

Housing, Finance & Corporate Services Policy and Scrutiny Committee

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Classification:	General Release
Title:	Review of Housing Management Options
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Cabinet Member Portfolio	Councillor Daniel Astaire, Cabinet Member for Housing, Regeneration, Business and Economic Development:
Wards Involved:	All
Policy Context:	The review of housing management options highlighted the need for CWH to align its corporate objectives with the Councils City for All agenda. This report explains how CWH will work with the Council to deliver the priorities in the City for All plan.
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1. Executive Summary

- 1.1 CityWest Homes (CWH) manages the council housing stock on behalf of Westminster City Council. It is an arm's length management organisation (ALMO) funded via the Housing Revenue Account (HRA). The HRA is the ringfenced account within which the income and expenditure related to the Council's housing stock 'council housing' is accounted for.
- 1.2 The Council commissioned Altair consultants in September 2014 to carry out a review of its housing management options taking into consideration the current arrangements between the Council and CWH.
- 1.3 The Altair review included a desktop review, workshops with residents and councillors, analysis of other housing management models and a financial analysis.

- 1.4 Altair concluded that the HRA is financially strong and there is no financial or performance imperative to either bring the management function back in-house or to transfer the stock to an outside body. The review has highlighted particular areas of focus for the Council and CWH.
- 1.5 The Council and CWH are now working together to develop a new strategic framework which will set CWH's long term priorities and align these with those of the Council and enable the Council to monitor change projects and 'business as usual'.
- 1.6 In response to the Altair review, CWH is implementing transformation plans which will change its service delivery model through innovative IT solutions and developing plans to save £5m over the next 5 years.
- 1.7 This report details the findings of the Altair review and explains how the Council and CWH will take forward the recommendations.

2. Key Matters for the Committee's Consideration

- Does the Committee agree with the recommendations of the Altair review?
- Are there any other specific areas in terms of the housing management service that are not highlighted by Altair that should be explored?
- CWH provides a high quality service which results in high costs. Is offering a lower cost service with the attendant risk of decreasing customer satisfaction acceptable?
- Does the Committee agree with the Council's approach to the implementation of the recommendations?

3. Background

- 3.1 In 2002 the Council created CityWest Homes an arms length management organisation to manage its housing stock. Arms length management was one of the options promoted by the Government in 2000 as a means by which local authorities could meet a number of the policy objectives of the time: the separation of strategic and operational housing roles; facilitating decent homes investment to improve the social housing stock; and giving tenants a greater say in the management of their homes.
- 3.2 ALMO management has overall been a positive experience for Westminster Council. CWH has delivered strong performance, a significant improvement to the quality of the housing stock, a close alignment with the Council's strategic objectives and has demonstrated its ability to deliver savings and improve value for money.
- 3.4 The Council and CWH signed a new 10 year management agreement in 2012. The agreement has a break-clause at year 5 which is in March 2017.
- 3.5 The Altair review was commissioned by Westminster Council in September 2014 to highlight the successes and advantages of the current ALMO as well

as help the Council to improve performance and generate efficiencies where possible. The review has given the Council an opportunity to consider new options that may have emerged in the marketplace and have an external validation of current arrangements.

4. The Altair Review

4.1 The approach taken by Altair included:

- **Internal assessment:** The internal assessment provided a strong basis for understanding the current position, context and objectives of WCC.

Activities included:

- Document review.
- Review of the HRA Business Plan.
- Interviews with stakeholders, including: senior CWH staff, CWH Board members, CWH residents, WCC staff members, WCC councillors, external stakeholders, Pinnacle (a CWH contractor) and Peabody (a major local social housing provider).

These activities enabled Altair to complete a detailed appraisal of the current model at CWH. This appraisal included an assessment of costs and performance, and an identification of strengths and weaknesses. It also included views on the current model from a wide range of stakeholders.

