



Empowering tenants, improving quality and reducing costs:

The case for contestability in
English social housing

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Frontispiece

The shape of public policy is changing. Compared to the historic delivery of uniform public services by public bodies to a grateful and passive public, today's approach couldn't be more different.

A focus on outcomes, a recognition of the contributions made by diverse organisations and providers, the engagement and empowerment of customers and communities, the personalisation of services, decision making which is based on evidence and high levels of transparency and accountability are all now accepted parts of today's public service landscape. This suite of new ideas is already actively and extensively in place, for example in local authority children's and adult services working with Primary Care Trusts to deliver 'world-class' commissioning.

In housing, this approach has not yet been fully embraced and this paper attempts to explore the potential it presents and the issues which need to be addressed. Using publicly-available information, we argue that the social housing sector has far to go and make proposals for the journey.

Tenants and the new regulator want landlords and providers to grapple with these issues. Improvements in our sector must become sustainable and we need to deliver consistent and high quality services, popular and cost-effective homes and places where people want to live.



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1. Summary

The Tenant Services Authority (TSA) created out of the Regeneration and Housing Act will set to work later this year addressing tenant issues and particularly those identified in the Hills and Cave reviews. Within two years its responsibilities will be extended from RSLs to include local authority landlords as well.

Part of the TSA's brief is to ensure the delivery of quality services for tenants and value-for-money. This paper looks at some of the evidence available on these issues and makes the case that accelerating contestability is necessary to deliver both of them.

On quality grounds, in-depth tenant satisfaction surveys are needed to drive out the 'coasting' culture that underpins many organisations in the sector. In councils, greater alignment between housing departments and their improving sister departments, particularly children's services and adult social care, is required. The ALMO story is one of mixed effectiveness and higher costs and these form a major part of the challenge for their continued separate existence.

On financial grounds, there is a strong case for contestability. In English social housing management, aggregated savings to the public purse of up to £1.54bn p.a. seem within reach.

Contestability is a proven mechanism for reducing costs and improving performance over a period of time. As a nationwide market develops we can expect that new public (trading ALMOs for example), private and third-sector providers will join the small band of existing competitors currently focused on the capital.

Social housing communities are vital parts of the fabric of our country. They have an important role to play in the delivery of today's political priorities including community sustainability, the environment, commissioning/world class commissioning, Welfare to Work, Building Schools for the Future, behavioural change and personalisation. Without them, many

of these programmes simply will not have the positive and sustainable impacts that people generally want to see.

Presently, social housing is nowhere near the centre of these developments where it logically should be. Putting it there will require the incentive of contestability coupled with the power of regulation.

2. Background

Social housing in England is owned by local authorities (2m homes) and RSLs (1.9m homes)¹.

In terms of who manages these homes,² there is a mix between local authorities (900,000 homes), Arms Length Management Organisations (ALMOs) (1m homes), RSLs (1.9m homes) and the private sector (50,000 homes)³. There are also some 84,000 homes run by Tenant Management Organisations (TMOs) although their actual management is provided by a combination of tenant, private and Council/ALMO resources⁴.

Turning to performance, evidence suggests that the housing part of local government is improving more slowly than other local government services and that RSLs, show inconsistent improvement on housing management indicators over time, with data from some RSLs stagnating and others improving. Taken together, we believe this evidence indicates a level of 'coasting' as well as some low service aspirations: perhaps '1-star and improving' seems to be good enough for some social landlords on several service indicators.

1 Department for Communities and Local Government,
<http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/stockincludingvacants/livatables/>

2 Social Housing management covers a variety of activities including Allocations, Rent Management and Repairs Management. It excludes service costs, care/support services, routine maintenance, planned maintenance, major repairs, bad debts, lease charges, depreciation of housing properties, impairment of housing properties etc

3 The figure for ALMOs is from the National federation of ALMOs (NFA)

4 Department for Communities and Local Government,
<http://www.communities.gov.uk/documents/housing/rft/156537.rtf>

On the demand side, tenants seem to have low expectations of the services they receive, with the satisfaction levels for registered social landlords' only managing between thirty and forty per cent in several categories of recent independent in-depth research carried out by the National Consumer Council⁵. In comparison, landlord surveys of satisfaction have consistently shown satisfaction levels in the mid-70% over the years, which perhaps suggests that the (landlords') methodology may be having an impact on results. The landlord survey results may have underscored the general unwillingness of some organisations (perhaps with weary resignation by tenants) to embrace the successive drives towards excellence in the sector that have been launched over the years and to reinforce the culture of settling for the average.

