

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 18th January 2010

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WARD(S): All

PORTFOLIO: Neighbourhoods and Renewal - Councillor Swindlehurst

PART I
NON KEY DECISION

PROVISION OF HOUSING MANAGEMENT SERVICES – OPTION APPRAISAL LAUNCH REPORT

1. **Purpose of Report**

To advise Cabinet of the launch of an option appraisal exercise to consider the route for future delivery of housing management services on behalf of the Council now that the present agents People 1st (Slough) Ltd are entering the final 12 months of their five year contract.

2. **Recommendation(s)/Proposed Action**

The Cabinet is requested to resolve:

(a) That the option appraisal process outlined below be commenced and the final recommendations be reported to the March Cabinet or sooner if possible and

(b) That the three options identified in paragraph 6.2 are worthy of further investigation as part of the process to reach a final recommendation

3. **Community Strategy Priorities**

The provision of good quality, inclusive and efficient housing services are fundamental to delivering the Council's community strategy priorities and as such a comprehensive options appraisal process will initiate the selection of service delivery agents who will act on behalf of the Council from January 2011 and beyond.

4. **Other Implications**

(a) **Financial**

There are no financial consequences of agreeing this report or of undertaking the options appraisal itself. Clearly each option for the future delivery of housing services will be deliverable at a price and members will be made aware of such likely or indicative costs in a further report upon the conclusion of the project.

Most of the current and future housing services are funded via the ring fenced Housing Revenue Account, however some, such as those provided by the Private Sector and Housing Needs team are a call on General Fund Budgets.

(b) **Risk Management**

The council must conclude an options appraisal to determine the future mode of service delivery in good time to plan the transition from the current provider People 1st to any other agent that the council may chose. Any delay in this process will threaten the continuity and quality of services delivered from January 2011 onwards. Housing management includes collection of a £26M rent roll and expenditure of around £15M per year. If the future of service delivery is not planned in a timely and detailed manner there could be significant financial risk to the council.

(c) **Human Rights Act and Other Legal Implications**

As the project develops, the overreaching legal requirements and those specific to each option will become apparent however at this stage members should be aware that some services provided currently by Slough Borough Council and People 1st are discretionary while others are statutory functions being governed by the appropriate legislations also dictates those services which may be provided by a third party on behalf of the Council while others must be retained by the Council itself.

(d) **Race Relations Amendments Act Implications**

The future determination of the delivery method for housing services will be subject to an equalities impact assessment and the results reported to members accordingly.

5. **Supporting Information**

Background

- 5.1 Housing services available across the borough are provided both directly by the Council and on its behalf by the arms length management organisation (ALMO) People 1st (Slough) Ltd.
- 5.2 People 1st (Slough) Ltd. is a separate legal entity from the council, albeit that it is a wholly owned with the Council being the sole shareholder. It is governed by a management board of 15 members (5 tenants, 5 SBC member and 5 independents). It was launched on the 1st January 2006, following a Council resolution, ODPM approval and the signing of a 5 year management contract.
- 5.3 The original ALMO concept emerged from the Government's white paper on housing published in 2000 which imposed the obligation of improving all social rented homes to the decent homes standard by 2010. Other options identified at the time were stock transfer, use of existing resources or Private Finance Initiative (PFI).
- 5.4 Once established, People 1st would have access to additional capital funding subject to it achieving 2* status following an Audit Commission inspection. This was achieved in November 2007 since when over £30M capital has been invested in bring over 3,000 homes up above the Decent Homes threshold and by year end March 2010 it is anticipated that less than 20% of the stock will be 'non-decent'.

Based upon the current rate of delivery, by December 2010, the end of the management contract the figure should be below 10% non-decent homes.

