

SALFORD CITY COUNCIL

**HOUSING OPTIONS AND
ARMS LENGTH MANAGEMENT**

REPORT

DECEMBER 2000

CONTENTS

PAGE

1.	INTRODUCTION	1
2.	STRATEGIC OBJECTIVES	2
3.	STRATEGIC OPTIONS	4
4.	THE STOCK TRANSFER OPTION	6
5.	ARM'S LENGTH MANAGEMENT	10
6.	ARM'S LENGTH MANAGEMENT IN SALFORD	18

1. INTRODUCTION

- 1.1 HACAS Chapman Hendy were commissioned in September 2000 by the Director of Housing Services to prepare a general review of options for the City's Housing service, particularly looking at the potential role of "Arm's Length Management" initiatives which are currently being discussed by the Government.
- 1.2 This report has been written primarily as a starting point for discussion of the principles involved among elected members and tenants' representatives.
- 1.3 The Housing Services Department (which, in this report, means the staff teams providing services to the existing Council housing stock and tenants) is already engaged on two major reviews: a Best Value review of the service and the preparation of a Business Plan for the service. In both of these pieces of work, the team will be required to evaluate the capacity of radical alternatives to the current arrangements for service delivery to deliver solutions to the problems identified by the review. In the case of the Best Value review, these problems may relate to the quality of the service, its cost-effectiveness, or its performance in comparison with Government targets. The Business Plan will identify problems with the ability of Council Housing financial resources to meet the costs of ongoing housing management and maintenance and of repairing and upgrading Council housing stock to the extent which is needed.
- 1.4 The results of these two reviews, and the options which have potential to address the problems identified, will be discussed with elected members and tenants' representatives in due course. This report is intended to lay the groundwork for those discussions.

2. STRATEGIC OBJECTIVES

2.1 The Council's Housing team works in partnership with other departments of the Council, and with external organisations, to deliver strategies to benefit local communities. As last year's Housing Strategy remarks, "Housing Services cannot work in isolation". Housing services would not wish to pursue a strategy which would undermine important corporate initiatives, either by withdrawing resources from them or by promoting different objectives. In some areas of the City, 50% of households are Council tenants. Options for the future need to be evaluated not only in terms of resolving difficulties faced by Housing, but also those faced by the wider community.

2.2 A review of the Council's current strategies reveals a consistent picture of the issues faced by the Council. A very brief resume of the most relevant ones includes:

- The needs of communities within the City are very diverse: some areas are relatively buoyant in most respects, while others reflect extremes of social need, possibly in different ways: strategies need to be tailored to localities here more than in many local authority areas.
- Successive slum clearance and regeneration programmes have achieved remarkable investment in the built environment and in housing conditions. Further programmes are already in hand and are benefiting from the experience of work to date. While there is still much to be done, and resources are by no means secure, the more intractable problems appear to be related to people, rather than buildings.
- Among the "people issues", the primary ones in which Housing services are playing a key role are:
 - promoting stability in communities: the Environment strategy observes that "creating stable neighbourhoods is key" to a range of environmental strategies to address safety and quality in open spaces;

- facilitating social inclusion: the Salford Partnership strategy promotes the "strengthening of local communities, organisations and their networks" as a means of targeting initiatives to build community capacity and maximise the potential of local people (particularly the young);
- reducing crime and fear of crime: the corporate strategy promotes the development and implementation of community-based action plans in each service delivery area;
- ensuring that community initiatives are not restricted to physical regeneration areas.

2.3 Housing Services are engaged in a number of initiatives to support these aims, including the promotion of community representation, active participation in community initiatives, and the introduction of housing management practices to support corporate strategies. There are also a number of important initiatives in hand to address business issues faced by Housing Services which reflect social circumstances, notably problems with high void levels, arrears of rent and low opinions of Council housing among those who live in it and amongst those whom the Council hopes to attract to live in it.

