



Executive
18 July 2011

**Report from the Director of
Regeneration and Major Projects**

Wards affected:
ALL

**Future arrangements for the ownership, investment and
management of Brent's housing stock**

1.0 Summary

- 1.1 This report considers two recent developments relating to the provision of housing services in Brent. Firstly, the reform arrangements for the Housing Revenue Account system as proposed by central government, which will see a transfer of responsibility (and risk) from the current national subsidy system to a locally managed, self-financing arrangement. Brent's proposed settlement is positive in the sense that it provides the Council with a number of viable options and choices in respect of the future of the housing stock. This report sets out the implications of the proposed settlement and in the light of this makes recommendations for the future of the housing stock.
- 1.2 Secondly, the Council has recently completed an independent review of the housing management arrangements for its housing stock. The management agreement between the Council and Brent Housing Partnership (BHP), an Arms Length Management Organisation (ALMO) is due to expire in August 2012 and the review has considered a range of options in order to test the most effective and efficient arrangements for the future delivery of the housing management service. This report considers the findings of the review and makes recommendations for the future management of the housing stock.
- 1.3 In reaching the recommendations contained within this report, the Council has worked collaboratively with BHP senior management and Board members, in an effort to reach joint conclusions and a shared view of the recommended future arrangements.

2.0 Recommendations

- 2.1 That in the light of the recent Housing Revenue Account settlement, the Council retains ownership of its existing housing stock.
- 2.2 That in the light of the recent Independent Review of Housing Management, the Council consults tenants and residents on a preferred option to manage the housing stock through Brent Housing Partnership, as an Optimised Arms Length Management Organisation focusing strongly on housing management.
- 2.3 That a new management agreement between the Council and Brent Housing Partnership is drafted, with full heads of terms to be completed by October 2011.
- 2.4 That in considering how best to optimise BHP, a full review is undertaken of the following functions (to be completed by October 2011), with a view to delivering improvements and efficiencies:
- human resources
 - finance processing
 - communications
 - legal
 - procurement
 - contract alignment
 - rent accounting
 - rent collection
 - aids & adaptations
- 2.5 That a joint governance review is undertaken between the Council and Brent Housing Partnership (to be completed by October 2011), which will review both the BHP Board structure and the relationship between the Council and BHP, with a view to ensuring that BHP is fit for purpose for the duration of the proposed new management agreement.
- 2.6 That following the outcome of the consultation as set out in paragraph 2.2 above and after the reviews set out in paragraphs 2.4 and 2.5 above have been carried out, a report is presented to the Executive in early 2012 regarding a final decision on the future role of BHP and the management of the Council's housing stock after the current BHP Management Agreement expires in September 2012.

3.0 Context

- 3.1 Nationally, public sector housing is going through a period of unprecedented change. The government has already withdrawn, or is in the process of reducing central control, intervention and investment in social housing. At the same time local authorities are being handed greater freedoms and flexibilities in respect of stock investment, management, tenure and dealing with homelessness. Within the context of Greater London, with its high property

values, intense homelessness pressures and concentrations of social housing stock these changes will create significant challenges. The delivery of new homes, meeting growing housing needs, regeneration and maintaining or improving the condition of existing stock will all be extremely difficult. This report focuses specifically on the investment and management challenges associated with the Council's existing housing.

- 3.2 The most fundamental changes in relation to the existing social housing stock are the government's reform of the Housing Revenue Account system. The changes contained within the reform will free the Council's housing stock and its management from the national subsidy system, and will in effect create a new self-financing local housing business with all the attendant risks and responsibilities. Within Brent the settlement is broadly positive, reducing the HRA debt considerably, and resulting in the full range of stock ownership, investment and management options being financially viable over the medium term. Section 6 of this report considers the implications of HRA reform and the available options further.
- 3.3 Since 2002, the Council's housing stock has been managed by Brent Housing Partnership (BHP), and Arms Length Management Organisation (ALMO) established with the express purpose of accessing funding for the delivery of the national Decent Homes programme across Brent. For much of this period BHP have been regarded in the wider housing world as an exemplar ALMO. The most recent Audit Commission full inspection, in 2003, rated its services as 'Excellent' with 'Excellent Prospects' of improvement. The current management agreement between the Council and BHP is due to expire in September 2012. Section 4 of this report considers the current strengths and weaknesses of BHP, and explores comparative performance across the different models of housing management. Section 5 considers the various housing management options open to the Council in moving forward.
- 3.4 As a consequence of the current budget pressures, the Council has embarked on its own One Council improvement and efficiency programme, designed to review and test all aspects of the Council's service delivery as part of a rolling programme.
- 3.5 In the light of these three drivers, an independent review was commissioned to consider the options for the future arrangements for housing stock ownership, investment and management. Following a tender process, Navigant Consulting were appointed to undertake the review. In the course of their research Navigant met with senior representatives from Brent and BHP, including Board Members. Subsequent to Navigant producing their recommendations a working group was established, chaired by the Director of Regeneration & Major Projects, bringing together senior representatives from Brent and BHP. The recommendations contained within this report are drawn from the consideration of the Navigant report by this working group. Section 7 of this report sets out the rationale behind the recommendations relating specifically to housing management.

