

TITLE OF REPORT: Review of Housing Revenue Account (HRA) Delivery Model

REPORT OF: Colin Huntington, Strategic Director, Housing, Environment and Healthy Communities

Purpose of the Report

1. To inform Cabinet of the outcome of phase one of the comprehensive review of the delivery model for the Council's housing stock and seek approval to develop a detailed business plan to implement the preferred option, subject to consultation with employees, trade unions, tenants and relevant stakeholders.

Background

2. The Council established The Gateshead Housing Company (TGHC) in 2004 with the primary objective of securing government funding to deliver the Decent Homes programme, Decent Homes funding has since diminished, but the Council has continued to commission housing and additional services from TGHC, including the repairs and maintenance function (previously outsourced) and the transfer of its Construction Services.
3. In 2012 the introduction of self-financing fundamentally changed the way social housing is funded. The complex system of redistributive subsidy was replaced by a system where all rental income is kept locally. Whilst this provided the opportunity for longer term planning in the HRA it also represented a risk especially considering the significant policy changes such as welfare reform, increased right to buy discounts and the social housing rent cut made since then which have adversely impacted upon business planning assumptions.
4. On 24 April 2019 the Council was issued with a Regulatory Notice from the Regulator of Social Housing outlining a breach of the Home standard. On the 29 November 2019 the Council entered into a voluntary undertaking outlining the commitment to resolve the compliance issues raised and deliver better outcomes for residents.
5. On 16 July 2019, Cabinet approved a review of the TGHC management agreement and the commencement of a comprehensive review of the delivery model for the management of the Council's housing stock, including a full options appraisal of alternatives and all necessary consultation with stakeholders. This included a prompt strengthening in the oversight and performance monitoring arrangements in place as a direct response to the Regulatory Notice. The review also considered the wider housing related services provided by TGHC, particularly in the context of Making Gateshead a Place Where Everyone Thrives and the recently agreed Housing Strategy.

6. Housing management agreements, and variations to them, are subject to the approval of the Regulator for Social Housing under section 27 of the Housing Act 1985. At the time of the creation of the Management Agreement, the requirement was for approval of the Secretary of State, which was granted. The changes proposed in this report may require the approval of the Regulator of Social Housing, whose views are therefore being sought.
7. The current 30-year Housing Revenue Account (HRA) Business Plan projects that the minimum HRA balance of £3m will be breached in 2025/26 after which it will move into a deficit position. In order, to continue to provide a sustainable HRA fundamental change is required.
8. In November 2019 the Council entered into an agreement with Pennington Choices to provide consultancy support in undertaking the housing management review. The review is divided into three phases:
 - Phase 1 – Desktop review to assess a range of options for the future delivery of the management of Gateshead’s social housing stock.
 - Phase 2 – Development of a Business Plan for the implementation of the preferred option. This will form the basis for consultation.
 - Phase 3 (subject to consultation) – Implementation of the plan.
9. During phase one the options explored were:
 - Option 1 – Retain the current arrangements with TGHC managing and maintaining the housing stock.
 - Option 2 – Re-integrating the management and maintenance of the housing stock into the Council. This was further split into option 2a consolidation of TGHC and Council housing services and option 2b consolidation with wider Council services.
 - Option 3 – Enter into a partnership or alternative shared arrangement with another organisation to provide a management and maintenance service.
 - Option 4 – Disposal of the Council’s housing stock to an external organisation.
10. All options except option 4 include transformational change and a focus on the purpose for the service and the way in which services are delivered. The potential for integration, consolidation and avoidance of duplication also featured across the first three options.
11. During their review Pennington Choices engaged with Cabinet, TGHC Board and officers across the Council and TGHC through workshop and engagement sessions. In addition, telephone interviews with key officers took place to gather information to inform the review.
12. The options were appraised both financially and non-financially assuming an equal weighting to each element. The non-financial appraisal was against specific criteria determined by the Council and additionally Pennington Choices identified other aspects that needed to be assessed as part of the appraisal. Details of the criteria that were assessed against is outlined in appendix 1.
13. Pennington Choices reviewed the business plan assumptions as part of their appraisal. This includes a challenge of and revision to the baseline position on

which to assess all other options against. Appendix 1 provides details of the changes to the financial modelling for each option.