3. STRATEGIC OPTIONS

3.1 There are essentially four strategic options for local authorities to consider when undertaking option appraisals of the type mentioned earlier:

- Pursuing their current course in owning and managing their existing housing stock. This has the advantages of providing in-house support to corporate strategies (where this is an important factor and is in fact occurring) and of focusing resources on the business in hand rather than the pursuit of resource-hungry alternative strategies. The potential benefits of radical alternatives need to be substantial to outweigh both these considerations and the risks and uncertainties associated with alternative strategies. So far, the Council and its tenants have taken the view that this is the preferred option. The preparation of Housing Services' first full Business Plan for the service will demonstrate whether recent changes in financial arrangements for local authority housing management and maintenance make this an even more sustainable strategy, or whether there are problems now coming to light which may lead to a reappraisal of the alternatives.
- Selling (before or after demolition) vacant properties. This can generate additional investment and address issues of over-supply of Council housing, but requires careful planning and long-term commitment in order to provide for the sustainment of the remaining rented community and the future viability of new development. The Council has already pursued such initiatives, principally to address the issues of unwanted housing stock, and plans to continue where appropriate.
- Transferring tenanted properties into the ownership and management of a registered social landlord. This can offer advantages, whether as a whole stock strategy or in relation to particular areas or estates, in the form of increased financial investment in the housing stock, and for the Council after transfer. However, the prospects require careful evaluation in the particular circumstances of each authority and in relation to the changing face of housing finance, both in the local authority sector and in the social housing sector generally. The Council reviewed this option some three years ago, at which time it was decided that its benefits did not outweigh its disadvantages and financial consequences for the Council. This position is reviewed in more detail in Section 4 of this report.

- Retaining ownership of the housing stock, but transferring the business of managing and maintaining it to an "arm's length organisation". This is a largely untested concept which has emerged in the context of recent Government changes to local authority housing finance (Resource Accounting and Housing Revenue Account Business Plans). In essence it is a variation on the first option, but could potentially offer increased financial resources to some authorities and other advantages to all. This option is explained and evaluated later in this report.

3.2 For the sake of completeness, it may be worth mentioning two further options here, although, for different reasons, they are not discussed further in this report:

- Retaining ownership and management of the housing stock, but raising private sector funding on the security of surpluses generated on the Housing income and expenditure account over a long period. Known as "rent securitisation", this involves the technical sale of these surpluses to a special purpose, private sector organisation in return for a capital payment. The Council participated some three years ago, along with a small number of other authorities, in an appraisal undertaken by the LGA and DETR of the potential benefits such a scheme might offer. However, (leaving aside the question of whether this would be a viable option for the authorities concerned) the principles of the scheme have not been taken up by Government, and our current view is that this likely to continue to be the case for the foreseeable future, on the technical ground that insufficient risk transfers to the external organisation.
- Transferring management and maintenance of tenanted housing stock under contract to a private sector organisation which raises funds to invest in repair and improvement programmes. Such schemes, which are comparable with the Private Finance Initiative already widely used by Health Trusts and other public sector bodies to generate capital investment, are not at present generally applicable to local authority tenanted housing. It is possible, once the results of pathfinder schemes now under way are known, that local authority housing will be brought within the programme, although it is likely to be most appropriate for relatively small-scale schemes. It remains to be seen whether such schemes will be viable in all local circumstances, and this would need to be evaluated at the time. Salford will continue to keep this option under review as it develops.

4. THE STOCK TRANSFER OPTION

- 4.1 The overview of strategic options in Section 3 identified two options which the Council is not currently pursuing and which are worth reviewing at present. In the case of stock transfer, we have reviewed the work undertaken three years ago, when "rent securitisation" was also researched by Officers, in the light of current circumstances, to see whether the view taken then still holds good.
- 4.2 Large-scale stock transfer offers two main benefits to some authorities: additional financial investment in the housing stock which is transferred, and a capital receipt to the Council which it may then use for further investment in other projects. Work undertaken some three years ago for Salford indicated that the Council would not benefit: the rental income from the stock could not finance the cost of necessary repairs and improvements, resulting in a negative valuation. It is important to understand how these finances are generated in order to assess the benefits, or otherwise, in individual authorities' cases, before moving on to consider whether the previous results in Salford's case still hold true today, and if not, whether this option is sufficiently advantageous to consider further.
- 4.3 The price paid by the new landlord to the authority on transfer is calculated by projecting the rent income which will be generated by the housing stock over a 30 year period, offset against the expenditure which will be incurred on housing management and on response, cyclical, planned and "catch-up" repairs. Expenditure levels are subject to a test of reasonableness, but are not restricted by local authority financial controls. Rent increases are also controlled, but by the Housing Corporation, rather than by local authority subsidy rules. In some transfers, it is possible for the new landlord to generate sufficient income to spend more than the local authority could on management and repairs, and have sufficient surplus to pay the authority a substantial transfer price at the outset. There may also be scope for the new landlord to raise rents on individual properties, either when they are let to new tenants or when they are improved, thus generating funds for improvements as well as repairs.
- 4.4 The two major questions which we address here are:
- could such benefits be achieved in Salford? and
 - even if they could, would the strategy be the most appropriate response to the issues faced by the Housing service?