4.0 Existing Arrangements for Housing Management

- 4.1 The existing housing stock is managed by Brent Housing Partnership, on behalf of the Council. Established in 2002, BHP is an Arms Length Management Organisation, overseen by a Board comprising of seven tenant and leaseholder representatives, four councillors and four independent representatives. BHP manage the stock on behalf of the Council under the terms of a management agreement, which is due to expire in September 2012. The management agreement requires an element of performance accountability from BHP to the Council, and also provides modest incentives for ongoing the delivery of ongoing efficiencies. There is no formal 'client' function within the Council, and in the past the relationship between the two organisations has largely been managed through quarterly meetings between the Council's Director of Housing and BHP's Chief Executive.
- 4.2 The independent review identified that the strengths of BHP considerably outweigh the weaknesses. Specific strengths include:
- Resident involvement –strong tenant representation on the board and high levels of tenant satisfaction
 - Efficiency – significant savings have been achieved in recent years, and there is a rolling programme of ongoing service reviews
 - External services – significant savings have been made from procurement and contract management, and performance has been improved
 - Performance Improvement – there are strong performance management arrangements within BHP and a culture of service improvement
 - Repairs – strong contractor partnership, and high customer satisfaction levels
 - Other services – a number of additional services are of a good standard, including rent collection / income management, tenancy management, customer care and major works management.
- 4.3 The review also identified a number of areas of relative weakness within BHP, including:
- Strategic direction – there is a lack of clarity about the future purpose of BHP and its future role and direction
 - Relationship with the Council – historically this has been good, despite some tensions over service reviews, but this has been increasingly strained
 - Financial – BHP has very limited resources itself, and is reliant entirely on the Council for borrowing for stock acquisitions
 - Regeneration and development – BHP has very limited regeneration, development and external bidding capacity or skills
- 4.4 Overall tenant satisfaction with BHP's housing management service has remained high (and relatively static) at around the 76% mark since 2006. This places BHP in the first quartile of performance against similar size London providers and in the second quartile against its ALMO peer group. Satisfaction with accommodation and neighbourhoods are both high (1st quartile) compared to other London providers and the ALMO peer group.

- 4.5 In assessing the baseline position for BHP, the independent review considered the three core alternative models for housing management (ie. direct management by a Council, ALMOs and Housing Associations) with a view to exploring whether there are patterns and trends as to which model produces the best quality service and is most efficient.
- 4.6 However, there is little comparative research or information available, so the results are somewhat inconclusive. Broadly speaking the research shows that there is little or no correlation between quality or efficiency of housing management service and the type of organisation that provides the service. Neither is there a correlation between either quality or efficiency and the size of the stock that an organisation is responsible for. There is however a widespread variation between the quality and efficiency of services within each model – in other words, regardless of the delivery model or the size of the stock, some organisations significantly outperform other organisations against both quality and efficiency measures.
- 4.7 Within this spectrum, BHP scores slightly above the average on quality criteria, but also is above the average on the cost of the service. This highlights a clear potential to drive greater efficiencies within BHP – and demonstrates that this can be done against a backdrop of a declining stock (as the South Kilburn regeneration scheme progresses) and in a way which doesn't compromise quality and resident satisfaction. It also points towards the Council undertaking a wide ranging review of the different housing management models to explore whether an ALMO is still the most appropriate housing management vehicle.

5.0 Alternative Housing Management Models

5.1 The independent report considered the strengths and weaknesses of seven different housing management models, namely:

- Direct management - in-house by the Council
- Direct management – outsourced to a contracting provider
- Tenant management organisation
- Partnership management
- ALMO optimised
- Conversion of ALMO to a housing association
- Transfer to an existing housing association

Each of these models is considered in turn below. The financial implications of each model are considered in section six.

5.2 *Direct Management – in house*

This is a straightforward and traditional model of housing management, entailing the winding up of BHP at the end of the management agreement period and bringing the service back in house where it would be managed within the Regeneration & Major Projects department. This would allow for an re-integration of the various components of housing (investment and management in particular) and would promote the strong strategic integration

with other relevant services. There would be a clear scope to drive internal efficiencies (especially around business support services) and there may be additional procurement economies (for example around grounds maintenance).

5.3 However, bringing the service in house would result in a reduction in resident control and influence. In the short term this is likely to be extremely unpopular with tenants, and may well result in reductions in the responsiveness of the service and ultimately resident satisfaction. The BHP board is vehemently opposed to this option. There is considerable local precedent, with both Ealing and Hillingdon Councils recently making the decision to bring their housing management services back in house.

5.4 Direct Management would also have a significant and negative financial impact on Brent. BHP has directly borrowed or has agreements to borrow around £72m from Brent to fund its Granville New Homes and Settled Housing Initiatives. BHP meets the full cost of all interest and loan principal repayments giving the Council a net-neutral revenue position. Were BHP to be brought in-house, the risks of rents not covering borrowing costs would transfer directly to the Council as well as impacting upon its prudential borrowing capacity.

5.5 *Direct Management – Outsourcing*

In this model, the housing management service would initially be brought back in house at the end of the existing management agreement, following which an EU tender process would be undertaken to identify an external provider to deliver the service under contract from the Council. The Council would retain strategic control but operational management would be devolved to the contractor. A competitive procurement process could generate savings and there could be economies from the contractor's wider business. There would be strong contractual levers to enforce quality.

5.6 This model would allow resident involvement in contract specification and monitoring, but is relatively inflexible once the contract has been let. Changes to the contract driven either by the Council or by residents will often impact of cost and would take time to negotiate. The market for this model is immature, largely on the basis that very few Councils have chosen to outsource. In London, Westminster splits housing management between its ALMO and external contractors.

5.7 *Tenant Management Organisation*

A Tenant Management Organisation (TMO) is a separate body which places residents at the heart of the housing management service with majority representation at Board level and all other governance tiers. It can only be initiated by resident demand (ie. the Council can't establish it itself), and requires the subsequent negotiation of a management agreement with the Council. A key strength is that the service should be responsive and tailored to the needs of the residents.

