

**Manchester City Council
Report for Decision**

Report to: Economy Scrutiny- 14 January 2021
Executive – 20 January 2021

Subject: Housing Revenue Account Delivery model- Northwards ALMO
Review

Report of: The Chief Executive

Summary

This report provides Executive with the conclusion of the test of opinion of tenants and leaseholders. The report provides a summary of the opinions indicated and recommends that the decision to insource the housing management and maintenance function is now confirmed.

The report includes a summary of key actions and milestones, risks and process to develop post-transfer governance arrangements.

Recommendations

Economy Scrutiny Committee is invited to comment on the report and endorse the recommendations to the Executive.

Executive is asked to:

1. Note the outcome of the "test of opinion" consultation and the support for the council's proposals.
 2. Note the proposals contained within the report about how the new council-controlled service governance is being developed and how tenants will be involved and empowered in the decision making about services to homes and communities.
 3. Note the appointment of a project lead, and the indicative project stages and timetable for the delivery of the insourcing project.
 4. Members confirm support for the retention of "Northwards" as a brand identity for the council housing service.
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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.

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Background documents (available for public inspection):

- 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 15,500 council homes. These are managed on behalf of the council by a mix of delivery methods:
 - The majority of the homes (12,700) 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 has continued 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. The investments provision in the current business 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 retrofitting 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 in reports in June and September Executive agreed to:
 - approve consultation on the preferred option (insourcing) identified as part of the HRA review to bring the ALMO back in-house;
 - noted the outcomes from the due-diligence exercise of the Northwards ALMO, which had included consultation with staff, unions, tenants and local stakeholders.

- 1.6 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 Campbell Tickell also concluded 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 decisions from the September Executive were:-

1. To note the review had concluded 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 outsourced 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.

1.10 Government issued guidance in 2011 to Local Authorities considering the future of their ALMO housing management services. Councils are advised to undertake a cost-benefit and risk analysis exercise before reaching a final decision. These exercises have been completed and the results previously reported.

2.0 Test of Opinion

- 2.1 Tenants and leaseholders have been consulted on the proposal to take direct control of the management of the housing service from 5 July 2021. This was conducted by virtue of an information document and series of questions which tenants and leaseholders could vote on either on the document or online. The independent agency that ran the test of opinion UK Engage Ltd, used a barcoding system to ensure security and to avoid duplicated or multiple voting from one tenancy. A copy of the documentation that was issued is at Appendix 1.
- 2.2 An independent tenants advisory service was employed and supplied by Campbell Tickell. The role was to support tenant and leaseholders engage in the process, respond to any issues or concerns about the process and act as an honest broker independent of both Northwards and the Council.
- 2.3 The test of opinion commenced on 3 December 2020 and concluded on 4 January 2021. As well as the direct mailing of the documentation, publicity was issued on both Northwards and the Council websites and via social media.
- 2.4 Tenants and leaseholders were invited to attend one of four on-line briefings led by the Director of Housing and Residential Growth. These sessions allowed tenants and leaseholders to question the council directly on the rationale for the proposal and the implications for services.
- 2.5 The test of opinion closed at 5.00pm on Monday 4 January 2021. A total of 1633 people voted (1572* tenants and 54 leaseholders). This is 12.52% of those able to participate (12.57% tenants 11.87% leaseholders). (*two papers were spoilt)

- 2.6 In response to the question “Do you support the proposal to bring the management of your council home into direct management by the council?” 1524 voted in support. 1474 tenants voted yes, 89 voted no and 9 did not vote. 50 leaseholders voted yes, 4 voted no. This constitutes 93% of the votes cast, an overwhelming majority. The certified results are at Appendix 2.
- 2.7 It should be noted that this process was a “test of opinion” and not a ballot. The result is not binding but is one of the factors that are to be considered in making the decision about the future management of the service. However, the scale of the majority supporting the proposal creates a compelling argument.
- 2.8 The turnout fulfils the research and statistical tolerances that the council employs when conducting community consultations. This is predicated on the three elements:
- i. The **population** i.e. the total number of tenants and leaseholders able to vote. The population for this exercise is **12981**
 - ii. The **confidence interval** (also called margin of error) is the plus-or-minus figure usually reported in newspaper or television opinion poll results. For example, if you use a confidence interval of 4 and 47% percent of your sample picks an answer you can be "sure" that if you had asked the question of the entire relevant population between 43% (47-4) and 51% (47+4) would have picked that answer. The council use a confidence interval of **3**
 - iii. The **confidence level** tells you how sure you can be. It is expressed as a percentage and represents how often the true percentage of the population who would pick an answer lies within the confidence interval. The 95% confidence level means you can be 95% certain; the 99% confidence level means you can be 99% certain. Most researchers use the 95% confidence level. The council use **95%**

By putting these three indicators (above in bold) into an online calculator it provides the number required to have confidence in the result. In this case confidence can be gained from any vote above 986 people.

