

Cabinet 31 July 2019	 TOWER HAMLETS
Report of: Ann Sutcliffe: Corporate Director Place	Classification: Unrestricted
LBTH/THH Strategic Review of Housing Management Options	

Lead Member	Councillor Sirajul Islam, Cabinet Member for Housing
Originating Officer(s)	Mark Baigent – Interim Divisional Director Housing & Regeneration John Kiwanuka – ALMO Client Manager
Wards affected	All wards
Key Decision?	Yes
Forward Plan Notice Published	Yes
Reason for Key Decision	Financial Threshold and Impact on Wards
Strategic Plan Priority / Outcome	2. A borough that our residents are proud of and love to live in 6. People live in good quality affordable homes and well-designed neighbourhoods.

Executive Summary

The Council delegated its housing services to Tower Hamlets Homes (THH), a wholly owned Arms Length Management Organisation (ALMO), under the Management Agreement (MA) for ten years from 7th July 2008 to 7th July 2018, with a break clause after five years. In November 2016, the Mayor agreed to extend the MA for a further two years to 7th July 2020. In 2018, the Council commissioned consultants Altair Ltd to support it in exploring options for the delivery of its housing management services beyond 2020. This report sets out the outcome of Altair's review and recommends a further extension of the MA with THH to 2028, with a break clause after 4 years.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Note the findings of Altair's independent review of current housing management arrangements and appraisal of future options (Appendix 1).
2. Consider the outcome of the recent consultation exercise (Appendix 2) and determine whether to proceed with the extension of the Council's management agreement with Tower Hamlets Homes for four years (to

2024), with a possible extension for a further four years (to 2028).

3. If it is determined to proceed with the extension in accordance with 2 above, delegate to the Corporate Director (Place) after consultation with the Corporate Director (Governance), authority to complete the said extension by July 2020 and do all that is necessary for this purpose.

1 REASONS FOR THE DECISIONS

- 1.1 The strategic housing management option review identified extending the existing Management Agreement as the most effective way to deliver the Council's housing service in the current context. As the status quo option this route presents the least risk to the Council and hence is considered the most suitable, feasible and acceptable option. The review found no evidence to suggest fundamental problems with the current model that would indicate the ALMO should not be retained.
- 1.2 Extending the duration of the existing agreement puts THH onto a sound strategic and financial footing, enabling it to plan for the medium term, and to recruit and retain the staffing capacity appropriate to the purpose that the Council has set for it over that period.

2 ALTERNATIVE OPTIONS

Altair considered a number of housing management delivery options. These are set out in detail in Appendix 1 and summarised below:

- 2.1 Diversified ALMO: A detailed business case would need to be developed for each new or transferred service under consideration. The test is not whether THH could deliver those services well, but rather that THH could deliver them at greater quality and/or more efficiently than LBTH. The suitability of this option is highly dependent on the particular services (if any) that may be considered.
- 2.2 Thinner ALMO: Given that THH is already a 'thin' ALMO, it is not clear what services would be better placed being delivered by the Council. The suitability of this option is highly dependent on the particular services (if any) that may be considered.
- 2.3 In-house Housing Management: The review found that there was no performance or financial imperative to bring the housing service in-house. THH is generally well-performing and is making financial savings to the HRA in line with Council targets. Bringing the ALMO in-house risks losing the improvements to the housing service that THH has achieved in recent years. During the review, Councillors, LBTH staff, and many engaged residents did not consider the housing management service in need of such significant a change in delivery model: "the ALMO isn't broken".

3 DETAILS OF THE REPORT

- 3.1 Previous government policy required Local Authorities to undertake a stock options appraisal to develop a strategy by which all their stock could meet the Decent Homes Standard. In order to bring in the investment needed to achieve this objective, the government provided three main ways to support local authorities who needed additional funding to make their homes decent. These were:
- Setting up an Arms-Length Management Organisation (ALMO)
 - Transferring properties to a Registered Provider of social housing
 - Entering into a Private Finance Initiative (PFI) contract
- 3.2 THH was created in 2008 to secure funding to deliver the Council's Decent Homes Programme. This programme was completed in 2017, with the original Management Agreement (MA) expiring in 2018. In 2016, the Mayor decided to extend the MA by two years to July 2020. Having confirmed the extension of the management agreement, the Council commissioned consultants Altair Ltd to support it in exploring options for the delivery of its housing management services beyond 2020. The review was undertaken in two stages, consisting of a baseline assessment and an options review. Altair's final report is at Appendix1.
- 3.3 Overall, the assessment showed that THH is a generally well-performing housing manager in terms of both housing management performance and cost. The 2017/18 management fee was a reduction on the previous year, reflecting £2.76m savings offset by a £1.33m allowance for short term growth items. This was to be the first year of a five-year programme delivering savings of £6m in total (£2m in 2017/18, and £1m p.a. thereafter). A further £1m saving in the total management fee was identified for 2018/19 despite additional resources for fire safety and Service Level Agreement increases. Additional successes include:
- Improving housing management service performance.
 - Resident satisfaction has steadily increased.
- 3.4 There is scope to make improvements in a number of areas and there is evidence that some of these are being addressed (e.g. contract management resourcing). Some improvements (e.g. mobile working) are dependent on IT upgrades, the timing of which may be outside THH's control. Some costs (e.g. agency staff to fill vacant posts) are being carried pending service reviews to avoid the likely (higher) alternative costs of redundancies. There is further evidence of performance improvements over recent years and the extensive transformation programme currently being delivered.
- 3.5 However, THH continues to operate under the legacy of a troubled delivery of Decent Homes, which is likely to remain an operational challenge for THH in terms of repairs and major works, and a reputational challenge with some residents. This has also been evidenced in some of the resident's responses to the Council's consultation on the Altair review and subsequent recommendations. There are also challenges for both THH and the Council in

