




<b>Report to:</b>	Housing Economy and Business Committee	<b>Date:</b>	13 June 2017
<b>Report title:</b>	Review of the Housing Management Service		
<b>Report from:</b>	Mary Morrissey, Strategic Director of Environment, Housing and Regeneration		
<b>Ward/Areas affected:</b>	Borough Wide		
<b>Chair of Committee/Lead Member:</b>	Councillor Jayne McCoy		
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<b>Corporate Plan Priorities:</b>	<ul style="list-style-type: none"> <li>● An Open Council</li> <li>● A Green Council</li> <li>● A Fair Council</li> <li>● A Smart Council</li> </ul>		
<b>Open/Exempt:</b>	Open		
<b>Signed:</b>		<b>Date:</b>	31 May 2017

## 1. Summary

- 1.1 This report provides the outcome of the commissioning review of the Council's Housing Management Service and seeks approval of the recommended option.

## 2. Recommendations

The Housing, Economy and Business (HEB) Committee is recommended to:

- 2.1 Agree the recommended 'Option 1' to re-model Sutton Housing Partnership (SHP) as detailed in Section 5 of this report.

## 3. Background

- 3.1 Sutton Council's Housing Management Service is provided by the its arms-length management organisation or 'ALMO', Sutton Housing Partnership (SHP), which was set up in 2005.

- 3.2 This arrangement is being reviewed in response to:

- the current financial position of the Housing Revenue Account (HRA)

- changes in national housing policy since SHP was originally set up
- the Council's commitment to periodically review services and reflect on fitness for purpose, in line with our corporate approach to commissioning
- the need to align SHP with the strategic priorities of the Council

3.3 The review is focusing on reducing costs, creating a long term sustainable delivery model and maintaining tenant satisfaction.

3.4 The review is applying the Council's Corporate Commissioning Framework by following the Commissioning Cycle of Analyse, Plan, Do and Review for each stage of the project. The Analyse stage of the review took place between June and December 2016. During the Analyse stage, the following activities were undertaken:

- **An evaluation of the current service.** This evaluation assessed SHP's delivery by reviewing its structure, performance and value for money.
- **An assessment of the current and future needs of service users.** This assessed the key needs of the service to its users, identifying what their needs have been up to now and what the future needs are likely to be.
- **Benchmarking visits.** This involved a series of visits with other local authorities that had conducted similar reviews into their equivalent service. This included the London Boroughs of Lewisham, Haringey, Enfield, Lambeth and Hounslow, with a further visit scheduled to East Kent Housing.
- **Stakeholder engagement.** This was to identify, analyse and plan engagement with stakeholders relevant to this service. This was further developed into a Communications and Engagement Plan.
- **Discussions with Kingston's housing management service as a potential partner.** This was to consider the viability and aligned timescales of a potential shared service collaboration across both councils.

3.5 This work resulted in the decision by the HEB Committee in December 2016 to shortlist three options for the future delivery of the service, to be analysed in detail through the Plan stage of the review. The shortlisted options were:

- Re-modelling SHP
- Bringing the service back In-house
- Setting up a shared service with the Royal Borough of Kingston

3.6 Since the review commenced in June 2016, there has been a change in leadership within SHP with a new interim Chief Executive appointed in November 2016. Since this appointment, the strategic direction of SHP has been reviewed, with a particular focus on the following areas:



- Putting residents at the centre of what SHP does
- Developing enhanced partnership working
- Securing closer alignment of SHP with the Council
- Reducing management overhead and transaction costs
- Modernising service delivery
- Considering how the HRA can be developed and grown

#### 4. Issues

4.1 As part of the Plan stage of the review the following activities were undertaken:

- **Independent Analysis.** The Project Team commissioned external consultants to undertake an independent and detailed analysis of the three shortlisted options. Just Housing Group (JHG) provided sector-specific expertise and an independent assessment of the shortlisted options. An executive summary report containing the findings of this review is attached at Appendix A.
- **Communications and Engagement Campaign.** This was designed to inform the full range of identified stakeholders about the review by outlining the key messages, and to engage with stakeholders through a variety of methods to enable their feedback into the review (details are set out at Appendix B - Engagement Report).

4.2 As part of the analysis by JHG, the three options were assessed within agreed categories, which were divided into sub criteria with scores weighted for priority areas.

