

Name of meeting: Cabinet
Date: 18th December 2018
Title of report: Review of KNH

Purpose of report

To report on the outcome of the Council's independent review of Kirklees Neighbourhood Housing Ltd (KNH) coupled with the KNH Board's review of governance and make recommendations on the future direction of the management of the Council's housing service

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	No
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports?)	No If yes also give date it was registered
The Decision - Is it eligible for call in by Scrutiny?	Yes
Date signed off by <u>Strategic Director</u> & name	Karl Battersby - 3.12.18
Is it also signed off by the Service Director for Finance (S151 Officer)?	Eamonn Croston - 7.12.18
Is it also signed off by the Service Director for Legal Governance and Commissioning?	Julie Muscroft - 10.12.18
Cabinet member portfolio	Councillor Cathy Scott - Housing and Democracy

Electoral wards affected: None

Ward councillors consulted: N/A

Public or private: Public

GDPR: Has been considered.

1. Summary

- 1.0 The purpose of this report to report the outcome of the Council's independent review of Kirklees Neighbourhood Housing Ltd (KNH) coupled with the KNH Board's review of governance. It seeks approval to accept the recommendation of the KNH Board's resolution
- 1.0.1 To reduce the number of directors from 15 to 9 to be made up 6 council representatives and three tenant members;
 - 1.0.2 To strengthen the board by appointing on a skills base; and
 - 1.0.3 For the revised KNH Board to jointly appoint a Chief Operating Officer who will be an employee of KNH Ltd
- 1.1 Kirklees Neighbourhood Housing Ltd is the Council's wholly owned and controlled company limited by guarantee in which the council is the sole Member and where the directorships are split between the council, independents and tenant. It is a "Teckal" company for EU procurement purposes meaning the Council can award it contracts without competition.
- 1.2 In May 2018, the Council commissioned an independent review of the options for managing the housing service following the departure of the Chief Executive.
- 1.3 After the fire at Grenfell Tower, this review took a risk based approach and had a strong emphasis on accountability and governance to assure the Council that, the systems and processes to discharge its obligation to keep tenants safe in their homes are managed robustly.

2. Information required to take a decision

- 2.1 The context within which Kirklees Neighbourhood Housing (KNH) was formed and developed was significantly different in 2002 than it is now. The previous government made it conditional that to be in receipt of funding from the Decent Homes Programme, Councils should either enter a stock transfer arrangement or set up arms-length organisations.
- 2.2 Kirklees opted for the arms-length model. This allowed Kirklees to apply for funding from the government to bring Council housing up to the decent homes standard, bringing in over £100m of additional funding from government.
- 2.3 This period saw a step change in housing conditions, moving from less than 50% of homes meeting the decency standard at the beginning of the period, to almost 100% meeting the standard at its completion.
- 2.4 Decency funding has also now come to an end, being replaced with a new self-sustaining Housing Revenue Account (HRA).
- 2.5 The Council last made a significant change to its operational arrangements in the summer of 2016, when it agreed to transfer the Council's building maintenance operations - Building Services - to the management of KNH.
- 2.6 Recognising that the new combined business was approximately 3 times larger, and the new operations introduced a potentially higher degree of risk, the former KNH chief officer recognised it was appropriate and timely to consider if it was necessary to revise some of KNH's governance arrangements.
- 2.7 A consultant - Altair - was engaged May 2017 who considered the existing governance arrangements, largely using a checklist created for the National Housing Federation (NHF) which is the umbrella body for Housing Associations rather than ALMOs. This

document contains a lot of general good advice on governance, but it is intended for Housing Associations (rather than Teckal housing management organisations such as KNH). It has never been the Council's ambition for KNH to become a housing association.

2.8 After the Grenfell Tower fire, the tragic loss of 72 lives and the subsequent findings of the Hackitt Review, the Council began to indicate to KNH that a review of how the Council discharges its statutory functions would be required.

2.9 This together with the Council's growing ambition around the housing agenda prompted the Council to commission an independent review of KNH and after a process of considering a long list of alternative options, the following four options were shortlisted:

- A. ALMO Baseline option as status quo position
- B. In-house Council run Service
- C. Stock transfer to a housing association
- D. New housing management contract with an existing provider.

2.10 Using robust methodology and weighting criteria each of the options have been measured against the ALMO as a baseline.

2.11 The Council has engaged the KNH Board and its senior staff in the process. The Board met with the consultant where they were able to feedback their views and senior staff in KNH and the Council held a joint workshop regarding the role council housing should play in the housing market.

