

**Manchester City Council
Report for Resolution**

Report to: Executive – 3 June 2020

Subject: Housing Revenue Account Delivery Model - Northwards Housing

Report of: The Chief Executive

Summary

To inform the Executive of the outcome of recent review of the Housing Revenue Account (HRA) and the Arm's Length Management Organisation (ALMO), Northwards. The report provides a summary of the findings and seeks approval to develop a detailed business case and undertake consultation with tenants, employees, trade unions and other stakeholders, which will lead to a recommended option.

Recommendations

Executive is asked to:

1. approve consultation on the preferred option 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;
 2. 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
 3. 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.
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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 report. The HRA cannot currently support the level of investment required. 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 we are 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 stack 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 would provide more robust and validated financial analysis of the available options. Indications of the revised HRA budget position is included in the report.

The commissioned review of costs and due diligence could cost around £25k.

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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

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;
 - 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 The Council has a management agreement with NHL. This agreement was initially entered into in 2005. It was subsequently reviewed in 2013, the agreement was for a term of 30 years. There are termination and break clauses within the agreement.
- 1.3 In 2012 the introduction of the HRA self-financing scheme changed the way that social housing was funded. Since then the Council has had to manage its housing stock through the Housing Revenue Account (HRA) on a similar basis to Registered Providers. This has entailed developing a rolling 30-year business plan and reviewing the use of all existing assets to ensure that benefits are maximised.
- 1.4 The imposition of a 1% annual rent cut for four years from 1st April 2016 has had a significant effect on available resources over the life of the plan through a loss of rent income and this reduced the HRA reserves position over the life of the business plan.
- 1.5 The current working 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. This is based on current investment proposals including some level of reduced carbon investment and fire safety works, but the plan is primarily aimed at maintaining decent homes.

2.0 Review of the HRA and the Northwards ALMO

2.1 The City Council has previously commissioned a review of the Northwards ALMO in 2016. This was undertaken by Altair Ltd, a commercial Housing and Public Services consultancy. It provided a wide-ranging summary of the ALMO, the HRA and the context of the housing market, and potential options for the future. The Government decision to impose a 1% rent reduction for four years from 2016 changed the entire framing of the HRA business plan. The review was commissioned to consider the implications of the rent reduction and the ALMO.

2.2 In summary the Altair commissioned review recommended that the ALMO be retained but identified opportunities for the ALMO to produce better and more efficient services, a focus on VFM, and for the City Council to play a more assertive client role. It also highlighted some areas of weak performance and where governance was not fully effective. The City Council have since appointed an interim director of Housing who has also explicitly taken on the role as the Council's Client officer to strengthen the client side arrangements. The Northwards Board are also undertaking a governance review.

2.3 In 2019 there was a growing concern about the financial impact to the HRA of the need to invest in the Council's housing stock in terms of building safety after the Grenfell disaster and investment to maintain decent homes standards and become zero carbon as part of the wider city ambitions to tackle the climate emergency by 2038. This was alongside growing concerns that the Right to Buy (RtB) policy was leading to a reducing social housing estate with a detrimental impact in parts of the city with the risk some houses were being bought to let. As a result a further review was commissioned.

2.4 This review was a practitioner perspective undertaken by the Interim Director of Housing and Residential Growth who, as the Council's Client officer of the ALMO, had also developed a clear operational understanding of the service and the management of the organisation.

2.5 The remit of this review was:

- Review of the future of the Northwards ALMO by end of January 2020.
- Set out an initial options appraisal along with specified risks, costs, outcomes, deliverable associated with all identified options.
- Provide clarity on HRA future investment capacity for decent homes, zero carbon, fire safety, repairs and maintenance.

2.6 The review was a high level evaluation so as not to disrupt services and create uncertainty and anxiety amongst staff or tenants. As such there has not been a detailed forensic analysis of the organisation so a number of assumptions were made in evaluation options open to the Council.

