

1. Introduction

- 1.1. In December 2008, EKJAC, with Ashford Council, recommended further work on the proposal for establishing a housing landlord shared services vehicle (HSSV) for Ashford, Canterbury, Dover, Shepway and Thanet. A further report was required to set out the detailed implications of the proposals before a final decision to proceed with the project could be taken.
- 1.2. In looking at the more detailed implications it has been important to retain a clear focus on the original aims of the project, namely:
 - Delivering excellent customer service – aiming for 3 stars
 - Realising greater efficiencies and savings for reinvestment
 - Encouraging stronger and more prosperous communities
 - Improving procurement capacity
 - Providing additional investment for council housing estates
 - Ensuring longer term resilience for individual HRAs
 - Establishing a stronger housing role for the councils
 - Developing a stronger role for tenants in shaping housing services
 - Improving career opportunities for staff
- 1.3. Since the initial report, substantial work has been undertaken to look in depth at the the proposals. Work completed includes:
 - A detailed financial model addressing the potential impact on the councils general fund and HRA budgets (Annex 1)
 - A more detailed options appraisal of the various models;
 - Obtaining specialist legal and governance advice about the HSSV proposal (Annex 2)
 - Establishing a tenant and leaseholder consultation framework
 - Project team and working groups set up to consider housing management best practice, governance and communications
 - Determining the activities to be included in the shared arrangement (Annex 3)
 - Assessment of the impact on remaining council services
 - Developing a detailed project plan and timetable (Annex 4)
 - Developing a Risk Assessment plan (Annex 6)
- 1.4. Whilst progress has been slow and the original timetable has slipped, this is almost inevitable with a project of this scope and complexity. Furthermore, whilst over seventy councils have established arms length arrangements to manage their housing stock, this project remains the first in the country which seeks to provide high level integrated housing services for a number of local authorities through a single shared service arrangement. Consequently, it remains of considerable interest to central government and the regulatory agencies. Additionally, the work has also taken account of the future relationship between landlord services and any wider shared service arrangements developed in East Kent.
- 1.5. The detailed business case undertaken has also shown that given the necessarily conservative approach to implementation, the potential HRA benefits for Ashford are not as substantial as that authority had anticipated. Furthermore its ability to mitigate

general fund impacts and to drive further savings to that fund are less than the other councils because they are not part of the wider East Kent joint working arrangements. Ashford therefore does not benefit from the potential economies of scale open to Canterbury, Dover, Shepway and Thanet and so has withdrawn from the project.

- 1.6. More encouragingly, with the work now undertaken, the business case for the remaining authorities provides the detailed implications and confidence in order to allow further progress of this project. Furthermore, with the withdrawal of Ashford from the project the complications of trying to address that authority's requirements through wider East Kent arrangements is removed and, indeed, simplifies the position for the four remaining authorities.
- 1.7. The innovative nature of the project also remains clear. The Communities and Local Government (CLG) Department have expressed great interest in the proposals as a shared service approach for housing services, particularly involving four authorities, has yet to be achieved. Work has already begun on comparing good practice and methods of operation across a number of key housing services and many of the short term efficiency savings highlighted in this report come about as a result of merging managerial and "back office" services across the four authorities.

2.0. Summary and Recommendations

- 2.1. The report sets out the case for proceeding with an SSV for the East Kent landlord housing services as well as the potential for combining the residual housing services of the four East Kent councils, projected by January 2011. The initiative is a complex one and therefore not without risks however the benefits are considerable - savings for both general funds and housing revenue accounts, improved services for tenants, better staff resilience and capacity, and the potential to drive efficiencies and further savings.
- 2.2. Managing the changes and ensuring tenants are involved in the change programme, and supportive of the proposals, requires a more phased approach than with perhaps most other council services. Hence the business case has been developed on the basis of minimal change to front line housing services in the first two years. During those two years medium to long term plans will be developed for the greater integration of all housing services, which will generate further efficiency savings, as well as renegotiating support service costs with other council services and putting in place a robust procurement strategy for the East Kent Housing service which, through economies of scale, should be able to realise substantial reductions in the cost of contracted services e.g. repairs and maintenance.
- 2.3. In terms of key issues arising since the initial report, there are three. Firstly, financial effects, in the first two years of operation the HSSV is expected to achieve efficiency savings in excess of 10 per cent of current running costs for the four housing services. These savings will be reinvested in the HSSV to support the further changes and service improvements in years 2 – 5 and beyond, which in turn will generate further efficiency savings. Indeed, over the first five years of operation it is estimated that the HRA can expect approximately £2,886,000 in savings for reinvestment in the housing service and/or improvements to the housing stock.
- 2.4. In terms of any impact upon the general funds of the four councils, this would occur as a result of two issues, firstly, how and from where support service functions such as Human Resources, ICT support services, etc. are provided and secondly, how the remaining or residual housing services (housing options, homelessness, housing strategy, enabling, and private sector housing) are revised to take account of any

losses in senior management or support posts as a result of the TUPE transfers to the new HSSV. The business case demonstrates that even the worse case scenario for the general funds would be restricted to an additional £1,032,000 in total over the first five years (£50,000 per authority per annum), falling on the four authorities. However even these minimal costs should be offset by planned savings for the general funds through such proposals as the proposed sharing of residual housing services not transferred into the HSSV.

- 2.5 Quite clearly these estimates may be subject to fluctuation and changing circumstances over time, for whilst the short term savings and improvements can be presented with some certainty, the medium to longer term expectations cannot be as precise. However, some certainty and confidence can be drawn from the experiences of other authorities who have adopted similar models, in particular, Arms Length Management Organisations (ALMOs). Whilst to date these have all been on a “1 to 1” basis as opposed to the “4 into 1” proposed for East Kent, what is clear from those models is that the speed and scale of change has had to be carefully managed in order to ensure tenants remain fully engaged and supportive of the plans. More importantly the ALMO comparisons demonstrate marked performance improvements and significant levels of efficiency savings achieved, particularly from reduced procurement costs and renegotiated support service costs (See Annex 5).
- 2.6 The comparison of the East Kent HSSV project to ALMOs is the second key issue addressed in this report. In the 2008 report various options were presented in terms of the type of vehicle which could support the shared services approach for landlord services. In essence the choice fell to either a hosted approach between the participating authorities or the establishment of a new arms length model which the authorities would wholly own. The recommendation of this report is to adopt the arms length option and the detailed reasoning is set out later in this report. However, in summary, the ALMO model is tried and tested, particularly in terms of their ability to drive service improvements and efficiency savings, secondly an arms length model gives tenants much greater involvement and decision making in the management of the services and operational matters, thirdly, it is a model familiar to and therefore likely to be favoured by government and regulatory agencies.
- 2.7 The final key issue relates to the proposed consultation arrangements with tenants and leaseholders about the proposals, and the future governance arrangements for the new organisation. Both are covered in detail later in the report, including an analysis of the impact on the various stakeholders i.e. tenants, members and staff. However, the consultation issue is a crucial one and needs to be developed in a way that ensures all tenants and leaseholders not only receive full information about the proposals, but critically, their views can influence the final shape of the changes. Consequently a set of consultation measures are planned which are currently being discussed with the Joint Tenants & Leaseholders Group (JTLG) covering the four authorities. Certainly, the Project Board believes a single ballot of all tenants and leaseholders is too narrow an approach to achieve effective consultation.
- 2.8 Similarly, governance issues need to be fully understood by members, tenants and leaseholders. The detailed proposals are set out in Section 5 and Annex 2, however, the arms length model offers both stakeholder groups a more direct role in the shaping and delivery of housing services in the future, at full board level as well as District by District.

- 2.9 Finally, it is also important for Members to recognise that the recommendations set out below are intended to allow further stages of the work to be undertaken and developed. In particular they allow formal consultation to be undertaken with tenants and leaseholders of the four authorities and also allow more detailed work to be undertaken on the financial implications and legal documentation of the recommended arrangements which will result in further reports to the relevant Forums. In that context, Members are requested to agree the following recommendations:

Recommendation 1 - that the arms length housing shared service option be confirmed as the preferred method for sharing landlord services in East Kent

Recommendation 2 - that any staff vacancies related to the housing management activities to be undertaken by the HSSV be managed to minimise potential severance costs

Recommendation 3 - that the housing management functions set out in Annex 2 are approved activities to be undertaken by the HSSV

Recommendation 4 - that the housing shared service vehicle is set up as a company limited by guarantee.

Recommendation 5 - that the board of the company will comprise twelve people – four members nominated by the local authority, four independents and four tenant/leaseholder representatives

Recommendation 6 - that Area Boards be set up in each participating council area.

Recommendation 7 - that the draft Memorandum and Articles for the SSV company reflect the governance and legal issues set out in Annex 3

Recommendation 8 - that each council's Chief Executive be authorised to make any decisions and any changes necessary to these proposals to pursue the project up to final council approval to join the Housing Shared Service Vehicle.

3.0. The Housing Shared Service

- 3.1. This project will create a single integrated housing management service for the council tenants and leaseholders of Canterbury, Dover, Shepway and Thanet.

3.2. Tenants and Leaseholders

Tenants rights and responsibilities will be unchanged as they remain the tenants and leaseholders of the individual councils. They will still be able to exercise their rights to buy, to repairs and to mutual exchanges. Their repairs and out of hours services will be carried out through existing contractual arrangements. Tenants and leaseholders will continue to enjoy local access for face to face services

However by having a single service, tenants and leaseholders in the future will increasingly benefit from their services reaching the best 'three star' standard, better value for money and more investment in their homes/services. This will be achieved through bringing together 'back office' activity, through economies of scale on similar activities and through streamlined management and procedure.

In later years more economies and efficiencies will be possible through a move to single information and communication technology systems and the joint procurement of contracts for repairs services.

3.3. Councillors

Members of the council through Executive, Overview and Scrutiny, Council and East Kent Joint Arrangements Committee will be able to exercise a similar level of control

and influence as currently enjoyed. The individual councils set the budget for the single housing management service, decide its performance targets and the scope of its operation. However some councillors will have a greater opportunity than at present to influence the running of the housing service through a designated board, comprising members, tenants/leaseholders and independents as well as local Area Boards. Section 5.0 and Annex 3 below sets out these arrangements in more detail.

In addition, individual councillors will be able to contact housing managers and staff to the same extent as now. Their complaints and issues will be given the same or indeed better attention than at present and there will be no change to the influence they currently enjoy.

3.4. Staff

The managers and staff of the East Kent authorities that carry out 50 per cent or more of the housing management function duties in Annex 2 will transfer to the new single service. The rights and responsibilities that they enjoy will now remain unchanged. Over time, their terms and conditions of employment will be harmonised to take account of any harmonisation across other council services and with regard to similar sized housing organisations in the South East of England. The majority of staff will continue to work in the same places that they do now but some groups of staff will be brought together straight away e.g. the management team.