3. Aims of the Council's Review of KNH

3.1 The outcome of the review is to ensure the most effective management arrangements are in place to deliver a high quality, efficient and safe service that offers value for money to tenants particularly given the current economic and social pressures facing public services. There were a number of key drivers behind the review:

- A need for **clarity** around decision making, **governance and accountability** arrangements in light of **the heightened risk** profile presented by the changing landscape resulting from **Grenfell and** subsequently **the Hackitt Review**;
- Post Grenfell a need for the Council to be assured that **tenants are safe and their voice** is heard
- A need to consider the KNH Board's own governance review led by Altair which recommended a **smaller board** recruited and or appointed on the basis of **skills and capability**
- A need to offer a consistent and improved service for tenants that maximises the opportunities to integrate housing services with the **Council's wider services and the health and social care agenda** and placed based operating model;
- The end of government decency funding and the move to a **self-funding HRA** places even more importance on having a cost effective/value for money service in order to maximise **investment in the district's housing stock**, and;

3.2 The review is now complete and has confirmed the Council has two options that would deliver its objectives:

3.2.1 To continue with the ALMO but to strengthen the governance arrangements with immediate effect or;

3.2.2 By bringing it back to an in-house Council service.

- 3.3 However, since the independent review was initiated in May 2018, there have been significant changes and announcements in housing policy and it would be inappropriate for the Council not to consider these as part of this review and the decision it makes about the future.
- 3.4 The recent changes are as follows:
- 3.4.1 The publication of Dame Hackitt's Review of Building Safety and its recommendations will have far-reaching implications on how the Council's housing stock will be managed and maintained and will place greater regulatory burdens and scrutiny on the Council and the implications of non-compliance will be significant.
- 3.4.2 The publication of the Social Housing Green Paper which reads as a response to the Grenfell tragedy and the recommendations of the Hackitt Review places a high emphasis in 5 key areas:
- a) ensuring homes are safe and decent;
 - b) empowering tenants and strengthening the role of the Social Housing Regulator to regulate Council housing with an ability downgrade the housing service;
 - c) effective resolution of complaints by strengthening the voice of the tenant in getting redress;
 - d) addressing the stigma and perception of social housing and;
 - e) expanding supply and homeownership The Prime Minister's announcement to remove the HRA debt cap acts as a significant fillip to the ability and capacity for the Council to embark on a major housebuilding programme.
- 3.4.3 The Government's consultation on the Rent Standard and the role of the newly created Social Housing Regulator, the wider rollout of Universal Credit and the introduction of the Homelessness Reduction Act.
- 3.5 The purpose of this report is to consider the recommendation of the review of KNH in the light of the above as well as the Altair review of governance commissioned by KNH.

4. Clarifying Roles and Responsibilities

- 4.1 The transfer of housing services to a newly created company with its own Board has led to a number of client-contractor relationship challenges over the years. These have been managed through the strong relationships that existed between the KNH Board and the Cabinet but this has led to a lack of clarity of accountability and responsibility.
- 4.2 Within the Council, there is an increasing concern that the ambitious agenda for housing which is much wider than that of housing management can only be fulfilled by a separate and distinct housing management function if there is greater clarity on roles, responsibilities and remits. Good governance arrangements are key to this.
- 4.3 The Council is landlord for the housing revenue account, and it remains responsible, ultimately, for all liabilities and obligations toward tenants.

- 4.4 The Council is not protected from its legal responsibilities, or commercially separated from liabilities that arise through the activity promulgated by the housing management contractor, and events such as the Grenfell fire tragedy have re-emphasised that the council operation, with the Council guaranteeing certain obligations of the company, any commercial mitigation, such as from fines, or as contractual compensation to the council will not be available, and would indeed be likely to be at an additional cost to the Council and KNH often have more resource proportionately than the Council as a whole.
- 4.5 However, the Council is also concerned to ensure that the housing management and maintenance service is not destabilised with the potential disruption a change to operating model might cause at a time when there is a high level of uncertainty in the housing policy and regulatory environment described in 3.4 above.
- 4.6 Whilst the recommendation of the independent review of KNH commissioned by the Council is that there are only 2 clear options, it would be prudent, given the above, to pause and reflect.
- 4.7 Whilst concerns exist, the degree of disruption caused by changing the model, and the fact that we are uncertain whether the Green Paper will pass through its various readings onto the statute book and become legislation, indicates the Council should await the outcome over the next 12-18 months before making a final decision.
- 4.8 Therefore **it is proposed** the Council put in place interim arrangements for up to 12-18 months to strengthen the governance structures in KNH following which the Council can review, on an ongoing basis, the arrangements of any new policy and regulatory regimes. The aim of these arrangements will be threefold:
1. To clarify the respective roles of the Council and KNH - i.e. the Council has ultimate accountability for the stock, the policies and strategies related to its management including control of the HRA. KNH's role will be a single purpose to manage and maintain the stock on behalf of the Council.
 2. To offer greater assurance to the Council that its accountability to tenants and regulators is being effectively discharged by KNH, in light of the heightened levels of risk that exist.
 3. To enable focus on improving services to tenants and residents.
- 4.9 To support the cabinet a Housing Strategy Steering Group composed of cross party representation as well as a tenant representative to advise the cabinet on housing issues more broadly. These arrangements are shown at appendix 2 as a schematic.
- 4.10 The Terms of Reference for this Group will be agreed once the membership has been agreed.

