

Title: Tackling the Recession Locally	Meeting: Board	
Report authorised by: Gavin Cansfield, Chief Executive	Date: 29 September 2010	Item No: 8
Report author: Les Warren, Director of Finance & Resources	Classification: Open	Report type: Information
<p>Business Plan Objective: The 2010-11 Business Plan sets out four key deliverable categories and the following two are most relevant here:</p> <ol style="list-style-type: none"> 1. Residents first: insight, diversity, engagement and influence 4. THH first: building partnerships, capability and spending wisely 		
<p>Financial Implications:</p> <p>There are no direct financial implications contained within this report because none of the initiatives described require growth in expenditure for the current year.</p> <p>It is likely that we will need to operate within significantly reduced revenue and capital budgets from 2011-12 onwards.</p>		
<p>Risk Management</p> <p>This Strategy relates to the following items on the Strategic Risk Register, and forms part of the mitigation plan for them:</p> <ol style="list-style-type: none"> 2. Outside Political and Regulatory Change 4. Financial sustainability 		
<p>Linkages to Strategies</p> <ul style="list-style-type: none"> • Financial Inclusion Strategy • VFM Strategy • HRA Medium Term Financial Strategy 		
<p>Summary</p> <p>This report updates Board members on the impacts of the recession and economic downturn and how the organisation is managing the impacts on customers and the business more generally.</p>		
<p>Recommendations</p> <p>Board members are asked to note the contents of this report.</p>		

1. Introduction

1.1 Political Context

After a period of new labour we have a new coalition government that has made clear that in tackling the deficit it wants to move quickly and dramatically reduce the size of the state. It is also rethinking what is it that only the state can do and what is it we should expect individuals can do. This will have an impact on public services.

1.2 Economic context

Although the national economy exited the recession in the last quarter of 2009 with a growth rate of 0.1% for that quarter, it is expected that the UK economy will remain stuck in the doldrums this year and therefore that the economic downturn will persist. Last year, Britain had the largest deficit in peacetime history and the highest in the G7 and G20 (group of seven and twenty industrialised nations in the world). However, tackling the deficit may impede the speed of progress. The recession in the UK is part of a global economic realignment and the impact on, say, unemployment across Europe could be considerable for a longer period. Significant reductions in house prices reduce the equity that people have, or feel they have, and this will drive lower consumption levels.

The specifics of public spending reductions will be announced in late October as part of the Comprehensive Spending Review (CSR).

1.3 Societal context

There could be a shift away from a consumer or debt-driven economy as unemployment increases and salaries stagnate with potentially disproportionate impacts on the most vulnerable. Withdrawal of services to the most vulnerable exacerbates this trend and we could see an increase in neighbourhood community tensions.

2 Impacts and how we manage these

2.1 The impacts can be divided into three broad headings. They are:

- Business impacts;
- Housing sector impacts; and
- Resident impacts – direct and indirect.

3 Business impacts

3.1 Stock Investment

Currently just less than 56% of our stock fail to meet the Decent Homes standard and therefore the Tower Hamlets ALMO bid was for over

£220m of funding to address this. Since the change of government in May this year, and with ongoing Government focus on tackling the current financial crisis, the future of all capital funding programmes, including Decent Homes, remains unclear for all ALMOs. There are particular risks for Round 6 ALMOs such as Tower Hamlets Homes that are not in the ALMO funding programme. We are currently investigating investment scenarios to optimise whatever funds are made available on achievement of 2 stars. We are calling this the development of a 'Plan B'.

3.2 Cost of Operation

The HRA Medium Term Financial Plan (MTFP) estimates that between £2m and £2.5m of net base budget savings will be required in 2011-12 to compensate for reduction in subsidy receivable. The following areas have been identified to meet this:

- reduction in management & administration costs; and
- ensuring that income is maximised from non-residential services and that their income at least matches the cost of providing those services.

Even if the HRA Medium Term Financial Plan (MTFP) did not require savings to be generated we would still want to exert downward pressure on our cost base because benchmarking information indicates that the Tower Hamlets HRA cost base is above the London average.

