the TUPE issues. It should also be recognised that Northwards’ own retention case, made as part of the Campbell Tickell review, recognised that some service areas were over-sized. They had recommended a downsizing of a number of areas with a reduction in posts of c37 posts. This case will be considered in transition.
- 3.9 Through this process there will be full engagement with the trade unions and will work closely on the messages being delivered to staff. To date the Council have not had direct dialogue with Northwards staff on these issues as there are still some stages to be concluded before final decisions are taken and the formal processes can commence. The interaction with Northwards staff will include conducting an “Our Manchester” Listening in Action exercise to establish areas of concern and attention. This exercise will contribute to retaining key personnel through this transition.
- 3.10 We will ensure any staff who are potentially adversely affected by these proposals are supported and all avenues are explored to mitigate impacts.

4.0 Governance and accountability

- 4.1 Once transferred the housing management and maintenance service would be governed by elected members and tenants. There will need to be further consideration of precisely where and how this will align to council management and the committee system. Democratic services are considering the optimum way that there can be alignment to the decision-making structure of the council. This will be place-based reflecting that the tenancies in question are exclusively in North Manchester. It is intended that this forum will be created early into 2021 so that it can oversee the transition process. A further report is due to the Resources and Governance scrutiny committee in December 2020 which will develop this issue further. Northwards members and tenants will be consulted and included in the development of this governance framework.
- 4.2 Northwards have an existing engagement framework. This includes:
- Tenants and Residents Groups. There are 9 active groups meeting a required constitution, and 11 “contact” groups.

- Residents' network. 114 active tenants on the data base
 - Events-43 community events held in 2019.
 - Networking
 - Urban Crew. A joint initiative with Manchester communications academy working with 140 primary schools.
 - Eric Hobin sponsorship fund. Community grant opportunity with awards of up to £500 for community activity.
 - Youth engagement.
 - Retirement Housing.
 - High Rise Forum.
 - Tenants View- Overarching representative group.
- 4.3 We would build upon this network and expand access to the various groups. Shelter, the Housing Charity, have agreed to work with us to create genuine neighbourhood-based forums and particularly get involvement from under-represented groups.
- 4.4 We would ensure that tenants are able, on an annual basis, to hold a scrutiny review of the whole service and report to elected members (most likely a representative group of North Manchester members) so that the service has proper oversight and accountability.
- 4.5 The option to manage the service in-house also has a number of strategic benefits that would form part of our offer.
- 4.5.1 Our Manchester. Whilst NHL have contributed to the Our Manchester agenda direct management of the housing service would allow us to closely align the service with our vision for the future.
- 4.5.2 Accountability and transparency. By bringing the service back into direct management we enhance the accountability to the democratic structure. This will allow tenants to have a relationship with their landlord.
- 4.5.3 Excellent services and customer access. Upon re-integration it would be proposed to develop a service charter with tenants and leaseholders. This would allow us to offer a whole council service through our Bringing Services Together (BST) framework as well as a single point of access to the service.
- 4.5.4 Value for money. By aligning service delivery with council operational and "back-office" functions we will save money which will directly benefit tenants.
- 4.5.5 Growth and place. Using housing as an agency for growth and neighbourhood regeneration we can contribute significantly to the major projects in North Manchester.
- A holistic operating model that maximise the potential of digital self-service and delivery processes, effective field-based working, and shared service opportunities;
 - An agreed Value-Add proposition that will enable Northwards to use its position within the local community to help support a whole

- system approach to service delivery in North Manchester;
- A Transformation Plan to deliver the above and an agreed efficiency savings programme over a 12 to 18-month period.