- **External review:** The external review included benchmarking activity and the development of case studies. It provides the Council with a strong understanding of “best in class” and contemporary initiatives being used by others to improve their housing management services. It also provided evidence to help assess the options available to the Council to achieve its priorities.
- **Options development and assessment:** To inform consideration of how the Council might wish to organise its future management arrangements, Altair developed a set of alternative social housing management models for consideration. Table 1 below details these options and provides the strengths and weaknesses of each approach as well as their applicability to WCC’s context and objectives. For each model Altair provided a high-level analysis of the financial and legal implications.

Altair concluded that there is no performance or financial reason for the Council to move away from an ALMO model of housing management. Altair considered that the Council needs to decide which, of the ‘thin’, ‘fat’ or ‘super’ ALMO options outlined in Table 1, it feels best meets its priorities. The review found that stakeholders were most comfortable with the idea of a ‘thin’ ALMO focused on core services and delivering efficiencies, although they were open minded about the idea of some diversification (ie. some elements of a fat ALMO). In the longer term, if CWH were to increase its commercial service offering or diversify into new

areas, it could reduce the net financial impact on the HRA and General Fund.

Table 1

Model	Impact on CWH	Legal/Consultation	Financial	Strengths	Weaknesses
In-house management	Significant change	Tenant consultation required Would be possible to end Management Agreement	Initial cost, but potential savings	<ul style="list-style-type: none"> • Potential efficiency • LA control • Closer working with LA departments 	<ul style="list-style-type: none"> • Dilutes housing focus • Cost of bringing in-house
Thin ALMO	Minimal change	No consultation required	Limited change	<ul style="list-style-type: none"> • Focussed service • Clear objectives • Fit to skills of executive 	<ul style="list-style-type: none"> • Less 'value added' • Loss of synergies • Restricted growth
Fat ALMO	Some change	May need to alter Management Agreement and Articles of Association	Income generation	<ul style="list-style-type: none"> • Business diversification • Efficiencies of scale • Broad reputation-building potential 	<ul style="list-style-type: none"> • Business risk • Disparate business streams – skills required for senior management
Super ALMO	Significant change	Joint ownership of the ALMO, and alignment of management agreements required	Potential savings	<ul style="list-style-type: none"> • Efficiency savings • Focus on service delivery 	<ul style="list-style-type: none"> • Agreement on strategy needed • Loss of local accountability
Stock transfer	Significant change	Ballot would be required	Negligible benefit	<ul style="list-style-type: none"> • Quality and cost performance • Financing opportunities 	<ul style="list-style-type: none"> • Loss of control • Cost to General Fund • One-way process

5. Key Findings of Altair Review

5.1 Overall conclusions of the review

Altair's review concluded that the HRA is financially robust and there is no financial or performance imperative to bring the ALMO back in-house. Overall, CWH delivers a high-quality service and is an excellent housing manager. While CWH has its challenges with value for money, it has great potential for both residents and the Council.

5.2 CWH Performance

CWH is maintaining very high levels of satisfaction, often significantly outperforming comparator organisations. These high levels of satisfaction are seen in response to service provision, quality of home and responsive repairs. High quality service delivery, for example through the 'CityWest Standard' may be partially responsible for these high scores. However, consideration needs to be given to the delivery cost, and whether offering a significantly cheaper service, with the risk of decreasing customer satisfaction, is a more viable option.

5.3 Value for Money

5.3.1 Benchmarking identified that CWH is expensive when compared with similar organisations. Overheads, staffing, housing management, responsive repairs and void works, and major works management were identified as areas of particular high-cost relative to comparators.

5.3.2 Altair's view is that high costs in responsive repairs and void works are likely to be the result of the relatively large proportion of CWH's stock that is listed (17%) and the higher 'CityWest Standard' applied to void work. Repairs and voids costs are expected to reduce as a result of increased investment in the major works programme and efficiencies realised with the introduction of improved mobile working.

