

Report of: Executive Member for Housing and Development

Meeting of:	Date:	Wards
Executive	16 July 2020	All

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SUBJECT: Future management arrangements for street properties currently managed under contract 2 with Partners for Improvement in Islington

1. Synopsis

- 1.1 The council has two Private Finance Initiative (PFI) contracts to manage council housing stock with Partners for Improvement in Islington (Partners). The second of the two contracts with Partners, managing circa 4,000 council street properties, is due to end in April 2022. The first contract with Partners, for services circa 2,000 homes will not expire until 2033.
- 1.2 This report sets out the options for the Council regarding alternative forms of service delivery and the recommendation to return services to council delivery.

2. Recommendations

- 2.1 To note the outcome of the consultation on the service delivery options following the expiry of the PFI 2 contract with Partners
- 2.2 Having considered the outcome of the residents' consultation and after taking into account the other considerations set out in this report to agree that services currently provided by Partners under the PFI2 contract should be provided directly by the council on expiry of the contract.

3. Background

3.1 The council entered into two contracts with Partners for the management of most of its street property stock, in order to finance improvement works to these homes. Resources for investing in these homes had to be accessed through government schemes, as part of the drive to bring all social homes up to the decent homes standard. The only option for these homes, due to the high level of investment required, was entering into a Private Finance Initiative (PFI) arrangement with a contractor who could access private borrowing. These funds were used to bring properties up to the required standard in the early years of the contract.

3.2 The council currently has two contracts with Partners. The second contract commenced in October 2006 with a duration of 16-year. It covers 4042 homes, 2799 tenants and 1243 leaseholders and is due to expire in April 2022. The first contact, covering approximately 2000 homes, runs for 30-years and does not expire until 2033.

3.3 The intention and purpose of the second Partners contract was to refurbish all of the homes to the standards specified in the contract (which is above the decent homes standard) and maintain them at this level throughout the contract term. Partners were to undertake all day-to-day repairs, maintenance, cyclical decorations, planned major works, housing management, leasehold management, void refurbishment and lettings, and liaison with residents for the duration of the 16-year contract.

3.4 Partners are a Special Purpose Vehicle company established to deliver the contract and they entered in to sub-contracts with specialist organisations to deliver the various works and services: Rydons Ltd (repairs, maintenance, major works and cyclical works); Hyde Housing (housing management, LH management) and United Living (refurbishment works and gas and heating services).

3.5 Appraisal of options for delivering the services PFI2 homes after the end of the contract

3.5.1 The contract between Partners and the council does not contain any provision enabling the contract period to be extended and therefore there are three options for consideration for service delivery at the end of the second Partners contract:

- 1.** Insourcing services to the council.
- 2.** Outsourcing services to another third party organisation through a competitive tender process.
- 3.** A combination of in-house service provision and procurement of a new service provider for the remaining services.

3.6 Insourcing

3.6.1 Delivering decent and genuinely affordable homes for all is one of the council's commitments within the corporate plan 'building a fairer Islington'. The council currently delivers housing management, repairs and maintenance services to over 25,000 estate and street property homes. As a large-scale provider of social housing management and building repair and maintenance the council's housing services are well placed to directly deliver these services to more council tenants and leaseholders. The council retained about 1000 street property homes and have provided services to

these throughout the duration of the Partners contracts. Increasing the number of homes managed could lead to some further service efficiencies of specialist services areas, such as bespoke carpentry, which are associated more with older properties. Improving economies of scale, for instance for the council's own joinery shop.