4.3 One of the factors driving the review is the financial position of the HRA and the need for significant savings to be found over the next three years. Work on this by SHP has been ongoing and the further savings required were identified by the consultants as £663k p.a., providing a starting point for assessing the options.

4.4 The savings criterion were apportioned the highest individual weighting, although this was offset by the cost of implementing each option, the longer term ability to lever in external funding and new business and the financial sustainability of each option.

4.5 The impact on the quality of service received by residents, as well as the views of residents, were also apportioned a significant weighting within the evaluation.

#### 5. Options Considered

5.1 A summary of the advantages and disadvantages of the three options is summarised below.

##### Option 1 - Remodel SHP

5.2 The remodelling of SHP would consist primarily of the re-positioning of some back office support functions in to alternative arrangements, potentially the Council's existing services.

This would allow SHP to focus purely on housing management, whilst realising the required baseline saving through the economies of scale that would be created.

- 5.3 The remodelling of SHP would look at the interim senior leadership re-structure currently in place and explore how stronger links can be made between SHP and the Council.
- 5.4 Remodelling SHP is supported by stakeholders' views (see Appendix B). Frontline service delivery and improving outcomes for residents is recognised as a priority by SHP's new leadership team, who are committed to working collaboratively with the Council to reduce their day to day operational costs and re-focus resources directly on residents.
- 5.5 JHG were confident that remodelling SHP could achieve (or potentially exceed) the required savings identified as part of the HRA business planning process. While options 2 and 3 could deliver savings in addition to those that would be achieved under option 1, the major advantage of option 1 is that it achieves the required savings with significantly less risk, allowing the Council to safeguard the improvements that SHP is making to frontline services, as well as affording the opportunity to explore income generating activities going forward.
- 5.6 Option 1 does not prevent bringing the service back in house in future.
- 5.7 Option 1 estimates savings of £759k per annum.

#### Option 2 - Bringing the service back In-house

- 5.8 Option 2 would re-position the back office support functions out of SHP and move the housing management function back into the Council. This would give the Council the operational responsibility for service delivery.
- 5.9 SHP's senior leadership team and governance arrangements would be absorbed into the Council's existing structures.
- 5.10 According to the analysis by JHG, bringing the service back in-house would increase the savings over what could be achieved by remodelling SHP, by c.£233k p.a. However, this option has several notable disadvantages compared to option 1:
  - 1. In the medium to long term, bringing the service back in house would reduce its flexibility and place limitations on what it could do, particularly in terms of commercial activities. For example, other ALMOs in the UK have been known to manage stock for local registered providers, offer repair services to other landlords or provide homelessness and social care functions.
  - 2. There is a 'cost of change' associated with bringing the service back in house; this is not only in terms of financial cost (which, the consultants' report indicated, would be outweighed by the savings achievable in the first year), but also the cost of service disruption and a potential short term impact upon service performance.



3. At a time when SHP is improving significantly, the risk of loss of momentum is an important factor to consider, since making a significant change to service delivery at this stage could damage the credibility and trust that SHP has begun to build with service users. This is supported by feedback from the engagement sessions, where tenants and leaseholders were concerned that bringing the service back in house could undermine the progress that has recently been made by SHP, as well as causing confusion and blurring lines of accountability.
  4. A significant service change could reduce morale, leading to experienced staff leaving the organisation and a consequent loss of knowledge and expertise. Although this is true of any service change, option 1 offers the required savings with less risk.
  5. In-sourcing would be a significant change that would be difficult to reverse.
  6. There is a risk that holding the operational responsibility for service delivery may dilute the council's focus on strategic delivery.
- 5.11 Option 2 estimates savings of £992k per annum with estimated implementation costs of £235k.

#### Option 3 - shared service with RBK

- 5.12 JHG determined that although Option 3 could in theory achieve savings over those achievable under options 1 and 2, they scored the option lowest because the benefit of higher savings was outweighed by the longer timescales, complexity of implementation and higher corresponding risk with this option at this stage.
- 5.13 The complex circumstances surrounding any shared service model mean it is more difficult to predict savings accurately, so actual savings could be significantly different from assumptions.
- 5.14 Discussions between Sutton and Kingston Councils have determined that the latter has reached a similar conclusion with regard to the shared service option at this time. However, both councils are committed to sharing services where it makes financial and operational sense and will benefit residents, and therefore the councils will continue to explore opportunities for collaboration.
- 5.15 Option 3 estimates savings of between £1,233k and £1,397k per annum with estimated implementation costs of £250k.