4.5 We have reviewed the work undertaken previously for and within the Council to calculate the housing stock valuation and the consequent benefits or otherwise. This entails reviewing each of the assumptions then made about future income from rents and expenditure on management, repairs and improvements. The previous exercise resulted in a negative basic valuation (i.e., income over 30 years did not even meet the projected expenditure) and there would therefore be no transfer price payable to the Council. This situation arose because:

- rents were not expected to increase above the level of inflation;
- projected expenditure on repairs and improvements was very high.

4.6 A number of new factors might result in changes to this calculation if carried out today or, say, in three years' time:

- We have some detailed queries about the method of calculation of the valuation. For instance:
 - the cost of repairs per annum remains the same over 30 years, despite the fact that the stock numbers decline through the effects of demolitions and Right to Buy sales;
 - the costs of management reduce by 100% per unit demolished or sold, although in fact cost savings in this direct relationship to stock reductions are very unlikely to be possible.

However, resolving these and similar queries at this stage would have both positive and negative effects on the valuation – some changes would increase it, and other reduce it. This exercise would probably not materially affect the general conclusion, however and we have not pursued it.

- The Government's Housing Green Paper provisions, as they affect local authority rent levels, may result in both higher target average rents for some local authorities, and in greater differentials between rents for different types and condition of dwelling than was the case in the Salford stock when this valuation was undertaken. The previous valuation is based on rent level for different unit types which seem to have very little differential between them, and the re-structuring now required by Government may materially change the Council's rent base. This, together with general rent increases already implemented by the Council in the years since the original valuation was carried out, may result (if a stock transfer valuation acceptable to the DETR is prepared) in a higher level of rent income in comparison with expenditure.

- The evaluation of repair and improvement needs in the Council's stock being undertaken in the context of the HRA Business Planning process, together with the investment and demolitions programmes already undertaken in the intervening three years, may result in a lower level of anticipated repairs and improvements expenditure in the long-term.

4.7 A negative valuation has two serious consequences:

- The new landlord is projected as making a loss each year which it cannot fund. Smaller-scale, estate-based transfers have gone ahead on this basis, with public funding raised through regeneration initiatives, but this is not available for large-scale transfers. It seems unlikely, given what we know of local economic conditions, that a substantial gap could be plugged through sales and private sector partnerships, so on this basis, the new landlord is not viable.
- The Council is left with a total debt of some £300 million relating to the housing which has transferred, and which it has no income to service or repay. This would be the case even if ways could be found of making the new landlord viable on a break-even basis. New provisions now apply compared with the Council's original discussion of this problem, relating to the so-called "overhanging debt". All other things being equal, the Council could now obtain financial support from government to fund the repayment of this debt, but it would still be left with two major unfunded items of expenditure:
 - penalties imposed by the lenders on early redemption of the debt, which we estimate could be in the region of £50-60 million;
 - the costs of implementing the transfer (legal costs, stamp duty, etc.) which there would be no money to pay for from the transfer price (it should be noted also that, because government rules prohibit the transfer of more than 12,000 dwellings to any one new landlord, there would need to be at least three transfers, which would increase implementation costs).

On the basis outlined above, we would say that large-scale stock transfer is not a viable option.

