



DERBY CITY COUNCIL

**COUNCIL CABINET
20 DECEMBER 2005**

Cabinet Member for Housing and Social
Inclusion

Renewal of Derby Homes Management Agreement 2007

SUMMARY

- 1.1 Derby Homes contract with the Council expires in March 2007 and the Council needs to decide whether to renew the contract.
- 1.2 The Office of the Deputy Prime Minister has given a relatively clear steer in terms of future funding being dependent upon the continuation of the ALMO.
- 1.3 Subject to any issues raised at the meeting, I support the following recommendations:

RECOMMENDATIONS

- 2.1 That the Cabinet agrees in principle to offer Derby Homes an extended contract beyond the expiry of the existing contract in April 2007.
- 2.2 That further development of the contract be undertaken and agreed with Derby Homes during 2006.
- 2.3 To agree in principle to renew Derby Homes' contract in 2007 for a period of four or five years, with the longer period being available if a three star inspection report is achieved in their next Audit Commission re- inspection due in February 2006.
- 2.4 To refer this report to the Community Regeneration Commission for comment.

REASONS FOR RECOMMENDATIONS

- 3.1 The continuation of the ALMO attracts a very substantial increase in funding for the HRA, and it is therefore essential for the development of the Estates Pride scheme that such funding is attracted for as long as possible.
- 3.2 The achievement of three stars in the inspection would be rewarded by a longer contract and more flexible terms.
- 3.3 The agreement in principle is needed now to avoid difficulties with suppliers over the remaining period of the contract.



Renewal of Derby Homes Management Agreement 2007

SUPPORTING INFORMATION

- 1.1 Derby Homes' current management agreement with the Council for the management of Council dwellings expires in April 2007. A cross party working group on the future of Derby Homes has been established and its terms of reference were to recommend to the Council Cabinet an approach to the following issues:
 - whether to renew the contract and if so:
 - how long any renewal should be for, and
 - the detail of any proposed changes to the agreement from 2007.
- 1.2 Derby Homes needs a resolution to the first two key issues as soon as practicable, as it is beginning to experience problems with suppliers concerned about its future beyond April 2007. If not resolved, this may lead to suppliers in the future refusing to supply Derby Homes beyond that date. In addition, it would be good practice to establish for the sake of the staff of Derby Homes and the tenants what the future situation beyond 2007 is likely to be.
- 1.3 Derby Homes should achieve its first major objective with the completion of the Homes Pride programme in 2006, having spent on the Council's behalf £97m, funded by Council borrowing within the Housing Revenue Account, HRA.
- 1.4 Derby Homes is about to be re-inspected for the first time since achieving a three star performance and excellent prospects for improvement in 2002, releasing government support for that borrowing to the Council.
- 1.5 Of 23 performance indicators for which comparative data is available from either 2002/03, or at least from 2003/04, and which have figures appropriate for year-on-year comparison, substantial improvements in performance since 2002 have been achieved. 60% show an improvement above 10%. Of these 43% have achieved above 15%; 30% have achieved above 25%; and 21% show an improvement well above 50%.
- 1.6 There are several key areas where Derby Homes have performed particularly well. Most notable is the Homes Pride programme, which will be completed by March 2006, on time and with all the indicators performing well above expectations.

- 1.7 Although the Enquiry Centre performance has not been monitored from the outset, it is seen as one of the prime drivers to service improvements for customers, and contractors. As such, it is worth noting the work done in this area by Derby Homes, which, from disappointing beginnings, has produced a performance that is now outstripping expectations.
- 1.8 As Derby Homes is a Round 1 ALMO, the Council receives interest on its borrowing at 8% rather than at cost as for other approved borrowing. The Office of the Deputy Prime Minister, ODPM, has confirmed that this preferential rate, currently worth around £2.7m a year for a further five years or £13.5m, would remain until the end of the financial year 2010/2011. After this date, the preferential rate is set to disappear, but the funding of the interest on the debt would remain.
- 1.9 The ODPM also offered the following advice on the subject of whether the bonus level of funding would be paid should the Council decide to wind up Derby Homes in 2007: *'The question .. is one which we have considered but haven't yet reached a firm view. It is something that Ministers will want to reach a decision on, probably in the context of the ALMO Review. However, one option which I think we will strongly consider is that accumulated ALMO borrowing would cease to be eligible for a special rate of subsidy if an ALMO is wound up or in 2010, whichever is the sooner. Apologies that this isn't a definite answer but I hope that is a useful steer.'*
The ODPM has subsequently confirmed that 2010 means that the last year would be 2010/2011 rather than 2009/2010.
- 1.10 Given that there is a strong indication from the ODPM that the 'special' rate of subsidy may not be paid if an ALMO were to be wound up, there is a very strong incentive for the Council to agree a further extension to the agreement – four years' additional funding of around £11m more in total for the HRA than would otherwise be available. There is therefore a strong recommendation that the contract be renewed at least until 2010/11 to avoid losing such a large amount of funding.
- 1.11 The second issue is the length of contract that should be issued. Four years is the minimum that can be offered that will guarantee that the special subsidy remains payable. The existing management agreement allows for extensions of up to five years at a time. It is suggested that the length of contract could be tied to the outcome of the Audit Commission inspection in 2006. A three star performance, maintaining the outcome achieved before, could be rewarded with a five-year contract, with a lesser outcome resulting in a four-year contract. Clearly the expectation is that Derby Homes will achieve three stars and therefore the recommendation would result in a five-year contract extension. Derby Homes are a top quartile performing ALMO and with the position they occupy with the Federation of ALMOs are well placed to influence future policy and demonstrate widely their good practice on behalf of tenants and leaseholders.
- 1.12 There are very many issues to be tackled in the detail of the management agreement, and these will have to be worked through in more depth during 2006. While important, they are not as time critical as the decision about the principle of renewal.

- 1.13 The cross party working group met on 22 November 2005 and supported the offering of a new contract to Derby Homes, with the length to be influenced by the outcome of the inspection in 2006.

OTHER OPTIONS CONSIDERED

2. Other options include a contract renewal of a shorter period, or not at all. Given the scale of the funds at stake and the need for some form of stability in the relationship, these options are not recommended.

For more information contact: Officer David Enticott Tel 255318 e-mail david.enticott@derby.gov.uk
Background papers: Email from ODPM concerning future of 8% subsidy
List of appendices: Appendix 1 – Implications

IMPLICATIONS**Financial**

1. £11m of funding for the HRA is potentially at stake. The recommended option is to renew the contract for at least four years to secure this funding. The Council owns 100% of the equity in Derby Homes.

Legal

2. The Council would be legally entitled to wind up Derby Homes, but this would risk the ODPM considering its position on the payment of the special rate of subsidy.

Personnel

3. Should Derby Homes be wound up, Derby Homes staff would transfer to the Council's employment.

Equalities impact

4. Any potential loss of funding of this scale would have an impact on services to tenants as savings had to be found to rebalance the business plan.

Corporate objectives and priorities for change

5. The additional funding is helping to sustain an HRA business plan which contains a projected £15m estate pride scheme to improve conditions on estates. The recommendation should help to make sure that this funding remains available for this purpose.