- 5.5 The original 2* accreditation lasts for 3 years and therefore discussions are already beginning to timetable a re-inspection of People 1st for the latter part of 2010 or early in 2011. The timing so close to the end of the contract is unfortunate and the uncertainty regarding the ALMO's future will not aid the motivation of staff to 'raise their game' and undertake the considerable additional work that is required to prepare for and stage a full inspection. This situation itself justifies an early resolution of this options appraisal process.
- 5.6 Although the contract expires at the end of December 2010 the final tranche of Decent Homes funding is not due to be received until April 2011. It is uncertain whether the CLG would be minded to release the final tranche of £5M capital funding if the ALMO was no longer in existence and the implications of the loss of this funding will need to be evaluated as part of this process if the decision is taken to terminate the contract with People 1st. A very brief discussion with Corporate Finance has suggested that it would not be impossible to raise this equivalent amount through prudential borrowing should it be necessary to complete the decent homes work.
- 5.7 To complicate this matter further, it should also be remembered that the final tranche of funds will also be linked to a successful 2* inspection as mentioned above. People 1st although seen to have promising prospects were classified as a weak 2* after the last inspection and the general perception is that in significant areas, services have not improved and have even deteriorated given that the quality threshold to achieve 2* has been raised.
- 5.8 By undertaking this options appraisal during the early months of 2010 it will conclude in time to inform the budget setting process for the year ahead.
- 5.9 Additionally the Government has promised to release its proposals for reforming the HRA subsidy system in February 2010. This may mean that over the same timescale the council might be in a position to buy itself out of the present subsidy arrangements in return for taking on a proportion of the national housing debt. The benefit of this for Slough would be that it guarantees the long term viability of the housing revenue account, the provision of council houses and the retention of all rental income (£9M per year currently goes back to the Treasury) in return for repaying the debt through prudential borrowing.
- 5.10 As members may be aware the permanent chief executive officer left People 1st in October 2009 and since that date the company has been managed by an Interim appointment who has been engaged on a 15 month contract through to December 2010. The interim CEO has been fully involved in discussing the principle of the options appraisal process and the earlier that a decision can be reached will enable him to plan a work programme accordingly and also limit the amount of abortive work undertaken.

Options Appraisal

- 5.11 In reviewing the future options for the provision of housing management services across the borough there is a risk that the process can be over complicated, something that can be at least partly avoided by discounting some of the options at

this early stage. Below is an initial trawl of potential outcomes which identifies ten options that could potentially be evaluated.

5.11.1 Renewal of the five year management contract with People 1st

The simplest option would be to renew the existing contract for a further five or more years however officers and members are aware that there have been significant concerns regarding the performance of major aspects of the contract and that “status quo is not an option”. While the ALMO has been very successful in securing and then investing the funding to improve the housing stock, other areas of its work have not seen an improvement in quality or where this may have occurred, it is fragile and far from embedded. Additionally, even a good or excellent performing ALMO becomes expensive to maintain once its primary aim of attracting capital funding has been fulfilled and following this theme LB Hillingdon, as a local example, are currently consulting their tenants with a proposal to wind up Hillingdon Homes and bring the services back in-house with the estimation that such a move would save around £300,000 per annum which could then be reinvested in front line services. People 1st is not as large an organisation but it is easy to imagine savings of £200-250,000 could be delivered across the Housing Revenue Account. If the contract was to be renewed it would require a significant re-write to explicitly address issues of under performance and their treatment. With the ultimate threat still being to take the service back in-house, the question remains that if this is the solution then why not bring it about immediately if its benefits outweigh those of retaining People 1st.

5.11.2 Temporary extension

A temporary extension would not in itself provide a solution but could provide sufficient time for some of the more complex or far reaching options to be explored. However, there are significant drawbacks with any form of temporary extension, it limits the company’s ability to attract and retain high calibre of staff, it limits medium and long term planning of budgets and service delivery and it does not send the right message to the audit commission in advance of any inspection. Staff in both the Council and People 1st would generally see ‘the writing on the wall’ and staff motivation would potentially become problematic.

5.11.3 Expansion of contract

As stated above, one of the biggest drawbacks of the ALMO regime is that it is an expensive machine to maintain in terms of senior management and establishment costs particularly once it has achieved its primary aim of delivering decent homes. To reduce or spread the non controllable costs wider, one option would be to renegotiate the management agreement to transfer further housing services such as Housing Needs or Private Sector Housing to People 1st. While this would be financially advantageous to People 1st it would leave the Council with significant corporate overheads to redistribute across the remaining departments. Additionally there might also be the concerns regarding the loss of services seen as being good performers from the Council’s control and the fear that standards may drop if they received less attention and scrutiny by the management team of People 1st. A further concern might be that with more staff transferred from the Council, its resources to maintain the strategic focus of housing would become depleted. Certainly in recent years it has been fortuitous that Housing Needs and Housing Enforcement have remained within the Council when dealing with the interlinked issues of homelessness, migration and HMO’s.