Trade unions and staff have been and will continue to be consulted about the changes. Although some posts will be lost, others will be created. The net effect is expected to be a reduction in the region of 32 FTE (full time equivalent) posts across the four authorities. As ever the objective will be to avoid compulsory redundancy, and to redeploy and train staff to take on any new roles and responsibilities. The single service will undoubtedly provide new benefits and opportunities for many staff especially with regard to training, development and career enhancement.

The Business Case

3.5. The Business case set out below addresses four key issues:

- a) Review of organisational options;
- b) Financial implications for each council, focussing on the first five years operation and addressing the potential impact on both general fund and HRA budgets;
- c) Legal and governance issues relating to the Housing SSV proposal;
- d) Determining the activities to be included in the shared arrangement.

3.6. However the starting point of the Business Case is to restate the overall aims of the project which were set out in the December 2008 report and which remain the driving force behind the proposals. They are:

- Delivering excellent customer services – aiming for 3 stars
- Realising greater efficiencies and savings for reinvestment
- Encouraging stronger and more prosperous communities
- Improving procurement capacity
- Providing additional investment for council housing estates
- Ensuring longer term resilience for individual HRAs
- Establishing a stronger housing role for the five councils
- Developing a stronger role for tenants in shaping housing services

- Improving career opportunities for staff

3.7. Certainly evidence from the majority of councils elsewhere who have pursued similar delivery models for their housing services, demonstrate these aims are both realistic and achievable. The underlying case is that the creation of a single purpose organisation focussed on delivering housing services, and with tenants far more actively involved, can provide the necessary stimulus for improvement.

3.8. However, whilst the project is primarily about improving housing landlord services, the impact and implications arising from those proposals on residual housing services and other services remaining with the host councils has to be a key element of the overall business case. Furthermore, the necessary changes to the housing services will inevitably need to be phased in, in order to take account of the wider implications and plans of the four East Kent authorities.

Options Review – Hosting vs SSV

3.9. The December 2008 report considered various organisational options to deliver the aims of the housing project. They included:

- Hosting by one or more individual authorities
- Development of joint procurement approaches
- Development of a shared service vehicle
- A shared service vehicle with some or all services

3.10. Since that report, the East Kent authorities have also begun to look at an ambitious agenda to share other council services on a much wider basis.

3.11. As part of the development of the Housing Business Case, the earlier options have been reconsidered, in particular the hosting option, as well as considering whether the housing project should be included within any wider hosting or Shared Service Vehicle plans rather than stand-alone.

3.12. These deliberations by the officer Project Board concluded that the special circumstances relating to housing management services in respect of Secretary of State specific approval (Housing Act 1985 section 27 consent), enhanced tenant involvement and the position on legal powers confirmed that the Housing Shared Service Vehicle should sit outside any wider arrangement. Furthermore, a dedicated Housing Shared Service Vehicle would more likely deliver the efficiencies and reinvestment that run from a long-term commitment. Nevertheless the Housing Shared Service Vehicle would obviously benefit from the establishment of shared arrangements for support services and other housing functions through better cost savings, operational efficiency and reduced complexity.

3.13. The key features of an arms length model and of a hosted model are set out below in table 1:

Table 1 – Key Features SSV/Hosting

Arms length	Hosted
Provides a single housing management service through a wholly local authority owned company	Provides a single housing management service via one council through a shared service business unit
Single focussed organisation dedicated to improved services for tenants and leaseholders	Likely to be one of several council run business units with functional focus dedicated to improved services for tenants and leaseholders
Merged service based on successful Arms Length Management Organisation (ALMO) model for housing	Merged service based on Direct Labour Organisation (DLO) model
Individual ALMOs are recognised by the Audit Commission as the best performing housing organisations	Individual in-house housing services are amongst the weaker performing housing organisations
ALMO model is tried and tested and can demonstrate service improvement, economies and efficiencies	There is no housing hosted model in existence
Tenants are aware of ALMO models	Tenants have no knowledge or experience of hosted models
Tenants have a decision-making role	Tenants have an influencing role
Councillors on the board have decision-making roles but in a minority	Councillors on EKJAC have a decision-making role on a body wholly made up of councillors
Independent board members can bring new skills and ideas to the management of the company	Co-opted independents can influence decision-makers
Provides robust external challenge to costs and effectiveness of central/support services	Provides internal challenge to costs and effectiveness of central support costs (as now)
Proven track record in driving down support service costs to the benefit of general funds	No proven track record
Company running costs are slightly higher	No company running costs
Requires consultation with tenants and Section 27 Secretary of State consent	Requires consultation with tenants and Section 27 Secretary of State consent

- 3.14. On balance the Project Board believes that the arms length shared service option provides the more attractive model to tenants which in turn will help with obtaining S.27 Housing Act 1985 consent from the Secretary of State to delegate the housing management function. Despite the modest additional running costs (approximately £100,000) it provides the better opportunity to engender the cultural change necessary

to really drive down costs, improve efficiencies, effectiveness and service improvements. Annex 5 gives details of the measurable improvements and efficiencies of ALMOs elsewhere. Indeed recent Audit Commission research identifies ALMOs as the best performers - currently there are 34 two star ALMOs and 21 with three stars, but just four housing associations have three stars, a feat not managed by one stock retaining council. In addition, ALMOs contribute two thirds of all local authority housing efficiency savings, although they manage just half the stock.

- 3.15. Furthermore, based on experiences elsewhere, it is anticipated that the relationship between the Housing SSV and the four councils would develop and evolve over a period of time providing opportunities to realise further efficiencies at a time that it is mutually beneficial for both organisations. For example, there are likely to be occasions in the future when the councils will want to reshape their services to achieve efficiencies that will provide opportunities to renegotiate the relationships with the Housing Shared Service Vehicle e.g. provision of local service delivery points. The key to these processes is for such negotiated changes to be properly managed and mutually beneficial.
- 3.16. The Business case and financial model to support these proposals is set out below.

Financial Implications

- 3.17. Previous reports have set out the benefits of a shared housing service and these key service improvements are reflected in the aims set out above. However, the business case below sets out financial benefits that are achievable initially through the project as well as the potential for further benefits and efficiencies in the longer term:

(a) Driving support service efficiency - the HSSV will be a semi-autonomous client for the councils' central support services. It will be required by the regulator (Tenant Services Authority) and auditors to ensure that it is achieving value for money in the services it procures. The HSSV may procure services from outside the council or decide to provide them itself if such value for money cannot be secured. Annual negotiations between the HSSV and the councils will provide a more business like and efficient approach to deliver both cost efficiencies and service improvements.

(b) Better procurement opportunities - working as four independent housing services, it has not always been possible in the past to reconcile individual practices and processes to arrive at a common basis to procure services. With all four organisations brought together under a common and focussed leadership, these procedural differences can be overcome with immediate benefits for new procurements. The benefits from joint procurement particularly with the repairs service are likely to be significant.

(c) Cost efficiencies - significant efficiencies will be realised by combining certain services across the four authorities. Review Groups have been set up to look at areas where efficiencies and service improvements can be delivered and include for illustrative and decision making purposes only at this stage.

Management and "back office services" - savings can be anticipated from bringing management levels together as well as "back office" functions within the existing Housing Services e.g. there are a number of section or function managers within each council who undertake similar roles and there will be scope to rationalise or merge some of these posts.

Rent recovery – illustrative figures from high performing comparative organisations indicate that rent recovery activities could be streamlined and restructured to deliver efficiencies through economies of scale.

Repairs & Maintenance - similarly with the repairs and maintenance services. It can be anticipated that there would be a significant economies of scale achieved if the services were brought together.

Savings in the region of £660,000 per annum (at 10% of current operating costs) could reasonably be anticipated through the above illustrative examples.

The above direct service examples demonstrate the probable short term efficiency savings achievable through combining the four services. The Review Group process now set up will work through all “front line” services and “back office” services to identify potential savings and indeed, where there is a need for further investment to improve services and performance. In addition to the Review Group process, the medium term business plan i.e. after two years, will focus on reducing the level of central service costs from other council services e.g. Legal services, contact centre, etc. where, based on experiences from elsewhere, significant savings can be achieved.

In parallel with the review of support services there are also potentially significant savings in the procurement of future works contracts or IT services. The examples of savings achieved in other council areas in Annex 5 provides substance to this statement. An obvious example in East Kent will be that a single housing IT system for the new organisation will be required, as well as reductions in annual support costs. However, as these savings may not be realised at least until after year two or even beyond five years of the service they have not been factored into the financial modelling below. Alternatively there may be more immediate gains from migrating all four housing services onto an existing housing system, however the business case for this has yet to be considered but will be addressed in the next phase of review work.

Clearly the incentive for achieving HRA savings across the four authorities is it provides opportunities for reinvestment in order to improve service quality and performance.

(d) Service quality - other advantages of providing a service jointly rather than individually, with the ability to reinvest efficiency savings, include:

- Prospect of achieving a three star rating for tenant services
- Improved staffing resilience and capacity
- An enhanced role for tenants in the management of the service
- Improved capacity to tackle issues such as the regeneration of run down housing estates and obsolete housing.

In addition, it is expected that specific service areas will be strengthened through this initiative.

One example of these plans is leasehold management, current arrangements are inefficient and expose the councils to risks in terms of the recovery of service charge income. Significant service improvements are likely to be achieved by establishing a single point of service for the four areas. In addition, the original report noted that the total staffing per thousand leaseholders is 3.15 which compares to figures as high as 12 in urban and London authorities and an average of around 4.5 in other districts.

Financial impacts

- 3.18. The Project Board was charged with developing a more detailed financial case to ensure that the HSSV was sustainable in the longer term and to identify possible financial impacts on the councils' General Funds. A finance work stream group led by Thanet's Director of Finance and comprising senior Finance staff from all five councils was established to undertake this work. The key issues reflected in the modelling can be summarised as follows:
- costs of staff liable to be transferred under TUPE to the new entity and associated running costs;
 - impact on the General Funds of councils due to diseconomies of scale;
 - impact on the HRA of the proposed changes and the viability of the original savings target of £727,000;
 - impact on the General Fund as a result of charges to the HRA that will no longer be possible. This would include areas where the HRA has been charged with general apportionments of overheads that are not expected to continue.
 - VAT and tax implications
 - Value for money
- 3.19. The detailed financial model is set out at Annex 1 and is presented as a "cash flow" over five years, taking into account start up costs, immediate savings on support services (both with the HSSV and direct HRA savings), savings on accommodation and IT related charges with effect from year 3. A summary table of the five year forecast is set out below in Table 2, followed by the implications and issues arising from the modelling.