3.0 Conclusions of the Internal Review of the future of the Northwards ALMO and the Housing Revenue account (HRA)

The Housing Revenue Account (HRA)

- 3.1 The review was fundamentally to consider the sustainability of the HRA and how it could best be utilised to deliver a good housing service to tenants whilst managing the competing demands of delivering the investment required (as outlined in the above section of this report). As part of this the Review considered:
1. The current operation of Northwards and areas for improvement
 2. The options for the future management of the Council's housing stock and associated functions. This considered three options:
 - Maintain the ALMO
 - Undertake a stock transfer
 - Bring the ALMO back in house

HRA Business Plan

As previously stated the current working 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. Although the current business plan reports refer to a small deficit over the 30 years it has been recognised that there are many variables that could impact upon the existing forecasts. In particular, the level of future years rent increases and the capital investment requirements and the additional investment requirement in respect of energy efficiency measures to support the Council in achieving its carbon neutral target by 2038.

- 3.2 Following the 4 years of annual 1% percent rent reduction, the Government has agreed that rent policy for 5 years commencing 2020/21 can revert to the original rent policy of CPI +1%, and this is included within the proposed budget for 2020/21 and beyond. The HRA budget for 2020/21 is prudent and based on absolute known investment requirements.
- 3.3 For the purposes of the review all of the HRA business plan assumptions have been fully reviewed. These allow for continued level of decent homes investment; current fire safety works; and the current programme of carbon reduction work. It also provides for our current build programme. It doesn't accommodate for full retrofitting of existing homes for zero carbon; additional fire safety measures being introduced for lowrise homes and decent homes plus.
- 3.4 Maintaining and investing in current housing stock in the face of Right to Buy and the work required for Zero carbon retrofit are the biggest challenges to the HRA business plan since the four years of rent reduction. The whole housing sector is struggling to find an affordable model to deliver Zero carbon and, in particular, retrofit.

3.5 It is recognised that once we can convert from gas to electricity, and the electricity can be sourced from a zero-carbon source, then significant progress will be made toward the objective. However, in the absence of that low or zero carbon energy source infrastructure it is falling to landlords to invest in the fabric of the assets. We have estimated an additional cost of **£213m** to achieve full zero-carbon retrofit of council owned housing by 2038. There is £6m of already agreed works and a further £207m estimated by Savills. The work involved:

- Converting to renewable heating sources.
- External, Internal and floor insulation.
- Ventilations systems.
- New doors and windows.

Floor insulation is a particular technical and practical challenge and significant costs item. It is estimated that removing floor insulation from the works would lead to a 15% reduction on CO2 savings that would have to be offset elsewhere.

3.6 The base position has been to create a new fully-inclusive HRA business plan as described, including all planned and aspirational expenditure. Based on the full estimates as outlined in 3.5, the Business plan goes below the £60m level in 2025/26; goes into deficit in 2031/32 and ends the 30-year business plan £438m in deficit.



Table 1. Revised Business plan based on expenditure projections.

- 3.7 The review of the ALMO has been undertaken by a combination of interviews, document review, attendance at relevant governance and management meetings, reflection on previous reviews and some level of benchmarking. These have sought to reflect the reit of the review and to assess two measures:
- Does the ALMO provide a service as good as, if not better, than that experienced by other social housing tenants in Manchester; and
 - Does the ALMO provide good Value for Money? This is relevant to the evaluation of the HRA's capacity to fulfil all of our investment needs.
- 3.8 There is cause for concern in regard to core performance, in particular in regard to customer service and repairs targets. The council recently reviewed the scoring under the annual audit of Partnerships which has been amended to reflect our concern about the deteriorating performance. This issue was formally raised with the Northwards Board.
- 3.9 There have now been three consecutive years of under performing in the delivery of the Capital Investment programme. This issue has also meant that the cost of supervision and management of the programme is proportionally more expensive than if a full programme were delivered.
- 3.10 During the review Northwards had commissioned an independent review of their governance which has recently been undertaken by Campbell Tickell. The report is still awaited but a presentation of the main findings was given to the Board of Northwards on 10 May. They have concluded that there is significant room for improvement in Governance with particular attention to core responsibilities, risk management and strategic approach.
- 3.11 The Campbell Tickell review will report and make a number of recommendations that will become an action plan. The council will monitor performance against delivery of the actions very closely.
- 3.12 The Board is currently making plans to appoint a new Chair, as the current Chair, a tenant, retires in September. They have decided to make it a remunerated role (£7.5k pa) although it has been indicated to them that they may require Council consent to do so.
- 3.13 The current position that the Interim Director of Housing and Residential Growth has assessed, is that the Northwards ALMO requires actions to be taken immediately to address the weaknesses identified. Many of these issues were identified by the Altair Report in 2016 and as such the Council must undertake much more rigorous steps in the short term to ensure that the Council's client side responsibilities are carried out. Looking beyond these short term interventions the Council must review the longer term future of the ALMO.