5. The KNH Board's Review of Governance

- 5.1 The review of governance led by Altair led to recommendations that included reducing the Board (from 15 to 12, 10 or 9) as well as the number of committees; that membership of the Board should be for a maximum of 9 years (reviewed every 3 years); strengthen the skill base of the board; and that tenants could be better represented by a separate sub-committee, scrutiny panel or a form of digital media engagement.

5.2 The KNH Board meeting of 3rd December 2018 resolved the following:

- The Board approves the changes to KNH governance processes and Memorandum and Articles of Association. The changes to the Articles are as set out in appendix 1. In summary these are:
 - The number of Board Members shall be nine.
 - Six Board Members shall be Council Board Members.
 - Three Board Members shall be Tenant Board Members.
 - No more than three Board Members shall be Tenants
 - No more than six Board Members shall be Local Authority Persons.
 - A board member shall serve for no more than 9 years
- The Board calls an Extraordinary General Meeting (EGM) to formally enact the changes.
- The Board Members agreed to sign the resignation letter to be enacted at the date of the EGM.
- The Board approve the new role of Chief Operating Officer and that the Council and new Board will jointly appoint.

5.3 Therefore **it is proposed** the Council accepts and implements the recommendations of the KNH Board held on 3rd December 2018.

6. Officer recommendations and reasons

6.1 It is recommended that Cabinet approve:

6.1.1 The recommendations of the KNH Board outlined in 5.2 above;

6.1.2 The implementation of the changes to the Articles of Association as set out in Appendix 1 and summarised in 5.2 above and in addition to this the council appoints Naz Parkar – Service Director, Growth and Housing – to be delegated with authority to attend the proposed EGM and/or sign any relevant documentation to make the changes on behalf of the council as the sole member of KNH.

6.1.3 The role of the strengthened Board would be to oversee housing operations and to act as a single purpose vehicle to deliver the housing management and maintenance service.

6.1.4 That Housing Policy and Strategy, housing/asset investment and HRA Business planning matters would be determined by the Council, Cabinet or Council officers with advice from KNH officers;

6.1.5 The Council would establish a specific Housing Strategy Steering Group with cross-party representation to work with the KNH Board and help guide Cabinet decisions. This group would be supported by the Tenant Panel to ensure the tenants' voice is central to decision making.

6.1.6 These arrangements are interim for the next to 12-18 months and will remain under review until the regulatory and legislative landscape begins to settle.

7. Implications for the Council

- 7.1 Working with People - the Council has worked closely with KNH.
- 7.2 Working with Partners - as above.
- 7.3 Place Based Working - the good management of its housing and its alignment to place based working in the communities where the Council owns and manages stock has been one of the central aims of the review.
- 7.4 Improving outcomes for children - by greater alignment of KNH's operations and the Council's strategic priorities children and their families will benefit.
- 7.5 Other (eg Legal/Financial or Human Resources) - it is important the Council, the new Board and senior staff recognise the uncertainty staff have experienced over the course of the last few months and work with them to ensure there is clarity and focus on how the interim arrangements will work.

8. Consultees and their opinions

- 8.1 The KNH Board, elected members and senior staff have been engaged and all parties agree the primary objective should be to implement arrangements that ensure tenants have and excellent service that represents value for money where governance and lines of accountability are clear and transparent.

9. Next steps and timelines

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| 9.1 Communicate Cabinet Decision and next steps | December 2018 |
| 9.2 Amendment to the Memorandum of Articles | January 2019 |
| 9.3 EGM to appoint new Board | January 2019 |
| 9.4 Appointment of Chief Operating Officer | January 2019 |
| 9.5 Agree Terms of Reference for the Cross-Party Housing Strategy Steering Group and agree and appoint membership | January 2019 |
| 9.6 New arrangements take effect | February 2019 |

10. Cabinet portfolio holder's recommendations

- 10.1 Having carefully considered the outcome of the Council's independent review of KNH and the KNH Board's recommendation, I fully support the recommendations of this report.

11. Contact officer

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12. Service Director responsible

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