Table 2 – summary business case

Year	Net HSSV costs/savings (+/-)	HRA savings outside of SSV	Total net HRA costs/savings	Total General Fund Impact
	£'000	£'000	£'000	£'000
2011/12	481.5	- 293.6	187.9	206.4
2012/13	- 383.1	- 293.6	- 676.7	206.4
2013/14	- 505.6	- 293.6	- 799.2	206.4
2014/15	- 505.6	- 293.6	- 799.2	206.4
2015/16	- 505.6	- 293.6	- 799.2	206.4
Total	-1418.4	- 1468.0	- 2886.4	1032.0

- 3.20. The assumptions built into the above table are set out in more detail in Annex 1. Of key importance is to note that the first year costs show growth in the HRA in order to cover the set up costs for the new organisation e.g. new posts as well as possible severance costs. The indicative savings identified in paragraph 3.17 above are also reflected in years 1 and 2 above. However, it should be noted that some of the support service savings, such as those arising from legal and finance might take longer than predicted, but would be expected to be delivered at some point during the five year time-frame. Beyond year 2 the HRA savings increase substantially as the medium/long term plans are actioned in terms of accommodation costs, front line service improvements and reductions in support service costs. After year 5 the savings should further increase as the benefits of joint procurement and integrated systems become apparent. The general fund issues are addressed below.

(a) Impact on councils' general fund

- 3.21. There are two main areas which will impact on the General Fund - how and from where support services/ infrastructure functions are provided and secondly, how the residual housing services (housing options, homelessness, housing strategy, enabling, private sector housing and choice based lettings) are revised to take account of any losses in senior management or support posts as a result of the TUPE transfers to the new HSSV.
- 3.22. Firstly, support services / infrastructure - this includes, payroll, HR, Legal, Finance, grounds maintenance and Contact Centre. Infrastructure covers such things as office accommodation, IT and communications. Whilst the HSSV will need support services and access to infrastructure to support the business this is the area that could have the largest impact on the General Fund of individual councils due to diseconomies of scale. This would arise where support services ceased to be provided by a council but where a corresponding reduction in support service staff was not practical, thereby removing the ability to recover part of support service costs from the HRA in an area where reducing the cost would present capacity problems elsewhere. This is most notably an issue where the support service is less than 50% of an individual's role.
- 3.23 For example, each of the Council's HRAs are charged a proportion of the call centre costs as an overhead (along with other corporate services). Should the HSSV want to use only one call centre to support them, the three authorities who would no longer provide this service will have to cover that recharge amount in the General Fund, or reduce the expenditure of their call centre team, which may not be immediately possible as it may not equate to a whole post.
- 3.24 Where an individual provides the support service for over 50% of their role, it is likely that they will transfer to the HSSV, leaving a saving on the general fund (and a corresponding resource shortage for any work remaining).
- 3.25 The effects of this could be mitigated through a number of routes, including:
- by providing all support services through a shared service arrangement – as even though the four councils would lose the revenue support from the HRA this would be matched by a loss of staff costs into any shared service - who would then be the sole provider into the HSSV. This would therefore be cost neutral to the four East Kent councils.
 - by parcelling services together so that each council gets the opportunity to 'win' elements of business, selling support services to the HSSV (although it would be difficult to do this in such a way as to be able to compensate all four equitably for their lost GF contributions);
 - by continuing to buy services from existing providers. Although this would eliminate any negative impact on the individual councils, it would not be an effective way for the HSSV to secure value for money.
 - restructuring back office services to reflect the changed environment. Around 200 councils in England have successfully dealt with similar issues created by the transfer of their housing stock or by the creation of an ALMO. Services can be reconfigured and staff redeployed to reduce or eliminate any negative financial impact

- 3.25. In terms of the potential general fund impact arising from residual housing functions, there is scope to bring these services together in a shared service arrangement and restructure them and this would enable a potential general fund saving of up to £244,000 to help offset potential general fund costs. As well as achieving an improved and enhanced working structure, it also limits the loss of income for support services to the General Funds, the impact can be lessened initially and removed in the medium term.
- 3.26. Clearly the financial impact upon support services and General Funds shown in paragraph 3.19 and the 5-year “cash flow” table, needs to be managed carefully regardless of what the medium/long term solutions are. As such the current planning of the HSSV transition is that in addition to the general support services, which could be bought in from one source from ‘day one’, it is also planned that for at least two years housing staff will continue to occupy the same desks, use the same systems, and the same contact centres, and the costs will continue to be eligible to be charged to the HRA.
- 3.27. However, after two years the intention would be for the HSSV to implement changes that would drive further efficiency savings and improvements to services. These changes would be developed during the two years and be negotiated and developed with the host councils. For example, if it is decided to relocate the HSSV service the costs would either need to be budgeted for in the General Fund, or measures taken to reduce them. These factors are built into the five-year model set out in Annex 1.

(b) Impact and viability on individual Housing Revenue Accounts (HRAs)

- 3.28. The establishment of an HSSV should be positive for the HRA provided that the opportunities to realise economies of scale are seized and that the service drives down costs (external suppliers and cross council support services) through its greater purchasing power. In addition there will be a greater sharing of expertise and best practice making it possible to reduce costs even further through the introduction of more efficient operating structures and practices. As a result the proposals should extend the viable life of the HRA as well as free up resources that can be invested in improving tenants' homes or in improved standards of service
- 3.29. One of the briefs given to the finance work-stream group was to test the viability of the original HRA savings estimate of around £720,000. Although TUPE rules preclude any predetermination of structures, the loss of 25 posts (which equates to the figure of £724,00,) is less than 10% of the direct staff and management team costs of the new structure and as a result it would appear to be a conservative, indeed prudent target. For modelling purposes this savings target has been adjusted to reflect Ashford's withdrawal, (i.e. £580,000 = to 20 posts) increased to 10% of current running costs (i.e. £660,000) and shown as being phased as 50% in year one, and 100% from year two onwards, although it is acknowledged that substantially more may be possible in the longer term as demonstrated earlier in paragraph 3.14. The day-to-day repairs and maintenance contract align in 2015 which should afford an opportunity to review/provide an area wide procurement. In addition, Housing ICT once merged could provide substantial savings, however the opportunity to facilitate this would not be before 2013/2014.

(c) Management fee

- 3.30. The financial model also helps to collate the information that will establish the likely level of management fee for the HSSV. However, the mechanism for setting the management fee will depend on a number of factors, such as the operating arrangements of the new

entity, whether it is structured on an area basis, or functional basis, with 'specialist' teams providing services to all four districts. The degree to which 'non-standard' housing assets, such as supported housing, require additional resources will also have to be taken into account, as will progress on the direct savings that the SSV will be expected to make will be reflected in the level of the management fee. The management fee will be used by the councils to ensure that there are pressures on the HSSV to improve efficiency and value for money

- 3.31. The approach to the setting of the management fee will also depend on the degree to which variable service levels are required, which will require a more complex pricing strategy to be devised. As a result it is not possible at this stage to provide any actual estimates of likely levels of management fee for each council, until the level of service required and the operating arrangements for delivery is more clearly set out. That said, the HSSV will be cash limited in the first years to the same, or less, budget than current and will only be able to work within the level of resources the councils make available within the HRA. Furthermore with similar organisations established elsewhere, many have worked to a reducing level of management fee in the early years which then firmly places the onus on the new organisation achieving efficiency savings and improving services through VFM exercises.

(d) Securing value for money

- 3.32. Whilst there is likely to be a modest financial benefit in relation to management overhead if the hosting model was chosen, this could be overshadowed by a lack of robust exposure of support services to VFM, if they were automatically provided by any wider hosting body.
- 3.33. In addition, there is a possible (significant) impact on general funds if the provision of support services is not managed in such a way as to protect as many of the partners as possible, which would only be achievable through moving to a single service provider.
- 3.34. By securing support services at prices less than that currently charged, the HRA would see further savings, which would extend its affordable life and enable service improvements to be invested in. This has not been factored in as yet, as it is believed that the largest savings will not be realized until years 2 or 3. However, it is evident from the examples shown in Annex 5 that substantial savings are realisable on support services such as legal costs, HR, financial services, IT support, etc.
- 3.35. Finally, a reorganisation of the residual housing functions would greatly assist to minimize the impact on the General Fund, whilst offering the greatest flexibility and value for money to the HSSV.

(e) VAT and tax implications

- 3.36. Specialist advice has been sought on the VAT and tax implications of the options set out in this report. They have no material bearing on any of the options.

(f) Section 151 officers comments

The s151s from the authorities have met to consider the outline business case for the Housing (Landlord Services) Shared Service. As far as the proposals that are presented are concerned, the financial modelling is believed to be reasonable and soundly based;

although the modelling work relies on significant sums that are based on rough estimates (e.g. severance costs) and some of the implementation costs associated with the transfer, e.g. harmonisation of terms and conditions, are not captured. There is no estimate of longer term implementation costs associated with what has been described as the 'second phase' (for example accommodation and technology) as there are no plans, even in outline, on which to base any modelling. Similarly, however, there are no savings built in from the likes of better procurement.

The report illustrates the quantum of savings that could be generated for all partners based on a target of 10% applied to certain expenditure headings (excluding repairs and maintenance contracts and other contracted costs). These savings amount to just over £1 million cashable savings in relation to the Housing SSV and potentially a further £368,000 savings from lower accommodation and IT costs.

The projected cashable savings to the Councils from landlord services, arising specifically from the creation of the HHSV¹ are:

(Savings)/Costs of the HSSV

	CCC £000	DDC £000	SDC £000	TDC £000	Total £000
2011/12	97.6	110.2	133.7	140.0	481.5
2012/13	(141.3)	(116.1)	(69.1)	(56.6)	(383.1)
2013/14	(141.3)	(116.1)	(69.1)	(56.6)	(383.1)
2014/15	(141.3)	(116.1)	(69.1)	(56.6)	(383.1)
2015/16	(141.3)	(116.1)	(69.1)	(56.6)	(383.1)
5 year total	(467.6)	(354.2)	(142.7)	(86.4)	(1,050.9)

The Annex shows further HRA savings of £1.468 million arising from changes to the charges to the HRA for management and anticipated savings in support services directly charged to the HRA. However, the report does not go into any detail, or provide any illustrative structures or model ways of working to show how these savings might be delivered in practice. Instead it is based upon assumptions of how the proposed level of savings may be delivered through deleting support posts that are duplicated across all partners. The proposals revolve around 'business as usual' with a few reductions in posts due to economies of scale in a select number of support roles. It is a conservative approach which is considered by the Project Board to be necessary to create the shared service.

Whilst the Annex shows this approach may deliver savings and service improvements in the long run, the councils may have a concern that the savings are not great enough to warrant the level of investment and effort that setting up such a structure would require (this is particularly so in the case of the stand alone HSSV model). The report however describes the approach envisaged in future years and it is for members to assess whether that prospect of savings from innovation later in the project outweigh the relatively marginal level of savings assessed in the initial years of the project and the potential investment costs which are likely to be required. The question of whether the

¹ These savings are taken from the first X columns of the tables in Annex 1 of the report. They represent the overall HRA / General Fund aggregate savings from landlord services, and do not include adjustments between the HRA and General Fund, since they do not result in an overall saving. They also do not include savings generated by other joint working projects.

