**Hexagon Housing Association**

**Board of Management**

**26th January 2016**

**Agenda item 11**

**Hexagon’s policy on co-operative development**

**Report by the Operations Director**

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| ***1*** | ***Summary*** |
|  | This report outlines the history of Hexagon’s involvement with co-operative management of our homes and presents the arguments for and against our current approach to co-op support and development. It is intended as a discussion paper as a follow up to the brief discussion at the Away-day.  |
| ***2*** | ***Recommendations***  |
|  | The Board notes this as a background paper. Board members are invited to comment on the issues and agree that a follow-up report with recommendations will be done as part of the Chief Executive’s report in March.  |
| ***3*** | ***Hexagon’s relationship with the co-ops*** |
| 3.1 | Hexagon as the landlord has a management agreement with each co-operative which sets out the roles and responsibilities of each party. The management agreement follows a nationally devised “model” management agreement originally drawn up in the 1980s/early 1990s when co-op and tenant management organisation development was being promoted through Government policy on the right to manage which applied to local authority tenants. Hexagon remains the landlord and residents are tenants of Hexagon; the co-operative is responsible for day to day management of the homes including collecting the rent; the co-ops retain out of the rent income agreed sums for the management and maintenance of the homes and pay the balance to us to meet the other costs such as interest payments and cyclical and major repairs, for which Hexagon retains the responsibility.  |
| 3.2 | Our Resident Involvement team is responsible for the day to day liaison with the co-ops and monitors their performance through a system of quarterly returns and annual visits. The performance monitoring reviews lettings, arrears, repairs, gas safety checks, FRA reviews, and complaints. We approve their policies which form part of the management agreement. The co-ops also refer decisions on pursuing legal action for tenancy breaches to us as the landlord. We also have the right to attend some of their meetings and receive the minutes of key meetings like AGMs. Most of our current co-op managed homes are for general needs residents; one scheme is for men with HIV/Aids and another co-op, Three Boroughs includes 28 shared housing bed-spaces representing 34% of the stock that they manage for us.  |
| 3.3 | Hexagon in the 1990s used to have a team – the Co-ops and Tenant Services team - which was dedicated to the development of co-operative housing and working as part of the Development department. It was well-resourced and worked also as a “tenants’ friend” for groups of tenants outside Hexagon who wanted to take more control over their housing often in boroughs where Hexagon had no stock of our own. The team was not making much impact internally and was making a large deficit and at the end of 2001, the Board decided to change direction and diverted the resources to two new teams. We set up a new resident involvement team which would continue to support the co-ops but would also focus on resident involvement work for Hexagon residents generally. The remaining co-op team members moved to the Operations Directorate at that time. At the same time, a new team was set up to do Community Development and this later became the Community Investment team.  |
| ***4.*** | ***The rise and fall of the co-operatives in Hexagon***  |
| 4.1  | A number of homes in co-op management were inherited from one of Hexagon’s predecessors, Solon South East and the numbers of homes managed by co-ops grew for about 10 years until the numbers started to dwindle about 15 years ago (see table below.) Most of the reductions were because the co-ops ceased to operate; in existing co-ops, a few homes have been sold under the Right to Acquire. Co-ops now manage about 7% of Hexagon’s stock.

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| **Managing Agent/Co-ops** | **Total Permanent units 2015** | **Max Permanent units 2001- 2007** |
| ABC | 37 | 39 |
| Acceptable Face | 8 | 8 |
| Balfour St | 21 | 21 |
| Brockley Tenants | 72 | 76 |
| Kirkdale | 14 | 15 |
| Lewisham Family | 26 | 26 |
| South Bank | 34 | 34 |
| Three Boroughs | 82 | 83 |
| CroyTMO |  | 32 |
| SE13 Co-op |  | 14 |
| Tressillian CHA |  | 3 |
| Oxleas |  | 3 |
| Woodlands Co-op |  | 67 |
| Goldfinch |  | 40 |
| Matrix |  | 11 |
| **TOTAL** | **294** | **472** |