Independent Analysis

5.16 JHG’s weighted scoring for each option is set out in the table below:

Category	Criteria	Option 1 - Re-modelled SHP	Option 2 - In-House Service	Option 3 - Shared Service with RBK
Cost and Affordability	Savings (17.5%)	10.5	14	15.75
	Cost of Implementation (5%)	4	3	2
	Ability to Lever in External Funding and New Business (2.5%)	2	0.75	1.5
Sustainability	Financial sustainability (10%)	5	5	6
Flexibility	Timelines (10%)	8	6	3
	Implementation (10%)	7	6	3
	Innovation (2.5%)	1.5	1.25	1.75
Quality	Resident Improvements (15%)	9	9	7.5
Stakeholder views	Resident Feedback (15%)	10.5	9	7.5
	Staff Views (5%)	4	3	2.5
Risks	Service Impact During the Transition (5%)	4	3.5	2.5
	Reputational Impact (2.5%)	1.25	1.25	0.75
	<b>Total</b>	<b>66.75</b>	<b>61.75</b>	<b>53.75</b>

5.17 The outcome of JHG’s analysis was to recommend remodelling SHP as the preferred option.

Summary and Conclusion

5.18 The outcome of the JHG study has since been considered in depth by Council and SHP officers, who agree this is the correct recommendation at this time.

5.19 Resolving to remodel SHP at this stage will not preclude other options in future. The independent analysis supports this, having concluded that the option of a shared service with Kingston is viable in theory and could be pursued in the longer term.



5.20 The recommendation to re-position some support services does not mean that the Council's Shared Services are the best destination. Each support service will be investigated as to its ideal placement to allow SHP to deliver the best possible Housing Management service.

Next steps

5.21 The implementation of the remodelled service will be cliented by the Council.

5.22 This review has also highlighted that there is an opportunity to refresh the governance arrangements of SHP. Subject to Committee approval to remodelling SHP, it is recommended that a more in-depth review is undertaken into the governance of SHP. It is proposed that a further report comes to HEB Committee with a revised operational and governance structure (and any associated documents) for the remodelled service.

5.23 Section 105 of the Housing Act 1985 requires local authority landlords to consult secure tenants on changes to housing management arrangements. This applies to "matters of housing management which, in the opinion of the landlord authority, represent (a) a new programme of maintenance, improvement or demolition, or (b) a change in the practice or policy of the authority" and are "likely substantially to affect" secure tenants. If the recommendation to retain and remodel SHP is accepted, it is not proposed that the council formally consults with tenants (or leaseholders), as the remodelling would not represent a substantial change in terms of service delivery. However, appropriate feedback will be given to identified stakeholders at the earliest opportunity following the Committee's decision.

5.24 The timetable of future activities is outlined below:

Date	Activity
June 2017	<ul style="list-style-type: none"> <li>● HEB Committee consider recommendations</li> </ul>
June - December 2017	<ul style="list-style-type: none"> <li>● Communicate decision to stakeholders and update Comms and Engagement Plan</li> <li>● Investigate options of back office support functions</li> <li>● Propose new staffing structures</li> <li>● Review clienting arrangements</li> <li>● Review governance structure</li> <li>● Develop a revised management agreement</li> <li>● Continue to explore opportunities for collaboration with RBK</li> </ul>
After December 2017	<ul style="list-style-type: none"> <li>● Report to HEB Committee on outcome of above.</li> </ul>

## 6. Impacts and Implications

### Financial

- 6.1 All three options have been costed and savings identified for each option. Option one, a re-organised ALMO estimates savings of £759k per annum with no implementation costs. Option 2, an in-house service estimates savings of £992k per annum with estimated implementation costs of £235k and Option 3, a shared service with RBK estimates savings of between £1,233k and £1,397k per annum with implementation costs of £250k.
- 6.2 All of the options identified exceed the savings required from the review. The target was set to ensure that the HRA continues to be financially sustainable in the future.
- 6.3 All three options assume that the provision of some support services will be provided by the Council in the future. The Council will charge SHP for the cost of providing these functions. There will be no financial impact on the Council from this transfer.
- 6.4 The preferred option of a re-organised ALMO forecasts a lower level of savings than the other options but this option scores the highest on the evaluation matrix due to a lower level of risk, less impact on services and less cost to implement.
- 6.5 Implementing option one will not preclude other options for the future, it also includes the ability for the ALMO to generate additional income from future trading activities.