4.8 It might be worthwhile to undertake further work on the large-scale transfer option if the prospects emerging from the HRA Business Planning process are not good for the Council's Housing Revenue Account providing adequate funding for major repairs and improvements, when taken together with the regeneration programme. This concern would, however, need to be set against the important social regeneration initiatives mentioned at the start of this report in which Housing services play a key part. We suggest that the prospects for major repairs and improvement programmes would need to be very serious indeed to pursue stock transfer without a high degree of confidence that:

- the new landlord(s) could offer at least equal commitment to, and effective delivery of, these initiatives;
- the implementation of stock transfer would not have detrimental effect on resourcing these initiatives during the implementation period.

4.9 It is also worth bearing in mind that there may be additional benefits to stock transfer in the context of individual estates or localised area strategies but these need to be considered in context and set against potential difficulties which may face the remaining, Council-owned stock afterwards. We recommend that these are considered again when the information on Council stock condition and the HRA Business Plan are more fully-developed and in the context of the ongoing regeneration programme.

5. ARM'S LENGTH MANAGEMENT

5.1 The Government guidance which introduced Resource Accounting and Business Plans for the Housing Revenue Account suggested that this might develop, through a distinction between the authority's strategic and its landlord role, and through tenant consultation and involvement in the landlord's business planning process, into the formation of separate organisations to undertake management at arm's length from the authority. This idea has developed over the summer, being promoted in the Housing Green Paper as "an additional option for financing capital investment in housing". Following discussions between DETR and local authority representatives, government guidance is expected to be released for consultation before the end of this year.

5.2 Key features of the arm's length management organisation would be:

- it would be a local authority influenced or controlled company;
- local authority tenants would remain tenants of the authority, with all their current rights, including the Right to Manage, and the housing stock would remain in the authority's ownership;
- a wide range of day-to-day housing management and maintenance functions would be delegated to the organisation under a contractual management agreement;
- the organisation's Board of management would comprise tenants and local authority elected members and/or officers, together with additional people if necessary;
- the organisation would be self-determining and employ its own staff (many of whom would be likely to transfer under TUPE arrangements from the local authority), but would have to comply with company and employment law, with the terms of its management agreement with the authority, and with Best Value requirements;
- the management agreement could only be entered into by the authority after consultation with tenants (although this need not necessarily include a formal ballot) and approval by DETR;

- up to 12,000 dwellings might be included under a single management agreement;
- if the organisation and its services are given an excellent rating by the Housing Best Value Inspectorate, and the authority is making progress on re-structuring its rent levels and housing allocations methods, as required by the Housing Green Paper, and is successful in a competitive bid process to government, additional public subsidy could be made available to the authority to fund repairs and improvements to the stock managed by the organisation; this would take the form of additional borrowing approvals, supported by provisions in the HRA subsidy calculations to allow for additional borrowing costs to be met without rent increases being necessary.

Most of the powers necessary to set up such an organisation and enter into a management agreement already exist. New impetus has been given to the model by local authorities' development of tenant involvement in running the landlord "business", now required by Best Value, HRA Business Planning and Tenant Participation Compact provisions, and by the prospect of additional funds.

5.3 There are, of course, a large number of still unanswered questions associated with each of the features outlined above, some of which will be determined by Government, and others by individual authorities. The main strategic ones include (in the same order as above):

- How would the authority exercise influence or control over the organisation's activities in addition to the provisions of the management agreement? A model which we are developing elsewhere provides for a controlled company in which the authority holds the single share. In this instance, of a controlled company, in which the Council owns 50% or more (in the example above, 100%) of the shares, local authority elected members or officers may only comprise a maximum of 20% of Board members, however. An alternative, under which local authority representation on the

Board can be up to 49%, is to set up an influenced company, but in this case, the local authority may not own more than 49% of the shares. This in turn raises questions about who the other shareholders should be, and how would ownership of this majority shareholding be managed. Local housing companies formed local authorities for stock transfer purposes have successfully used an influenced company model where Board membership is one third each of local authority representatives, tenant representatives and others, but the applicability of this model to an arms length management company needs to be debated in each local authority's circumstances.

- What would be the extent of the activity delegated to the organisation? The Government's vision appears to include the organisation taking on, as well as day-to-day frontline service delivery, the client role for commissioning repairs and major works contracts, management of the finances for such services, and possibly even borrowing in its own name against the income it receives under the management agreement. In reality, we think it more likely that the management agreement will be incremental: a relatively limited range of responsibilities being delegated in the early stages, and some further delegations of both responsibility and funds taking place as confidence in the arrangement grows over a period of years.