14. The following table outlines the results of the appraisal which has been converted to a percentage score against each option with the higher the percentage being more favourable. A more detailed breakdown is provided in appendix 2.

	Option 1	Option 2a	Option 2b	Option 3	Option 4
Forecast 35 Year HRA Balance (£m)	£43.873	144.132	170.223	106.793	-296.000
Variance from Base Model	-967.796	-1,068.055	-1,094.146	-1,030.716	-627.923
Total Financial %	44.00%	49.00%	50.00%	47.00%	28.69%
Total Non Financial %	24.16%	45.08%	47.23%	31.93%	31.21%
Overall Options Appraisal	68.15%	94.08%	97.23%	78.93%	59.91%

15. Option 2 - Re-integrating the management and maintenance of the housing stock into the Council scores the highest overall and also for each aspect of the appraisal. Pennington Choices modelled two sub options (option 2a and 2b) which are detailed in the table above. Consolidating with wider Council services (2b) would deliver the optimal financial position compared to solely consolidating all housing services (2a).
16. There are a range of benefits of bringing the housing management back under the Council's direct control and consolidating with other Council services. Primarily it enables the Council to have control and drive the timescales and agenda in order to deliver a renewed purpose for the housing service that are fully aligned to the Thrive priorities.
17. In implementing any preferred option there are wider actions required to ensure the long-term sustainability of the Council's housing stock and the HRA.
- Stock condition and sustainability;
 - Bridging the potential investment deficit;
 - The operation and business model for repairs and investment delivery services.

Proposal

18. The Pennington Choices report proposes that the management and maintenance of the Council's housing stock is re-integrated within the Council. This will include a review of all services currently provided by TGHC and include relevant Council services to ensure the most efficient and effective delivery model.
19. A detailed business plan will be developed to support the implementation of the preferred option and this will be informed through consultation with employees, trade unions, tenants, leaseholders and relevant stakeholders.
20. It is proposed that following the development of the vision and business plan, and a detailed consultation with tenants and leaseholders, a further report will be

brought to Cabinet detailing the outcome of the consultation and the specific financial and human resource implications of the final proposal.

21. TGHC currently employ 785.51 FTE staff and there are currently 18,268 council housing tenancies who would all be impacted by this decision. In addition, there are 384 tenancies that may be indirectly impacted through management agreements with Keelman Homes.

Recommendations

22. It is recommended that Cabinet:
- (i) Approve the proposal to develop a Vision and Business Plan to implement, the preferred option
 - (ii) Approve the commencement of consultations with employees, trade unions, tenants, leaseholders and relevant stakeholders on the preferred option to inform a final proposal, and
 - (iii) Agree to receive a future report on the detailed implications of the final proposal.

For the following reasons:

- (i) To ensure the Council's housing stock is managed, and housing services delivered, in the interests of the Council and its tenants as effectively and efficiently as possible.
- (ii) To realise the Council's policies and objectives in relation to the Housing Strategy in order to maintain and enhance Council Housing provision in Gateshead.
- (ii) To assist in the delivery of the Council's vision for Gateshead as set out in Making Gateshead a Place where Everyone Thrives.

Policy Context

1. The proposals support the overall vision for Gateshead as set out in Making Gateshead a Place Where Everyone Thrives including achieving the following outcomes; providing good quality housing with a mix of tenures and affordable options that meet the needs of local people including families and older people enabling them to live healthy lives and to make healthy choices, preventing ill health.
2. The Housing Strategy 2019-2030 identifies clear housing objectives and priorities, puts forward a vision for housing in Gateshead, and sets a framework for how the Council will deliver services and interventions, and work in partnership with others, in a way that will help achieve those objectives using increasingly scarce resources proportionately and effectively. It includes three overarching strategic objectives:
 - Sustainable housing and economic growth
 - Sustainable neighbourhoods
 - Improved health & wellbeing
3. In addition to these overarching objectives one of the key themes embedded in the strategy is supporting the long-term sustainability of the Council's housing stock and the Housing Revenue Account (HRA).