The column on the right of the table shows the maximum number of homes managed by each co-op in the period 2001-7. It was in this period that numbers started to decline. **Ground – up origins**Some of the early co-ops were based on the short-life use of former local authority street properties which the authorities could not afford to rehabilitate properly. Some squatting groups got involved in forming co-ops to manage their own housing. Over time, Hexagon received grant funding to bring the homes up a “30 year” life rehabilitation standard, and some of the early street properties were replaced with new build homes. **Top-down initiatives** Another phase of development was more top-down when Hexagon using its Co-ops and Tenant Services team promoted the formation of co-ops with the new residents who had been nominated by the local authority in some of our new housing developments in the mid-1990s. At one time, there was grant funding from the Government to help meet the cost of developing co-ops but this is no longer available. Three co-ops , CroyTMO (in Croydon) and Goldfinch (in Thamesmead in Greenwich) and Woodlands in Bexley came out of this initiative but there was no real internal driver for these co-ops and within a few short years, the residents of two of the co-ops asked Hexagon in 2001 to directly manage their homes. Woodlands followed in 2005 as a result of concerns about a lack of probity and poor governance.  |
| 4.2 | **Recent co-op concerns** The most recent failure was Matrix co-op where there were internal divisions amongst the members. We conducted an investigation into allegations of financial mismanagement and governance failure, and this led to the closing down of the co-op in and taking into direct management their units in 2014.  |
| 4.3 | In the summer of 2015, we reported to the Board some concerns about the governance and allegations of impropriety at BTC. It was clear to us that the Management Committee was not dealing with the issues properly. Following our intervention and recommendation, the Management Committee agreed to commission two reports from an independent advisor on co-ops – the Confederation of Co-operative Housing. These two reports – one on the alleged malpractice and the other on the improvements needed to their governance – were considered by their Management Committee in early January. The meeting agreed the recommendations of the governance report but failed to make a decision on the probity matters, nor did they set a timescale for resolving these issues.  |
| ***5.***  | ***How are our co-ops performing?***  |
| 5.1 | The tables below show some of the main performance measures for last year. Performance varies considerably between co-ops especially in relation to collecting the rent. By way of comparison, our general needs directly managed arrears were 4.7% at the end of 2014/15 and Supported housing was 3.6%. Our directly-managed repairs performance (for emergency repairs only so the figures are not really directly comparable) however was down at 93.9%, although it has been 100% this year. We do not ask the co-ops to report on a wide range of measures as this would be too onerous for small organisations reliant largely on volunteer effort.  |
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| **Group** | **Rent Arrears 2014/15****%** |
| ABC Southwark  | 7.0 |
| Acceptable Face  | 3.2 |
| Balfour St  | 2.9 |
| Brockley Tenants  | 3.7 |
| Kirkdale  | 3.35 |
| LFSA | 7.53 |
| South Bank  | 2.99 |
| Three Boroughs  | 4.89 |

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| **Group** | **Repairs within target 2014/15****%** |
| ABC Southwark  | 97.5 |
| Acceptable Face  | 100 |
| Balfour St  | 100 |
| Brockley Tenants  | 96.9 |
| Kirkdale  | 100 |
| LFSA | 99.5 |
| South Bank  | 95.6 |
| Three Boroughs  | 99.5 |

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| **Co-op Gas Safety Performance over last 12 months (%)** |
| **Dec-14** | **Jan-15** | **Feb-15** | **Mar-15** | **Apr-15** | **May-15** | **Jun-15** | **Jul-15** | **Aug-15** | **Sep-15** | **Oct-15** | **Nov-15** |
| 98 | 99.3 | 98.9 | 100.0 | 99.3 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 99.7 | 100.0 |

Co-op performance on gas safety checks has been an ongoing concern over recent years, although recent performance has seen a significant improvement in this area compared with last year. Nevertheless, of the eight co-ops that we work with, all but one (South Bank Co-op) have received Breach Notices in the last 18 months for not submitting valid gas safety certificates. For the last full year (2014/15) a total of 7 Breach Notices were served on five co-ops (2 co-ops received two separate Notices) relating to late certificates for 19 properties. This picture has seen an improvement for the current year where by the end of Quarter 3 there had been 2 Breach Notices served on two co-ops for two properties |
| 5.2 | Our Business Improvement team arranged a survey of co-op residents in the summer of 2015. This showed a marked improvement in the satisfaction rate from the last survey in 2011 up to 81.9% satisfied in 2015. In every area where a comparison with the last survey was possible, satisfaction levels had improved. The results showed: * Quality of home (82.7%),
* Neighbourhood as a place to live (89%),
* Value for money of rent (78.7%),
* Repairs and maintenance (81.1%),
* The way in which residents’ views are listened to and acted upon (77%),
* Ease of reporting an issue (80.2%)
* Satisfaction with last contact (85.6%)
* Satisfaction with opportunities to get involved (78.6%)