5.8 The separation of the housing management service from the other related services provided by the Council risks isolating this service from the wider

strategic priorities of the Council. There is little scope for further economies or efficiencies, and the very real risk of an organisation with little capacity or expertise. For these reasons most TMO's operate over single estates or smaller areas, and there are very few examples of TMO's managing the whole of a Borough's stock. (In London, this only happens in Kensington & Chelsea.)

5.9 *Partnership Management*

This approach would establish a joint venture vehicle of some description for the delivery or housing management services between Brent and one or more councils or housing associations. Its key strength is the potential it could have to drive significant economy of scale efficiencies both in terms of direct delivery and in terms of procured services. The model would allow for increased capacity and expertise, and would provide for resident involvement at all tiers, although inevitably this is likely to be more diluted than in a smaller, local organisation.

5.10 At the heart of this model is shared governance and control between the participating organisations, which would require negotiation and compromise over service priorities. By definition the model would require partner organisations, and early indications are that there is currently little appetite amongst housing associations and neighbouring local authorities. Again, there are few examples of this model in practice although East Kent ALMO brings together four district council with a total stock of 18,000 homes.

5.11 *ALMO Optimised*

This model would build on the strengths and success of BHP, and would revolve around a new long term management agreement. The Council would retain strategic control and set the HRA business plan, whilst the optimised ALMO would have operational autonomy and responsibility for stock investment and management. Resident involvement and influence would remain strong and should lead to a responsive service. The model would allow for appropriate integration with Council services delivering efficiency savings.

5.12 A continuation of the ALMO model would require a renewed relationship and commitment between the Council and BHP, probably based on shared reviews of key aspects of the service. A number of other councils are considering extending their ALMOs and some are considering broadening their roles – eg. Barnet.

5.13 *Conversion to a Housing Association*

In this model BHP would be converted into a new housing association (an RSL), which would take ownership of the Council's housing stock following a statutory resident ballot on stock transfer. The new housing association would be an independent organisation but the Council would retain an ownership stake (typically one third) and commensurate board representation. Significantly all risks associated with ongoing investment and management of the housing stock would be transferred to the new organisation.

5.14 Under this approach the new RSL would be entirely dependant on Council prudential borrowing for its future investment needs (because its rates are

favourable compared with the markets) . There would be no additional efficiencies, and little scope for additional capacity or expertise. The Council's strategic objectives would be enshrined in the initial transfer agreement but subsequently there would be little scope for varying these other than by agreement. In essence the new housing association would take on all of the Council's current responsibilities for stock investment and management. The model is reasonably common, and two ALMOs have converted to a new housing association in the last year – Warrington and Oldham.

5.15 *Transfer to an Existing Housing Association*

This model is similar to the previous model described, except that the Council would transfer its whole stock to an existing housing association. Within the company structure, a new wholly independent subsidiary would most likely be established for Brent's housing stock. Implementation would require a statutory consultation and tenant ballot. Again, this model would transfer all risk and responsibility for stock investment, management and regeneration to a third party. In addition the Council would receive a substantial capital receipt at point of sale – most likely enough to repay all £185m of remaining housing debt and possibly with a small capital sum left over for general fund usage.

5.16 The Council would most likely be able to negotiate up to one third representation on the subsidiary board and would retain 100% nomination rights but , this model would effectively end the Council's direct involvement in housing management and estate regeneration. It would be difficult for the Council to exert a controlling influence on future priorities in relation to these issues, although nominations arrangements would be secured at the time of transfer. Whilst efficiency savings opportunities are significant from this approach, it is the housing association rather than the Council that would benefit from these. There are very few examples of whole stock transfer to an existing organisation – it is far more common for a new association to be established.

5.17 The Council is in the fortunate situation of being able to consider all of these options as a consequence of a favourable settlement from the recent reform of the Housing Revenue Account subsidy system. Section six explores this in more detail.

6.0 Implications of the Housing Revenue Account review

6.1 One critical determining factor in recommending a preferred model for the future ownership, investment and management of the housing stock is the financial viability of the approach. Housing investment and management is managed financially through the Housing Revenue Account (HRA) subsidy system. Traditionally this has been managed centrally (i.e. at a national level) with local authorities transferring rental income to the government, and in return receiving a formula driven grant from the government in order to deliver stock investment and housing management services. At a local level, this translates into an annual HRA business plan which is reflected in the Council's budget.

- 6.2 The government is now introducing radical reform of the HRA subsidy system by scrapping the national system and in its place introducing proposals for a locally managed HRA – in effect creating a locally managed housing business, where Council’s would be able to retain all rental income from their housing stock and use this to directly support stock investment and housing management. There will no longer be subsidy from government to support the regime. In order to deliver this the government is introducing a ‘one off’ local debt settlement. The financial implications of this change are considerable, and are set out in paras 6.4 and 6.5 below.
- 6.3 The biggest single viability factor in considering options for the future arrangements for stock ownership, investment and management will relate to the investment requirement of the existing housing stock – i.e. the cost of maintaining the stock at an appropriate level broadly in line with decent homes standard and meeting any capital backlog. The latest stock condition survey data shows that over the next 30 years this will require an investment of some £269m of capital improvements in today’s money.
- 6.4 Prior to HRA reform, under the current subsidy system, it was estimated in June 2010 that the HRA would have a cumulative capital shortfall (or backlog) after 30 years of £420m – which equates to £70m in today’s money. In addition the HRA account balance in Year 30 was also projected to have a deficit of £70m, or £12m in today’s money.
- 6.5 Over the last year the position has considerably improved, due in part to revised stock condition data, but in particular owing to the proposed HRA reform debt settlement. This would see the Council’s HRA debt reduced from its current level of £377m to £185m, together with the introduction of additional borrowing headroom capped at £212m. If a baseline ‘do nothing’ position is considered, the Council is now able to fully afford the current investment requirements over the next 30 years, as summarised in the table below:

Financial Indicator	Value in £’000
HRA Debt Settlement	£184,894
HRA Debt Cap	£212,397
Total shortfall in capital investment (backlog)	£30,411
Investment backlog caught up by	March 2029
NPV at 6.09% of closing HRA balance at year 30 – Surplus/(Deficit)	£7,112
HRA housing debt fully repaid by	March 2040

- 6.6 Although the overall medium term settlement is positive for the Council, there are still cashflow challenges over the 30 year period. Assuming the Council borrows up to its ceiling debt cap, there remains an investment backlog for a further 18 years, peaking at close to £40m in 2016. It is also important to recognise that because of the cap, the HRA will have no capacity to take on additional debt until at least 2029 and hence this route would most likely be unsuited to being the Council’s development vehicle

- 6.7 However, if the Council chooses to retain its stock then the Council would be able to direct and prioritise investment in its stock. In the 'base case' do nothing option modelled above, it would be able to use the projected HRA surplus of £7.1m after 2029 to invest in higher standards of stock performance (eg. environmental standards). Again, there is no room for complacency. This surplus is relatively modest and could easily be eliminated by faster than predicted construction cost inflation or an increase in the investment backlog.
- 6.8 The Council has the ability to borrow within the HRA up to the current debt ceiling of £212m set by the government. In the base case model, from March 2029 (when the investment backlog is cleared) the Council would have the option of paying off debt, investing further in the existing housing stock or providing 'grant' for the development of new affordable housing. Navigant have modelled each of these options, and for the base case they provide the Council with the options of paying off the full debt by March 2040, a further investment of £29,000 per property (£5,280 in today's money), grant subsidy for an additional 928 new homes, or a blended combination of each.
- 6.9 There is no certainty that the debt cap will remain in place throughout the next 30 years, although the government have not indicated that they are considering its removal. If it were to be removed at any point in the future, this would provide considerably more scope to support improved standards of stock investment or to subsidise new affordable housing.
- 6.10 In applying the implications of the HRA reform model to the options set out in section 5, there are two other important considerations to take account of – namely the efficiencies that could be generated through either the housing management or the special services / repairs and maintenance contracts. Clearly any savings that can be made in either of these areas of expenditure can be redirected into reducing the investment backlog.
- 6.11 The independent review considered each of the options set out in section five, reviewed the revenue efficiencies that could reasonably be generated, and then applied these to result in an overall investment potential model for each option, as set out in the table below.

Option	Investment Backlog	Backlog Cleared	New Housing Debt Cap	New Housing No Cap
Direct Management – in house	£22.5m	2021	930	2,710
Direct – outsourced	£20.5m	2021	930	2,705
ALMO Optimised	£23.5m	2021	930	2,700
Tenant Management Organisation	£24m	2022	930	2,670
Partnership Management	£21m	2021	930	2,790
Conversion to HA	Nil	n/a	1,380	1,380
Transfer to existing HA	Nil	n/a	1,750	1,750

- 6.12 There are two obvious conclusions from this analysis. Firstly is the critical difference that stock transfer makes to both the investment backlog and the capacity for new development. In simple terms, with stock transfer neither would remain the Council's responsibility and therefore the considerable

challenges associated with both are effectively passed to either a new or an existing housing association. In either of these scenarios the Council take more strategic view of local housing provision and would be offsetting risk by ceding control over day-to-day housing management, stock improvements and regeneration of the current housing stock. In considering the future arrangements for the housing stock, this is the 'first order' decision that needs to be made.

6.13 The second conclusion is the relative similarity of the financial position for each of the 'stock retention' options if the initial efficiency assumptions can be realised. On this basis, if the preference is to retain the stock, the next order of decision will need to relate firstly to the ability of the Council to secure the efficiency assumptions; and secondly to the other (non financial) benefits which can be realised from each of the options.

6.14 Section 7 below discusses the rationale for the recommended option going forward, in the light of the analysis set out in sections 5 and 6.

7.0 **Towards a preferred option**

7.1 As set out above, the first order of decision to be made is whether the Council should retain or dispose of its housing stock. Both options are financially viable, and there are strong arguments to be made in favour of both. Essentially the decision comes down to the level of control, responsibility and influence the Council wishes to have in relation to housing management, stock investment and estate regeneration in the future – balanced with the amount of financial risk that the Council is prepared to accept under a self financing HRA regime.

7.2 In considering the options the Council should be cognisant of its declining housing stock. By 2025 it is likely that the South Kilburn regeneration programme will have completed, and the total housing stock within the HRA will have reduced to some 7,000 properties. Further estate regeneration schemes in the future (North Circular Road, for example) may reduce this number still further. Whilst the evidence contained within the independent review, and summarised in section 4 above, demonstrates that a small stock is not a determining factor in either service quality or cost, there may come a point in the future when the stock becomes so small that it no longer makes sense to have a stand alone management function. .

7.3 There are other housing changes which are also likely to have an impact – perhaps most importantly are the proposals for the personalisation of benefits, which will mean that housing benefit will no longer be paid directly to the Council but will be paid to the tenants. This has the potential to significantly increase the risk of rent arrears and in the stock retention models would expose the Council to further debt risk.