Background

4. TGHC's obligations to the Council and governance and oversight arrangements are set out in a management agreement (the Management Agreement) between the Council and TGHC dated 1 January 2004 (revised in July 2019). The Management Agreement includes provisions as to the monitoring and management, by the Council, of the delivery of services by TGHC. Those provisions are set out in Part J of the Management Agreement and in the Delivery Plan appended to it as one of its schedules.
5. Although the Council established TGHC in 2004 with the primary objective of securing government funding to deliver the Decent Homes programme, Decent Homes funding has since diminished, but the Council has continued to commission housing and additional services from TGHC, including the repairs and maintenance function (previously outsourced) and the transfer of its Construction Services.
6. The Management Agreement provides for its content to be reviewed, and for its renewal to be considered, every five years and for there to be variations of it, agreed in writing between the parties, wherever that is appropriate. The Management Agreement has been reviewed periodically throughout its existence, but without significant amendments having been agreed, despite the additional functions TGHC delivers for the Council. As a result, the delivery plan and metrics for monitoring of service delivery and performance by TGHC require updating.
7. On 24 April 2019 the Council was issued with a Regulatory Notice from the Regulator of Social Housing outlining a breach of the Home standard. On the 29 November 2019 the Council entered into a voluntary undertaking outlining the commitment to resolve the compliance issues raised and deliver better outcomes for residents.

8. On 16 July 2019, cabinet approved the commencement of a comprehensive review of the delivery model for the management of the Council's housing stock, including a full options appraisal of alternatives and all necessary consultation with stakeholders. This included a prompt strengthening in the oversight and performance monitoring arrangements in place as a direct response to the Regulatory Notice. The review will also consider the wider housing related services provided by TGHC, particularly in the context of Making Gateshead a Place Where Everyone Thrives and the recently agreed Housing Strategy.
9. In November 2019 the Council entered into an agreement, through a tender process, with Pennington Choices to provide consultancy support in undertaking the housing management review. The review is divided into three phases:
 - Phase 1 – Desktop review to assess a range of options for the future delivery of the management of Gateshead's social housing stock.
 - Phase 2 – Development of a Business Plan for the implementation of the preferred option. This will form the basis for consultation.
 - Phase 3 – Implementation of the plan
10. During phase one the options explored were:
 - Option 1 – Retain the current arrangements with TGHC managing and maintaining the housing stock.
 - Option 2 – Re-integrating the management and maintenance of the housing stock into the Council. This was further split into option 2a consolidation of TGHC and Council housing services and option 2b consolidation with wider Council services
 - Option 3 – Enter into a partnership or alternative shared arrangement with another organisation to provide a management and maintenance service.
 - Option 4 – Disposal of the Council's housing stock to an external organisation.
11. The options were appraised both financially and non-financially assuming an equal weighting to each element. The non-financial appraisal was against specific criteria determined by the Council and additionally Pennington Choices identified other aspects that needed to be assessed as part of the appraisal.

Options Appraisal

12. During their review Pennington Choices conducted telephone interviews with key officers to gather information on the current delivery arrangements, strengths and weaknesses of the current approach, priorities and objectives for service delivery and any future challenges or other issues. This was supplemented by a review of documents provided by the Council. Further to this they engaged with Cabinet, TGHC Board and officers across the Council and TGHC through workshop and engagement sessions.
13. The Council specified the criteria on which they expected the options to be assessed which were:
 - Providing transparency, good governance and defines the purpose of the housing service; aligning to the Council's strategic priorities as set out in the "Thrive" pledges;

- Maximising the ability within the HRA Business Plan to provide good and sustainable services for existing and future tenants;
- Enabling new affordable social housing for future tenants as evidenced by the housing needs assessment;
- Delivering the best outcomes for tenants and maintaining (or improving) tenant and customer satisfaction levels and the opportunities for enhanced customer engagement / resident involvement;
- Providing a cost effective, efficient and seamless operational base to provide core housing management functions that are flexible enough to adapt to emerging housing policy;
- Achieving significant efficiencies and savings that can be reinvested into tenants' services, new and existing homes and neighbourhoods and contribute to the financial sustainability of the Council's housing revenue account;
- Delivering the clearest focus on core housing services by removing or reducing duplication between services provided by the Council and the Company;
- Assuring provision of modern, high quality and continuously improving housing management services and providing a good customer experience;
- Maximising the value and performance of the Council's housing stock through active and integrated asset and compliance management;
- Maximising the value and performance of the Council's financial position through active and integrated revenue and capital management;
- Responding to the local housing context and Housing Strategy priorities;
- Taking account of the ongoing investment needs of the stock and external areas/garages; areas of demarcation – management and major/minor investment or environmental activity on HRA land;
- Examining opportunities for integrating with Council's services and developing single services;
- Cognisance of the Council's political and employee relations landscapes and the impact any proposals may have on these areas.