- 2.8 The response rate of 12.54% is consistent with other Local Authorities who are proposing to or have recently taken their ALMO services in-house. Kirklees concluded their consultation in September 2020 and had an 11% response rate; Gateshead council concluded their consultation in October 2020 with a 12% response rate; The four Local Authorities who made up East Kent ALMO concluded their consultation in December 2019 and had a 15% response rate although voting was made available to wider community and voluntary groups.
- 2.9 Those that have responded have supported the proposals. It should be noted that residents who attended the briefing sessions and contacted the tenant’s advisor were supportive of the proposal and were mostly raising serious concerns about the quality of the repairs service.

- 2.10 As the final stage of the consideration the “test of opinion” consolidates previous considerations reported in June and September and therefore seeks Executive ratification to bring the management of the housing management services, currently provided by Northwards Housing Limited, under the direct management of the council with effect 5 July 2021.
- 2.11 One of the questions in the test of opinion was “Are you interested in taking a more active role in the management of housing services?”. 532 people have indicated that they would be willing to be actively involved and have provided their contact information. In total 963 participants indicated a willingness to be involved but not all provided their contact details. We have all respondents addresses so will follow up on all expressions of interest.

3.0 Returning the service to the council project plan

- 3.1 The proposal that is being recommended and was put to tenants is known as a “lift and shift”. This means that the operational functions will continue and so, initially, the tenants and leaseholders will have continuity of service. It allows the council to take the service into direct supervision whilst minimising the initial impacts and risks on service and tenants’ experience.
- 3.2 The practical steps of delivery of the transition are:
- 3.2.1 The council are appointing a dedicated project lead who will work across the council and Northwards to manage all of the critical stages of the transition of services. The Northwards Chief Executive retired on 31 December 2020 and Northwards have appointed an Interim Director of Transition to lead the service transition from Northwards perspective.
- 3.2.2 Following the Executive decision, the council, in partnership with the Northwards Board and management, will be able to engage in direct communication with staff at Northwards and with tenants and leaseholders. 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. There will be a regular dialogue with staff, tenants and unions throughout the transfer programme.
- 3.2.3 Formal due diligence will commence that address issues such as contract transference, TUPE, Insurances, premises and any assets and liabilities. As of 20 January, Northwards will be required to consult the council before entering into any new or extended contracts, making any job offers or any other activities that may impact the due diligence exercise.
- 3.2.4 The TUPE due diligence work will be a significant workstream involving over 350 Northwards officers and requiring extensive and continuous consultation. This will be challenging, commencing within the current national lockdown. Working closely with Northwards management team and the Unions we will ensure that a comprehensive process is supported.

- 3.2.5 As outlined in Section 4 it is intended that a shadow board will work with the Northwards Board to have oversight of the transition project.
- 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 could, 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 its grant funding and fund raising would be compromised.
- 3.5 Corporate support functions. Support or “back office” functions will be assimilated with council functions at or before 5 July 2021. Whilst they will continue to support the housing service provision, there is no necessity for them to be a separate and dedicated entity. Some retention related to concluding the finances and fiduciary responsibilities of Northwards Housing Limited as a legal entity will be required until the company is closed.
- 3.6 The cost of returning the ALMO to the council is estimated by Campbell Tickell as £1,482,000. This included 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 Improvement programme. Priority will be given to intervention in, and improvement of, priority service areas identified by tenants and leaseholders through the Campbell Tickell review and the “test of opinion” exercise. These include improved repairs service; improved investment programme delivery; community safety and dealing with anti-social behaviour. The areas were summarised in the offer document (Appendix 1). The programme will also consider any differences in approach and culture between the two organisations to ensure that at the point of transfer there is a consistent and shared approach, following “Our Manchester” principles.
- 3.8 The Council’s HR Department as the importing agency, will 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. This case will be considered in transition.

- 3.9 It is noted that there are areas in which Northwards have made a significant and positive impact on tenant and neighbourhood services. As we develop the service within the council we will seek to identify and maximise the areas of 'best' practice linking ALMO and council capacity to harness community capacity; projects like Everyone In, addressing domestic abuse; Supporting the health and social care system, Debt Management and Advice and Communications. This would be built upon during the transition year while services sat alongside each other as one organisation. Bringing together the best practices and harnessing the strengths of both organisations is a powerful opportunity to deliver even more for the benefit of tenants and neighbourhoods.
- 3.10 It is proposed to retain the branding Northwards to identify the council housing service. There is a practical benefit in not having to change the livery and stationary initially. However, the wider benefit is that it is a service recognised by tenants so the housing service will continue to be identifiable and distinctive whilst still part of the council.
- 3.11 Throughout 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, delivered closely with Northwards Board and management team, 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.
- 3.12 We will ensure any staff who may be 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 is an ongoing consideration of precisely where and how this will align to council management and the committee system. Legal and 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 as a shadow board of tenants and members so that it can oversee the transition process. There will be close working with Northwards Board and Northwards members and tenants will be consulted and included in the development of this governance framework.
- 4.2 Governance will seek to build on existing tenant engagement processes and to meet the requirements outlined in the recent Government White Paper "The Charter for Social Housing Residents". 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 It is recognised that there is a limited connection between the council and its tenants. There has been a reliance upon Northwards delivering this function. In order to create a better Council; tenant relationship we would build upon Northwards existing 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 to increase direct 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 so that the service has proper oversight and accountability.