Of course, there are many high performing local authority housing departments, ALMOs and RSLs but when the sector is taken as a whole there is little to suggest a widespread hunger for delivering customer-focused, aspirational and stretching outcomes.

Additionally, many RSLs and local authorities spend housing funds on providing 'added value' services to their communities and this is often cited as a reason for their higher comparative costs. In some areas, Welfare to Work projects carried out by RSLs⁶ for example, there is some data on the extent of this expenditure but, generally, the data is very scant.

⁵ National Consumer Council, *Putting the public into public services* (National Consumer Council: London, 2007), 12

⁶ Estimated by the Housing Corporation at £250m in 2007-8

3. Housing management

Competition in social housing management began under the Compulsory Competitive Tendering (CCT) for local authorities regime back in the late 1980s. The antagonism towards CCT meant that little outsourcing actually followed. With the repeal of CCT in 1997 and its replacement with Best Value, some further contracting out occurred, but after a decade-and-a-half of market-making only around 1.6% of social housing management has been outsourced and that has been concentrated in the stock owned by a very few Councils:

• Westminster	: 22,000 ⁷
• Hackney	: 32,320 ⁸
• Lewisham	: 4,400 ⁹
• Liverpool	: 11,000 ¹⁰
• PFI	: 28,000 ¹¹
Total	101,620

RSLs

To our knowledge, no significant RSL has tested the efficiency and effectiveness of its management function in open competition. Occasionally, there have been examples of external managers being brought in to solve particular issues (Interim Management - particularly around rent and void management) and there are examples of negotiated management arrangements where one housing association assumes full responsibility for managing multi-RSL developments, but the overwhelming picture is one of management self-supply.

This lack of contestability has impacted on both quality and cost, with great variances apparent in both dimensions:

⁷ <http://www.westminster.gov.uk/housing/citywesthomes/>

⁸ Hackney Homes (see email)

⁹ Lewisham Homes <http://www.lewishamhomes.org.uk/about-lewisham-homes.html>

¹⁰ Press release: http://www.pinnacle-psg.com/Media%20Centre/News%20Archive/news_archive_sub.php?month=April&year=2007&id=115

¹¹ 4ps PFI/PPP operational project review 2006 housing sector, 3

Quality

Housing Corporation data¹² shows that on the key points of quality performance (general needs re-let times, rent arrears and delivering repairs within the targeted timetable), RSL delivery lags behind the requirements set out in the most recent tenders put out to the market:

KEY INDICATOR	RSL PERFORMANCE	RECENT TENDER REQUIREMENTS
General needs re-let time	39 days average	25 days
Rent arrears	5.4% average	1%
Routine repairs completed within target time	94.03%	98%

Additionally, in the last 4 years for example, there has been a steady flow of RSLs who have been assessed as being either *zero* or *one star* by the Audit Commission. Although the profile of inspections is not exactly the same each year, with 33, 44, 28 and 16 scoring zero or one star in those years, there is clearly an issue of continuing under-performance.

Cost

Based on the operating cost index (which calculates *expected* costs) produced by the Housing Corporation, registered social landlords' operations appear expensive. When the cost of major repairs is removed, a majority of the 443 RSLs listed with more than 1,000 properties record per unit costs above that predicted by the index¹³. When the cost of major repairs is included, however, most organisations operate at lower than their predicted cost suggesting that they cross-subsidise high routine housing management costs from major repairs budgets, perhaps being enabled to do so by lower than expected Decent Homes Programme tendered prices.

¹² Analysis made using Housing Corporation key performance indicators 2006, published in March 2007. Indicators for 2007 not available at time of writing, though they are expected in March 2008

¹³ It is worth noting that the Housing Corporation intends the operational cost index to be a comparator only. We should also acknowledge the issues related to mean averages in this circumstance. That said, the fact most are operating above the predicted cost suggests there might be room for improvement.

The combined turnover of all RSLs in England in 2005/2006 was in excess of £9 billion¹⁴, with net operating costs of £7.5 billion (*ibid*).

Moreover, a recent joint Housing Corporation/Audit Commission report suggested that some £100 per property per year could be saved on the management of RSL social housing across England through improved procurement, initially in so-called 'quick win' areas, such as telecoms and stationery. Sector-wide, this could translate into a potential saving for RSLs of £227m p.a (*ibid*).