7.4 Transfer of the housing stock to any form of housing association would transfer both of these risks immediately. In addition to fully repaying all HRA debt, it would also generate a sizeable capital receipt (estimated to be in the region of £10m) which would be free of HRA restrictions and could be used to

invest in other Council priorities. This is clearly attractive in the current climate of financial pressures.

- 7.5 However, transfer of the housing stock would also require extensive consultation, culminating in a statutory tenant ballot. Tenant ballots are accompanied with an attractive offer to tenants about improvements that will be made if they were to vote in favour of transfer. Normally this would relate to improvements to their homes, often in association with regeneration programmes. In this instance it is unlikely that any significant home improvement offer could be made to tenants, and in the light of the high levels of tenant satisfaction with the housing management services (as set out in section 4 above) it is difficult to see the incentive for tenants to vote for a change in landlord. In addition, any proposal for stock transfer is viewed with scepticism by some tenants, and runs the risk of a protracted and increasingly polarised public debate. On balance, it is far from certain that a vote in favour of stock transfer is deliverable.
- 7.6 There are many good reasons for the Council to continue to accept the financial risks set out in 7.2 and 7.3 above, and retain its housing stock. Foremost amongst these are the ability that this would give the Council to continue to exert direct influence on housing issues through its stock/land holdings across the Borough, and the prospects of maintaining strong relationships with its tenant and leaseholder communities. Stock transfer options would be favourable if the Council saw its role as more strategic and influencing partners through its democratic authority
- 7.7 The Borough continues to face huge social and economic pressures, and housing is a key lever for addressing these pressures. The Council has historically seen itself as a key strategic player in managing the relationship between housing demand and housing supply and through retaining an element of its own stock is able to intervene and play a pro-active role in meeting this balance.
- 7.8 Section 3 sets out the paradigm shift that is taking place in the housing world at present. Within London this will create even greater financial pressures on Brent's most deprived residents, who will have to juggle housing benefit caps with increased rents, often within the private sector market. The Council's housing needs and homelessness services will be under considerable pressure. New social housing will largely be at the 'affordable rent' level, and housing associations will be under pressure to convert their existing stock to 'affordable rents' in order to generate additional receipts to borrow against to build new housing. In this context it is arguably more important than ever that the Council retains its own stock which will be critical in managing the expected increased demand.
- 7.9 Brent has a long tradition of regeneration. By retaining its housing stock Brent will be in control of the pace and change of improvements to this element of the social housing stock in the Borough, and more importantly be able to make the strategic links between this and the need for improvements to education, sports, health and community facilities. In recent years Brent has been able to deliver against this agenda when housing associations have

struggled (e.g. South Kilburn regeneration). It should of course be noted that the ultimate result of regeneration is likely to be an incremental transfer of the stock to third party housing associations and therefore incremental shifting of the risks set out above.

- 7.10 The relationship of BHP with its tenants is excellent. BHP has achieved high levels of tenant satisfaction and the quality of the existing housing management service (as set out in section 4) is very good. This can be attributed in large part to the Council's ongoing commitment to place residents and tenants at the heart of the housing management regime, empowering them to challenge and direct services. Retention of the housing stock will allow Brent to continue to engage tenants and residents in the design and the delivery of housing management services.
- 7.11 On the balance of arguments above, , it is therefore recommended that the Council retains its housing stock and discounts the options of large scale stock transfer to either a new or an existing housing association.
- 7.12 The next stage in the decision making process is to consider which of the remaining five options would deliver the best quality housing management service, the best prospects for stock investment, the best efficiencies and an integral level of resident and tenant empowerment.
- 7.13 It has already been made clear that the Council is not in a position to initiate a Tenant Management Organisation, even if this were the preferred route, so this option can be discounted immediately.
- 7.14 It is also clear that at present there is little appetite from other housing associations or local authorities to consider the partnership management option. Again this option should therefore be discounted at this stage. However, in the current climate of service improvement and efficiency, and with a declining housing stock, it is recommended that the Council remain open to this option over the medium term and that partner's appetite for such an arrangement continue to be monitored.
- 7.15 Of the three remaining options, there is little precedent for outsourcing a directly managed housing management service. The market for this is young and there is no evidence to demonstrate that either service improvement or efficiencies can be generated. On this basis it is not recommended that this option is pursued further.
- 7.16 The independent review therefore recommends that there are two options capable of providing a high quality and cost effective housing and asset management service – either direct management in house by the Council or an 'optimised ALMO'.
- 7.17 Section 5 above summarises the relative merits of each option. In objective terms there is little to choose between them. Both have the potential to deliver a high quality housing management service, both have the ability to undertake asset management, both provide opportunities for tenant and

resident involvement, and both allow the Council to exercise its strategic influence.