Tower Hamlets Homes is well placed to meet this challenge. It was possible to reduce the management fee payable by the Council from £37.9m in 2009-10 to £35.1m in 2010-11 largely as a result of efficiency savings generated by the ALMO.

Given the significant improvements achieved over the last two years in performance and customer satisfaction it is now time to stimulate greater dialogue with customers about the level of service quality they are prepared to pay for. This has been implicit rather than explicit up to now. With less public spending there may need to be less focus on excellence and more focus on reducing cost.

We also recognise that our business model and therefore cost base embeds assumptions around the level of trust and the type and amount of management control systems that exist in the business. These need to be challenged as budgets diminish. There are multiple dimensions to the issue of trust and control. For example, poor performance experienced by residents in the past means that some may insist on face to face contact and follow-ups. We have costly and labour intensive systems of micro-managing individual repair jobs which may not give us the customer and financial outcomes we require. The Council has constructed a hands-on clienting framework for the ALMO in the interest of ensuring a two-star inspection outcome. However, this does not come for free and creates overheads on both sides.

We have already started to address aspects of this with the Operational Management Team (OMT) in the context of describing the current culture and future culture that should prevail in THH moving forward. The Staff Forum has also played a key role as the presentation made by the Staff Forum to the Board several months ago demonstrated. Groundwork for this took place early in THH existence through the development and embedding of THH values and behaviours. This will continue as part of the Business and Resource Planning timetable for 2011-12 to 2013-14.

3.3 Wider Business Context

The collapse of Connaught plc and some of its subsidiary companies has been well publicised in the media. Board members have been kept updated on developments insofar as this affects THH residents. Although many of the problems encountered in Connaught appear to be company-specific and wide-ranging, the business failure of Connaught, a large FTSE 250 group highlights the business risk in all of our third party contracts. Board members will be aware that we are currently in the evaluation stage of procuring new general build and gas contracts and therefore Connaught's problems are a reminder that we need to be fully alert to the risks inherent in all contractual relationships we have. Our project and corporate risk management frameworks are designed to assess this.

3.4 Fraud

Fraud takes place in organisations because opportunities present to do so and because a personal motivation exists to do so. The personal motivation to engage in fraud can be higher when the economic environment is tougher. THH has a robust framework of internal control, supported by internal audit and overseen by the Finance & Audit Committee but we need to take full cognisance of the how the economic environment can increase fraud risk within the organisation. A THH anti-fraud strategy is currently under development and this will set out high level objectives and actions required to prevent and detect fraud.

There has been a strong focus nationally and within the borough on tenancy fraud based on collaborative working between THH and the LBTH Anti-Fraud Team. As a result of this, eleven properties have been recovered. We actively participate in the National Fraud Initiative led by LBTH. The Audit Commission records Tower Hamlets' use of NFI (National Fraud Initiative) to prioritise high risk cases while passing lower risk cases to the change in circumstance team within the housing benefits service as good practice.

4. Housing sector impacts

4.1 In July 2010 this year, the Chartered Institute of Housing in conjunction with the National Federation of ALMOs (NFA) and the National Housing Federation submitted a report to government in advance of the Comprehensive Spending Review.

- 4.2 The submission highlighted the socio-economic contribution of the housing sector. It asserted that spending on housing generates high economic returns – protecting and creating jobs, and offering employment and training opportunities, particularly for young people. Furthermore, housing makes a key contribution to achieving government’s wider aspirations for improved health and educational outcomes and crime reduction.
- 4.3 The linkage with the new government’s ‘big society’ agenda was also made explicit demonstrating that Housing associations, ALMOs and the many community-based bodies such as tenant management organisations (TMOs) and community gateway associations are a demonstration of the ‘Big Society’ in action – not-for-profit and charitable organisations working alongside government to provide services and support to the most vulnerable members of our communities.
- 4.4 The report recommended that government support should continue around two main themes:
- Supporting individuals and households through providing support and protection to the vulnerable and the elderly, empowering neighbourhoods and communities and support for disadvantaged households.
 - Support for investment in homes and economic growth through new affordable homes, maintaining good quality works, improving the energy efficiency of existing homes and developing a self-financing future for Local Authority housing that will assist in delivering control and responsibility to local councils, ALMOs and their tenants to manage housing stock.