Moreover, the report goes further and argues that some 2/3 of all non-repairs expenditure made by RSLs (a mean average of £3,947 per property per annum¹⁵) should be outsourced¹⁶. If this were to be implemented, then the market would need to be extensively developed over time to ensure that rapid growth didn't lead to problems of quality and provider failure, in our view.

One note of caution, though, on the seeming attractiveness of savings: the current VAT rules mean that external providers of housing management services to RSLs are subject to VAT, and the client RSL would therefore need to make savings that are more than equal to the current rate of VAT in order to benefit. The procurement savings identified by the Housing Corporation/Audit Commission at around 5% are considerably short of the current 17.5% VAT rate and one would have to question the value of outsourcing if it were targeted to deliver RSL financial savings alone.

However, potential savings to the public purse will occur if outsourcing delivers cost reductions in excess of the portion of UK VAT (1%¹⁷) that is paid to the EU. The cash savings will be realised through the government reducing grant/subsidy levels to

¹⁴ Better buys: improving housing association procurement practice (February 2008), 8

¹⁵ Total operating cost for sector divided by total number of RSL properties (7.5bn/1.9m). This figure includes housing management, service costs, care/support services, routine maintenance, planned maintenance, major repairs, bad debts, lease charges, depreciation of housing properties, impairment of housing properties and other.

The £1.335 billion annual surplus on social housing lettings is part of this overall figure of £7.5 billion and this, in turn, allows a market distortion whereby some RSLs fund capital investment in housing PFI schemes from their Balance Sheets. Essentially, this means that the relevant public investment already made in RSLs does not deliver a market rate of return: a kind of cross-subsidy from RSLs to local government.

¹⁷ Brian Jack in Web journal of current legal issues (2001) (8) 2, 1

RSLs by the amount of savings delivered by outsourcing less, of course, any incentive offered for RSLs and the 1% EU VAT contribution.

Moreover, we believe that the procurement savings identified by the Audit Commission/Housing Corporation considerably understate the potential. This is firstly because the target services involved, Routine Repairs, Maintenance (routine and planned), Estate Cleaning and Grounds Maintenance, are readily market-testable and haven't been so. And, secondly, because evidence from recent, albeit largely London-based, housing management tendering exercises, show that RSL management costs are substantially more expensive than the market.

In the latter, winning bids are typically around the £400 per property per annum level compared with the £695 average cost identified for RSLs, implying a potential saving not of 5%, but nearer 42.5% of housing management costs or £295 per property per annum. Scaling this up across England, a potential saving of around £560m per annum to RSLs would seem achievable over time as the market develops. And, as this is far in excess of the present VAT rate, it would be worthwhile to RSLs on financial grounds alone.

The potential savings to the public purse are the annual RSL saving excluding the VAT deduction less 1%, which amounts to around £554m p.a. once the market has been established. Taking the procurement savings identified by HC/AC into account, there is a potential further saving of £227m p.a., making £780m p.a. overall.

Addressing these matters is important and in Scotland, where the issues of cost and performance are similar to those in England, the Scottish Government has published a paper setting out for the first time housing management cost¹⁸ thresholds that will apply to future recipients of grant subsidy¹⁹.

¹⁸ The Scottish government defines housing management slightly differently to CLG, but the point is the same: a government has linked housing subsidy to cost thresholds

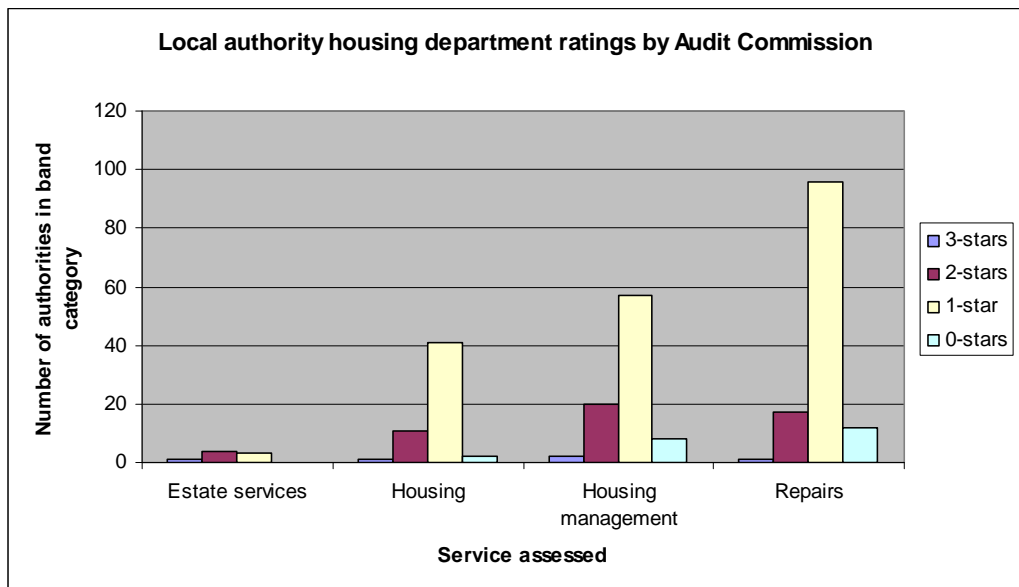
¹⁹ Better value from Housing Association Grant: Changes in Grant 2008-9 Scottish Government

