

Item No.	Classification: Open	Date: 26 November 2020	Meeting Name: Cabinet Member for Housing
Report title:	Tenant Management Organisations (TMOs) Allowance Review 2020		
Ward(s) or groups affected:	All		
From:	Strategic Director Housing and Modernisation		

RECOMMENDATION

That the Cabinet Member for Housing:

1. Approves the outcome of the TMO allowance review exercise, the methodology applied and the increase and decrease of allowances set out in Appendix 1.
2. Agrees for this to be applied on an ongoing basis until the next review.
3. Notes the revised management allowances payable to 16 TMOs totalling £3,714,064, an overall reduction of £102,065 compared to the previous year.

BACKGROUND INFORMATION

4. Southwark has 17 operational TMOs comprising 4,630 properties of which 2,988 were rented by council tenants and 1,642 were leasehold or freehold. The current breakdown is as follows:

TMO	Leasehold	Tenant	Total	%
JMB	493	1,050	1,543	33.33%
Fair Street	250	307	557	12.03%
Browning	160	336	496	10.71%
Gloucester	79	339	418	9.03%
D'Eynsford	114	222	336	7.26%
Willowbrook	40	139	179	3.87%
Haddonhall	65	104	169	3.65%
Two Towers	61	104	165	3.56%
Webber & Quentin	63	100	163	3.52%
Delawyck	64	51	115	2.48%
Falcon Point	62	48	110	2.38%
Brenchley	52	43	95	2.05%
Wrayburn	35	37	72	1.56%
Cooper Close	48	15	63	1.36%

Styles	20	36	56	1.21%
Applegarth	15	38	53	1.14%
KPH	21	19	40	0.86%
Total	1, 642	2,988	4,630	100.00%

5. Statutory guidance allows the council to seek to review TMO allowances where either the council's costs have reduced significantly for a similar mix of dwellings or the TMOs costs have increased significantly.
6. The last review of TMO allowances was carried out in 2016, since then there have been notable changes in Council's organisation and income and expenditure. It was therefore important to make sure that TMO allowances were in line with Council expenditure.
7. Back in 2016, the TMOs listed below were not included in the review:
 - D'Eynsford
 - Gloucester Grove
 - Styles House
 - Leathermarket JMB
8. At the time D'Eynsford, Gloucester Grove and Styles House had not been operational for long enough for the council to consider reviewing their allowances. Leathermarket JMB operate under a self-financing regime and don't receive allowances from the council.
9. On this occasion, since Webber and Quentin TMO and Wrayburn TMO have only been operational since April 2018, they were given the choice as to whether they would like to adopt a revised allowance or continue with the allowance they currently have. Only Webber and Quentin chose to have their allowance reviewed, and therefore the allowances paid to Wrayburn TMO were not included in this review. Leathermarket JMB continues to be self-financing and was also not included.
10. The TMO allowance review project started in September 2019 and was concluded in July 2020. The process took longer than in previous years due to staff shortages, the process being externally audited and delays due to the impact of the Covid pandemic.

KEY ISSUES FOR CONSIDERATION

11. In November 2019 Southwark TMO Committee (STMOC) agreed a task and finish group consisting of TMO Chairs and managers to work with the Resident Involvement accountant and TMI team leader to carry out of the review of TMO allowances and report back to STMOC.
12. The STMOC allowance task group appointed BDO external auditors to independently oversee and validate the allowance review process.

Allowance Review/Calculation Process

13. The process is summarised as follows:
- Confirmation of the number of tenanted properties managed by Housing & Modernisation to be used for the calculations.
 - Review of all the IWorld repairs and credit notes.
 - Review / reconciliation of all housing management on IWorld repairs against the delegated and retained tasks in the management agreements.
 - Analysis of 70,000 rows of all HRA SAP expenditure to cost each element of the maintenance e.g. calculation of the staff costs, legal costs, tenancy and repairs costs, IT costs, grounds maintenance etc.).
 - Calculation of unit cost for each management area.
 - BDO evaluation and scrutiny of working papers and calculations of all cost categories used to determine the TMO Allowances.
 - Draft allowance presented to TMOs.
14. Please see Appendix 1 for the revised management and maintenance allowance payable to TMOs.