5.3.3 CWH has some of the lowest average salaries for staff, but still has some of the highest staff costs per property. Staff turnover is also high. Altair advised that that staff structures in the organisation need to be reviewed, to ensure that correct skills are being deployed appropriately and efficiently.

5.3.4 Improvements in mobile working and finance software are opportunities that may result in a reduction in staff numbers. CWH has also identified possible restructuring arrangements in CityWest Direct that will improve its ratio of housing management staff to properties under management from 2015. CWH is also investigating the establishment of a subsidiary with a defined contribution pension scheme rather than a local authority career average final salary scheme.

5.3.5 Altair also found that CWH's overheads are high. This includes office costs, IT and finance services. High office costs are likely to be a reflection of both the

number of estate offices that CWH maintains, and the high cost of CWH's head office. CWH needs to assess what value each of its offices adds to the business and whether the costs are justified. A review of the opportunities for savings from mobile working may be needed.

5.3.6 IT costs are high in comparison with other housing organisations. This is due to additional IT support that CWH provides to other organisations and council teams. A high number of non-standard user requests are also thought to increase costs. CWH hopes to reduce the number of non-standard requests with the introduction of improved and more user-friendly software.

5.4 *Alignment with Westminster*

There is a need for better alignment between the goals of the Council and CWH. There is little evidence of formal integration or alignment of strategic goals outside those specified in the management agreement. As a significant client and sole shareholder of CWH, WCC's strategic priorities could be better represented in CWH's strategies.

5.5 *Westminster's role*

The Council needs to provide stronger client engagement and raise awareness of the ALMO. The Council needs to raise the profile of the ALMO and its work with Councillors. There must be better sharing of objectives and wider strategic goals between the Council and CWH which will create better strategic alignment. The Council should encourage CWH to take more responsibility in its approach to managing the HRA.

6. **What does CWH need to improve?**

6.1 The review highlighted the following specific areas of service delivery which CWH should address in more detail:

- Communications:
 - consultation with residents regarding major works
 - complaint and enquiry handling
 - resident engagement
 - Councillor engagement
- VFM
 - Responsive repairs costs
 - ICT and other overhead costs
 - Staffing
- Formal alignment between the strategic goals of WCC and CWH

6.2 These findings make clear that the focus for CWH must be to reduce core costs and focus on improvements in communications with residents on major

works. CWH must also become more aligned with the Council's strategic goals.

- 6.3 CWH has already started to address a majority of these areas through its Transformation Plans over the next 5 years. The challenge for CWH will be making cost reductions and implementing significant service changes while still maintaining high quality services.

7. What does the Council need to change?

- 7.1 Altair also concluded that the Council has a role in improving the housing management function. The Council needs to focus on the following:

- Stronger client awareness, management and performance management of the ALMO, including delivery against business plans and objectives.
- Ensuring Westminster's strategy and objectives are reflected in those of CWH and that the implementation of CWH's plans are properly scrutinised, and targets are met.
- Clearer line of sight on CWH's performance within the Council at Councillor level.
- Consideration of the level of responsibility devolved to CWH, in some areas giving CWH more responsibility will result in better decision making.

8. Next Steps for the Council

8.1 Development of Strategic Framework

To enable the Council to implement the findings of the Altair review, the Council and CWH are working together to develop a new strategic framework. The framework will form the basis of the client monitoring role for the Council. The strategic framework will allow the Council to set long term strategic savings measures, focus on service changes as well as 'business as usual'. It includes new longer term strategic measures, a new Performance Framework and a new governance structure

8.1.1 Strategic Measures

The strategic measures will focus on the change and areas of improvement for CWH over the next 3 - 5 years. These measures will be based on:

- *Value for money in terms of management, overheads, staffing and repairs costs.*
CWH is developing plans on how to save 20% (£5M) of its core operating costs over the next 5 years. The Council will work with CWH to develop measures which are achievable and ensure the risks associated with service delivery changes are mitigated.
- *The contribution to the Council's wider corporate and civic agenda*

The Council is organising a workshop with CWH and Council Heads of Service to agree how CWH can assist in delivering the Council's City for All vision. CWH is a key partner in delivering many of the plans for the Council over the next 3 years, this must be reflected in commissioning arrangements by the Council.