5. Resident impacts

5.1 Direct

Recently, the Chief Executive circulated and drew Board members’ attention to a NFA briefing paper regarding a consultation paper issued by government entitled *21st Century Welfare*. The paper sets out a number of outcomes that the government is looking for in any reform of the current system. They are:

- the scope to strengthen the conditionality regime (i.e., for recipients of benefit to have to be looking for or preparing for work);
- the scope for having a more tailored, personalised system in which the conditionality regime for people within certain groups could be extended;
- the role of localism in delivering the welfare system; and
- a system which supports the government’s aim of moving everyone who can work into work and to maximise the percentage of a person’s income that comes from their earnings.

Changes to the welfare system are highly relevant to a key segment of our customer base because 72% of tenants are in receipt of housing benefit. The coalition's emergency budget introduced caps on the local housing allowance but potentially more significant for many of our customers and for THH are the proposed changes in the job seeker allowance (JSA). The proposal is that housing benefit would be reduced by 10% after twelve months of claiming effective from April 2013.

The THH response to ensure that we do everything we can to assist tenants in accessing all the help they are entitled to in paying their rent is well embedded. Our approach is not solely or exclusively guided by social principles. It makes good business sense. Transact, the national forum for financial inclusion highlights that financial inclusion can save landlords money. For example, evicting a tenant can cost up to £6k, court action alone costs around £2k and failed tenancies cost landlords around £1.3k.

The THH response is marketed as 'Money Help and Advice' and includes the following:

- getting a direct debit mandate signed during tenancy sign-up;
- assistance in applying for an affordable bank account if the tenant has no existing bank account;
- assistance in applying for low-cost home insurance;
- ensuring that the tenant understands their rent statement;
- ensuring the tenant has the direct contact details for the rent arrears officer;
- ensuring that tenants understand the consequences of not paying their rent;
- agreeing a realistic payment plan where appropriate to prevent court action; and
- money management and personal budgeting awareness.

We partner with specialist organisations to deliver much of the above such as LBTH Money Advice, Account 3 and Limehouse Project. The role of the London Borough of Tower Hamlets Floating Support Team is also important because financial difficulties can sometimes be associated with a range of more complex needs associated with vulnerability. THH have also introduced a Home Visit system, which means that any resident who would prefer to discuss their housing issues in their own home can now do so. Home visits are available within 10 days of a request and within 48 hours if the resident is vulnerable.

We describe the conversation by which we understand the needs of our more vulnerable customers as 'Getting to Know You' which is when the Neighbourhood Housing Officer sits down with the resident and discusses his/her situation and how we may be able to help. They talk to residents about health and disability, financial issues, drug and alcohol issues, caring responsibilities and any other area which concerns the resident.

5.2 Leaseholders

Leaseholders comprise around 40% of the THH customer base. Their relationship with us is service based and financial. Leaseholders pay an annual service charge to cover routine costs of management and maintenance. In addition, where major works are required, leaseholders are also required to make a contribution to such works on their block or estate. The tightening of credit available from lenders has limited the availability of secured and unsecured credit to fund leaseholder contributions for major works. Although the use of sinking funds is commonplace within private residential leaseholder sector it is not a feature of local authority leases. Therefore although the financial impact on leaseholders here may be periodic, it is nonetheless significant when it arises.

THH has set out four principles underlying investment in stock. They are:

Asset overview – using stock condition data and other intelligence about the stock to inform how the capital programme is developed;

Customer overview – understanding what combination of investment choices drive customer satisfaction and acting on this;

Neighbourhood – ensuring that investment decisions are coherent at a neighbourhood level; and

Value & sustainability – this principle seeks to capture the financial and non-financial aspects of value and sustainability in the investment decision.