- 3.6.2 The council has been increasing the number of directly delivered housing services in recent years, taking in services such as housing management, housing repairs, gas servicing and void management, when the relevant contracts have ended. This has resulted in the establishment of key expertise and skills within the organisation. Whilst at the same time ensuring the priorities, such as customer satisfaction and quality service provision, could be placed at the heart of our services. The council recently confirmed its preference for insourcing services through its published Insourcing Policy. The consultation of this policy showed that 90% of respondents were in support.
- 3.6.3 Direct service provision enables the greatest level of control by the council of the services it delivers. It supports the deployment of available resources where they are most needed, supports innovative and collaborative approaches to service delivery, without the same commercial priorities of the private sector. Our direct delivery model provides best value for money and quality by utilising a number of contractual arrangements for specific and specialist services, which are more efficiently delivered on the council's behalf. The council is currently in the process of procuring its major works contracts for service from 2020. This procurement has included services to returning properties from the second contract with Partners. Direct delivery enables the council to build and train a local workforce in keeping with its Fairer Islington commitments.
- 3.6.4 Direct delivery of housing management service, through the Homes and Communities Service, will enable the council to expand the reach of the recently remodelled service, which has been designed to meet the needs of residents more effectively. Providing efficient, effective and accessible universal services for residents undertaking simple transactions. Providing targeted services to those residents requiring a more specific service from the tenancy services team and providing a specialist approach for those with the highest level of need for interventions through the Intensive Tenancy Service. Supporting all our residents to access the services they need and to support our most vulnerable residents to live well and independently whilst maintaining their tenancy.

3.7 **Outsourcing**

- 3.7.1 There are no extension arrangements within the second Partners contract and therefore any outsourcing arrangements would require the council to undertake a procurement exercise.
- 3.7.2 If the council chose to outsource all or part of the services, then the procurement process would need to commence about two years prior to the contract end date for a direct service transfer to take place. Two years would be needed to carry out a tender process and also mobilisation of the new contractor(s), given the value and complexity of the services that would be required.
- 3.7.3 If the council were to outsource its management and maintenance services, organisations likely to be interested in delivering this service would include other social housing providers. It would be most likely to be attractive to larger Housing Associations, who deliver services on behalf of other landlords. These organisations

would be likely to be of a similar size to the council and it would therefore be unlikely that they would be able to take advantage of efficiencies from the scale of their operation that are not available to the council. They would be likely to have an established business model. Many of the larger housing associations work on a regional or national basis. In order to benefit from the scale of their organisation, to provide cost benefits to the Council, they would need to integrate delivery into their wider business and therefore it would be more difficult for them to replicate the geographical focus the council would want from its housing management services. The council themselves are uniquely placed in Islington as a large-scale social landlord, with a wholly Islington focus who could most effectively work with health and social care services that a significant number of residents of council homes rely upon.

3.8 **A combined approach**

3.8.1 Although the insourcing option includes a small level of outsourcing specialist services and major works, it would also be possible to select a much larger proportion of services for outsourcing, such as the repairs and maintenance service. This is common practice for social landlords. However, there would be little discernible benefit to taking this approach for a small amount of a landlords' housing stock, especially in light of the council's directly managed repairs services delivered for the rest of the council's directly managed stock.

3.9 **Social value considerations**

3.9.1 Islington Council is committed to shaping and promoting a local economy that is underpinned by the principles of equality and fairness, economic, environmental and social justice. One of the ways in which the council is fulfilling this commitment is through its Social Value requirements.

3.9.2 There are a number of initiatives that are currently being offered within Housing Services or have been delivered to help local people in to or back in to work. The use of apprenticeship and trainee schemes have been very successful, such as the *Get Fit for Work Scheme*, where local people are offered work experience for 12 weeks, which then provides them with the experience and confidence to apply for jobs. The repair services provide opportunities for a pre-apprenticeship (traineeship) level courses with the aim of getting local people ready to apply for the apprenticeships or some other training or employment opportunities including specialist areas such as gas safety.

3.9.3 Helping local people into work is not the only way to help the local community. The council, where possible, uses local suppliers for their resources and materials, which aids community wealth building and contributes towards reducing the council's carbon footprint, helping to achieve our carbon reductions ambitions. When services are outsourced the council has less opportunity to influence the use of local suppliers and they may be seeking to supply a number of contracts across a wide geographical area and have less interest in promoting the local economy.