Local Authorities, ALMOs and TMOs

The number of social homes owned by local authorities in England has been reduced over the years by government policies including Right To Buy and the general push for the transfer of their stock to RSLs to bring private capital into public housing. Currently local authorities own around 2.0m social homes and these are managed by a combination of direct management (900,000), through ALMOs (1m) and TMOs (84,000).

Quality

The Audit Commission inspection regime has improved performance over the years, but there was a lot to put right as the following table covering the period 2001-8 shows:



More specifically, looking at service quality and cost, the picture for local authority-owned stock using the same indicators as RSLs, is.

Quality 2006-7

KEY INDICATOR	LA PERFORMANCE	ALMO PERFORMANCE	RECENT TENDER REQUIREMENTS
Non-urgent repairs turn-around	12.7 days average	9.9 days average	5 days average
General needs re-let time	35 days average	36 days average	25 days
Rent arrears	2.35% average	2.76% average	2.55% Average
Urgent repairs completed within target time	96% average	97% average	98%

A comparison of the performance change in ALMO local authorities and non-ALMO local authorities (02/03-06/07)²⁰ shows:

	ALMO LAs		Non-ALMO LAs		Difference 2002/03-2006/07	
	2002/03	2006/07	2002/03	2006/07	ALMO LAs	Non-ALMO LAs
% rent collection	97.0	97.4	98.0	98.0	+0.4	0.0
% rent arrears	3.00	2.76	2.47	2.35	-0.24	-0.12
Avg relet interval (days)	44	36	39	35	-8.0	-4.0
% urgent repairs on time	93.0	97.0	92.4	96.0	+4.0	+3.6
Avg time to complete non-urgent repairs (days)	16.3	9.9	16.4	12.7	-6.4	-3.7

²⁰ Hal Pawson, Analysis of local authority housing management performance 2006-7 (Housing Quality Network, 2008), 12

Cost – housing management

The Local authority weekly unit housing management expenditure (02/03-06/07)²¹ data produced by DCLG shows that the average cost per property of housing management in England was £14.71 per week for local authorities and £15.53 per week for ALMOs in 2006-7, or annual costs of £764.92 and £807.56 respectively.

Successful tendered prices for these services when outsourced are running at around £400 per annum, although it must be said that this is principally in London. However, the DCLG figures show an even higher figure per property for local authority housing management here of £23.87 per week in 2006-7 or £1241.24 per annum.

Clearly, whether one takes the average cost for England or London as the benchmark, considerable savings are possible in comparison with current tendered prices for housing management. Conservatively taking the lowest present cost of £764 per property per annum against the (London) £400 bid cost, there is a potential saving of £364 per property or £364m per annum over the 900,000 properties owned and managed by local authorities plus the 84,000 local authority properties managed by TMOs. There are no housing management cost figures available for TMOs, so including them in the local authority calculation seems reasonable.

For the 1m properties owned by local authorities and managed by ALMOs, the potential saving is £407 per property per annum or £407m per annum.

Across all local authority-owned stock, the aggregated savings possible are £771m per annum.

Moreover, the outsourcing savings are realisable without any VAT complications as local authorities are able to reclaim the VAT they pay.

²¹ Hal Pawson, Analysis of local authority housing management performance 2006-7 (Housing Quality Network, 2008), 13

For the public purse, these considerable savings would be realised through reductions in the annual settlement to local authorities.