The neighbourhood action planning process and the statutory leaseholder consultation process are important channels to plan decisions around the above principles. In a mixed tenure environment there will always be a potential tension between the landlord's responsibility to maintain and invest in the stock and the financial impact on individual leaseholders. Nevertheless, effective use of existing processes can ensure that these take into account leaseholder affordability.

In order to ameliorate the effects of financial on major/capital works payments on leaseholders, extended repayment agreements and in some cases interest free repayment arrangements are available to leaseholders. Having completed two significant phases of leaseholder improvement work, a joint leaseholder policy review is currently underway with the Council and the scope of this review includes leaseholder policy for major works.

A specific Leaseholder Money Help & Advice Toolkit has been developed and is in use to assist staff with leaseholder money matters.

We communicate our money help and advice services in our resident newsletters. In addition, we have recently updated the THH website with a new "Extra support for residents" section accessible from the home page of the website. Our website also has a benefits calculator and links

to the FSA's Money Made Clear website and National Debt Helpline.

5.3 Indirect

Earlier in this report, the high level of unemployment within Tower Hamlets was highlighted. We recognise the potential of our role as a medium sized employer within the borough. Consequently, we took on 7 Future Jobs Fund trainees on placements within the caretaking service in the 2009-10 year. Additionally, graduate trainees have been engaged on fixed term contracts within the Engagement Team.

6. Diversity

6.1 Included within the THH portfolio are some of the most diverse neighbourhoods in the country. A few facts serve to illustrate this. Borough wide, 37% of the borough's citizens are between 20 and 34 years old. Of these, over 70% are from ethnic minority backgrounds, which is significantly higher than the inner London average. Unemployment stands at 11.9%, which is almost double the average for Great Britain (6.4%).

Unemployment is a particular problem among the borough's 16-24 year-olds, 27.1% of whom are unemployed – the highest such figure in all of London.

6.2 THH has designed its operating model and access channels through the neighbourhood working model and renewed access channels to deliver services that are inclusive, accessible and fair to all. The neighbourhood profile is a tool which is providing more and more THH knowledge and understanding of its stock, residents and local services.

6.3 We recently completed a review of the equality impact assessments (EQiAs) and as a result sharpened up the action plans associated with them. As we enter into a more challenging financial environment, it will be increasingly important that the diversity impacts of proposed decisions are assessed and evaluated in advance of their implementation.

7. **Equalities and Diversity Implications** – covered in the body of the report.

8. Implications

8.1 Value for Money

8.1.1 Embedding a strong value for money culture is imperative to tackling the financial challenges we will face. The Audit Commission in their Advice & Guidance Inspection last year commented that "value for money is not embedded in the day-to-day work of the ALMO". Over the last 18 months we have developed a number of initiatives which directly or indirectly have set out to achieve this.

- 8.1.2 A Board member and SMT VfM Champion was appointed. The Board VfM champion has led on a series of VfM roadshows directed at all employees within the business. A VfM eLearning tool has been deployed which enables simple but key messages to be conveyed. However, the communications traffic is not just one way and a VfM register and VfM Championship league have enabled us to de-mystify value for money and encourage bottom-up suggestions and ideas. All appraisals now have value for money objectives.
- 8.1.3 There is evidence that this investment is paying off because in the latest staff survey 91% of staff said they understood why VfM is important to customers.
- 8.1.4 Moving forward, resident-driven resource allocation will drive out inefficiency particularly around activities which residents do not want or need. Therefore it has the potential to serve up greater efficiencies than incremental and more internally-led exercises of the Gershon era. Over time, neighbourhood action plans will inform all spending plans.
- 8.2 Legal implications – none.

9. Conclusion

- 9.1 The economic downturn presents significant and immediate challenges to our customers and to the business. However, our investment in developing a customer-centric infrastructure together with a proven capacity for change and service improvement places the organisation in a strong position to manage these challenges effectively.