3.9.4 Council staff benefit from good terms and conditions, which may be an enhancement for staff transferring under TUPE. The council is committed to:

- paying the London Living Wage
- all employees are eligible for council pensions

- they are encouraged to join trade unions who negotiate to improve their benefits and working conditions
- they will be eligible for training and development opportunities within the council enabling them to progress their careers
- the council provides job security.

This all instils loyalty in employees, and therefore retains knowledge and experience vital to delivering services to residents.

3.9.5 If these services were out-sourced, the new contracts could include these social value requirements but the challenge lies with having the flexibility to align with changes in corporate requirements. There is a net zero carbon emission target set by the council and whilst different departments are able to respond to this challenge, it may not be possible to require a third party organisation to comply with more stringent requirements or approaches that are evolved over time. This could result in inflated contract prices to take in to account the uncertain changes that may be required. Therefore, keeping services in-house allows services to be aligned to corporate requirements, as well as, directing resources where it best serves the council and local residents.

3.10 **Consultation**

3.10.1 Ensuring that we take the views of our residents on board is important to the council and in addition we have a responsibility, under the Housing Act 1985, to consult with residents about significant changes to arrangements to manage their homes. Therefore, a consultation exercise has been undertaken; to seek the views of residents currently receiving services under PFI2. The council has considered the views and representations made by residents, a summary of which are set out below.

3.10.2 The consultation was carried out between 24th February and 22nd March 2020. It was available on the council's website throughout and a front-page article was included in Partners Gazette to inform residents about the consultation. Residents could respond using an online form, by email or could complete a freepost insert within the Partners Gazette. The two options that residents were asked to choose between were (1) whether to bring the services back in-house to be delivered by the council, or (2) for the council to out-source services to another housing and repairs service provider.

3.10.3 The consultation received 392 responses with 91% of residents in favour of the council delivering services directly. 133 responses were provided online, 252 responses by post, and 7 responses by email, with only 35 responses (9%) in favour of services being outsourced. This is an overwhelming endorsement from residents for the council to directly deliver services to those currently receiving services from Partners under the PFI2 contract.

3.11 **Conclusion of the options appraisal**

3.11.1 Consider the consultation with residents and the above options appraisal it is recommended that when service provision by Partners and its sub-contractors comes to an end in April 2022, the council should directly deliver services to the 4042 homes

currently managed through that contract. This approach will offer the best value for money for the following reasons:

- The council is a large social housing provider with a range of in-house repairs and maintenance services, offering economies of scale and a quality service delivery
- Directly managing services enable the council to provide residents with benefit from the local focus and broader ambitions the council has to support residents to live well and independently in their council home.
- Direct control of service delivery enables the council to direct resources flexibly over time, responding to priorities of the council and the residents that it delivers services to.
- Most residents who responded to the consultation were in support of this option.

4. Implications

4.1 Financial implications

The current net cost of the PFI2 contract (based on 19-20 budgets) is £15.4m

Following the cessation of the PFI 2 contract there are 2 main options in terms of day-to-day service delivery - 1. Insourcing or 2. Outsourcing

The current HRA 30-year business plan is based on the assumption that PFI2 returns on an insourcing basis. The business plan includes a provision of £21m (at 2022-23 prices) which allows for the full unit cost increase in stock, arising from the return of PFI2, covering housing management, repairs and major works.

The increase in estimated provision included in the business plan of £5.6m primarily reflects an estimated inflationary increase of around £1.6m (19-20 to 22-23), the remaining increase arises as a result of the grant from central government in the form of PFI credits, to cover the investment needed to bring homes up to "decent homes standard", coming to an end and as such reducing the income to the HRA.

In terms of outsourcing, it is not possible to provide a realistic estimate in terms what a third party (such as a housing association) would be seeking, in order to provide this service, without testing the market and clearly specifying the service model to be delivered.

However, the report does provide a comprehensive commentary in relation to the "in principle" potential operational and financial advantages & disadvantages of both options.

