

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 18th January 2010
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PART I
NON-KEY DECISION

**PROVISION OF HOUSING MANAGEMENT SERVICES – OPTION APPRAISAL
LAUNCH REPORT - ADDENDUM**

1. Purpose of Report

- 1.1 This addendum to the main report provides additional information for Members highlighting the relative benefits of each of the three options to be considered during the appraisal and prior to determining the future provision of housing management services
- 1.2 Guidance for local authorities in determining the future of ALMOs upon the expiry of the management agreement or the completion of the Decent Homes programme are contained within a CLG publication Review of Arms Length Management Organisations June 2006. The entire document has been placed in the Member's library however the significant extracts are;

ALMOs currently have a fixed lifespan, limited to the length of the current agreement with their local authority. When this ends there are a range of possible ways forward.

The Department believe that it is for local authorities and their ALMOs in consultation with tenants, to determine the ALMO's future role and structure. There will be no single or prescribed model. We do however wish to ensure that any decision on an ALMO's future take account of the view of all stakeholders but most importantly those whose homes are managed by the ALMO.

In considering further arrangements for the management of the housing we would not expect there to be an increasing uncertainty for tenants and therefore the Department believes the existing ALMO arrangements should remain in place unless an alternative can be shown to have demonstrable benefits for tenants.

Any option for the future structure of an ALMO would need to be considered with regard to its financial sustainability, the long-term viability of the Housing Revenue Account and the strategic direction of the local authority.

Under s105 of the Housing Act 1985 local authorities are required to consult with their tenants on any significant change in management arrangements. Tenants will have been fully involved in the decision to set up an ALMO, both as part of the options appraisal process and the consultation on the

ALMO option itself. Although there may not have been a full ballot, local authorities are obliged to demonstrate clear support for the ALMO option.

Although the ballot tends to be the preferred mechanism for the majority of authorities in testing their tenants options in respect of changes to management arrangements, it is not a legal requirement. There are a variety of consultation mechanisms available to councils considering issues relating to the management of the housing services. These include questionnaire surveys, telephone surveys and votes at meetings. A combination of options, rather than one single option, may be the most comprehensive way of ascertaining resident's views. We believe that the process undertaken should be a local decision on the most appropriate method.

- 1.3 Therefore, CLG guidance requires that whichever route Members chose to pursue following the options appraisal, the process will need to include consultation with stakeholders, (primarily our tenants) and include a test of opinion to demonstrate broad acceptance with the direction of travel.

2. Option Appraisal

- 2.1 The following paragraphs are provided to give further information to Members on the three options being considered.

Local Housing Companies

- 2.2 Local Housing Companies (LHCs) are a legal vehicle designed to promote development of new homes or refurbishment of existing ones. They have no statutory definition and simply employ existing legal powers and opportunities. The focus is on long term returns usually over 20 years but they provide a means of regeneration for difficult sites which the market would not ordinarily regenerate.
- 2.3 The only special funding available to LHCs is the Homes & Communities Agency funding and the LHC would have to be registered with them for the provision of new housing. Achieving developer status with the HCA would also need to be matched by housing management accreditation from the Tenants Services Authority (TSA). These requirements can be broadly seen as comparable to achieving a strong 2 or 3* ALMO accreditation from the Audit Commission.
- 2.4 There are additional costs to the LHC over and above traditional procurement, LAs are less familiar with the company structures and would need specialist advice on such matters as tax and VAT which are very different from the normal method of working for a LA. A LA does not pay Corporation Tax and SBC can recover all its VAT provided it contains its supplies within a certain limit. The LHC would not have these advantages and so costs to the LA would increase with the VAT and any profit would be subject to Corporation Tax. The officers of the company (both Council Members and Officers) would need to have indemnity insurance as they can attract personal liability. In addition there would be set up costs for the company structure.