the relationship between the two organisations, which would benefit from more clarity of delegations, roles and expectations, and from a better framework for strategic discussion and alignment between the Council and the ALMO.

3.6 Management Agreement

3.6.1 The Management Agreement (MA) defines the relationship between the Council and THH which sets out the obligations of each party. Extending the duration of the existing MA puts THH onto a sound strategic and financial footing, enabling it to plan for the medium term, and to recruit and retain the staffing capacity appropriate to the purpose that the Council has set for it over that period.

3.6.2 The MA extension is therefore an opportunity for the Council to formally record the variations that have already emerged over the 12 years, particularly where THH has assumed direct responsibilities that were originally provided by the Council. This will also address the outcome of the Council's exploration of the scope for additional service transfer options from the Council to THH, in a limited number of areas including:

- New build, for example delivering new build homes on rooftops, and possible in-fill schemes within existing blocks (such as undercrofts and block extensions).
- Aspects of private sector management powers where these can help better resolve management problems on estates.
- Management of acquired temporary accommodation and possibly homes not owned by Tower Hamlets Homes.

3.6.3 Subject to the Mayor in Cabinet deciding on the future of THH, officers will revise the management agreement with THH to ensure that it is fit for purpose and strengthen the Council's governance arrangements accordingly.

3.7 Policy Context

3.7.1 The decision of whether to extend the management agreement or to take an alternative approach is highly dependent on the local context. The proposed decision reflects the wider housing strategy of the borough, the nature of the local housing market and the need for councils to deliver services more efficiently.

3.7.2 An increasing number of councils are now seeing their ALMO as a flexible vehicle to deliver a wider range of services to local communities. This includes 30% of ALMOs now managing a total of 1,113 properties in the private rented sector, 36% of ALMOs providing services to tackle joblessness and 55% offering money advice. With the conclusion of Decent Homes funding, most Councils in London including Hackney, Lambeth, Hounslow, Brent, Newham, Hounslow, and Waltham Forest have taken the decision to bring their housing stock back into the Council's direct control.

3.7.3 However, a number of other authorities have extended their ALMO Management Agreements, typically for a period of five to ten years with some extending by up to 30 years. These include Barnet, Lewisham, Blackpool, Barnsley, Brent, Derby and Solihull. In addition, some local authorities have established brand new ALMOs including East Kent and Welwyn Hatfield. Cheltenham and Bassetlaw have extended their management agreements for 30 and 15 years respectively. A number of councils have transferred their stock to the ALMO for example Bolton and East Durham.

4 CONSULTATION

4.1 Council tenants and leaseholders were fully involved in the decision to set up THH, both as part of the options appraisal process and the consultation on the ALMO option itself. Although the consultation did not involve a full ballot, which is not a legal requirement, the Council was able to demonstrate clear support for the ALMO option.

4.2 A combination of consultation approaches have been adopted to consult with residents leading up to the proposed recommendation to extend the Management Agreement. Residents were extensively consulted as part of the options review conducted by Altair. The consultation with residents involved three focus groups, online and telephone surveys. 780 and 300 residents responded to the online and telephone surveys respectively. A comprehensive analysis of the outcome of the surveys is included in appendix1.

4.3 As part of finalising the proposals regarding the future of Tower Hamlets Homes, officers undertook further consultation with residents once the Mayor had considered the Altair report and indicated his preferred way forward. Section 105 of the Housing Act 1985 requires that the Council consults secure tenants who are likely to be affected by a matter of housing management. The consultation went further to include both tenants and leaseholders.

4.4 A letter was sent from the Mayor to all tenants and leaseholders (see appendix 3). This consultation ran for four weeks to 10th June 2019. The Mayor invited them to consider the findings and recommendations from Altair and to express their views on his preferred way forward.

4.5 A total of 197 residents responded by email or telephone, 85 leaseholders and 74 tenants. 38 residents did not identify their tenure type. The analysis of the views expressed by of both tenants and leaseholders is shown in tables 1 and 2 below.

Table 1

TENANTS		
IEWS		%
In favour	40	54%
Unclear	9	12%
Not in favour	25	34%
Total	74	100%

- 4.6 Of the 74 tenants expressing a clear view, 54% were in favour of the review recommendation to extend the Management Agreement with THH.