SSV or hosted option is preferable has been addressed in the body of the report and members will judge whether the additional cost of the SSV is worth that investment. In terms of risk assessment included within the report, the most significant risks to take into account are the impact of not all four councils proceeding and uncertainty around the costs to each council until the management fee basis is sorted. However, both of these can be mitigated through good project management and open accounting approach to the setting of the management fee.

In summary the assessment shows the project is affordable but at this stage the greater motivation for entering into the arrangement will be non-financial reasons, which are those set out in the introduction to the business case.

Recommendation 1 – that the housing shared service vehicle be confirmed as the preferred method for sharing housing services in East Kent

Recommendation 2 - that any staff vacancies related to the housing management activities to be undertaken by the HSSV be managed to minimise potential severance costs

4.0. Shared Housing Functions to be undertaken

4.1 Since December, further work has been undertaken to determine which landlord functions should be transferred to the SSV through the management agreements. There is a collective agreement from the Chief Executives of each of the councils on those functions which are set out in Annex 2, although there will be differences between authorities in terms of scope, performance standards, etc. which will need to be addressed should the project proceed. The Business Case and financial considerations at paragraph 3.0 above have been based on this assumed transfer of services.

4.2 That said, under the contracts between the four councils and the SSV other activities could be included, subject to negotiation and agreement, either at the outset or in subsequent years. The factors that come into play in those negotiations include:

- Does the SSV have the skills/experience/track record to deliver those services?
- Will contracting those services to the SSV achieve savings/efficiencies/improved performance/better customer satisfaction?
- From the councils points of view will contracting those services to the SSV create anomalies within the council? (particularly relevant in terms of current central/support services)
- Can the transfer of some functions vary between authorities e.g. three councils agree to contract say ASB to the SSV, the other doesn't, what's the impact on the SSV?
- What are the experiences of other local authorities that have arms length arrangements to deliver their housing services?

4.3. Should approval to proceed be given, much of the ongoing work of the project team would be to further explore such issues. In order to enable operational efficiency and expediency for the project, it is suggested that delegated authority to approve further changes to Annex 2 be given to the East Kent chief executives. EKJAC and the individual councils would reflect the changes in the management and collaboration agreements, which would be subject to final approval.

Recommendation 3 – that the housing management functions set out in Annex 2 is approved activity to be undertaken by the HSSV.

5.0. Legal and Governance

- 5.1. The EKJAC report set out a governance model for a Housing Shared Services Vehicle. Since that time there has been new case law that raised doubts about the legality of bringing housing landlord services together in a single council owned company. Specialist legal advice was sought to test the governance proposals and whether the services would need to be subject to tendering procedures. The legal advice received is that the councils have the necessary powers to create an Shared Service Vehicle for housing and that the amount of council control over the Share Service Vehicle is sufficient to enable its creation, without the need to go out to open market tender.
- 5.2. There is a fine line to tread in respect of staying within procurement rules and satisfying the Secretary of State section 27 Housing Act 1985 (as amended) requirements in respect of governance. On the one hand the local authorities must demonstrate that the HSSV is under their full control to satisfy procurement rules and on the other they must demonstrate a sufficient degree of autonomy for the SSV to satisfy the Secretary of State.
- 5.3. Legal advice was therefore sought about the governance structure previously reported to EKJAC and the five councils. This structure comprised a board with five local authority (member) representatives, five independents and five tenant representatives. Under this board would sit five area-based boards comprising local authority member, tenant and leaseholder representatives.
- 5.4. The legal advice has confirmed that this configuration is acceptable from both a procurement and a Secretary of State perspective. However, in the light of Ashford's withdrawal it is proposed that the structure be revised to four local authority representatives, four independents and four tenant representatives. Area based boards would still be set up for the four East Kent authorities. Annex 3 sets out in detail the legal and governance issues.
- 5.5. The governance proposals enable good management of the Housing SSV and compliance of the regulator (Tenant Services Authority). It is the responsibility of the board to run the company and board members duties will not be as tenants, councillors or independents but to act in the best interests of the company.
- 5.6. Nevertheless the councils would have overriding control of the HSSV through:
 - Ability to appoint and remove independent board members
 - Ability to appoint nominated board members (although this is usually delegated to the shadow board)
 - A membership agreement will determine the voting rights at the AGM (i.e. restricting voting to the five councils)
 - Agreement by the councils to the Memorandum and Articles of association for the SSV
 - Agreement of the terms of the contract (Management Agreement) with the SSV which is likely to be the most significant control measure
 - Agreement of the SSV's annual service delivery plan
 - Ultimate ability to terminate the agreement with the SSV

Recommendation 4 - That the housing shared service vehicle is set up as a company limited by guarantee.

Recommendation 5 - that the board of the company will comprise twelve people – four members nominated by the local authority, four independents and four tenant/leaseholder representatives

Recommendation 6 - That Area Boards be established in each participating council area.

Recommendation 7 - That the draft Memorandum and Articles for the SSV company reflect the governance and legal issues set out in Annex 3.

6.0. Consultation

6.1. The Housing Act 1985, section 105 requires that tenants should be consulted on matters of housing management and government advice considers it likely that section 105 would apply to the making of any new management agreement. Section 27 (as amended) of the same Act enables councils to delegate the provision of housing management services to another organisation with Secretary of State approval.

6.2. The methods of tenant consultation are being discussed with the Joint Tenant and Leaseholder Group (JTLG) established for the shared service arrangements. A range of measures will be used to help all tenants understand what is being proposed and to ensure a broad and accurate assessment of tenants' views is received. Tenant representatives and their independent advisors will be consulted on what methods will be appropriate, for instance, surveys, questionnaires, newsletters, leaflets, open days, road shows and free phone advice lines. This 'cocktail' of methods we understand will certainly meet, if not exceed Secretary of State section 27 requirements.

6.3. At this stage it is not proposed to carry out a ballot of all tenants and leaseholders about the shared service proposal. A detailed consultation framework is being developed with the Joint Tenant and Leaseholder Group (JTLG) and will include a wide range of consultation methods. There is a concern amongst some tenants that ballots are associated with stock transfers and this may alarm or confuse some residents. This is a proposal to manage current services collaboratively to bring about efficiencies and service improvements and it is important to restate that the shared service proposal:

- Does not change the ownership of the council's housing
- Does not change the tenure of council residents
- Does not change any of the statutory rights enjoyed by tenants

Services will continue to be specified by the councils and be accountable to the respective Executives/Cabinets.

6.4. That said, it is also recognised that the proposals need to be properly explained and scrutinised by all tenants and leaseholders, hence the plans to develop a range of consultation methods in conjunction with the JTLG. Indeed it is intended that the process of consultation will allow tenants and leaseholders an ability to influence and shape the final proposals.

6.5. Members of the respective councils will be consulted using the preferred arrangements of each council.

7.0. Next steps

Decision-making and Scrutiny

- 7.1. Should EKJAC approve the recommendations in this report, each individual council will be asked to consider and endorse the recommendations for their respective councils. East Kent Joint Scrutiny will also consider the report in December to enable pre-decision scrutiny prior to EKJAC. The Joint Tenants and Leaseholder Group will also have considered the report prior to EKJAC.
- 7.2. There are two further significant decisions to be made during 2010, the first is to approve the section 27 application to the Secretary of State. The second will be to approve and enter into the agreements that establish/launch the HSSV. These include the management agreements that delegate the activities to be undertaken by the HSSV, its memorandum and articles of association, the collaboration agreements between the four councils and the annual performance plan for the SSV. Both decisions are expected to be taken by the full council of each authority. The timetable setting out the next stages is attached at Annex 4. It is anticipated that significant decisions above will take place as follows:
- Jan – March 2010 – formal approval from individual councils on the proposed method of sharing the housing service
- May – June 2010 - individual council approval to submit their Section 27 application
- Nov – Dec 2010 – individual approval of Memorandum & Articles, management agreement, delivery plans and inter-authority collaboration agreements

Work programme

- 7.3. The timetable at Annex 4 also includes the main activities required up to and beyond the decision matters above. These include:
- Establish detailed service and central/support service review programme
 - Carry out formal tenant consultation on proposals under s.105 Housing Act 1985
 - Carry out formal staff consultation
 - Recruit and train Shadow Board
 - Appoint Management Team and other structures/posts critical for the pre-operational period
 - Develop service agreements with existing support and other services
 - Develop and submit s.27 Housing Act 1985 applications to Department for Communities Local Government
 - Development of Management Agreements and delivery planning for each of the councils
 - Develop the Collaboration Agreement
 - Identify staff to transfer to the SSV
- 7.4 In a complex project such as this wide delegated powers are recommended to be granted to each council's Chief Executive to ensure speed of decision making on any changes to the proposals which may be necessary as a result of advice received or for some other reason. Members have the reassurance that the final decision on whether to approve the proposals as they finally appear will be theirs.

Recommendation 8 – that each council's Chief Executive be authorised to make any decisions and any changes necessary to these proposals to pursue the project up to final council approval to join the Housing Shared Service Vehicle.

Annex 1 Finance report

Housing Shared Service – Financial Implications

In support of the work undertaken by the Housing Shared Service Project Board the two options for service delivery have been reviewed, namely the set up of an arm's length SSV and delivery through a hosting arrangement. This paper presents the key financial implications of those options.

Scope

The main areas of concern that have been looked at were:

- Impact on individual Council's General Fund
- Impact on the individual HRAs, specifically in respect of ongoing financial viability
- Securing Value for Money
- Setting of the Management Fee
- VAT implications

In addition, the work has calculated an estimate of the budget savings possible through sharing residual housing services, which enables costs generated through dis-economies of scale to largely be contained.

Assessing the Impact on the General Fund and HRA

The Current Financial Position

Due to the flexibility offered by accounting standards, especially around cost apportionments, each of the four councils involved in the proposed housing shared service come from a slightly different starting point in terms of their level of HRA charges.

The information in the table below is a brief summary of the current position*, which excludes expenditure on repairs and maintenance, utilities, insurance and rental incomes, which will continue to be posted directly to the Council's accounts.

	Housing Units	HRA charges 2009/2010 estimates (?)			
		Current Housing Service		Current Support Services	
		Costs to HSSV	Costs remaining with Council	Costs to HSSV	Costs remaining with Council
Thanet	3,127	1,139,318	1,615,087	268,947	920,155
Canterbury	5,280	2,699,088	1,397,473	513,695	927,095
Dover	4,640	1,805,604	2,168,938	338,237	813,667
Shepway	3,444	1,666,095	875,738	158,304	941,876
Total	16,491	7,310,105	6,057,236	1,279,183	3,602,793

Developing the Financial Model

Through the Finance work stream a range of operating approaches to the shared service were discussed to inform the need for additional technology and support service resources, as well as to determine the implications for VAT. The information that follows in this report has been based on the following key assumptions:

- The process for the paying/collecting the following expenditure/income types (on housing assets) remains as current:
 - Repairs and maintenance
 - Utilities (gas, electricity and water)
 - Business rates
 - Premises insurance
 - Court costs (for housing debts)
 - Asset depreciation and interest charges
 - Revenue contributions to capital outlay
 - Rents and Service charges
 - Investment income
- The cost for future capital investment into the shared service's systems will be met from HRA reserves, or through an increase to the management fee for a replacement reserve to be established. The cost of this has not been factored in to the finance model as it could vary significantly depending on the choices made by the management team.
- Pension employer contributions are inclusive of back funding (which is consistent in the approach taken for the HR shared service.)
- The councils will remain responsible for preparation of the HRA accounts (although this may be consolidated through the whole council shared service).
- The set-up/project costs of the project have not been factored in to this model, having already been accounted for.
- No figure for severance costs has been included, as an accurate estimate isn't possible until the scale of post reductions and vacancy level become known. However for 25 post reductions it would be reasonable to expect these to be in the region of £750k, which would have to be borne by the HRA.
- No growth has been included for additional internal and external audit fees; as it would be expected that these would be matched by either a reduction in fees to the councils, or contained within services and supplies.
- The impact of pay harmonization has not been factored in to the model.