It is difficult to envisage a situation where it would be more cost-effective for the organisation to borrow capital than it is for the authority. In addition to the relative borrowing capacities of the authority and the organisation, there are also concerns about lenders' limited interest in such propositions and the additional assurances about the organisation's Board membership and senior management skills which they would seek if it attempted to borrow in its own right.

Since the housing stock remains in the authority's ownership, the rules governing the Housing Revenue Account and HRA Subsidy would continue to apply. Consequently, the authority would need to keep control of rent levels, and of expenditure budgets at the highest level.

- If the management agreement is a contract, do public sector procurement competition requirements apply? The current view is that an authority would be open to challenge if it did not invite competitive bids for the contract. While some authorities have been advised that there are arguments they could use to resist such a challenge, these are not sufficiently robust in either our view or DETR's. DETR are currently investigating methods of ensuring that authorities are able to negotiate the contract with a single provider (the arm's length organisation).
- Since the size of the delegation is restricted to 12,000 dwellings, how would relationships be structured between the authority and multiple organisations? If the authority's housing stock is of a size to necessitate multiple organisations if the whole is to be delegated, is it better to set up the whole framework from the outset, or to set up a pilot in one area and develop from there? There are numerous issues to be addressed here, which we suggest are considered only if the arm's length model is agreed to be worth further consideration. Issues include:
 - the relative sizes of each organisation, the types of stock managed, the levels of local expertise already achieved and in prospect, and the extent of delegations to each organisation;
 - how to optimise cost-effectiveness in each organisation's operations, central services and the authority's client and general Housing activities;
 - how to maintain equity and service levels between stock and tenants managed by different organisations, while promoting innovative approaches.
- How much new money will be available? What are the chances of obtaining it? Are there longer-term risks associated with it? In the Public Spending Review statement, a total of £460 million over 2 years was announced, covering works to approximately 100,000 homes. This implies an average of £4,600 per property. If one assumes that arm's length

organisations are set up to manage 5,000 - 12,000 dwellings each, between 8 and 20 arm's length organisations might be successful in obtaining funds over two years. Drafts of the DETR consultation paper which is about to be issued indicate that DETR may have in mind methods of distributing the available resources more thinly, but the fact remains that, to be effective in addressing the repair and improvements needed in an individual company's housing stock, the funds must be concentrated among a relatively few authorities and their arms length management companies. The queue of potential bidders is already forming, and promises to be a long one.

Given the requirement that the organisation receives an excellent rating from the Housing Best Value Inspectorate before being eligible for additional funding, and given the very limited but indicative track record of Inspectorate verdicts so far, it seems unlikely that many authorities will be bidding for funds, at least in the early years of the programme. We detect two distinct strategic approaches emerging on the part of authorities in response to this:

- those who are already confident of their service quality and tenant participation structures, and are well advanced with Best Value reviews, who are re-scheduling their work programmes to progress Green Paper issues and work with tenants to set up arm's length organisations in time for the first or second round of bids for funds (2002 or 2003 on our current calculation);
- those who are taking the view that additional funds are not their main priority for the present, but that the arm's length model has much to offer the authority and its tenants on other fronts in the short term, and may a platform for bids for additional funds in the longer term.

There are concerns about the longer term, including:

- the continuing availability of financial (HRA subsidy) support for borrowing undertaken under the additional funding scheme and the conditions on which this might be available over the life of the borrowing (for instance, might HRA subsidy support be withdrawn in subsequent regulations, or if the standards of service by the management organisation slipped below their original levels?);

- the programme of additional funding in years after 2003, when more authorities and arm's length organisations might be ready to take it up.