These are good results for the 127 residents who responded (a 40% response rate). We also asked about involvement with the co-op and 28.6% of respondents had had no involvement in the last 12 months which suggests that 71.4% had had. There were variations between co-ops but analysis of results at co-op level would not be statistically reliable.  |
| ***6.*** | ***Policy discussion***  |
| 6.1  | The arguments in favour of promoting co-ops can be broadly summarised as: * Co-ops provide a means by which tenants can be empowered to take more control over their housing conditions and by extension, their lives
* Co-ops *on average* perform better than landlord –run services with residents expressing higher rates of satisfaction. This comparison applied to co-ops comparing themselves with small landlords.
* The benefits of co-operative and mutual housing as expressed by the Confederation of Co-operative Housing *can* include establishing effective local community businesses, and the development of strong and sustainable local communities and the potential for local support for the development of new housing schemes
* Hexagon’s support of Co-ops is potentially a USP for Hexagon

**A range of opportunities for empowerment** The involvement with their co-op will potentially enable residents to learn new skills and be able to take more control over some aspects of their lives. It is recognised that involvement in a co-operative is only attractive to some people. However, this is not the only route we offer to “empowerment.” Many of the residents who have benefitted from our community investment programmes have also been able to be empowered through, for example, our employment support and business start-up programmes to change their lives in a very direct way which also increases their income-earning potential. There are also opportunities through some of our other resident involvement activities (outside co-ops) to influence their housing conditions and potentially gain useful experience through contributing to our scrutiny panel, estate grading schemes etc. Some of our co-op residents are very active members of resident involvement panels and groups. **Performance - Hexagon’s experience** Our experience of our own co-ops is that their performance in delivering the housing service is very variable – compared with each other, over time and in comparison with Hexagon’s directly managed homes. We cannot say that our co-ops have consistently performed better or worse than Hexagon. Their performance in relation to the coverage of gas safety checks was not good enough for a long while but after a management –led drive from us, coupled with enforcement action under the management agreement, their performance has improved considerably. **Co-ops contributing to local communities** We are not aware of any evidence that our co-ops, which are mostly small and not significant in the local business economy, are making much of a contribution to the local business community although they are probably using small local contractors. We are aware that a number of individual co-op residents are making contributions to their local communities through volunteering etc. but this seems to be an individual effort by community-minded people, rather than a product of the operation of the co-op per se. We are not aware that any of our co-ops have led the way in supporting new housing developments. **Co-ops as a USP for Hexagon** It is rare for landlords to continue to support co-ops in the way which Hexagon has done so there is theoretically a competitive advantage when dealing with local authorities to be derived from having our relationship with the co-ops. However, we are no longer actively involved in bidding for regeneration schemes where this USP may have benefitted us at one time.  |
| 6.2 | **Current policy on co-ops** Hexagon’s current position is that we will continue to support our co-ops providing they are well-run but we do not proactively seek to promote the development of new co-ops. This is largely based on the failure rate in the late 90s and early 2000’s plus the very high cost of doing so. For example, £32k of staff time was budgeted to be spent on a single co-op, the CroyTMO in 2001, and as it turned out this was the year in which it decided not to continue. However, we take the view that we would consider any proposal from a group of residents to form a co-operative. We monitor the Co-ops and provide Housing management and governance advice where required. We also have a role in managing the major repairs required to co-op properties.  |
| 6.3  | The arguments against changing our stance are as follows:* There is no apparent drive or demand from residents to set up co-ops
* Our co-ops sometimes complain to us about the low level of involvement in running the co-op by some of their newer residents, leaving a few long-standing members to do all the work. Some have had intermittent issues with low attendance and sometimes inquorate general meetings
* There would be a risk of diverting our resources into promoting a co-op for a relatively small number of potential beneficiaries. Promoting and developing a co-op to be able to set up and run itself is very time-consuming, intensive work and is probably best done by people with considerable experience in the field. We are not geared up to do this sort of work now. There is no external funding to do it, and we are entering into a period when our income will gradually reduce over the next few years and we are looking for efficiency savings. As set out in section 3.3, when our former Co-ops and Tenant Services team did this sort of work more than fifteen years ago, they were not providing support to our mainstream resident involvement activities which have developed with a new team since we stopped promoting co-ops.
* Having nearly 300 of our homes managed by co-operatives brings an added layer of complexity (and therefore cost) to our work across several departments – mainly in Housing Services and Resident Involvement, Stock Improvement, Finance and IT. This results from the monitoring arrangements, the split responsibilities for repairs, and the need for exceptions to some of our policies to accommodate the co-op position on for example, “affordable” rents, and asset management especially in relation to disposals.
* Very small co-ops usually cannot afford to employ professional housing managers and the lack of this skill poses an increased risk of service failures or a lack of appropriate response.

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| 6.4  | The Board is asked to discuss and comment on the report at this stage. Following this, a recommendation will be made in the Chief Executive’s report to the March Board on the way forward.  |