A scenario-testing model was developed to enable the financial impact of the proposals to be calculated. This enabled the following to be estimated:

- i) The costs of staff liable to be TUPE'd to the new entity and associated running costs;
- ii) The impact on the General Funds of Councils due to diseconomies of scale;
- iii) The impact on the HRA of the proposed changes and the viability of the original savings target of £700k;
- iv) The impact on the General Fund as a result of charges to the HRA that will no longer be possible. This would include areas where the HRA has been charged with blanket apportionments of overheads that are not expected to continue.
- v) The pros and cons of a separate company compared to a hosted arrangement.

The model that follows is presented as a "five year" projection in order to present the implications for the first two years which will be constrained in terms of the degree of change brought about by the HSSV and then the 3 years that follow where it is expected more significant changes are implemented.

2011/12	LANDLORD SERVICES SSV SPECIFIC							HRA charges outside of SSV			Total Net HRA Cost / (Saving)	Total GF Cost through disecon of scale
Council	Direct Staff Savings	Direct Costs Saving	New Running Costs	Severance Costs	Support Service Savings	Accom & IT Savings	Net HSSV Cost	Dis-econ of scale on HRA	HRA Support Saving (Fin & Legal)	HRA (savings) /Cost Excl HSSV		
	<i>definite</i>	<i>definite</i>	<i>probable</i>	<i>possible</i>	<i>possible</i>	<i>indicative</i>		<i>definite</i>	<i>possible</i>	<i>possible</i>		
	<i>PYE 50%</i>	<i>PYE 50%</i>			<i>10%</i>	<i>0%</i>			<i>10%</i>	<i>10%</i>		
Thanet	-58.3	-3.2	67.6	135.0	-1.1	0.0	140.0	-52.8	-21.8	-74.6	65.4	52.8
Canterbury	-98.4	-5.5	67.6	135.0	-1.1	0.0	97.6	-37.5	-21.8	-59.3	38.3	37.5
Dover	-86.5	-4.8	67.6	135.0	-1.1	0.0	110.2	-101.2	-21.8	-123.0	-12.8	101.2
Shepway	-64.2	-3.6	67.6	135.0	-1.1	0.0	133.7	-14.9	-21.8	-36.7	97.0	14.9
Total	-307.4	-17.1	270.4	540.0	-4.4	0.0	481.5	-206.4	-87.2	-293.6	187.9	206.4
	<i>split by no. units</i>		<i>split by 1/4</i>	<i>split by 1/4</i>	<i>split by 1/4</i>	<i>split by units</i>			<i>split by 1/4</i>			

2012/13	LANDLORD SERVICES SSV SPECIFIC							HRA charges outside of SSV			Total Net HRA Cost / (Saving)	Total GF Cost through disecon of scale
Council	Direct Staff Savings	Direct Costs Saving	New Running Costs	Severance Costs	Support Service Savings	Accom & IT Savings	Net HSSV Saving	Dis-econ of scale on HRA	HRA Support Savings (Finance & Legal)	HRA (savings) /Cost Excl HSSV		
	<i>definite</i>	<i>definite</i>	<i>probable</i>	<i>possible</i>	<i>possible</i>	<i>indicative</i>		<i>definite</i>	<i>possible</i>	<i>possible</i>		
	<i>10%</i>				<i>10%</i>	<i>0%</i>			<i>10%</i>	<i>10%</i>		
Thanet	-116.6	-6.5	67.6	0.0	-1.1	0.0	-56.6	-52.8	-21.8	-74.6	-131.2	52.8
Canterbury	-196.8	-11.0	67.6	0.0	-1.1	0.0	-141.3	-37.5	-21.8	-59.3	-200.6	37.5
Dover	-173.0	-9.6	67.6	0.0	-1.1	0.0	-116.1	-101.2	-21.8	-123.0	-239.1	101.2
Shepway	-128.4	-7.2	67.6	0.0	-1.1	0.0	-69.1	-14.9	-21.8	-36.7	-105.8	14.9
Total	-614.8	-34.3	270.4	0.0	-4.4	0.0	-383.1	-206.4	-87.2	-293.6	-676.7	206.4
	<i>split by no. units</i>		<i>split by 1/4</i>		<i>split by 1/4</i>	<i>split by units</i>			<i>split by 1/4</i>			

2013/14	LANDLORD SERVICES SSV SPECIFIC							HRA charges outside of SSV			Total Net HRA Cost / (Savings)	Total GF Cost thro' disecon of scale
Council	Direct Staff Savings	Direct Costs Saving	New Running Costs	Severance Costs	Support Service Savings	Accom & IT Savings	Net HSSV Saving	Dis-econ of scale on HRA	HRA Support Savings (Finance & Legal)	HRA (savings) /Cost Excl HSSV		
	<i>definite</i>	<i>definite</i>	<i>probable</i>	<i>possible</i>	<i>possible</i>	<i>indicative</i>		<i>definite</i>	<i>possible</i>	<i>possible</i>		
	10%				10%	10%			10%	10%		
Thanet	-116.6	-6.5	67.6	0.0	-1.1	-23.2	-79.8	-52.8	-21.8	-74.6	-154.4	52.8
Canterbury	-196.8	-11.0	67.6	0.0	-1.1	-39.2	-180.5	-37.5	-21.8	-59.3	-239.8	37.5
Dover	-173.0	-9.6	67.6	0.0	-1.1	-34.5	-150.6	-101.2	-21.8	-123.0	-273.6	101.2
Shepway	-128.4	-7.2	67.6	0.0	-1.1	-25.6	-94.7	-14.9	-21.8	-36.7	-131.4	14.9
Total	-614.8	-34.3	270.4	0.0	-4.4	-122.5	-505.6	-206.4	-87.2	-293.6	-799.2	206.4

split by no. units split by 1/4 split by 1/4 split by units split by 1/4

2014/15	LANDLORD SERVICES SSV SPECIFIC							HRA charges outside of SSV			Total Net HRA Cost / (Savings)	Total GF Cost thro' disecon of scale
Council	Direct Staff Savings	Direct Costs Saving	New Running Costs	Severance Costs	Support Service Savings	Accom & IT Savings	Net HSSV Saving	Dis-econ of scale on HRA	HRA Support Savings (Finance & Legal)	HRA (savings) /Cost Excl HSSV		
	<i>definite</i>	<i>definite</i>	<i>probable</i>	<i>possible</i>	<i>possible</i>	<i>indicative</i>		<i>definite</i>	<i>possible</i>	<i>possible</i>		
	10%				10%	10%			10%	10%		
Thanet	-116.6	-6.5	67.6	0.0	-1.1	-23.2	-79.8	-52.8	-21.8	-74.6	-154.4	52.8
Canterbury	-196.8	-11.0	67.6	0.0	-1.1	-39.2	-180.5	-37.5	-21.8	-59.3	-239.8	37.5
Dover	-173.0	-9.6	67.6	0.0	-1.1	-34.5	-150.6	-101.2	-21.8	-123.0	-273.6	101.2
Shepway	-128.4	-7.2	67.6	0.0	-1.1	-25.6	-94.7	-14.9	-21.8	-36.7	-131.4	14.9
Total	-614.8	-34.3	270.4	0.0	-4.4	-122.5	-505.6	-206.4	-87.2	-293.6	-799.2	206.4

split by no. units split by 1/4 split by 1/4 split by units split by 1/4

2015/16	LANDLORD SERVICES SSV SPECIFIC							HRA charges outside of SSV			Total Net HRA Cost / (Savings)	Total GF Cost thro' disecon of scale
	Direct Staff Savings	Direct Costs Saving	New Running Costs	Severance Costs	Support Service Savings	Accom & IT Savings	Net HSSV Saving	Dis-econ of scale on HRA	HRA Support Savings (Finance & Legal)	HRA (savings) /Cost Excl HSSV		
Council	<i>definite</i>	<i>definite</i>	<i>probable</i>	<i>possible</i>	<i>possible</i>	<i>indicative</i>		<i>definite</i>	<i>possible</i>	<i>possible</i>		
	10%				10%	10%			10%	10%		
Thanet	-116.6	-6.5	67.6	0.0	-1.1	-23.2	-79.8	-52.8	-21.8	-74.6	-154.4	52.8
Canterbury	-196.8	-11.0	67.6	0.0	-1.1	-39.2	-180.5	-37.5	-21.8	-59.3	-239.8	37.5
Dover	-173.0	-9.6	67.6	0.0	-1.1	-34.5	-150.6	-101.2	-21.8	-123.0	-273.6	101.2
Shepway	-128.4	-7.2	67.6	0.0	-1.1	-25.6	-94.7	-14.9	-21.8	-36.7	-131.4	14.9
Total	-614.8	-34.3	270.4	0.0	-4.4	-122.5	-505.6	-206.4	-87.2	-293.6	-799.2	206.4
	<i>split by no. units</i>	<i>split by 1/4</i>			<i>split by 1/4</i>	<i>split by units</i>			<i>split by 1/4</i>			

Note 1 The Support Service savings realisable by the SSV include Procurement & Corporate communications.

Note 2 The Accom & IT Savings also include customer services/call centre.

Note 3 The HRA Support Savings include Finance & Legal services (although the phasing of this could differ)

Note 4 The figures above do not reflect any costs arising from harmonising staff terms and conditions

Financial model – explanatory notes

Staff

The saving figure is calculated at 10% of the Direct staff to be TUPE'd into the SSV less the cost of the management posts to be job slotted.

	£'000	%	Saving
Direct Staff	6,148.1	10%	614.8

Direct costs

The saving figure is calculated on various % allocated by the project board.

	£'000	%	Saving
Stationary	22.0	10%	2.2
Periodicals & Publications	8.9	50%	4.5
Communications - Mobiles/Other	55.8	10%	5.6
Communications - Land Lines	86.1	10%	8.6
Conference & Seminars / Training	84.3	10%	8.4
Postage	49.8	10%	5.0
	306.9		34.3

SSV running costs

These costs are made up of the following list below, but also assume we still need to build in further costs for data warehouse financial system and general running costs.