4.2 Legal Implications

The council's street properties PFI 2 contract with Partners for Improvement in Islington 2 Limited ('Partner') expires on 7 July 2022 although Partners' obligation to provide housing management services and undertake repairs and maintenance ceases at the beginning of April 2022. There is no provision within the contract enabling it to be extended beyond that date. Accordingly, the council will need to decide how the services currently being provided by Partners will be delivered from April 2022. There are three main options for the council to consider:

- (1) an in-house service for all of the services;
- (2) an in-house service for some of the services and procurement of a new service provider for the remaining services;
- (3) procurement of a new service provider for all of the services.

In deciding which option to adopt, the Council must act in accordance with principles of administrative law. Those principles require the council to reach a reasonable decision which requires that the decision is taken in good faith and is not so unreasonable that no reasonable authority could have reached it. All factors relevant to the decision must be taken into account and irrelevant factors disregarded. In reaching its decision, the Executive should weigh up and balance carefully both the factors in favour of the in-house option for all services and those against such option and in favour of and against either alternative option as set out in this report. The Executive should have regard to the council's fiduciary duty to act with due financial prudence and whether the return of the housing management services from Partners will generate efficiency savings for the council.

Before making its decision, the Executive will need to carefully and properly consider the responses received as a result of the consultation with the residents. This is because section 105 of the Housing Act 1985 places a duty on the council to make appropriate arrangements to enable its secure tenants to be consulted about proposed changes to its housing management arrangements and to have regard to any presentations made about those proposals. Although there is no corresponding duty to consult leaseholders, the council did as a matter of good practice, include leaseholders as part of the resident consultation.

The council will also need to be satisfied that the decision it reaches represents best value for delivering its housing management and repair functions. Before agreeing to deliver the services in-house, the council should be reasonably satisfied that competitive re-tendering would be unlikely to result in better value for money for the council.

4.3 **Environmental Implications and contribution to achieving a net zero carbon Islington by 2030**

Delivering services to the housing in question will have an environmental impact, which includes material and energy use, waste generation and works-related travel. However, these works already take place as part of the existing contract, and no significant change to the overall impact is expected as a result of Islington insourcing these services. However, by insourcing the services, it allows the council direct control over how they are delivered, potentially making it easier to make changes in future (such as adopting zero emissions vehicles) than it would be if the contract remained outsourced.

4.4 **Resident Impact Assessment**

A Resident Impact Assessment (Appendix 1) was completed reflecting the council's preferred option of insourcing services. On the basis of this assumption, no negative effects have been identified with the council delivering tenancy and leasehold management services, or repairs and cyclical maintenance services. As council services have been designed to support some of our most vulnerable residents, there should be positive impacts of the insourcing arrangements for these residents, with improved

connections to other key council services and support from other statutory and voluntary sector services. The RIA will be reviewed in the light of the outcome of the consultation exercise.

5. Reason for recommendations

5.1 This report recommends that services currently delivered by Partners are delivered directly by the council from April 2022. Direct service provision ensures the greatest level of control by the council of the services it delivers, deploying available resources where they are most needed, supporting innovative and collaborative approaches to service delivery to council residents, without the same commercial priorities of the private sector. Direct delivery of housing management services by Homes and Communities service, will enable the council to expand the reach of the recently remodelled service which has been designed to meet the needs of residents more effectively; as well as enabling the council to build and train a local workforce in keeping with its Fairer Islington commitments. The council has a successful track-record of successfully insourcing and providing services, which has been overwhelmingly endorsed from PFI 2 residents the public consultation, where 92% of residents stated their preference for the council to deliver housing management and repairs services from April 2022.

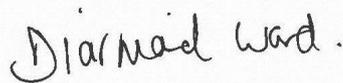
Appendices:

Appendix 1 - Resident Impact Assessment

Background papers: None

Final report clearance:

Signed by:



Executive Member for Housing and Development

Date: 30/6/20

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