5.11.4 Merger with another ALMO or similar body

Overheads and establishment costs could be reduced if People 1st were to forge a link with another ALMO or similar body in the local area. Slough were instrumental in establishing a ground breaking partnership with Hounslow Homes when People 1st was first launched and while the contract ended with some bad feeling between the two organisations, this experience should not by itself rule out the option. That said, with Hillingdon already proposing to end their ALMO and Ealing looking for a private sector management company to take over from their ALMO there are few potential partners available in the vicinity, the next nearest being in Hammersmith & Fulham and Kensington & Chelsea. Understandably any perceived loss of local control or accountability would be a significant barrier to developing this option.

5.11.5 Testing the private sector market

This option is something of an unknown quantity with very few private sector organisations being engaged by local government and to date little interest has been shown by housing associations in providing a management umbrella function on behalf of authorities. That said, LB Ealing are committed to exploring this market and it might be that Slough could learn or even benefit from their experiences. The council has experience of forging long term partnerships with both Interserve and Enterprise but both have not been without their challenges. Without a proven track record of housing management on this scale this could represent a huge risk for the Council and while some overhead costs could be saved this could potentially be off set by the need to establish a much more comprehensive client-side monitoring function.

5.11.6 Stock transfer

Large scale voluntary stock transfer (LSVT) remains one of the options available to authorities to fund the necessary investment to achieve the decent homes target. It would signal the end of the Council's involvement in housing management with the stock and the tenants transferring either to an existing housing association or to a newly formed local housing company. With the end of the decent homes investment works in sight, securing additional funding is no longer a primary driver in the options appraisal and given that this option gained no support from either tenants or elected members when it was explored six years ago it does not seem appropriate to explore it further at this time. Additionally the Government has also suggested that whereas in the past, stock transfers occurred with a dowry of capital funding to address any backlogs in repairs and ongoing maintenance, with the reductions in public expenditure, this will no longer be the case and all investment requirements will need to be met through borrowing against the capital value of the stock.

5.11.7 Community Gateway

The Community Gateway project is the latest evolution in the stock transfer process whereby the stock is transferred to an RSL or LHC but is managed by the tenants and leaseholders themselves with only a 'light touch' guiding hand from the parent body. This option is still dependent upon a 'yes' vote from tenants to transfer and of

course requires an established comprehensive and inclusive tenant engagement strategy with a proven track record of involvement in decision making.

5.11.8 Local Housing Company

Establishing People 1st as a local housing company would enable them to attain developer status with the HCA and approved management status with the TSA. If they were successful in both, it would allow them to build and manage new council houses constructed on the Council's existing land holdings. This accreditation would be in addition to the work needed to secure the 2* accreditation.

5.11.9 PFI

Private Finance Initiative was one of the options originally included in the Government white paper. It has been the least used option to achieve the decent homes target and involves a private partner taking a stake in the ownership of the council's housing stock in return for funding the investment required to improve the stock. Given that the decent homes programme will be reaching its climax in 12 months there is limited need for ongoing investment and this option does not seem worth of further investigation.

5.11.10 Returning the service 'in-house'

At the end of the current 5 year contract the services currently provided by People 1st could be returned to the council for direct provision. The normal rules of TUPE will apply and existing ALMO staff would need to be engaged on their current terms and conditions. Given that the Council is on the verge of completing the job evaluation and harmonisation project a similar process would need to be undertaken over time for transferring staff. An early determination of this option appraisal will allow significant preparations to be undertaken to limit the impact of the TUPE and re-evaluation work. The issues of under performance would still need to be addressed but potential savings in rationalising the workforce might release funding that could be reinvested in the service. Additionally, options for a broader restructuring could be explored to provide a more 'seamless' service for areas such as grounds maintenance or anti-social behaviour. The performance of the council's housing services would still be subject to inspection by the Audit Commission but with the availability of corporate support there may be a greater likelihood of success.

6 Conclusion

6.1 The Council needs to determine how future housing services will be provided and while numerous options exist, fewer are worthy of further consideration. It is therefore the recommendation of officers that the options under consideration are reduced to the following three, to be explored in detail with the aim of reporting to the first available Cabinet meeting for final resolution. An early conclusion to the option appraisal process will provide clarity and allow the essential preparatory work to be undertaken to ensure that the process ends successfully.

6.2 The options to be explored further are

- 5.11.8 Creation of a Local Housing Company

- 5.11.3 Expansion and renewal of the contract to provide further services on behalf of the Council.
- 5.11.10 Provision of in-house housing management services

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