	£'000	
Managing Director	130.0	
Finance Manager	70.0	
Contingency	50.0	to cover costs such as data mining system and other SSV specifics
Premises	7.0	
Finance system (Sage)	5.0	
HR, Payroll & H&S services	0.5	
Governance costs	8.0	
	270.5	

Support Services (Overheads)

The saving figure is calculated on various % allocated by the project board.

Cashable	£'000	%	Saving
Procurement	19.9	10%	2.0
Corporate Communications	22.1	10%	2.2
	42.0		4.2

Diseconomies of Scale figure

This relates to charges/savings between the HRA to the General fund in relation to staff who have TUPEd into one or the other, who currently split their costs across both.

Each of the 4 Councils has a different setup and way of working and this is why the figures are different.

The figure below shows the position for the GF (the impact on the HRA is equal and opposite)

	£'000	
Thanet	52.8	a debit because staff are staying, leaving the saving on the HRA
Canterbury	37.5	a debit because staff are staying, leaving the saving on the HRA
Dover	101.2	a debit because staff are staying, leaving the saving on the HRA
Shepway	<u>14.9</u>	a debit because staff are staying, leaving the saving on the HRA
	<u>206.4</u>	

Strategic/Residual Housing Services

Depending on the final structure for strategic housing, and other residual housing functions, there is the potential to release over £600k savings through the sharing of these functions. The net potential saving of £244k on the General Fund mitigates the pressure on the General Fund from the shared landlord services. These figures do not include anything for redundancy costs

Council	Total Strategic Housing	Strategic Housing	Strategic Housing
	GF/HRA	GF	HRA
Thanet	-150.2	-60.4	-89.8
Canterbury	-185.5	-82.1	-103.4
Dover	-129.9	-49.2	-80.7
Shepway	-138.2	-52.7	-85.6
Total	-603.9	-244.4	-359.5

Whole council Saving

A 10% saving will need to be achieved once the whole council SSV is in place. This will need to be reflected within the residual HRA charge.

Finance	<u>£'000</u>	%	<u>Saving</u>	Figures based on 2009/10 budget
	<u>487.3</u>	10%	<u>48.7</u>	

Legal Services	<u>£'000</u>	%	<u>Saving</u>	Figures based on 2009/10 budget
	<u>386.1</u>	10%	<u>38.6</u>	
	<u>873.3</u>	10%	<u>87.3</u>	

Property Management	-		-
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It is possible that further savings could be achieved, but due to the significant differences in approach across all 4 this would require further work to assess

Housing Units

Thanet	3,127
Canterbury	5,280
Dover	4,640
Shepway	<u>3,444</u>
Total	<u>16,491</u>

Hosting versus SSV

As the SSV model has a more independent management team than would be expected of a hosted model, as well as having some specific needs for specialist skills, such as an experienced commercial accountant and independent auditor, it will be more expensive in this respect. The figures outlined above show this could be as much as £270,000 depending on the degree of independence it would have to the host. That said, due to the scale and commercial nature of any shared service arrangement (including a hosted arrangement) it is likely that the management structure will need additional skills and capacity for dealing with the more challenging logistical and commercial elements. Therefore the additional costs associated with the SSV over the hosted arrangement may only be limited to the accountant and auditor posts, which would bring the differential between the two models to around £100,000.

Aside from the fact that the hosted option would most probably be cheaper overall it could be contentious in terms of the gain of one council would have, to the detriment of the others regarding support services as the same issues would exist around diseconomies for 3 out of 4 partners would exist, unless this was progressed in tandem with shared support services.

Annex 2

Functions to be delegated to the SSV Landlord Service

Co-ordination with corporate policy in relation to housing element of:	<u>Council</u>	<u>SSV</u>	<u>Both</u>
Community Safety	X		
Neighbourhood Renewal	X		
Regeneration	X		
Housing and Health	X		
Supporting People	X		
Sustainable Development	X		
Social exclusion	X		
Equalities and Diversity	X		
New tenancies			
Administration of Housing Register/Choice Based Lettings	X		
Housing allocations policy for Council housing	X		
Selection of tenants for vacant props	X		
Transfer list management	X		
Granting of new tenancies		X	
Successions		X	
Mutual exchange management		X	
Repairs and Maintenance			
Stock condition survey local authority housing		X	
Response repairs		X	
Contract and Planned Maintenance and Refurbishment Programmes		X	
Modernisation and Improvements		X	
Energy and efficiency		X	
Develops a business plan for investment in housing stock		X	
Implementation of annual investment programme: monitors delivery, manages programme		X	
Void and Empty Property Management			
Terminations		X	
Inspection		X	
Repairs		X	
Sustainable Communities			
Neighbourhood and Estate Management		X	
Enforcement of conditions of tenancy		X	
Evictions and court action to support enforcement		X	
Alterations to conditions of tenancy		X	
Illegal occupation		X	
Development of ASBO policy	X		
Responsibility for legal process to obtain Anti-Social Behaviour Orders		X	
Administering application prior to legal action for ASBO		X	
Regeneration and estate development			X

Estate Management			
Care taking on housing schemes		X	
Environmental Services		X	
Grass cutting/Ground maintenance		X	
Supported Housing			
Manage supporting people policy			X
Sheltered Housing Schemes		X	
Life Link Care line	X		
Supported Housing Schemes		X	
Refugees	X	X	
Homelessness Accommodation	X		
Temporary Accommodation	X		
Gypsies	X		
Medical adaptations		X	
Right to Buy			
Valuations	X		
Administration and calculation of discount		X	
Approvals	X		
Leasehold Management			
Finance			
Rent setting/service charges	X		
Rent accounting		X	
Recovery of Rent Arrears		X	
Recovery of other charges		X	
Financial Returns, Subsidy Returns	X	X	
Insurance of property and land	X	X	
Insurance claims		X	
Management of HRA capital resources			X
Preparation of HRA budgets	X		
Annual determination of SSV fee			X
Procurement			
Policy	X		
Letting of contracts in relation to delegated activities		X	
Tenant involvement in Housing Strategy			
Tenant participation		X	
Tenant consultation			X
Information to tenants		X	
Reports to tenants		X	
Other Assets (including lettings and management)			
Garages		X	
Shops and Buildings		X	
Estate offices		X	
Tenant Resource Centres or Tenant Offices		X	
Community Centres	X		
Clearance and disposal and dwellings			
Sale of dwellings	X		
Clearance and disposal of dwellings	X		
Compensation	X		
Decanting tenants			X

Housing Benefit and Council Tax Benefit administration	X		
Programme of Service Reviews	X		
Preparation of Business Plan for Housing Revenue Account	X		
Preparation of Delivery Plan		X	
Preparation of Service Plan		X	
Bidding for Capital Resources	X		
Monitoring Arrangements with the SSV			X
Developing and agreeing the annual delivery plan		X	
Monitoring the delivery plan achievement			X
Liaison with SSV on Housing Service Standards and Inspectorate requirements			X

Annex 3 Shared Service Vehicle Options and Issues on Governance arrangements

1. Legal basis for establishing a stand alone arms length management vehicle

Subject to the approval of the Secretary of State, section 27 of the Housing Act 1985 allows local authorities to delegate the management of their council housing stock to a third party. These powers have been used by a number of councils in a variety of situations. The added dimension here is that four councils are involved and the organisation to which the housing function is to be delegated is owned by four local authorities rather than a single council.

Two further legal questions are posed:

- i Can the four councils individually or collectively delegate the housing service to another organisation and remain exempt from the EU procurement regime?

External legal advice has confirmed that it is not necessary to tender a service where the authority exercises a degree of control over the service provider that is similar to that which it exercises over its own departments and the essential part of the service provider's activities are carried out for the authority. These exemptions to EU tendering requirements are set out in the Teckal case. (See Glossary)

- ii The second potential legal impediment to the proposed SSV arrangement relate to the powers that local authorities have in respect of joint working and the ruling in a recent LAML case. This ruling said that councils could not use their well being powers to set up joint working arrangements with the sole purpose of saving money.

Legal advice suggests that this situation would not apply in the case of the proposed housing SSV on two grounds. Firstly financial efficiencies is just one of the benefits from the proposed arrangement, with the aspiration to improve the quality of the service to tenants being a prime motivation in the proposal. Secondly the council does not need to rely solely on its well being powers to create the SSV. The well-being powers are just one of the powers which are available including the powers to manage housing accommodation. These powers are set out in more detail in Annex One.

In exercising these powers the councils would aim to:

- Improve the standards of service for residents living in council owned accommodation
- Create through efficiencies, opportunities to invest in improving the service, the estate environment and the quality of tenants' homes
- Increase opportunities for residents to influence the housing service they receive from their landlord

2. Company status

It is proposed to adopt a similar company model as used by councils that have delegated the management of their council housing to council owned and controlled companies. The significant difference here is that this arrangement needs to accommodate four rather than one local authority

Using models developed by other councils it is recommended establishing a company limited by guarantee wholly and equally controlled by the four local authorities. i.e. each local authority would be a member of the SSV and have equal rights over it.

The company would be a not for profit organisation. Any surpluses made by the company would be used to improve the services offered to the councils or reinvested in other aspects of the respective HRA Business Plans – e.g. enhanced improvements to tenants' homes or estates.

A company limited by guarantee is a limited liability company formed under the Companies Acts, and registered with Companies House. It is similar in many respects to a company limited by shares. The most significant difference is that (with the exception of some historical companies), companies limited by guarantee do not have share capital. The members of a company limited by guarantee do not "own" the company and do not have property rights over it. Rather, the members subscribe to a guarantee of the company's liabilities. This guarantee is typically limited to fixed amount, which can be as little as £1.

The SSV will (on the basis of the proposed corporate structure) be treated as a "local authority controlled company" for the purposes of local government legislation. This has implications for the operation of the SSV; specifically the SSV will be required to comply with the provisions of the Local Authorities (Companies) Order 1995. These requirements are largely administrative, but they do have some significant implications, including the requirement to publicise minutes of meetings and requirements to provide information to councillors and to the councils' auditors. There is also a separate provision, in the Local Government Act 1972, which disqualifies councillors who are appointed to outside bodies such as the SSV if their appointments are remunerated. This is a complicated area of law and more detailed advice will be obtained by the councils when appropriate.

2. A Company with Charitable aims?

Consideration has also been given to the company having charitable aims. However the need for the authorities to demonstrate control of the SSV to satisfy the Teckal exemption (see above) conflicts with the requirement of the Charity Commission for registered charities to be independent of public bodies like councils.