5.4 As mentioned above, a number of authorities have taken the view that progressing towards management at arm's length offers benefits independent of funding considerations, for instance:

- The management organisation provides a focus for tenant participation. Participation in the company's management at different levels adds a meaningful purpose to tenants' input: at different levels in the organisation, their decisions make a real difference to the organisation's methods and successes.
- Real responsibility for business decisions not only motivates tenant participants to participate but provides a purpose for their developing skills and expertise, and a reality to their achievements and confidence, which are transferrable to other areas of their lives.
- The existence of a management agreement and of a separate business plan and identity for the landlord services body facilitates discussion about strategies, how services support strategic objectives, service quality and cost effectiveness. This may be particularly relevant to authorities where there is a gap between corporate or wider housing strategies and actual landlord practices, or where the landlord service has a weak identity in comparison with housing strategic functions and other authority departments.
- Decisions on matters within the terms of the management agreement can be taken at a remove from the authority's political life, on more business and tenant-orientated criteria.
- The organisation can exercise greater self-determination in staff management practices, and the procurement of IT and support services, than an in-house team. This may be less relevant to those authorities whose main goal is the additional funding, where services are thought to have reached high standards of quality and efficiency, but of great relevance to those where authority-wide policies and practices are seen to be obstacles to necessary changes within the landlord service.
- Similarly, the organisation can exercise greater self-determination than the in-house team in setting up budget management arrangements and

standing orders. While proper accountability for funds must be maintained, freedom from the authority's standing orders may facilitate practical participation and responsibility for funds at more local levels, including tenants' committees.

- The change to greater self-determination, a new corporate identity and a new employer for staff can prove an energising watershed for the service delivery organisation. This may be relevant for authorities where staff are already highly motivated and are ready to assume greater responsibility in direct dialogue with tenants and a Board of management, or where staff teams have become jaded as a result of ineffective policy initiatives or change programmes.

5.5 The action plan for setting up an arm's length organisation would inevitably include:

- consultation with tenants on the overall framework and strategy, on the service standards required and on the proposals in their particular area;
- consultation with staff and unions;
- formation of a "shadow" board and development of the organisation's rules and business plan;
- development of the management agreement, including decisions on the activities to be delegated and how the operational infrastructure such as office accommodation and IT, and support services such as accountancy, are to be divided between the authority's and the organisation's responsibilities;
- registration of the company and award of the management agreement;
- staff transfers and appointments.

Such a process requires elapsed time to allow for full consultation and discussion, the commitment of officers and tenants' representatives and investment in setting-up costs.

In the longer term, it is likely that there would be additional costs of managing the company and its Board, and of managing the management agreement, over and above the existing Housing service budgets.

It is therefore important that the benefits are worthwhile, and are delivered by the strategy.

- 5.6 On the face of it, many of the benefits outlined above sit well with Salford's corporate objectives and with the course along which tenant and community initiatives are being developed. An arm's length management approach seems a good way of adding substance to existing initiatives.

We suggest that a model worth further consideration and discussion would comprise:

- a framework for arm's length management for the whole of the City's stock in due course, but possibly starting first with one new organisation / area, if community, stock location and regeneration programme considerations suggest this;
- giving priority to putting in place a sound and durable framework which suits community and housing management service objectives, rather than pushing timetables to compete for additional funds.

This framework would offer scope in due course for:

- further delegations of activities and budgets to achieve Best Value in service delivery, as and when Best Value reviews of in-house services take place;
- a potential vehicle for other strategic options, to be considered in the light of the developing HRA Business Plan.

6. ARM'S LENGTH MANAGEMENT IN SALFORD

6.1 Our review of the stock transfer and arm's length management options has suggested that:

- the viability of large-scale or estate-based stock transfer should be reviewed again in due course, but that, even if viability could be achieved, there are questions as to whether this strategy is a good match with the priority needs of the community;
- the arm's length management option appears to offer a more appropriate vehicle to achieve corporate and Housing service objectives in the short and medium term, while providing a framework for future strategies to optimise resources, efficiency and service quality in the longer term.

This part of the report looks in a little more detail at the way in which arm's length management in Salford might develop from the relevant strategies, strengths and weaknesses of the current position of Housing services and of the Council generally.

6.2 There are already 10 Area Housing Committees comprising elected members and tenants, so a pool of experienced potential Board members, together with the framework for their nomination, already exists.

6.3 58% of tenants are covered by a total of 83 tenants' and residents' associations, so a framework for tenant consultation and subsequent involvement in a management organisation already exists in many areas of the City, together with a commitment to tenant and resident empowerment.

6.4 There are already three Tenant Management Organisations in existence, and one in development, so some models of delegation already exist.