### Legal

- 6.6 The recommended Option 1 of this report predominantly entails an employment re-organisation within SHP that does not affect the corporate structure of SHP, but would involve the TUPE transfer of the back office support staff support staff from SHP to the council. SHP will need to be mindful of the duty to inform affected staff in respect of such a TUPE transfer and consultation duties may arise if the Council considered that it needed to implement any measures in respect of the transferring support staff post transfer such as reorganisation of the support staff function. If such measures are envisaged consideration will need to be given to the employee liabilities which may arise from the staff transfer.
- 6.7. Additionally, it is understood that there are to be amendments to the relationship (management agreement between the Council and SHP are to be implemented) between the Council and SHP, however, these amendments as have been previewed are not significant in terms of the roles, powers and obligations of SHP. The arrangements between SHP and the Council should be formalised. Such agreement should incorporate the requirements of Option 1 to accommodate any needs such as the purchase of 'back-house' services.
- 6.8 In order for SHP to trade (e.g. enter into agreement for services) with the Council (e.g. enter into agreements for services including back-house services) and SHP to do so with the





Council (such as provision of HR services), it will be necessary for SHP to comply with the requirements in the Public Contracts Regulations 2015 ("PCR") specifically regulation 12. While it appears that SHP will fall within the definition of contracting authority (meaning it will must need to tender its contract opportunities), the PCR will not apply to such agreements between SHP and the Council. The PCR requirements are that: (1) 80% of SHP's activities are delegated to it by the Council, (2) private funds are not invested in the organisation or do not exert influence over SHP and (3) the Council passes the necessary control test requirements.

- 6.9 In order that the control test is likely to be passed, the constitution documents should be reviewed to establish the following general characteristics are present: the Council is the sole member of the company; the Council can exercise control over the composition of the board; there is power to direct the organisation on policy.
- 6.10 Contracts currently held by SHP and binding SHP to certain performance (e.g. paying for goods and services), will need to be considered on a case by case basis and are likely to remain binding on SHP. As such it will be necessary to consider the termination of such agreements solely on their terms where they are affected by the adopted Option 1.
- 6.11 Option 1, the remodelling of SHP is not likely to be a significant change of housing management which is likely to substantially affect secure tenants. Options 2 and 3 which include a change of service provider are changes that would trigger the consultation requirements of Section 105 of the Housing Act 1985.

#### Other impacts and implications

#### Sustainability

- 6.12 The Housing Management service has a significant environmental impact and contributes towards the delivery of the council's Sustainability Strategy - One Planet Sutton. The new management agreement will need to include compliance with the council's environmental strategy, policies and procedures, including any targets which the service contributes towards. The management agreement will also require the provider to have an environmental policy and either a UK Government Approved Environmental Management System (e.g. ISO 14001) or agree to implement an Environmental Improvement Plan.
- 6.13 SHP do not have an Environmental Management System. Instead they have an Environmental Strategy and Action Plan which is reviewed no less than every 12 months with the Sustainability team. The current strategy and plan needs a thorough review to ensure all areas of sustainability included in the council's environmental strategy and policies are included, with a clear plan for delivery. The new agreement will need to include requirements for annual reporting and incremental improvements.



**7. Appendices and Background Documents**

<b>Appendix letter</b>	<b>Title</b>
A	Just Housing Group Executive Report
B	Engagement Report
C	Equality Impact Assessment

<b>Background documents</b>
Management of Housing Stock Needs Assessment
Just Housing Group Full Report

<b>Audit Trail</b>		
Version	Final	Date: 31 May 2017
<b>Consultation with other officers</b>		
Finance	Yes	Sue Hogg
Legal	Yes	Jonathan Miller
Other Officers:	Yes	Andy Oakley - Corporate Procurement Unit Tom Alexander - Head of Strategic Business Katrina Lloyd - Senior Sustainability Officer
Equality Impact Assessment required?	Yes	Trevor Hart