3. Board structure and composition

This is an area that is critical to how the SSV is operated and controlled. There have been numerous reports commissioned and produced that relate to good corporate governance including Cadbury and Greenbury. Guidance has also been published by the National Housing Federation. The critical issues in this respect are:

- To have a board of an appropriate size that can function effectively, exercising control and setting strategic direction
- To have a board with the right balance of skills to be able to discharge its duties effectively
- To have a board composition that has regard to the different constituencies that have a vested interest in the operation of the SSV e.g. local authority members and tenants/leaseholders

3.1 Size Good practice suggests that a Board of 12 members is optimum in creating an effective decision making environment. 12 is often seen to be the upper boundary of a range

of board sizes that are considered to provide effective governance. The NHF Code of Governance, for example, states that board sizes should be between five and 12

3.2 Board constituents. There are three constituencies that need to be considered.

Local authority members. Clearly there is a need to ensure that the democratic accountability remains with elected members. Again, following best practice from other housing organisations managing local authority of former local authority homes, it would be common for a third of Board members to be elected members nominated by their respective authority.

It is important to note here that the local authority member with responsibility for commissioning the service from the SSV and holding it to account for its performance (usually the appropriate portfolio member) would not be capable of being the local authority's nominee to the board of the SSV. This would be because of potential conflict of interests. However the appropriate portfolio holder is likely to be prescribed by the membership agreement as being the representative of the Local Authority who will exercise the council's voting rights at the AGM. Through this process they will exercise the council's right to vote in Board members of the SSV

It is envisaged that each local authority will nominate a member to sit on the SSV Board, however individual councils may if they wished want to nominate a senior officer to fulfil this role.

Tenants and leaseholders. Establishing an arms length vehicle provides an opportunity to increase the level of involvement that tenants have in running the housing service. For other housing organisations managing council housing or former council housing, it is common practice for a third of the Board membership to be made up of tenants/leaseholders.

Some councils with arms length management arrangements have chosen to have a higher proportion of tenant board members, but in an arrangement involving four local authorities we have less flexibility as any increase in the number of tenant board members would require reductions in other constituencies or increase the number of Board members. Neither of these options would be desirable in terms of good governance. It is not possible to reduce the number of council nominees as each local authority will want a place on the board. The independent members will be required to provide comfort to the regulator and to ensure that a range of professional skills are available to the board

Independent members. Good practice would normally require the appointment of a number of independent members. There would be an expectation from the Tenant Services Authority that there would be a balance on the Board between elected members, tenants and independent members. Independent members with no affiliation to a given local authority would be used not only to provide an independent element but also would allow professional skills to be brought to the board that might be missing from nominated tenants and councillors. Such skills might include financial and accounting skills, legal knowledge, HR understanding or professional housing knowledge

A skills profile needs to be established for the board, along with job descriptions for Board members. Independent board members should be recruited through advertisements which set out the skills required by the SSV Board.

It is proposed that a shadow board made up of members and tenants is appointed in the first instance to oversee the establishment of the SSV, to work with officers and the council to refine the governance arrangements, including agreeing the process of recruiting

independent members and develop the various agreements that will define the relationship between the SSV and the councils.

3. Sub committees

The Board may want to establish sub committees for certain aspects of its work. e.g. Audit committee, service committee, remuneration committee, finance committee etc. The Board will need to be aware of the requirements by both the local authorities and the Tenants' Services Authority to exercise good governance but at the same time will need to be aware of not unnecessarily adding to the burden of board members' work loads and the costs of the organisation

It is recommended that the Board of the SSV is given the freedom to establish whatever sub committees it deems appropriate for the conduct of its business

4. Length of term of Board membership

To create some stability in the SSV Board, it is necessary to stipulate the length of term that each member will serve before requiring re-election to the Board by the members at the AGM.

It is suggested that a third of Board members retire each year but have the opportunity to put themselves forward for re-election at the AGM. The usual term would therefore be for three years, although in the first two years there will need to be a ballot to decide which Board members will go forward for re-election. The Company Articles will need to reflect the requirements for councillors and tenants to be nominated from their constituencies by what ever means has been agreed. (See sections on local authority and tenant board representation)

It is important to maintain a degree of continuity and therefore it would be undesirable that all four tenant representatives stood down in the same year. Therefore a phased approach should be agreed. A similar approach might be taken to local authority nominees.

There will be a need to refresh the membership of the Board from time to time to ensure that it retains energy and vitality and to encourage new ideas to the company. It is therefore proposed that any Board member is limited to serving three terms on the Board (i.e. 9 years)

5. Chair and Vice Chair of the Board

The Chair of the Board is a key role in the SSV. The Chair will be required to provide leadership to the SSV and the Board and will need to ensure that the Board has the right mix of skills to discharge its responsibilities effectively. The Chair will be required to appraise the performance and contributions of other board members and the Managing Director of the company.

There are a number of options for selecting the Chair. These would include:

- The Chair is elected by members of the Board at the first Board meeting after the AGM
- The Chair is elected by the stakeholders (i.e. the four councils) at the AGM
- A special and specific recruitment process is undertaken for the role of chair, i.e. the post is subject to an open advert.

- The Chair is restricted to an Independent Board member to ensure that they have no allegiances to one of the four local authorities. This however would debar tenants and members who may be very effective chairs from undertaking that role and is therefore not recommended

6. Nomination of local authority representative

Each local authority member of the SSV will annually nominate a member to serve on the board of the SSV. This nomination will generally be made after the Annual meeting of each council at which nominations to external bodies is agreed. The specific arrangements will depend on the constitutional requirements of each local authority in respect of nominations to external bodies. These arrangements vary amongst the four authorities.

The AGM of the SSV will therefore need to be timed to follow the annual meetings of the four councils. Since the SSV AGM will also have to approve the annual accounts (as well as the appointment of Auditors), it is likely that the AGM would be in July or September and therefore nominated councillors would serve for a period defined by the AGM rather than the municipal calendar

Each local authority will nominate one member (or officer if it so chooses) to serve on the Board.

7. Selection of tenant board members

The key issues in this area are:

- How are tenants nominated to the Board?
- How do we balance the interests of leaseholders and tenants?
- Should there be a special Leaseholders' forum to ensure that leaseholders have a voice?
- How would arrangements for the SSV Board relate to arrangements of any local Area Board or existing tenant representative bodies?
- What happens if a tenant representative ceases to be a tenant of the authority for which they were nominated? (i.e. exercises the RTB or moves to another area)
- What happens if a tenant representative steps down mid term? Is another election held, is the vacant place offered to the second placed candidate, is the tenant representative body asked to nominate a replacement until the next election?
- Should there be restrictions on tenants that are in rent arrears or under notice or with a possession order against them?

A number of options exist these include:

- There is an election of tenants (and leaseholders) to select their representative
- Existing district level tenant representative bodies, (tenants' forums, Tenant Consultative Groups etc) nominate a representative to serve on the Board.
- Representatives are elected from each area to serve on Area Boards (see section 11 below) The tenant and leaseholder members of the Area Boards elect from amongst their number someone to serve on the Board of the SSV.

This is an area where we would ask the tenant representatives, supported by their independent tenants' advisor to consider and come up with their preferred option/other proposal.

8. Training for Board members

There is an expectation that all Board members from which ever constituency will participate in training to ensure that they are aware of the roles and responsibilities of a Board member. This will contribute to achieving good governance and giving assurances to the councils, their tenants and the regulator that the organisation and service is being organised and managed effectively

There are a number of well established training programmes and providers that could fulfil this requirement.

9. Remuneration of Board Members

It is recommended that in line with most arms length management arrangements e.g. Housing Trusts, ALMOs and similar organisations that Board members are not paid, except legitimate expenses incurred in their Board duties e.g. travel expenses. Some housing organisations pay board members but it is more common not to. For RSLs the Housing Corporation (as was) issued guidance which RSLs are required to follow in doing so. For ALMOs there is similar guidance on remuneration issued by CLG. ALMOs are required to produce a business case for remuneration, and to show that remuneration is required in order, for example, to attract board members with the appropriate levels of skill and experience. There are other considerations which will need to be borne in mind such as the impact on means-tested benefits if payments are offered to all board members (even if it is not taken up) and the impact of payments in council nominees who are Councillors (see section 80 Local Government Act 1972, which disqualifies Councillors from office if they are remunerated for their appointment to certain outside bodies. The Tenant Services Authority may now have responsibility for this guidance.

10. Articles of association

The articles of the association set out the ownership of the company, the ways that rights and responsibilities are distributed and how governance arrangements work. They will incorporate many of the decisions made to the issues agreed in the above report.

There is also likely to be a Members Agreement through which the councils set out the way they intend to exercise control over the SSV e.g. representation of the local authorities at the AGM, voting of Board members etc.

11. Local accountability

Throughout the life of the SSV project there has been assumption that there will be an Area Board Structure to provide for more local accountability both to tenants and council members.

The role of Area Boards might include:

- Monitoring the performance and service delivery of the SSV within the local authority area in question
- Acting as a consultative body on matters relating to policies and services delivered by the SSV (as distinct from council housing policies)
- Consultees on the annual service delivery plan for the SSV
- Making recommendations to the SSV Board

The regulator (TSA) is keen to promote greater involvement of tenants in matters that affect them and the Area Board would seem an opportunity through which to do this. For example decision making on environmental/estate improvements etc. There may be technical/legal issues that need to be resolved in this respect and further legal advice would be required

The relationship with existing tenant consultative bodies

Consultative arrangements already exist in all five local authority areas and the councils as landlords will continue to have duties to consult its tenants on key aspects of the housing service. This poses a couple of questions:

- Do the existing consultative arrangements get incorporated within the Area Board arrangements?
- Would the councils be happy to channel their consultative duties through the Area Boards, rather than having parallel arrangements?

The views of tenants will be important in coming to a final decision in this respect.

Composition and selection of Area Board members

Area Boards will be made up of local authority members, nominated by the Annual meeting of the Council, and tenant and leasehold representatives

Key issues to be agreed include:

- The size of the area boards
- The balance between councillors and tenants
- How tenants representatives are nominated to the Area Board
 - As part of the elections for tenant Board members
 - Specific elections for Area Boards separate from the SSV Board elections
 - By nominations from tenants/leaseholders groups
 - A combination of elections and nominations
- The terms of reference for the Area Boards

12. Audit, Scrutiny and regulation

As the SSV would be undertaking delegated services on behalf of the four local authorities, its activities would continue to be subject to the existing internal audit arrangements of the four councils and would be subject to scrutiny by the Audit Commission.

Additionally Companies Act requirements would require the SSV to have its own audit arrangements for its activities and accounts

The activities of the SSV would continue to be within the scrutiny arrangements of each local authority or any joint East Kent Scrutiny as appropriate and as decided and agreed between the local authority partners

The SSV would be subject to the regulation of the Tenants Services Authority. This body has regulatory responsibilities for council housing services, ALMOs and housing associations. The TSA has inherited inspection powers previously vested in the housing inspectorate of the Audit Commission but will commission the Audit Commission to undertake inspections on its behalf.

13. Shadow Board Arrangements

The next stage of the process will be to develop proposals and a time table to the establishment of a Shadow Board and define its role in setting up the SSV.