14. In addition, Pennington Choices identified a further set of criteria on which they considered the options should be assessed:

- Potential to resolve the current leadership issues to support resilient and empowered staff, in order to create an organisation which delivers modern, high quality, efficient services;
- Potential to support the delivery of the Council's strategic objectives on housing services and the Thrive agenda, with housing services aligned around the principles of focusing work and money on what matters most, tackling inequality, supporting communities to help themselves and support each other, and investing in the economy and providing opportunities for employment, innovation and growth;
- Potential to deliver effective asset management in the short, medium and long-term, through the establishment and maintenance of stock condition data, costed investment plans which are reconciled with the HRA business plan, and long-term use of data and intelligence to understand and develop solutions to address stock performance;
- Potential to deliver the required level of investment in housing stock and ensure decency in the short, medium and long-term;

- Potential to effectively address under-performing stock through the delivery of costed delivery plans and deliverable solutions;
- Potential to deliver efficient management and maintenance costs which can withstand scrutiny from the RSH and other bodies which the Council may need to engage with as part of discussions about how to address any investment issues within the stock;
- Potential to deliver high quality customer focused services which meet the RSH's consumer standards and enable the Council to demonstrate value for money and effective governance, and which keep tenants safe;
- The potential for the option to be delivered within a timescale which enables the Council to arrest the worsening position for the HRA business plan, and begin to address it to recover the position as soon as possible and to demonstrate to the RSH and others that it is in firm control of costs and taking the action which can reasonably be expected of it in the absence of wider government investment.

Financial Appraisal

15. The HRA Business Plan sets the Council's long-term investment strategy to maintain the quality of its housing stock. The plan is reviewed, at least, annually and uses current levels of income and expenditure information and projects this for the next 30 years applying several key assumptions. The current Business Plan projects that the minimum HRA balance (as approved by Council in February 2012) of £3m will be breached in 2025/26 and after which time will move into a deficit position with an overall deficit of £691m by 2050, thereby making it unsustainable.
16. The baseline financial position on which to assess all options was revised to reflect a more accurate, up to date, forecast of interest rates and the assumptions regarding the forecast numbers of Right to Buy (RTB) disposals and the forecast capital expenditure requirement were revised. These changes result in a closing deficit balance of £924m. All 4 options are assessed using this as a baseline for any increase/decrease in the position.

Option 1 – Retain and improve TGHC

17. The current model uplifts the management costs annually by inflation with no link to stock levels. This approach significantly widens the gap between income and cost. In providing a link to the stock levels and developing a cost per unit (CPU) approach then applying inflation there would be a saving of £258m over the plan period.
18. A similar approach has been taken to repairs and maintenance costs which are also significantly higher than our peer group but this is reflective of the lower levels of capital investment in the stock. A further reduction has been applied to responsive and cyclical repair costs from 2025/26 as the impact of capital works begin to take effect. These changes result in a further £602m reduction in cost over the plan period.
19. This option has also included modelling of removal of loss-making stock. The saving is estimated at £3.065m but this is based on giving away the stock which in reality would not be possible and therefore a strategic approach would be required

and the additional revenue and capital costs which may arise would need to be considered.

20. The Council retains just over £7m (excluding the contingency provision) of Supervision and Management costs that are not included in the TGHC management fee. It may be possible to reduce these retained costs through a different approach to modelling annual increases and a saving of £131m has been assumed over the plan period.
21. The combined impact of these reductions would be a cost reduction of £969m resulting in a positive balance of £44m at the end of the plan period. To note the individual impacts when added together will differ to the combined position due to the modelling of the stock levels.

