



DERBY CITY COUNCIL

COMMUNITY REGENERATION COMMISSION
2 NOVEMBER 2004

Report of the Director of Policy

Derby Homes' Business Strategy

RECOMMENDATION

1. To note the report.

SUPPORTING INFORMATION

- 2.1 The report will be considered by Council Cabinet on 9 November 2004 and was requested by the Community Regeneration Commission, any comments will be reported to Cabinet.
- 2.2 All implications are as listed in the Council Cabinet report.

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Background papers: None
List of appendices: Appendix 1 – Derby Homes' Business Strategy



DERBY CITY COUNCIL

COUNCIL CABINET 9 NOVEMBER 2004

Report of the Director of Policy

Derby Homes' Business Strategy

RECOMMENDATIONS

- 1.1 To allow Derby Homes to offer management consultancy services both inside and outside the city, up to a value not exceeding £20,000 in each case to any one organisation without reference to the Council.
- 1.2 To allow Derby Homes to offer management consultancy services of a value exceeding £20,000, subject to the written agreement of the Director of Policy in each case.
- 1.3 To allow Derby Homes to manage Registered Social Landlord – RSL – properties within the city, subject in each case to:
 - the prior written agreement of the Director of Policy
 - maintenance of a separate account for each contract within the accounts of Derby Homes.
- 1.4 To amend Derby Homes Memorandum of Association to permit the Company to offer management consultancy services outside the city and to manage RSL properties within the city outside the areas where the Council currently owns or manages housing stock.
- 1.5 Not to permit Derby Homes to work outside the city other than the provision of consultancy services in 1.1 and 1.2 above.
- 1.6 To ask Derby Homes, in consultation with the Director of Policy, to review existing contracts for managing RSL properties in the context of the treatment of costs set out in paragraph 3.10 of this report.
- 1.7 To ask Derby Homes to examine further the case for managing private sector properties and report back to Council Cabinet in 12 months' time with a business plan for such activity.

REASONS FOR RECOMMENDATIONS

- 2.1 The Cabinet needs to balance the ability of Derby Homes to undertake new work for other partners with the need to make sure that the core of the business remains focused on the core objectives of managing the Council's own housing stock.

- 2.2 In the case of housing management activity within the city, the balance of risks to the Council is such that it is likely to be in the Council's interest to allow expansion of Derby Homes into other complementary areas of activity.
- 2.3 The balance of risk on substantial housing management activity outside the city is considered to be too great at this stage for the Council to support but providing de minimus consultancy advice to other bodies outside the city should not result in too great a diversion from Derby Homes core business.

SUPPORTING INFORMATION

- 3.1 The Council and Derby Homes are meeting regularly at Cabinet / Board level to discuss key strategic issues, including Derby Homes' Business Strategy to deal with a reduced management fee because of the loss of stock owing to Right to Buy, and the end of the Homes Pride programme to bring the stock up to 'Decent Homes' standard in March 2006.
- 3.2 The Council's approach to the issues raised in this report at the current time may well be subject to change when it comes to consider the future of Derby Homes from 2006/07 onwards. The Council's contract with Derby Homes ends on 31 March 2007 with an option for one or more further periods of up to five years. There is currently a national working party, chaired by the Director of Housing at the Office of the Deputy Prime Minister, considering the future of ALMOs. This is expected to report in Spring 2005, and the outcome of that work will assist both Derby Homes and the Council's deliberations on the long-term future of Derby Homes.
- 3.3 The Management Agreement between the Council and Derby Homes does not permit Derby Homes to carry out work or provide services to third parties, other than Council tenants, without the Council's prior written consent. Derby Homes' Memorandum of Association also restricts its sphere of activity to areas where the Council owns or manages stock, that is, they are restricted both to working within the city and to their existing areas of activity within the city.
- 3.4 Derby Homes has asked the Council to consider whether the Council is prepared to permit it to:
- provide consultancy services inside and outside the city
 - manage RSL or other council's properties outside the city
 - manage RSL properties within the city
 - manage private sector properties within the city.
- 3.5 Any agreement with Derby Homes for external management services would be subject to Derby Homes having a transparent and agreed accounting system approved by External Audit. Derby Homes is introducing a proper time management system from 1 April 2005 to facilitate this transparency.

- 3.6 Advice has been sought from External Audit relating to the point at which trading activity might be seen as resulting in a cross-subsidy from the Housing Revenue Account, HRA, to traded activity. External Audit's advice is that the Derby Homes' fee for management of the HRA stock is agreed in advance and largely fixed. This means that any traded activity will need to be fully considered by the Board, but should not result in a cross-subsidy from the HRA, as it is protected by the fixed nature of the management fee. However, Derby Homes would still be required to get the Council's written consent, both to the terms of any management agreement and the fee to be charged, prior to entering into any such agreement.

Provision of consultancy services inside and outside the city

- 3.7 It is recommended that Council Cabinet agrees to this without reservation, subject in any one case to the management consultancy services provided by Derby Homes' senior managers being at a de minimis level, say £20,000, and not to the detriment of their primary purpose of managing Derby Homes. For services of a value exceeding £20,000, the consultancy would need to be agreed in writing by the Director of Policy, prior to any agreement being reached with a third party to provide such services.