Table 2

LEASEHOLDERS		
VIEWS		%
In favour	25	30%
Unclear	15	17%
Not in favour	45	53%
Total	85	100%

- 4.7 Of the 85 leaseholders expressing a clear view 30% were in favour of the review recommendation to extend the Management Agreement with THH.
- 4.8 Tenants who raised concerns about existing services primarily identified the inconsistencies in the advice they receive from THH staff. Tenants also expressed dissatisfaction with the repairs service, the contractors' approaches, and resultant experiences. In contrast, leaseholders raised concerns around lack of clarity of service charge invoices, capital programme consultation and delivery, incremental services charges and insurance. Overall, there was positive recognition of improvements in the services THH provides by both tenants and leaseholders although management of ASB had mixed views. Residents also want THH to be held more accountable for service failures, and for the Council to scrutinise THH's performance further, and to engage further with residents. Detailed results from the consultation are appended at **Appendix 2**.

5. EQUALITIES IMPLICATIONS AND OTHER STATUTORY IMPLICATIONS

5.1 Equalities

- 5.1.1 There are no specific equalities implications arising from this report. The proposed eight years (to 2028) extension, with a possible break after four years (in 2024) of the Council's MA with THH will have no impact on the Council's Duties under the Equality Act 2010. Services to residents will remain the same as before. It is the Council's duty to ensure that THH deliver efficient and accessible services that meet the needs of all residents.

5.2 Best Value Implications,

- 5.2.1 For THH to deliver successfully it will need to be run effectively and managed robustly by its own staff, with appropriate client managing by council officers. HRA business plan savings have been identified as part of the council's budget setting process and THH will continue to be responsible for completing delivery £6m of the HRA savings by 2021. THH should provide a value-for-money solution, by reducing management costs over time and enhancing performance in key areas such as capital programme delivery and contract

management. THH has already embarked on transforming its services under the transformational agenda.

5.3 Environmental (including air quality)

There are no specific environmental implications arising from this report.

5.4 Risk Management

- 5.4.1 Altair noted that the costs involved in a decision to continue the existing arrangements would be minimal hence this is the lowest risk option. A decision to revert to in house management would involve risks and costs associated with the reorganisation of the service and possible redundancies. A decision to make the ALMO thinner would be difficult as THH is already 'thin', therefore, it is not clear what services would be better placed being delivered by the Council. A decision to diversify the ALMO would require developing a detailed business case for each new or transferred service under consideration. On the other hand, extending the duration of the existing MA puts THH onto a sound strategic and financial footing, enabling it to plan for the medium term, and to recruit and retain the staffing capacity appropriate to the purpose that the Council has set for it over that period.

5.5 Crime Reduction

There are no specific crime and disorder implications arising from this report.

5.6 Safeguarding

There are no specific safeguarding implications arising from this report.

5.7 Data Protection / Privacy Impact Assessment.

There are no specific GDPR implications arising from this report.

6 COMMENTS OF THE CHIEF FINANCE OFFICER

- 6.1 The decision to extend the management agreement with Tower Hamlet Homes will not have any specific financial implications. Under the extended management agreement, Tower Hamlets Homes will continue to be paid an annual management fee as set out in the financial schedule of the agreement which will form part of the HRA budget setting process each year. All costs will be contained within the ring fenced Housing Revenue Account.
- 6.2 Funding for the transfer of any new services as part of this extension will need to be contained within existing budgets or further savings will need to be realised to prevent the HRA budget being in deficit.

7 COMMENTS OF LEGAL SERVICES

- 7.1 The Council has various statutory functions and obligations in respect of the provision of housing and associated services.
- 7.2 The Council is obligated under Section 3 of the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. This is the Council's Best Value Duty. The Council must ensure that the provision of the services by its ALMO meets this duty.
- 7.3 The extension of the management agreement is considered to be a matter of housing management under S.105 of the housing Act 1985 and has rightly been consulted upon. DGLG guidance also considers it good practice to consult on extensions of management agreements. Before making a decision on the proposal to extend the Management Agreement, the Cabinet must conscientiously consider the outcome of the consultation exercise.
- 7.4 The Council is not restricted by Procurement Law in respect of any changes it may wish to make to the Management Agreement in order to formally record the variations referred to in paragraph 3.6.2. This is because THH Limited is a wholly owned subsidiary of the Council and services and the associated contract provided by THH Limited to the Council are exempted by virtue of Regulation 12 of the Public Contracts Regulations 2015.
- 7.5 The Council will also review the scheme of delegation to THH Limited to ensure that the appropriate functions and delegated powers in respect of those functions are transferred to THH Limited in order to carry out any amended scope of the Management Agreement.
- 7.6 The Council must continue with a robust system of monitoring the performance of THH Limited in order to demonstrate that the Management Agreement represents Best Value as referred to in paragraph 7.2 above.
- 7.7 When carrying out its functions, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those do not (the public sector duty).
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Linked Reports, Appendices and Background Documents

Linked Report: NONE

Appendices:

Appendix 1 – Altair Strategic Review report

Appendix 2 – Consultation response summary

Appendix 3 – Mayor’s letter to residents

Background Documents – NONE

Officer contact details for documents: John Kiwanuka Ext 2616