The current cost of housing management around the regions can be summarised:

	London	South	Midlands	North	England	ALMOs
	<i>Average weekly unit management cost (£)</i>					
2002/03	26.00	12.31	10.00	9.67	12.00	-
2003/04	25.16	12.58	10.50	10.22	12.30	14.15
2004/05	26.00	14.00	11.76	11.96	13.93	15.12
2005/06	24.14	14.28	12.78	12.16	14.38	16.06
2006/07	23.87	14.90	13.70	12.71	14.71	15.53
£ change 2002/03-2006/07	-2.13	2.59	3.70	3.04	2.71	
£ change 2005/06-2006/07	-0.27	0.62	0.92	0.55	0.33	-0.53
% change 2002/03-2006/07	-8.2	21.0	37.0	31.4	22.6	
% change 2005/06-2006/07	-1.1	4.3	7.2	4.5	2.3	-3.3

Cost - other services

There is a well developed marketplace in social housing for services other than management including:

- Responsive Repairs - total spend £896 million in 2006/722
- Planned Maintenance – total spend £579m in 2006/723
- Estate Cleaning – no figure available
- Grounds Maintenance - no figure available

Contracts in these areas are in many cases third or fourth generation and there are a number of major players including:

- **REPAIRS/DECENT HOMES** - Kier, Connaught, Mears, Enterprise, Apollo
- **CLEANING AND GROUNDS MAINTENANCE** – Mitie, Pinnacle, Connaught, ISS, Wettons, Enterprise, Glendale

22 Communities and Local Government – Business performance statistical index (London: Communities and Local Government, 2007) available at: <http://www.communities.gov.uk/housing/housingresearch/housingstatistics/housingstatisticsby/localauthorityhousing/dataforms/357553/databyregion/>

23 Ibid

We do not discuss these services in any detail. In the context of this paper they are mature rather than emerging markets and outsourcing savings have already occurred.

5. Summary – The case for contestability

There are three arguments for introducing contestability to be extended in social housing, particularly in management, in both the RSL and Local Authority sectors. They are:

Financial

RSLs

Potential savings of between £227m (from procurement alone) through £554m (from housing management) to £780m (from procurement and housing management) per annum are possible. However, the impact of VAT on services provided on behalf of RSLs means that some of this potential budget saving would be lost in VAT payments to external suppliers (before finding its way back to the public purse).

At all but the lowest levels of RSL outsourcing (saving <1% of cost), there would be savings to the public purse of the amount saved by the RSL before the VAT payment to providers less the 1% EU contribution. This amounts to between £224m and £772m per annum based on procurement-only savings and procurement-plus-housing management contestability savings respectively.

Local Authorities

Potential savings of £771m per annum are possible on housing management with no VAT complications.

These savings would flow through to the public purse through amendments to the local authorities' annual settlement mechanism.

Performance Improvement

RSLs

Generally the quality of RSL social housing management service is uninspiring and in many cases poor affecting not just the quality of the properties, but also the quality of community life. With the number of properties under RSL ownership continually increasing and at a time where community engagement and communities generally are moving up the policy agenda, it is potentially a springboard to influence both individuals and communities towards their being more pro-social in their behaviours. With this agenda, the RSL tendency towards complacency needs to be reversed.

Local Authorities

The quality of local authorities housing management services (direct and ALMO) is varied, although there is evidence of improvement over the last 7 years or so. The principal issue, though, is that housing performance is lagging behind the substantial improvements seen in other local authority services over that same period. The reasons for this go to the heart of the very real separation between housing and other departments that most councils still have in place and which has been exacerbated by the ALMO programme. Separation means different agendas, speeds of improvement and duplication, particularly in the community-facing front-line areas. Of course, these things go in cycles, with housing, perhaps, being managerially ahead of its council compatriots in the 1980's and 90's, but today it is being left behind as something of a backwater. ALMOs have made the problem a little better, but at a higher cost.

Meeting citizen, community and customer needs

There is evidence that most tenant satisfaction surveys are affected by their being carried out by landlords as the picture that emerges from in-depth independent satisfaction surveys is far less rosy.

There has also been limited innovation across the social housing sector and there is far to go before we can say the sector is really addressing today's issues²⁴. However the scope to transform people's lives is enormous - from 24/7 services to the integration of housing and worklessness projects, for example. The key question is whether the sector has the managerial capability and incentives in place to deliver the changes required in the time the government and people want.

²⁴ For example, see 'An opportunity waiting to happen: Housing Associations as 'Community Anchors'' NATFED, October 2007



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