Managing RSL or other councils' properties outside the city

- 3.8 It remains possible that further developments in the freedoms and flexibilities for ALMOs or in other areas of government may require this policy to be reviewed in future but, for now, the potential risk to the Council is considered to be too great. It is not therefore proposed, at this time, that any management activity outside the city be approved or included in the revision of the Memorandum of Association.

Managing RSL properties within the city

- 3.9 Prior to the ALMO being set up, the Council had agreed that the Housing Service could manage properties for one housing association and negotiations were well under way to manage more properties for another Association. Derby Homes is now negotiating for two more contracts – one of which has a proposed start date of 1 December 2004. In general, the Council would expect Derby Homes Board to consider a business case and risk assessment before agreeing to undertake each activity. In addition, it is recommended that the Cabinet should still require Derby Homes get the Council's written consent, both to the terms of any management agreement and the fee to be charged, prior to taking a report asking for the Board's approval to enter into any such agreement.
- 3.10 The exact price is a matter for Derby Homes Board to agree, but the Council would expect it to be based around the level of service being provided and a treatment of costs that included at least 70% variable to 30% fixed costs within the calculation. The following example is given as a guide to the process the Council would expect to see followed by Derby Homes.

	£ / unit a year
Current fee charged to HRA	640
Less services not included in contract:	
Service A	(40)
Service B	(100)
Equivalent HRA full cost	500
70% variable costs	350

The Council would expect Derby Homes Board to review the fees being charged for existing contracts against this methodology and make sure they represent value for money.

- 3.11 The Council would also expect Derby Homes to set up a separate account within its overall accounts for each contract to make sure that activity on each contract can be monitored to establish which contracts make a surplus or a loss.

Managing private-sector properties within the city

- 3.12 This area of work is also being considered by Derby Homes for potential expansion of its non-core activity. Derby Homes has opened negotiations with several private sector landlords; mainly single properties but there is the possibility of larger groups. Some RSLs tried to break into this market a few years ago, and were not successful; and there is already an active private sector market operating in the city. In some cases, however, successful activity by Derby Homes might complement the Council's objectives of bringing empty homes back into use for letting. It is therefore being recommended that Derby Homes be asked to consider this matter further and to bring specific proposals back to Cabinet in around 12 months time, supported by a full business case.

OTHER OPTIONS CONSIDERED

- 4.1 The status quo could be retained which would result in no change to the Memorandum of Association and Derby Homes would be restricted to work in the city in the areas where the Council owns or manages stock.
- 4.2 The proposal from Derby Homes is to undertake management of RSL or other councils' stock outside the city and to manage private sector stock within the city. This is felt, on balance, to expose the Council to too great a risk in terms of the focus of the Company on its core business of managing the Council's housing stock.
- 4.3 The Council could have requested Derby Homes to cease all other activity not already contractually undertaken to avoid any risk or dilution of management concentration on the core business. This is felt to be too restrictive on the Derby Homes Board and its justifiable wish to generate additional income.

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Background papers: None
List of appendices: Appendix 1 – Implications

IMPLICATIONS

Financial

- 1.1 External Audit has been consulted about the potential for a cross-subsidy, and has confirmed that they are happy with proposed arrangements. Items may only be credited or debited to the HRA, which comply with the ring-fence provisions in the Local Government and Housing Act 1989.
- 1.2 The Council expects any trading activity to be maintained as a separate sub account for management purposes and fees for managing stock should be based around the principles outlined in this report, approved by the Director of Policy and finally determined by Derby Homes Board.

Legal

- 2.1 The Derby Homes Management Agreement already requires the Council's written consent to undertake work for third parties. Derby Homes' Memorandum of Association will have to be amended in order to allow them to undertake management consultancies outside the city and to allow the Company to work within the city but in areas other than where the Council owns or manages stock. We also need to check whether we need specific ODPM consent to make any changes to the Memorandum as the original setting up of Derby Homes was under Section 27 of the Housing Act 1985.
- 2.2 The Council's Legal Service has advised Derby Homes on the form of the management agreements with the Housing Associations. In each case, the Council would need to approve the terms contained in the final agreements.
- 2.3 The Council needs to pay due regard to Derby Homes entering into any contracts beyond 31 March 2007, when its current agreement with the Council ends.
- 2.4 The proposed contracts will expose Derby Homes to additional risks and liabilities and it is important that they are established and managed on a sound and viable financial basis. Claims and liabilities arising from contracts such as these could potentially detract from the management of the Council's own properties and, in a worst case scenario, threaten the continued existence of Derby Homes.

Personnel

- 3.1 Derby Homes' staff would be trained to make sure they operate to the different Housing Association Management Agreements and to different conditions of tenancy.

Equalities impact

4. Additional charge can be made for some services, for instance, intensive tenancy support, and for work done by the Tenancy Enforcement Team to support vulnerable tenants.

Corporate objectives and priorities for change

5. The proposal comes under the Council's objective of **strong and positive neighbourhoods**.