- 2.5 The Council would need to determine the membership of the LHC. If it were to want to include for example a construction company or a housing association this would be subject to competitive procurement to comply with EU rules. Challenges to procurements are increasing and with the recent introduction of the Remedies Directive into UK law these can be expensive and embarrassing for LAs as the courts can set contracts aside and can award compensation and damages to claimants who can include unsuccessful bidders.
- 2.6 People 1st has managed the housing stock on the Council's behalf under a management contract but the ownership of the housing stock remained with SBC. A LHC would require the transfer of all the housing stock land to it and although the Council could be the majority shareholder in the company it would require a resolution of the Company's board to transfer the land back to the Council and this could require compensation to the LHC. Evidently, a LHC is a more permanent solution than an ALMO
- 2.7 An LHC can be a good vehicle for the construction of new properties and the Council has an enduring need for more family homes for rent to meet the needs of the local community. If the LHC is successful one immediate benefit is that the Council retains an interest in the land asset through the LHC rather than as at present being given away to a traditional RSL to build homes on our behalf. A second significant benefit is that homes are held within the housing revenue account (HRA) but outside of the subsidy system which means that the council is entitled to collect and retain the full rental charged.
- 2.8 It is worth noting however, that RSL partners are currently reporting that 'competitive' grant levels for larger family housing are particularly challenging. Indications are that these are much lower than levels we have achieved previously in delivering new affordable rented family housing as part of Slough's garage strategy. Added to this, there are uncertainties looking further forward about the scale and nature of funding from the HCA with the possible change of Government in 2010. In a fairly recent meeting the HCA regional investment manager advised that investment budgets for 2010-11 had been cut from £70m to £17M.

Conclusion

- 2.9 LHCs present an ideal solution to a land rich LA which needs a lot of regeneration work. The additional running costs and set up costs may make this unviable for the Council but careful consideration of all the factors above will determine this. The most important factor is likely to be the long term nature of the project where cashable benefits are unlikely to be realised for 20 years.

Renewal of the contract and expansion of People 1st to provide further services on behalf of the Council.

- 2.10 The main report identifies that the overheads associated with operating an ALMO once the primary purpose of delivering Decent Homes has been

achieved are high and one option to make People 1st more cost effective while also potentially improving services to tenants might be to transfer other council services under the wing of the ALMO. Such services might be housing needs, strategic housing or private sector housing but the council might wish to be more innovative and consider options involving other allied services such as housing benefits, community wardens and some aspects of community safety as examples.

2.11 The CLG guidance states

Given ALMOs experience of delivering services to tenants, local authorities may wish to consider expanding the range of services delivered by ALMOs either within, social housing or more widely ALMO's skills in managing major improvement projects and in developing good relationships with tenants could make them well placed to take on wider physical and social regeneration initiatives on behalf of their local authorities or other agencies.

- 2.12 With the right selection of services carefully moulded together there is a prospect of providing a one stop service for a significant proportion of our community, from those on the housing register waiting for a home, through those in settled accommodation right through to later life and those needing supported housing and property adaptations.
- 2.13 A larger organisation becomes more cost effective as economies of scale can be employed and overheads reduced. With greater staffing resources the ALMO would be more robust, have greater capacity to continue improving service delivery to tenants and become more flexible in the deployment of staff resources to meet fluctuating demands for key services.
- 2.14 The success of an enlarged ALMO would be dependent upon the recruitment and retention of key senior management personnel and an ability to mesh service plans, targets and aims to deliver an enhanced contribution to the Council's own strategic aims. Ultimately Members will need to consider the level of confidence that they have in these aims being delivered and the speed with which the council might expect a response from People 1st. Loss of direct control is likely to lengthen the decision making process as matters pass between officers, the Cabinet and the Board of the ALMO and the Council could potentially become vulnerable in its ability to deliver initiatives if it aspired to undertake an action such as development or land disposal but had to rely on a separate organisation which maintained the professional expertise to see things through to a conclusion.
- 2.15 One drawback of this option would be the need to secure alternative accommodation for any services transferring to the ALMO. The option appraisal can investigate the potential to accommodate more staff within Airways House, the current home of People 1st but what was made clear during their launch was that to demonstrate the arms length nature of the contract and relationship, the audit commission would not expect the two organisations to share accommodation. Thus this option might result in surplus accommodation at both St Martin's Place and Landmark Place although this may become a further benefit in time if the council proceeds with its plans to decommission the office space on the town hall site.