6.5 Housing services are already working in partnership with Community Committees and with fora of residents' groups in at least two of the regeneration areas, so there is sufficient experience of frameworks for partnership working for these to be specified and transferred to a new organisation. This experience should help to counteract the possible negative effects of setting up a more Council-tenant-orientated organisation than the existing Housing services team.

- 6.6 Tenant satisfaction surveys indicate that the issues about which Council tenants are most concerned are, among landlord services, the speed of repairs and the quality and extent of repairs. Other priorities are concerns about crime, about the activities of other landlords and their effect on the community, and about anti-social behaviour in the community. It therefore appears vital that new management organisation(s) mesh with community-wide frameworks, as well as delivering improvements in landlord services. These concerns are consistent with the findings of the Council's corporate studies and objectives, and it may be appropriate that members of the Community Committees form part of the Board of any new management company.
- 6.7 The Housing service marketing strategy discusses the poor image of social housing locally, and the need, among other things, to raise awareness (and possibly change the product offered) among young people and private sector tenants particularly, and to re-brand generally, possibly under another name. There seems to be scope for an arm's length organisation to take this forward in terms of product changes which Housing services have in hand already, and in terms of a fresh identity.
- 6.8 The themes of strengthening community ties and developing skills and confidence among members of the community run consistently through many Council strategies, and an arm's length organisation could be a significant contributor to these strategies.
- 6.9 A radical overhaul of the organisation of the Housing service is currently under discussion. When implemented, this will create additional strength in terms of central resources charged with performance monitoring and best value, who could manage, in due course, the authority / arm's length organisation relationship under the management agreement. The reduction from 9 housing areas to 5 Housing Groups under a Group Manager could also provide a useful framework for future arm's length management organisation structure. It would be important, however, to structure the whole group of companies in such a way as to ensure that they could make best economies of scale in, say, building works procurement and central services such as IT and accountancy.
- 6.10 The Housing service marketing strategy also identifies competition between Area teams as a weakness in achieving a City-wide approach to optimal stock occupancy. The proposed new Housing services structure addresses this by reinforcing the central marketing team. Again, it would be important to ensure that the group of companies were structured to ensure that their separate business plans and financial targets did not motivate them to act against the city-wide priorities of the whole Housing Revenue Account.

- 6.11 The Housing services re-organisation proposals also address the question, faced by many authorities, of the organisation of customer contact services, both within the decentralised housing service team, and across the authority's services as a whole. Clearly, it would be important in setting up a management agreement and separate organisation, to be clear as to the roles and facilities which the authority and the organisation are to maintain, in order to avoid duplication of costs or customer confusion.
- 6.12 There are issues of cost efficiency, or lack of it, within the existing Housing service which are likely to be more clearly identified during the course of Best Value reviews. It will be important that the management agreement offers flexibility to the new organisation(s) (which would have a duty of Best Value in their own right) to achieve improvements in cost efficiency alongside maintaining and improving service quality. The Council may want to consider whether this should, in addition, be incentivised through the management agreement and its provisions for achieving Best Value from the Council's perspective.
- 6.13 There is an issue of shortage of resources to take forward implementation of an arm's length management strategy, and this would need to be addressed in preparing an activity plan for the implementation, if it is decided to proceed.
- 6.14 Overall, we see considerable strengths in the Council's current strategic position as an enabler within the tenant and wider community which would support the strategy of arm's length management. Some weaker areas would need to be addressed during the course of implementation, including:
- organisational resources may need reinforcement, for instance, to accelerate Best Value reviews, undertake detailed business planning work or project manage the formation and setting up of arms length companies;
 - the new organisational structure, particularly in relation to the newly-strengthened central teams, may need further definition of their roles, and perhaps resources, in order to take their place effectively in an arms length management company structure;
 - there may be a need to make further changes in structure or approach to service delivery if current or future Best Value reviews reveal weaknesses: to qualify for the new additional financial resources for the companies to repair and improve their housing stock, they and the Council would need to have robust plans in place to improve to the Housing Inspectorate's "Excellent" standard.

However, many of these are organisational and structural issues which the Council is already in the process of resolving, and would in any case keep under review as Best Value and HRA Business Planning are developed. We regard them as necessary challenges, rather than deterrents from pursuing an arms length management strategy.