- 7.18 In moving towards a recommendation, the starting point would be to consider what the justification is for change. BHP has demonstrated that it has generated widespread tenant satisfaction within the housing management service - up 30 percentage points from when the Council used to manage the service in house. It has achieved this by placing residents and tenants at the heart of the housing management process, both at Board level and in terms of monitoring and scrutinising the operational service. It has a strong culture of service improvement, and has already generated efficiencies both in house and in respect of outsourced contracts. On the face of it BHP is a high performing organisation.
- 7.19 However, there are areas of concern. In particular there has been clear 'mission drift' since 2006, when the Decent Homes programme was completed. Since this point BHP has struggled for a clear and coherent direction. In no small part this is as a consequence of a lack of clarity being provided by the Council as to what it wanted BHP to focus its attention of. Over time, and as the management agreement period approaches its review, this has led to an element of mistrust between the BHP Board and the Council and relationships have deteriorated. The process of undertaking and considering this review has gone a long way to repairing this damage, and does provide a decent platform from which to redefine the relationship between the two organisations and move forward positively.
- 7.20 It's also fair to say that BHP's current performance levels are unclear. The last comprehensive independent inspection was in 2003 (which was excellent), and a more recent voluntary inspection shows some areas for improvement. A renegotiated management agreement would provide an opportunity to re-assess the service and continue the improvement drive.
- 7.21 The move to the new Civic Centre provides considerable opportunities for further strategic alignment between BHP and the Council, and for optimising efficiencies between the Council and BHP. Co-location of staff will make it easier to realise back office efficiency savings and explore the links between BHP and other Council services, whether they be housing, regeneration or grounds maintenance.
- 7.23 On this basis there would seem to be little objective reason for the significant change and disruption associated with bringing the housing management service back in house. Financially this will also be difficult to achieve, as BHP is currently in receipt of some £72m of loans from the Council at present, including £54m in support of the Settled Homes Initiative. It is therefore recommended that the Council consult tenants on just one option, for the service to continue to be run by BHP as an **optimised ALMO**.
- 7.24 In order for this consultation to be meaningful it will be necessary to demonstrate to tenants what an optimised ALMO would look like, what it's functions will be and how it will be responsible and accountable for them. Section 8 below sets out the work that would need to be done in order to

define this. This route does obviate the possibility that tenants themselves may seek to exercise their right to ballot for a TMO.

8.0 Defining an Optimised ALMO

8.1 The ALMO was originally established for a very specific purpose, namely to access funding and subsequently deliver the decent homes programme of stock investment. This programme was completed in 2006. For the ALMO to be optimised moving forward the first thing that needs to be established is a clear direction and sense of purpose. There then has to be a shared understanding between the BHP board and the Council as to the areas for optimisation. Preliminary discussions have already taken place between BHP Board and senior management representatives, and Council directors to scope out the parameters for optimisation.

8.2 In respect of a clearly defined purpose, it is critical that BHP focus its attention on core business – ie. honing service efficiencies and improvements in the housing management service. BHP currently has little capacity or skills to manage new development or regeneration, and is not financially resourced to undertake these functions either. In going forward it is therefore recommended that BHP has a strong focus on housing management, repairs and maintenance.

8.3 The independent review identified efficiencies that would need to be optimised within BHP if it were to deliver top quartile financial performance in relation to both London ALMOs and London providers of the same size. This would require a minimum 13.6% reduction in their housing management budget in unit cost terms, resulting by year 5 of a unit cost of £1,294.82 per home. For all other special services, including repairs and maintenance, a minimum budget reduction of 10% at year 5 has been assumed, based on 2.5 percentage point increments from Year 2 onwards.

8.4 These savings will need to be delivered from a combination of existing in-house service and business process reviews, and a more detailed review of efficiencies associated with closer working with the Council. It is proposed that this review be undertaken over the next four months, and should cover:

- Move to the new Civic Centre
- Human Resources support
- Communications support
- Legal advice
- Procurement support
- Finance processing
- Rent accounting and rent collection
- Aids and adaptations

In undertaking this review it is also proposed that an examination of existing contracts be undertaken to explore the scope for closer alignment with Council contracts, thus enabling greater collaboration at renegotiation points.

8.5 It is important that BHP is ‘fit for purpose’ going forward, and in this sense it is timely to undertake a joint Council and BHP governance and management review of the organisation over the next four months. It is recommended that the scope for this is broad, covering the following areas:

- Use of the term ALMO
- Board constitution and make up
- Community engagement and consultation arrangements
- Council liaison mechanisms

8.6 At the heart of the recommendations for an ‘optimised ALMO’ is the need to establish a new long term management agreement between the Council and BHP. This needs to be for a minimum of ten years (most likely with some break clauses) and (amongst other things) set out the responsibilities and accountabilities of BHP, the Council’s performance expectations in terms of both improvement and efficiencies, the revised governance arrangements, the performance regime, and the details of the relationship between the Council and BHP. It is proposed that the heads of terms of the management agreement are agreed over the next four months, with a view to implementing a new management agreement as soon as possible thereafter.

9.0 Implementation

9.1 Following the Executive decision, the following implementation timetable will be initiated:

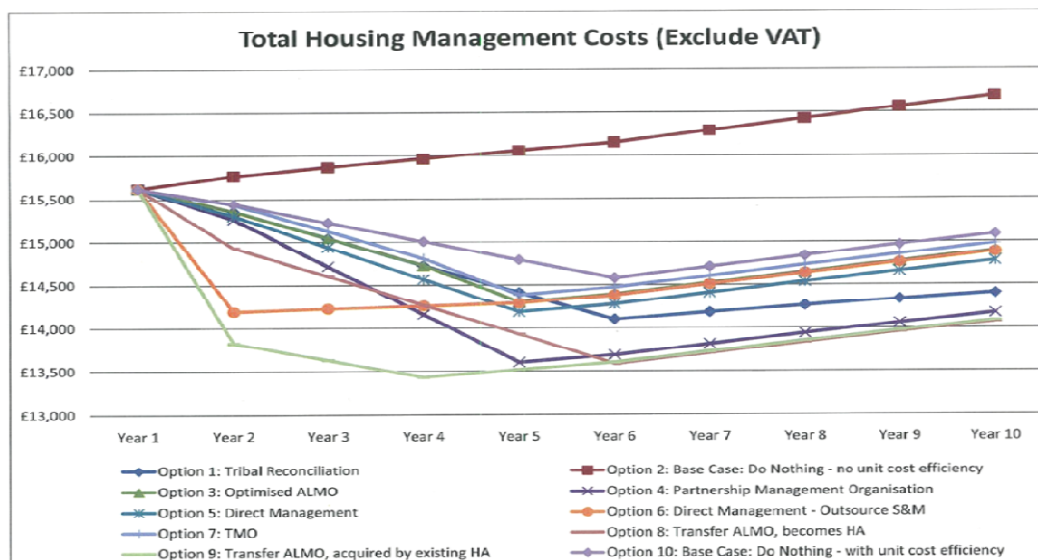
Activity	Date
BHP Board consideration	July 2011
Joint governance review	By October 2011
Joint efficiencies review	By October 2011
Management agreement – Heads of Terms	By October 2011
Tenant consultation	November 2011
Draft full management agreement	By January 2012
Final Executive decision	February 2012
Full implementation	Spring 2012