5.0 Consultation

- 5.1 There is a statutory requirement under section 105 of the Housing Act 1985, to consult with tenants about proposals that relate to the management of their homes. Specifically, the act states:
- (1) A landlord authority shall maintain such arrangements as it considers appropriate to enable those of its secure tenants who are likely to be substantially affected by a matter of housing management to which this section applies:*
- (a) to be informed of the authority's proposals in respect of the matter, and*
- (b) to make their views known to the authority within a specified period; and the authority shall, before making any decision on the matter, consider any representations made to it in accordance with those arrangements.*
- (2) For the purposes of this section, a matter is one of housing management if, in the opinion of the landlord authority, it relates to:*
- (a) the management, maintenance, improvement or demolition of dwelling-houses let by the authority under secure tenancies, or*
- (b) the provision of services or amenities in connection with such dwelling-houses;*
- 5.2 If the Executive supports the service offer and the principle that we dis-establish the ALMO and bring services in-house, then formal consultation on that proposal will be the next step.
- 5.3 This will take the form of a “test of opinion” to establish the views of tenants and leaseholders.
- 5.4 A test of opinion would take the form of correspondence to every tenant and leaseholder outlining the council’s proposals, and details of the evidence behind the proposal e.g. estimates of savings and efficiencies. It would include a reply form for tenants and leaseholders to express their view. It will be supplemented with information on the websites of the council and Northwards with information and Frequently asked questions (FAQ’s) form.
- 5.5 The test of opinion will be conducted by an independent agency qualified in this type of consultation and will be required to take measures to ensure maximum possible opportunity for tenants to express their views.
- 5.6 We will employ a “tenants friend” independent support and advice to assist tenants and advise them about the issues and implications of the proposal. Any such advisory service will be restricted to advise on the issues under consideration. It is not their role to advocate alternative solutions or options.

5.7 Throughout this process the councils communications team will lead the communications with Northwards, working in partnership with Northwards in-house team; and with tenants, working with the tenants friend service. A pack of information that will form the test of opinion and offer to tenants is in development.

6.0 Timescales

6.1 If the Executive supports the consultation with a view to insourcing of the service the “test of opinion” consultation would commence within the first three weeks of November. The issue would be concluded and the outcome reported to the Executive at its meeting in January 2021. If the consultation supported the proposal the intended date of the service commencing from Council delivery would be 5 July 2021.

6.2 If the proposal was not supported by tenants then the position would need to be reviewed.

6.3 In those circumstances retaining the ALMO would require a combination of much more efficient working on their part or a transfer of additional council services to the ALMO to gain a better level of economies of scale, or both.

7.0 Contributing to a Zero-Carbon City

7.1 The retrofitting of existing homes to meet zero carbon objectives is at the heart of the revision of the HRA. The investment calculations by Savills are based on a programme of decarbonising the fabric of the homes assuming no carbon neutral energy network source.

8.0 Contributing to the Our Manchester Strategy

(a) A thriving and sustainable city

8.1 As the largest landlord in the City it is critical that the Council’s own tenants get as good as, if not better, service and investment, as any other social housing tenant.

(b) A highly skilled city

8.2 As a major employer we can ensure that the housing management and maintenance service provides work and training opportunities to the Manchester community.

(c) A progressive and equitable city

8.3 The investment programme taking account of new and emerging programmes and projects.

(d) A liveable and low carbon city

- 8.4 The presumption of a large scale fabric based retrofitting programme is featured in the revision of the 30-year business plan.

(e) A connected city

- 8.5 The housing service is a major contributor to the North Manchester infrastructure.

9.0 Key Policies and Considerations

(a) Equal Opportunities

- 9.1 None at this stage

(b) Risk Management

- 9.2 As outlined in the report.

(c) Legal Considerations

- 9.3 The HRA is a highly regulated entity, and Northwards Housing is a fully constituted legal entity, and consequently there are a number of considerations in completing this business appraisal, whichever option is adopted.

The next break clause for the Management agreement is April 2023. The Board of Northwards would need to support the mutually agreed termination of the management agreement.

If the service transfers to direct provision staff in NHL will be affected by the Transfer of Undertakings (Protection of Employment) regulations 2006 ("TUPE")

If the service transfers and we process the closure of NHL then the Council, as the sole shareholder, will accept the transfer of all assets and liabilities. A robust due diligence exercise will be undertaken which will include the termination or novation of contracts for services or supplies.