Option 2 – Consolidate services within Gateshead Council

22. Using benchmarking data and analysing the comparative peer group employees per 1,000 properties (8 TGHC compared to 6.13 peer group) a saving of £2.470m per annum has been assumed. A 5% reduction has been applied to the non-pay element.
23. The overall impact of these changes when combined with option 1 would be a reduction of £1,068m on the base position and would result in a positive HRA balance by 2050 of £144m.
24. Further consolidation and integration of the housing functions with other Council services is likely to result in further efficiencies and for modelling purposes an additional 5% efficiency has been assumed which would result in a positive HRA balance of £170m.

Option 3 – Consolidate services within outsourced delivery contract

25. The Financial savings are similar to option 1 but it may be possible to accelerate savings on management costs and repairs costs. Financial modelling demonstrates a reduction in costs of £1,031m over the plan period resulting in a positive HRA balance of £107m.
26. Pennington Choices have evaluated this model and consider it not to be viable due to the current issues with the condition of the stock, the position in relation to the regulatory notice around compliance and the level of vacant posts (particularly at a senior level) within TGHC which makes transfer of knowledge and history difficult.

Option 4 – Large Scale Stock Transfer (LSVT)

27. The valuation method used for stock transfers is Tenanted Market Value (TMV) which is the net present value of the projected income from rents and other charges over a 30-year period, less its costs for management, capital maintenance and repairs.
28. An illustrative valuation is £79.656m although this is sensitive to the policy on rent increases and assumptions in respect of the management and maintenance costs and therefore could be higher. The capital financing requirement (the amount of

borrowing required to fund the capital programme/stock) is £345.5m so this would leave an overhanging debt of £265.844m with no HRA to service the debt.

29. Associated with this option could be issues with early repayment charges and irrecoverable capital costs associated with the transfer. In addition, there are VAT implications for any receiving organisation if it were not a local authority and able to benefit from reclaiming VAT on all costs. This could take the overhanging debt to £296m.
30. The level of overhanging debt write-off is of a value that would be difficult to envisage being met through government support alone. Any sensitivity to the stock valuation is unlikely to make a substantial enough change to enable government support for the overhanging debt position. The Council would also lose the revenue it receives direct from HRA recharges.

Wider Actions

31. All options modelled require some loss-making stock to be disposed of at a nil cost. Retention of this stock would not change the financial rankings of the options however, the Council will need to take a strategic approach to the stock, especially multi-storey blocks, that are under-performing to enable a sustainable HRA position.
32. Whilst the HRA business plan and the revised baseline model include substantial capital investment over the plan period to 2049/50 the actual level of investment required is subject to stock condition information being updated to enable a fully costed investment plan to be produced.
33. The operation and business model for the repairs and capital works delivery service (Direct Labour Organisation) needs to be reviewed to ensure there is a clear vision and objectives supported by a revised financial model. This would inform the structure of its workforce and improve performance so it is better able to deliver value for money services.

Consultation

34. Consultation has taken place with the Leader and Deputy Leader and Cabinet Members for Housing and also with The Gateshead Housing Company.

Alternative Options

35. Alternative options are outlined in this report and are not recommended as they would not provide the most effective and efficient delivery model and would not be in the best interests of the Council and its housing tenants.

Implications of Recommended Option

36. Resources

- a. **Financial Implications** – The Strategic Director, Resources and Digital, confirms that the financial implications of the options are detailed in the report. The financial appraisal is based on assumptions outlined in the report

and any actual savings will be subject to a detailed business plan and a fully costed model.

- b. **Human Resources Implications** – if the preferred option is adopted, it is likely that the Transfer of Undertakings (Protection of Employment) (TUPE) Regulations will apply to the transfer of staff from TGHC to the Council. This would mean that existing Gateshead Housing Company staff transfer to the Council and maintain their current terms and conditions of employment. A TUPE transfer will necessitate statutory consultation by both the Council and TGHC with employees and recognised trade unions.
 - c. **Property Implications** – the actions outlined in this report when combined with a clear asset strategy for the HRA will ensure the future sustainability of the Council's housing stock.
- 37. **Risk Management Implications** – there is a need to ensure that the HRA business plan and regulatory standards are met. These along with risks associated with any change in the delivery model or future business planning needs will be mitigated through a detailed risk register and implementation plan.
 - 38. **Equality and Diversity Implications** – Nil
 - 39. **Crime and Disorder Implications** – Nil
 - 40. **Health Implications** – Nil
 - 41. **Sustainability Implications** – The report contains a number of measures, which will help deliver a more Sustainable Gateshead and ensure sustainable use of the Council's resources in delivering corporate priorities.
 - 42. **Human Rights Implications** – Nil
 - 43. **Area and Ward Implications** – All wards will be affected by the proposals in this report.