Annex One Powers to establish the SSV

Powers

Each of the councils has as one of its statutory functions the management, regulation and control of its houses under section 21 Housing Act 1985. Section 27 Housing Act 1985 permits a local authority to delegate its housing management to another provider, subject to the consent of the Secretary of State (as described above), and section 111 Local Government Act 1972 permits a local authority to do any thing which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions. The councils can enter into the proposed arrangements with the SSV using these powers, in carrying out their functions under section 21. The councils also have power under section 2 Local Government Act 2000 to do any thing which they consider is likely to achieve the promotion or improvement of the economic, social or environmental well-being of their areas (the "well being power"). The power cannot be used for arrangements which are solely aimed at saving money.

The LAML judgment has made clear the importance of a proper audit trail of the decision making and rationale (and the use of powers described above). For section 2 of the Local Government Act 2000, the objective of saving the local authority money is not considered to be within the scope of "well-being", and there must be clear economic, social and/or environmental benefit identified for the authority's area or the inhabitants of the area if this power is to be relied upon. The local authorities will also need to have regard to their relevant Community Strategy, and to the restrictions on the well-being power in section 3 Local Government Act 2000.

Glossary

ALMO Arms Length Management Organisation. A council controlled company established to run council housing on behalf of a local authority. Around 71 councils have delegated the management of their council housing to an ALMO. Most ALMOs were established to take advantage of access to capital funding to help meet the Decent Homes Standard. All ALMOs deal with the management of housing from a single local authority. Many aspects of the ALMO models including governance arrangements and relationship between the council and managing agent can be applied to the SSV model being proposed for East Kent

EU Procurement Rules. Public bodies including councils are required to by the European Union to tender contracts over specific values through a process specified by detailed regulations. Service contracts, which would include things like the management of council housing with a value over £139,893 are subject to the requirement to follow EU procurement procedures (However see Teckal below)

LAML A legal ruling in which the insurance industry successfully challenged a consortium of local authorities from setting up their own insurance scheme. Councils could not rely on their well being powers to support initiatives for which the sole purpose was to save money.

SSV Shared Services Vehicle. A specially created body or company which allows the five local authorities to collectively manage a service. There are potentially a range of types of bodies that could meet this requirement with different types of convenience arrangements. Within housing organisations there are a number of well developed models around Companies limited by guarantee which is proposed to follow here

Teckal A legal case from Italy which ruled that a local authority could delegate a service to another body without the need to follow EU procurement rules (see above). This would apply in circumstances where the authority exercises a degree of control over the service provider similar to that which it exercises over its own departments and the essential part of the service provider's activities are carried out for the authority

Annex 4

	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
	2009	2009	2010	2010	2010	2010	2010	2010	2010	2010	2010	2010	2010	2010	2011	2011	2011	2011
1. Agreement is secured from members to proceed																		
2. Service and Central/Support review programme																		
3. Carry out ongoing tenant and staff consultation																		
4. Carry out formal tenant consultation on proposals under Section 105 of the Housing Act 1985																		
5. Recruit Shadow Management Team																		
6. Recruit and train Shadow Board																		
7. Appoint Management Team and other structures/posts																		
8. Develop service agreements with existing support and other services																		
9. Formal staff consultation would not be carried out until the appropriate period prior to the TUPE transfer date when identified																		
10. Develop and submit Section 27 application to Government																		
11. Development and sign off of Management agreements & Collaboration agreement and delivery plans																		
12. TUPE staff for 'go live'																		
13. Shadow Service																		
14. Launch of Service																		

Annex 5 – Examples of efficiency savings based on Audit Commission inspection reports

Gateshead ALMO (3 star – 22,000 properties) - £3 million efficiency savings achieved over last 3 years, by 2012 will be up to £10 million, most through procurement changes on supply chain. Also £40,000 pa on recruitment arrangements, £68,000 pa on remodelled office network, £45,000 pa on re-tendering insurance contract. In 2007/08 they reinvested £1.09 million of their savings.

Colchester ALMO (2 star – 6,395 properties) - 2004/05 £1 million efficiency savings against a total budget of £17.6 million, 2005/06 £427,000 savings against a budget of £17.2 million.

Northwards Housing ALMO (3 star – 12,500 properties) - £0.5million savings on Service Level Agreements since 2006. In 2007/08 £1.3 million efficiency savings achieved representing a 6.4% saving.

Sandwell ALMO (3 star 30,000 properties) - £10.8 million efficiency savings since 2004/05 of which £7.3 million from procurement and improved productivity. Also Service Level Agreement reductions from £1.76 million to £1.07 million pa.

Barnsley ALMO (3 star – 19,500 properties) - £17.5 million efficiency savings between 2005/06 and 2008/09. Annual 3% savings target. Savings include £5.4 million on capital spend and £3.5 million on revenue repairs

Nottingham ALMO - £1.78 million efficiency savings achieved in 2007/08, further £7.5 million forecast for 08/09

Barnet ALMO (2 star) - £6.7 million efficiency savings achieved

Havering ALMO (1 star) - £499,000 reduction in SLAs, £109,000 savings on empty property expenditure, £530,000 savings on capital budget. Overall 5% reduction in management fee budget compared to costs pre ALMO.

Stevenage ALMO (2 star 10,000 properties) - target for 08/09 cashable efficiency savings = £700,000 achieved £721,000. Further £660,000 identified for 09/10.

Southend on Sea ALMO (2 star 6,500 properties) - achieved £600,000 efficiency savings every year since 2005. Grounds maintenance contract re-tendered and realised 25 - 30% reduction on current costs

East Durham Homes ALMO – 2007/08 EDH achieved 6% efficiency target of £1.46 million. 2009/10 projected cashable savings is £1.371 million.

Hackney Homes – Savings of up to £8.13 million achieved to date, approx £7 million through procurement initiatives.

Of course none of the above involve a number of authorities coming together, they are all 1 on 1, not 4 or 5 on 1. However, the recent IDeA report (Oct 2009) "*Shared chief executives and joint management a model for the future*", that has two pages of savings exemplified either through joint management or through sharing services - a few examples given:

Adur and Worthing DCs - cumulative savings of £2.2 million achieved. On-going annual saving will be £1.5 million.

South Oxfordshire & Vale of White Horse DCs - joint revenues and benefits contract with Capita producing £3 million savings over 10 years

Bromsgrove and Redditch - Future "approved" savings from shared services from 2010/11 are £250,000, £390,000 and £390,000. Plus £3.4 million savings through transformation programme.

Whilst not directly related to housing services the report identifies levels of savings that relatively small districts are committed to achieving - and therefore possible for the East Kent authorities.

Annex 6 – Risk Assessment

	Original risk	Likelihood	Impact	Possible mitigation
1	Support does not continue with all authorities.	Low	High: Required savings target may be unachievable; SSV may need to be reconstituted; possible aborted set up costs: reputational risk.	Feasible to continue provided at least three partners are in agreement. Undertake sensitivity analysis to establish the impact of withdrawal of any partner at key stages of the project. Keep stakeholders informed of project progress.
2	Investment costs of set up (new systems, severance etc) outweigh savings.	Low	High: Negative impact on HRA Business Plans.	Cash limited budget used to set pace of investment, which could be scaled back / phased to fit savings profile.
3	Financial case not strong enough to get officer/member support.	Low	High: Project not approved.	Involvement of section 151 officers and member lead throughout project; use of financial modelling to illustrate impact of plans. All four councils are supportive of the general principles of savings being delivered through shared services.
4	Assumptions used in financial model are not robust.	Low	Medium: Information used for decision-making is incorrect, increasing the risk of a wrong decision being taken.	Consult widely on the assumptions used. Financial models has been developed and tested by the finance teams of the four authorities.
5	Choice of delivery vehicle is made without consideration of tax implications.	Low	Low: Tax Treatment associated with chosen delivery vehicle is disadvantageous compared to hosted option.	Tax advice obtained on options, to enable selection of most advantageous vehicle for tax purposes. Model recommended follows models used by other local authorities.
6	Tenants' support not received.	Medium	High: Aborted set up costs and reputational risk.	Negotiate options within the SSV to meet tenants' concerns Consultation programme to be designed to ensure that tenants have all information and potential impact of negative campaigning by special interest groups is minimised. Tenants receive independent advice through the Tenant Participation Advisory Service.
7	Section 27 not approved by Secretary of State.	Medium	High: Would need to seek alternative model.	Ensure communication is maintained with CLG. Ensure that there is a robust means to test tenants opinion.
8	Project costs over budget.	High	Medium: Depends on progress. The need to rebuild detailed business case has delayed project and extended costs.	Ensure appropriate contingencies in HRAs.
9	Unforeseen additional service costs.	Medium	Low/medium: Depends on level. Innovative nature of project and involvement of four councils may result in added complications.	SSV/company need to fund additional efficiencies. Experience of ALMO implementations can be used to anticipate likely costs.

10	Savings target is unrealistic.	Medium	Medium: Financial basis for shared service is incorrect leading to under or over achievement of savings. Ability of HSSV to change cultures and make decisions across all areas may impede ability to restructure and realise efficiencies.	Annex 5 provides examples of where savings can be derived from, to illustrate their achievability.
11	Principle of 'no adverse financial impact' for General Funds cannot be met.	Medium	High: May require further review of options.	Ensure clarity in initial service and other agreements. Make most of opportunities to restructure residual and support services as part of any wider shared services project.
12	Efficiency targets not able to be met	Medium	Medium: Not able to deliver promised service improvements	Recast SSV and HRA business plans.
13	Service levels decline as new organisation and set up put in place.	Medium	Medium: Threaten reputation and credibility for project.	Project resources need to be dedicated to set up, while leaving staff involved in service delivery in place.
14	Difficulties with TUPE for critical staff.	Low	Medium: May affect services of new SSV in short term.	Ensure robust approach to recruitment in SSV.
15	Difficulty harmonising staff terms & conditions.	High	Medium: Affects scope to achieve efficiencies in medium term.	Adoption of suitable HR and IR protocols.
16	Inability to recruit directors.	Medium	High: Constrains/delays development of SSV.	Need to ensure robust approach to recruitment in SSV.
17	Complexity of operating from multiple sites with different systems and processes keeps workload levels same as current.	Medium	Medium: Same workload level could require same level of staffing resource, which could make staff reductions difficult to deliver.	Move to consolidated systems/processes at earliest opportunity; Plan early staff reductions in areas where clear economies of scale can be delivered.
18	Support services do not deliver VFM SLAs after review period.	Medium	Low: Constrains ability of SSV to realise further efficiencies.	Ongoing negotiation to ensure value for money in support services.
19	The HRA Business plans of the partners aren't strong enough to sustain long-term commitment to HSSV.	Low	High: Partners may need to withdraw if HRA is projected to fall in to deficit position.	Review all HRA Business Plans prior to final decision.
20	Inability to recruit Independent Board members with appropriate skills.	Medium	Medium: May be difficult to attract people of right calibre or with appropriate skills from East Kent.	Widely advertise and enlist help of established council partnerships Consider recruitment from a wider geographical area.