4.0 Northwards - Immediate Management Actions

- 4.1 As part of the work with the ALMO the following steps have been put in place.

- 4.2 Following previous reviews and the appointment of the Interim Director of Housing and in the context of the HRA challenges, the Council has sought to strengthen the Council's client role with the ALMO. The Interim Director of Housing and Residential Growth has formally notified the Chair of Northwards that he will be the Council's representative and is attending all Board and sub-committee meetings. The recent Significant Partnerships register to Audit Committee has been amended to reflect the issues identified around governance and performance.
- 4.3 There will be a review of the Management Agreement to strengthen the controls, to protect the tenant's interest and to reflect the likely enhanced regulatory requirements. This will include taking a view on how the new Chair is appointed as the current post holder retires from the position in September this year. Given that the ALMO manage the Council's assets and services, it is reasonable that the Council has a strong role in ensuring that a suitably qualified Chair is in place.
- 4.4 More regular reporting of the ALMO performance and impacts to the Council have been introduced.
- 4.5 The Council are currently observing the development of a new business plan; will discuss revisions to the suite of KPI's and review the management of the Governance action plan.

5.0 Options Appraisal

- 5.1 The internal review also considered some initial modelling of the three identified options on the future of the ALMO. They were: taking the ALMO back in-house; making the ALMO work more efficiently; and stock transfer. The efficiencies /savings from each option have not been fully modelled yet as there has not been a forensic level analysis of expenditure.
- 5.2 After more detailed consideration, the Stock Transfer option is not preferred and is compromised at two levels. Firstly, there remains £121m HRA debt following self-financing. The Northwards managed stock proportion of this is £84m. The stock value has to reflect the fact that it is managing occupied homes and the level of capital investment required. It is estimated that using the stock transfer formula, the stock has a negative value of -£140m which would require a substantial dowry payment to be made. Secondly, the Government withdrew its assistance for stock transfer in 2016. There is no indication if there would be any political or financial support from the Government if this option were proposed. It should be noted that the structure of the debt, with it being market debt rather than PWLB, means that even if support were forthcoming, it could not be repaid without a very substantial premium.
- 5.3 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. The Board and leadership of

the ALMO would need to present a clear case how this could be achieved, given the areas of concern highlighted to date. The ALMO would need to demonstrate that they could improve performance and reduce costs. Any such improvement would need to be delivered in a timely manner but Northwards will be invited to indicate how they could achieve these objectives.

- 5.4 Conventionally immediate savings are derived by the removal of the duplication of costs of running a separate company.
- 5.5 Whilst a retained ALMO could potentially introduce savings and efficiencies there will always be the factor that the very existence of the organisation as a separate legal entity costs money that simply does not need to be spent.
- 5.6 Some calculations have been undertaken based on the declared savings made by other Authorities that have insourced their ALMO. However any calculations and estimates of all options now need to be properly and accurately identified.

6.0 Conclusion and next steps

- 6.1 The HRA business plan cannot support the necessary investment over the next 30 years. Without intervention it will not be possible to maintain decent homes, achieve zero carbon in the existing housing stock and undertake all of the required fire safety works.
- 6.2 There is no simple solution. Any proposal to examine options will require a detailed analysis of the costs and savings to be undertaken as part of the development of a business case, as well as a dialogue with key stakeholders. Whilst the review has identified bringing the ALMO back in house as the preferred option, more engagement with stakeholders is required and further work on fully evaluating the benefits and risks as compared to the other options. It is proposed that this work is commissioned with a business case presented in September for a final decision.
- 6.3 In parallel with the steps being taken to undertake the development of this business case the Board of Northwards will be fully engaged and their support sought. The Board should act, as the Councils agent, in the interests of tenants and support any review in the interests of tenants.
- 6.4 It is recognised that COVID 19 will make the process more difficult. Some aspects of interaction and consultation may be impacted. These issues will be handled sensitively and in line with relevant guidance including from Public Health England.

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 None at this stage.