9.2 Although there is no requirement for a statutory tenant ballot, tenants will be consulted on the preferred option and the proposed arrangements. This will primarily be done through the Area Housing Boards or their successor vehicles.

10.0 Financial Implications

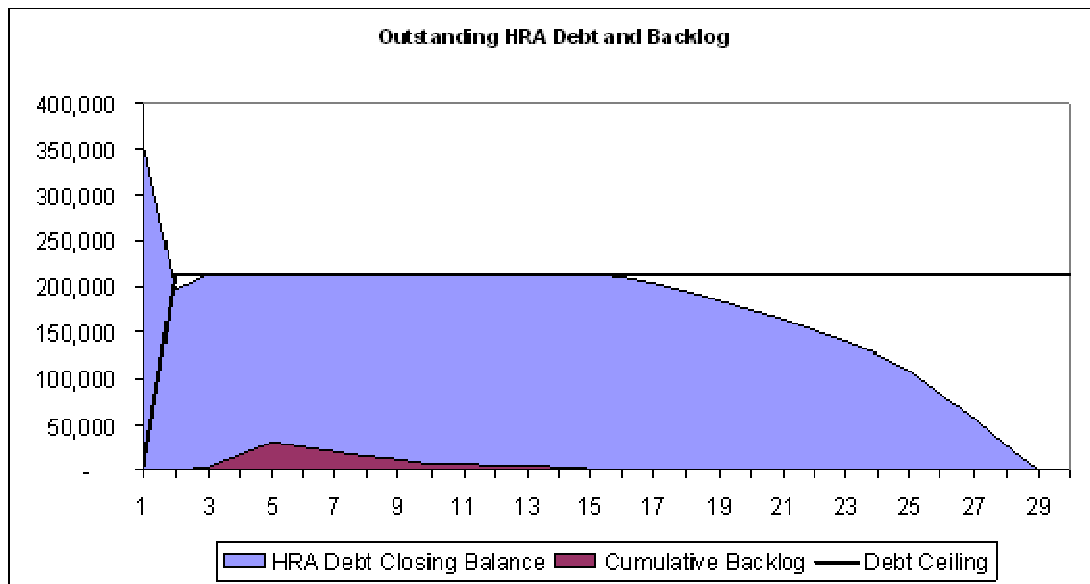
- 10.1 HRA reforms now open up the possibility that any of the options covered are feasible. The arguments for and against the various options have been covered in this report including the financial arguments and these need not be repeated here other than to summarise the points.
- 10.2 From an efficiency perspective, the graph below shows the range of possible efficiency savings arising from each of the options which are significant in all cases and which will show savings of up to £2.5m per annum within 3 years.

8. EFFICIENCY AND FINANCIAL ANALYSIS – SUMMARY INFORMATION



- 10.3 Stock transfer options would result in HRA debt being repaid in full and in the case of transfer to an existing RSL would most likely (subject to negotiation) leave the Council with an immediate net General Fund capital receipt of around £10m. This option would also remove a number of risks inherent in operating a housing management function including the very real risk of significant future rent arrears arising from Government changes to direct payments to tenants in respect of housing benefit and any risks around property condition. It would also have the advantage in the case of the transfer to an existing RSL that the Council would be freed from having to fund development and investment activities and this in turn would free up prudential borrowing capacity
- 10.4 However, the opposing arguments are around the ceding of operational control and some degree of strategic control over land and also the likelihood of a positive ballot.
- 10.5 Both a fully in-house option and an optimised ALMO would have similar characteristics in financial terms. Both would deliver a credible business plan and see debt repaid by 2040 and both would generate surpluses from 2029. Both models generate opportunity for efficiency and both will clear capital investment backlog as the chart below demonstrates. From 2029, the graph assumes that debt will be paid off until cleared by 2040 but the Council would have the option to maintain its debt at the ceiling level and use these resources to fund HRA development activity if it were so minded.

10.6 However, both options have the limitations of the HRA debt ceiling, the extended time before surpluses begin to be generated and the fact that when they are generated, they will remain ring fenced for HRA funded activities only. Under both options, there will be no headroom for any further HRA debt until the debt level is below the ceiling or the ceiling removed.



10.7 The principal financial advantage of the optimised ALMO is the transfer of rent risk (particularly crucial at a time when Government policy is likely to result in hugely increased rent arrears) away from itself and onto BHP but it should be noted that with £72m of existing debt, BHP will have no ability to support any additional borrowings for investment or development activities..