- *Improving communications with residents and councillors, notably on major works*

The Council is working with CWH to develop a new communications strategy. CWH accepts that this is an area for improvement and welcomes Westminster's support in this area. The strategy will enable CWH to make significant improvements in how it consults with residents on major works schemes. It will also allow the Council and CWH to agree a longer term strategy in terms of channels of communications with councillors.

- *Long term value to the Housing Revenue Account*

The Council will be working to enable an input by CWH into the annual HRA review process. This will ensure CWH is taking more responsibility in terms of the Council making best use of its financial resources.

- *Value to the council as a sole shareholder*

The Council would like CWH to focus upon developing commercial activities which will generate profit that can benefit the General Fund.

8.1.2 **Performance Framework**

The performance framework between the Council and CWH will be based on specific business as usual annual performance measures and an incentive mechanism. This enables CWH to access modest funds over and above their core management fee if they meet specific targets. The areas of business as usual focus are:

- Delivering Excellent Customer Service
- Transforming Lessee Satisfaction
- Improving the Quality of Housing through Long Term Asset Management & Planning
- Improving the Quality of Life in Safe and Secure neighbourhoods
- Improving Efficiency

8.1.3 **New governance structure**

The Council and CWH are developing a new governance meetings structure. This new way of commissioning CWH will allow the Council to have stronger client management of the ALMO. The structure will include a new change board which will monitor the delivery of a variety of change projects. A new Partnership, Regeneration and Communities Board will enable CWH to make links to wider Council services and assist in delivering the Council's City for All vision.

8.2 Continuation of Management Agreement with CityWest Homes

8.2.1 Consultation

The Council will consult with residents and stakeholders in July / August 2015 about its intention to continue the management agreement with CWH up until 2022. This consultation is not a statutory requirement but the Council feels input from residents about the future housing management model is crucial to make sure that the model meets the needs of our residents.

8.2.3 Report to Cabinet Member

A report will be presented to the Cabinet Member for Housing in September 2015 to agree the continuation of the management agreement between the Council and CWH to March 2022.

9. Health and Wellbeing Implications

Improvements to the housing stock will have a positive impact on the health and well-being of residents.

10. Financial Implications

10.1 The HRA is a ring fenced account therefore the main changes explained in this report do not directly affect the Council's General Fund.

10.2 The purpose of the Altair review was aimed at maintaining CWH's high service standards but also increasing efficiencies and ensuring the effectiveness and alignment of initiatives with the Councils City for All strategic vision.

10.3 The changes proposed in governance and consultation will not have any direct financial costs as these will be contained in existing budgets. The proposed service delivery changes will generate significant HRA savings of approximately £5M by year 5. CWH aims to achieve these savings by:

- Developing online digital services
- Embedding mobile working capability in their delivery model
- Reviewing the services proposition of the estate offices including how to redesign the model into community spaces focused on resident needs

10.4 In addition CWH currently contribute £311k a year to the Councils Medium Term Plan savings target through income earned from existing non-HRA commercial activity. CWH plans to increase this through commercial activity by establishing a subsidiary company to maximise its third party income.

11. Risks and Mitigations

As CWH implements the recommendations of the Altair review and makes changes to its services there is a risk of a negative impact on service quality. To mitigate this, the Council will ensure as part of the performance framework that CWH are monitored on their business as usual performance.

**If you have any queries about this Report or wish to inspect any of the
Background Papers please contact Jake Mathias x3359
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APPENDICES

Appendix 1: Altair Report – Review of City Management Options

Appendix 2: CityWest Homes response to Altair Review