Implementation of revised allowance

15. The council is required to give TMOs at least three months notice of any change in the amount of the allowance for the following financial year. The review process was originally planned to have concluded by March 2020 but given the delays highlighted in paragraph 10, the TMOs were only made aware of the reviewed allowance amounts in September.
16. Given the delay and the exceptional circumstances TMOs find themselves in, they will be given the choice as to whether they would like the revised allowance to be applied retrospectively starting from 1 April 2020 or to start with effect from 1 April 2021.
17. According to statutory guidance, allowances should be set, wherever possible, for a 3 to 5 year period and a periodic review should not take place more frequently than once every three years unless both the council and the TMO agree otherwise. However the immediate and ongoing financial impact to the council and to the Housing Revenue account caused by the Covid-19 pandemic, lockdowns and tier restrictions now mean that the council must retain the option of undertaking a periodic review within the next three years, and possibly next year, if it considers that to be necessary in these exceptional circumstances.
18. The council will enter into a clear dialogue with TMOs to ensure that they are provided with detailed reasons and a timetable for any future review and are made aware of the need for comprehensive advance financial planning.

19. As per statutory guidance, subsequent annual adjustments will increase or decrease the overall allowances by the same proportion as the council's own overall Housing Revenue Account expenditure (excluding any new build costs). This will reflect inflation, increases and changes in costs, and increases in income from rents and service charges.
20. Any TMO experiencing a 5% or more reduction in allowance will have the option of a staggered implementation in line with statutory guidance.

Policy implications

21. The methodology followed to arrive at the proposals in this report follow national statutory guidance.

Community impact statement

22. The proposals in this report mean no changes to service design or delivery.

Resource implications

23. The proposed allowances are already budgeted for within the Housing Revenue Account (HRA). There are also no staffing implications for the council.

Legal implications

24. Please see legal concurrent below.

Financial implications

25. There are no financial implications arising from this report as TMO allowances are currently able to be met from existing HRA budgets.

Consultation

26. The methodology used to calculate these allowances is set in statutory guidance and can't be subject to consultation, however in the spirit of openness and transparency, officers have worked closely with Southwark TMO Committee (STMOC) by setting up an Allowance Task & Finish Group.
27. Officers also agreed a request from the TMOs representatives in the task and finish group to have an independent specialist organisation audit the allowance review process.
28. The process was audited by BDO external auditors who issued a report which identified no major issues with the process followed.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

29. Section 27 of the Housing Act 1985 and the Housing (Right to Manage) Regulations 2012 empowers the council to enter into a management agreement whereby the council agrees that a Tenant Management Organisation may exercise some of the council's housing management functions in relation to specified properties.
30. Guidance given under regulation 18 of the Housing (Right to Manage) Regulations 2012 includes "Calculating Allowances for Tenant Management Organisations" December 2013 issued by the Department for Communities and Local Government. This guidance sets out the way that allowances must be calculated (unless they are self-financing).
31. The calculation of allowances must be based on the council's own level of expenditure on providing the services to the TMO properties that the TMO will provide. This methodology must also be applied where a periodic review of allowances is made, but the cost base must be established from properties remaining within the council's management. Paragraph 13 and 15 of this report sets out how the review of allowances and the calculation of the new allowances has been undertaken in accordance with this guidance.
32. Allowances should be set, wherever possible, for a period of 3 to 5 years but are adjusted annually by increasing or decreasing the overall allowance by the same proportion as the council's own overall Housing Revenue Account expenditure or by an alternative agreed index such as inflation. Paragraph 19 sets out the process for annual adjustment.
33. Government guidance recommends that a periodic review should not take place more frequently than once every three years unless both the Council and the TMOs agree otherwise. The council must have regard to this statutory guidance and it should be followed unless there is a good reason not to in a particular case. Paragraphs 17 and 18 set out the reasons why the council needs to retain the option to undertake a periodic review within the next three years and the process that will be followed to notify TMOs.
34. The council must give TMOs at least three months notice of any change in the amount of the allowance for the following financial year and agree a procedure and timetable for implementing any change which allows a sufficient period for negotiation with the TMO on the proposed change and for agreement to be reached on how it will be implemented. This report sets out the review procedure and timetable and paragraph 16 sets out the notice and implementation period.
35. Where there is a variation in the allowances of 5% or more, the government guidance requires this to be phased in over three years, unless a shorter period is agreed between the TMO and the council. Paragraph 18 confirms this approach.

Strategic Director of Finance and Governance (H&M20/070)

36. The Strategic Director of Finance and Governance notes the recommendations within the report and there are no immediate financial implications arising from the report.
37. In future, should TMO budgets change significantly, these will need to be factored into the annual budgetary process.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
A Review Of The Allowance Calculations For TMOs Within The London Borough Of Southwark, by BDO LLP	Council IT system	Jackie Richards Jackie.richrds@southwark.gov.uk

APPENDICES

No.	Title
Appendix 1	Reviewed TMO allowances

AUDIT TRAIL

Lead Officer	Strategic Director Housing and Modernisation	
Report Author	Tenant Management Initiatives Team Leader, Resident Involvement Manager	
Version	Final	
Dated	26 November 2020	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		26 November 2020