11.0 Legal Implications

11.1 ALMOs (Arms Length Management Organisations) were created with the encouragement of the then Office of the Deputy Prime Minister (ODPM) as it enabled Councils to create a company which they owned to manage their housing stocks and obtain extensive funding from the ODPM which Councils would not normally get by way of grant for the properties of the housing stock to achieve the Decent Homes standard by 2010. This target has already been reached for all the Council properties save for South Kilburn and Barham Park in which there will be regeneration schemes taking place which will involve the demolition of properties.. Also, ALMOs allow greater involvement from tenants and leaseholders in the management of the Council's housing stock as they are entitled to be members on the ALMO's Board. The Department for Communities and Local Government ("CLG") has stated in its "Review of Arms Length Housing Management Organisations" paper of June 2006 that separating a local authority's housing management function from its strategic role can enable tenants to benefit from a better housing service while the local authority can concentrate on its wider strategic function.

- 11.2 The BHP Management Agreement, which delegates the Council's housing management functions to its ALMO, Brent Housing Partnership (BHP), was entered into on 1 October 2002 for an initial term of five years. On 10 April 2006, the Executive decided to extend the term of the Management Agreement for a further five years and it is due to expire on 30 September 2012.
- 11.3 BHP is a subsidiary company of the Council. BHP's Constitution is made up of its Articles of Association and Memorandum of Association. BHP is a limited company, without share capital, which operates on a non-for-profit basis and the Council is the sole guarantor member. The BHP Board currently consists of seven resident members (including tenants and leaseholders), four independent members and four Brent Councillor members.
- 11.4 Under section 105 of the Housing Act 1985, the Council as a local authority landlord has a duty to consult with those of its secure tenants who are likely to be substantially affected by matters of housing management, which includes the management, maintenance and improvement of dwelling houses let by the Council under secure tenancies and the provision of services in connection with such dwelling houses. The consultation requirements under section 105 of the Housing Act 1985 must enable the secure tenants likely to be affected to be informed of the Council's proposals and to make their views known to the Council within a specified period. There is no requirement under section 105 for a ballot to take place as the Council's proposal does not involve a change in ownership of the Council's housing stock. Leaseholders of Council-owned properties will also be involved in the consultation process. Section 105 of the Housing Act 1985 still applies as the Secretary of State has not laid down regulations pursuant to section 27BA of the Housing Act 1985 regarding consultation requirements relating to housing management.
- 11.5 Pursuant to section 27 of the Housing Act 1985, a local authority may delegate its housing management functions by means of a management agreement subject to consent from the Secretary of State for Communities and Local Government. In 2009, the Secretary of State laid down a General Consent under section 27 of the Housing Act 1985 entitled "The General Approval for Housing Management Agreements 2009" but it should be added that this General Consent does not cover proposed housing management agreements which are for more than five years. Officers will make enquiries in the forthcoming weeks to clarify whether the Department for Communities and Local Government and the Tenants Services Authority respectively have any comments or issues regarding the Council's proposal for a long term management agreement. In any event, it will be necessary for the Council to apply to the Secretary of State for consent pursuant to section 27 of the Housing Act 1985 if the Executive decides to choose the optimised ALMO option for BHP in respect of the delegation of the Council's housing management functions in early 2012. This is because the said 2009 General Consent only covers three scenarios which involve: (i) complying with tendering conditions set out in the said General Consent and complying with the Public Contracts Regulations 2006; (ii) agreements dealing with small numbers of houses; (iii) agreements with Tenant Management Organisations.

- 11.6 Under sections 247 and 249 of the Housing and Regeneration Act 2008, the enforcement powers of the Regulator of Social Housing (which at present is the Tenants Services Authority) include the power to impose a requirement to put the management of social housing to tender or to require the transfer of management functions to a specific provider. From April 2010, any management agreement must include a break clause which enables to management agreement to be determined and the management functions transferred (this is pursuant to the Housing Management Agreements (Break Clause)(England) Regulations 2010 – S.I. 2010/663).
- 11.7 In April 2011, BHP was granted Registered Provider status by the Tenants Services Authority. BHP has gradually been developing its role as a provider of housing in addition to being a housing management organisation. It is effectively becoming a social landlord in its own right on a piecemeal basis after acquiring Granville New Homes from the Council in 2009 with the assistance of loan funding from the Council, acquiring properties under the Settled Homes Initiative to provide housing to homeless households (with the assistance of grant funding from the Homes and Communities Agency and loan funding from the Council) and small scale developments such as Aldbury Avenue and Ander Close with the assistance of grant funding from the Homes and Communities Agency. In these developments, BHP owns properties and grants tenancies as a landlord in its own right. The issue of whether BHP should continue its development role as a social landlord in its right in the future is addressed in this report.

12.0 Diversity Implications

- 12.1 As the reviews set out under paragraphs 2.4 and 2.5 above have yet to take place, an Equalities Impact Assessment will be carried out after the consultation as set out in paragraph 2.2 has taken place and before the Executive makes a decision in early 2012 on the future role of BHP and the delegation of the Council's housing management functions after the expiry of the current BHP Management Agreement in September 2012. Detailed legal implications regarding the Council's Public Sector Equality Duty under section 149 of the Equality Act 2010 will be set out in the next report to the Executive in early 2012 when the this matter is brought before the Executive for a final decision after the necessary reviews and consultation have been carried out.

13.0 Staffing/Accommodation Implications (if appropriate)

- 13.1 It has already been established that BHP will surrender their lease in Chancel House and will move into the Civic Centre in 2013.
- 13.2 The efficiency savings proposed in the report may have staffing implications for staff within both BHP and the Council. Staff and Trade Unions will be fully consulted on any changes proposed, in line with the Council's Managing Organisational Change policies.

Background Papers

Contact Officers

Andy Donald
Director of Regeneration & Major Projects
andrew.donald@brent.gov.uk

ANDY DONALD
Director of Regeneration and Major Projects