- 2.16 Continuing with the efficiency agenda, the appraisal will be able to evaluate whether this option could contribute to the savings expected from the shared services project currently being pursued by SBC in conjunction with other councils. A newly constituted 'super ALMO' with between 200-300 staff could expect to secure significant savings by utilising flexibilities and freedoms to explore new procurement routes thereby reducing expenditure, primarily on HRA budgets leaving greater resources to invest in front line services.

Conclusion

- 2.17 A larger ALMO providing a broader range of services could undoubtedly improve its efficiency and make a greater impact on resident's lives, however it would leave the council entirely dependent upon it to deliver the broader housing and regeneration agenda and ultimately Members would need to decide whether sufficient safeguards can be put in place and confidence gained to pursue such an agenda.

Expiry and non-renewal of the management agreement between SBC and People 1st and return to the provision of in-house housing management services.

- 2.18 In 2006 following an extended consultation period and ballot, People 1st was established as the council's ALMO with the primary purpose of achieving 2* status, securing £45M of additional capital investment and then investing in the housing stock so that every home achieved the decency standard.
- 2.19 With the 5 year management agreement entering its final 12 months and the Decent Homes programme entering the final phase this review is entirely in accordance with the CLG guidance which states.

The local authority remains statutorily responsible of the provision and management of social housing. Therefore towards the end of its initial management agreement with the ALMO the authority may, with its tenants, decide to review whether it wishes to continue with the ALMO arrangements, seek another provider, take management back 'in house' or explore the possibilities of housing transfer, including to tenant owned organisations.

- 2.20 Six years ago the council, in consultation with its tenants recommended that the launch of an ALMO was the best option available to retain local control of the stock and its management while also securing the necessary investment to bring it up to the required standard.
- 2.21 The council now has the option to again recommend the preferred route through which the next generation of housing services will be delivered. People 1st has a worthy list of achievements but equally the Council has now moved on and is better placed to deliver the place shaping management of integrated services for the benefit of the whole community.
- 2.22 The stock managed by People 1st is not typical of many urban environments and while the council still owns almost 7,000 homes they are, for the most

part, well integrated into their neighbourhood along with all other tenures. This is partly due to the scale of right-to-buy which has seen approximately 5,000 tenants move into home ownership but also that the homes are predominantly street based or low rise blocks rather than high rise, deck access estates which appeared elsewhere during the 1960's

2.23 The council is now accelerating its approach to the 'neighbourhood agenda' in partnership with the LSP. With cross tenure regeneration schemes planned for Britwell & Haymill and Chalvey and two pilot projects already introducing neighbourhood working in Colnbrook and Manor Park it may be that rather than delivering on a comprehensive housing agenda it is the neighbourhood agenda that Members would wish to promote whereby the quality and scope of services provided to residents are linked to their local needs rather than depending upon their tenure.

2.24 Repeating the CLG guidance above.....

the Department believes the existing ALMO arrangements should remain in place unless an alternative can be shown to have demonstrable benefits for tenants. Any option for the future structure of an ALMO would need to be considered with regard to its financial sustainability, the long-term viability of the Housing Revenue Account and the strategic direction of the local authority.

Thus if members were to prefer a return to in house service provision then the benefits of such a move would need to be clearly identified, costed and publicised to the tenants. While cost savings can clearly be identified through economies of scale and reduced management overheads, the transition period would be challenging in terms of maintaining service delivery and there would also be initial set-up costs associated with changing corporate logos, branding and identities. There is no immediate prospect of the staff currently employed by People 1st being co-located within St Martin's Place and this itself could prove a challenge for coordinated management. In the longer term cost savings could be reinvested in front line services for the benefit of tenants.

Conclusion

2.25 Tenants originally welcomed the establishment of People 1st with a positive ballot result. The perceived benefits of a return to the council would have to be clearly communicated if tenants were to respond to this move with the same level of positivity.