4.5 The format of future governance should align with the emerging requirements of the White Paper and the Charter for Social Housing tenants. This will include oversight of performance against the Social Housing Regulator’s Regulatory Standards. This will particularly relate to the Tenant Involvement and Empowerment standard and the Consumer standard. Agenda areas of any post-transfer governance could include:

- commentary on the formulation of the landlord’s housing related policies and strategic priorities.
- views expressed ahead of the making of decisions about how housing related services are delivered, including the setting of service standards.
- the scrutiny of the landlord’s performance and the making of recommendations to their landlord about how performance might be improved.
- issues related to the management of their homes, where applicable.
- the management of repair and maintenance services, such as commissioning and undertaking a range of repair tasks, as agreed with landlords, and the sharing in savings made.
- agreeing local offers for service delivery.

4.6 The fact that over 900 tenants and leaseholders have expressed an interest in playing a role in the future management of the housing service is a significant bonus of the process. Of these 532 have provided contact details in order for

this interest to be followed up. This number is significantly higher than the number Northwards have currently on their retained active tenants schedule and will allow a wider range of views and perspectives to be expressed. This is a positive development and will allow us to significantly refresh the number and range of active tenants in future governance and consultation arrangements.

5.0 Timescales

- 5.1 The intended date of the service commencing from Council delivery would be 5 July 2021. A summary of the critical actions and milestones is at Table 1.

Table 1 Task and target dates.

Task	Target date
NHL Interim Director of Transition starts	4 January 2021
Economy scrutiny committee	14 January 2021
MCC Project manager appointed	w/c 25 January 2021
Executive Decision	20 January 2021
Mail out to all tenants and leaseholders	January 2021
Formal notification to all Northwards staff and relevant MCC staff	January 2021
“Our Manchester” Active listening events (Virtual)	February 2021
Commence TUPE due diligence	February 2021
IT systems integration analysis	February-June 2021
MCC Corporate services assimilation plans	March 2021
Executive to receive new organisation structure proposals	March 2021
Executive to receive new Governance proposals	June 2021
Mailing to all tenants and leaseholders to confirm new service arrangements	June 2021
Self-assessment against Regulatory code	May 2021
NHL Board make decision to dissolve	May 2021
Staff TUPE across	5 July 2021
New service launched	5 July 2021
NHL ceases to trade as a separate entity	5 July 2021

Approve NHL final accounts and audit	September 2021
NHL apply to closedown company registration	6-12 months
Development of new 5-year housing strategy	Jan-September 2021.

6.0 Contributing to a Zero-Carbon City

- 6.1 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.

7.0 Contributing to the Our Manchester Strategy

(a) A thriving and sustainable city

- 7.1 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 largescale 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 A detailed risk register will be undertaken jointly by the council's project lead and the Interim Director of Transition at Northwards. The immediate risks are detailed in Table 2.

Table 2. High level risks

Risk	Interim mitigation
Short term loss of Key Executive officers in the ALMO	Interim cover in place for CEO role and Director of Resources.
Short term loss of key personnel involved in asset management and repairs	Some interim posts covered.
Loss of focus on service and reduction in performance during transition	Monthly joint MCC/NHL project board meetings. Reports to Shadow Board and NHL Board.
Revised governance arrangements leading to less tenant and leaseholder involvement.	Joint Shadow Board and NHL Board development including tenants and leaseholder input.
Loss of service quality arising from reduced staff morale.	Implementation of an effective HR strategy to support staff, ensuring necessary training and development is in place. Implementation of an effective staff communication and engagement strategy
Loss of service quality arising from IT complications.	Early meeting with IT to identify issues and develop a project action plan
Cost of transition over-runs	Adequate budget provision and monitoring
Insufficient MCC staff capacity to support the transition project.	Potential use of HRA reserves to support other services to support the project
Changes in the extent of reintegration of services made after reorganisation has started.	Early decision making

(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 several considerations in completing this business appraisal.
- 9.4 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.

- 9.5 If the service transfers to direct provision staff in NHL will be affected by the Transfer of Undertakings (Protection of Employment) regulations 2006 ("TUPE")
- 9.6 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.