Background Information

DETAILED OPTIONS APPRAISAL

	Weighting	Option 1		Option 2a		Option 2b		Option 3		Option 4	
		Score	%	Score	%	Score	%	Score	%	Score	%
FINANCIAL			44%		49%		50%		47%		28.69%
COUNCIL CRITERIA											
Transparency, good governance & housing service aligned to Thrive	1.79%	2	0.72%	5	1.79%	5	1.79%	4	1.43%	1	0.36%
Maximise good & sustainable housing services for existing & future	1.79%	2	0.72%	5	1.79%	5	1.79%	4	1.43%	5	1.79%
Enable new affordable social housing	1.79%	3	1.07%	4	1.43%	5	1.79%	2	0.72%	1	0.36%
Outcomes for tenants, including customer satisfaction & engagement/ involvement	1.79%	3	1.07%	5	1.79%	5	1.79%	4	1.43%	4	1.43%
Cost effective, efficient, seamless operations for flexible housing	1.79%	2	0.72%	4	1.43%	5	1.79%	3	1.07%	4	1.43%
Achieve efficiencies to reinvest & support HRA sustainability	1.79%	3	1.07%	4	1.43%	5	1.79%	2	0.72%	1	0.36%
Removing/reducing duplication	1.79%	2	0.72%	4	1.43%	5	1.79%	2	0.72%	2	0.72%
Modern, high quality, continuously improving housing services	1.79%	2	0.72%	5	1.79%	5	1.79%	4	1.43%	5	1.79%
Maximising stock value & performance via asset & compliance	1.79%	2	0.72%	5	1.79%	5	1.79%	3	1.07%	1	0.36%
Maximising value & performance of Council's financial position	1.79%	3	1.07%	4	1.43%	5	1.79%	2	0.72%	1	0.36%
Responding to Housing Strategy priorities	1.79%	3	1.07%	5	1.79%	5	1.79%	4	1.43%	1	0.36%
Responding to all asset investment needs	1.79%	3	1.07%	5	1.79%	5	1.79%	4	1.43%	5	1.79%
Opportunities for integration with Council services	1.79%	3	1.07%	4	1.43%	5	1.79%	2	0.72%	1	0.36%
Impact on Council's political & employee relations	1.79%	3	1.07%	4	1.43%	4	1.43%	2	0.72%	1	0.36%
Total Council Criteria	25%		12.89%		22.55%		24.70%		15.03%		11.81%
PENNINGTON CRITERIA											
Resolve leadership issues to support resilient & empowered staff	3.13%	2	1.25%	4	2.50%	4	2.50%	4	2.50%	4	2.50%
Support delivery of Council strategic objectives on housing services	3.13%	2	1.25%	5	3.13%	5	3.13%	3	1.88%	1	0.63%
Deliver long-term effective asset management	3.13%	2	1.25%	5	3.13%	5	3.13%	4	2.50%	5	3.13%
Deliver required investment in stock & ensure decency	3.13%	2	1.25%	3	1.88%	4	2.50%	2	1.25%	4	2.50%
Address under-performing stock effectively	3.13%	2	1.25%	4	2.50%	4	2.50%	3	1.88%	5	3.13%
Efficient management & maintenance costs which can withstand scrutiny	3.13%	3	1.88%	5	3.13%	5	3.13%	4	2.50%	5	3.13%
Deliver the RSH's consumer standards	3.13%	3	1.88%	5	3.13%	5	3.13%	4	2.50%	5	3.13%
Deliverability within required timescales	3.13%	2	1.25%	5	3.13%	4	2.50%	3	1.88%	2	1.25%
Total Pennington Criteria	25%		11.27%		22.53%		22.53%		16.90%		19.40%
Overall option Appraisal Total			68.15%		94.08%		97.23%		78.93%		59.91%

