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## **FINANCING A NEW HOUSING MANAGEMENT SYSTEM FOR EAST KENT HOUSING**

To: **Cabinet 31<sup>st</sup> July 2014**

Main Portfolio Area: **Housing and Planning**

By: **Tanya Wenham Head of Housing Services**

Classification: **Unrestricted**

Ward: **Thanet Wide**

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**Summary:** **To seek approval to make loan finance available to East Kent Housing for the procurement of a new housing management IT system.**

### **For Decision**

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#### **1.0 Introduction and Background**

- 1.1 East Kent Housing (EKH) is the Arms Length Management Organisation (ALMO) established jointly by Thanet District Council, Dover District Council, Canterbury City Council, and Shepway District Council to undertake the management of the council's housing stock.
- 1.2 EKH is currently using the four individual housing management IT systems that were in existence in the four councils at the time the organisation was established. The IT systems are different in each of the four councils.
- 1.3 EKH has approached the joint owning council's to seek support for a proposal to replace the four existing systems with a new, single system. A business case to support their request is attached at Annex 1.
- 1.4 In order to implement the new system an upfront investment of £1,195,025 is a required. As a result East Kent Housing has requested a loan of £223,000 from each of the four councils towards the costs of the project.

#### **2.0 Benefits of a single system**

- 2.1 East Kent Housing is committed to improving services to tenants and the single IT system is central to these plans.
- 2.2 Acquiring a single housing system provides East Kent Housing with the opportunity to achieve the following: release savings; provide new levels of service and facilities to tenants; develop a platform for future business development. It also gives the opportunity to restructure certain business functions which could generate further significant savings through salary cost reductions. It can also provide improved management information, common processes and greater corporate cohesion.

2.2 In particular a new the system will aloe East Kent Housing to achieve the following:

- The ability to generate accommodation savings and improved staff flexibility through home-working and mobile working on site.
- Improved technology allows for more staff to be out on district being more visible to residents and more responsive to issues as they arise.
- Better stock condition information allowing more accurate planning for maintenance and improvement programmes.
- East Kent Housing will be able to offer new facilities and business to tenants providing more opportunity to deliver cost savings and to improve customer satisfaction through channel shifting (for example introducing on-line self-service).
- Development of digital service delivery for tenants including smart phone applications.
- A reduction in the number of system administrators that need to be employed to provide resilience.
- Improved flexibility in being able to re-deploy staff across different sites and improved ability to achieve savings through centralising certain functions on single sites.

### **3.0 Options**

3.1 Option 1: Agree to the EKH request to provide the required loan finance interest free.

3.2 Option 2: Agree to the EKH request to provide a loan but with an interest charge that is reflected in the management fee.

3.3 Option 3: Reject the request

### **4.0 Corporate Implications**

#### **4.1 Financial and VAT**

4.1.1 The details with regard to the financial costs and efficiency savings have been identified within the attached Annex 1.

4.1.2 East Kent Housing is not seeking a direct financial payment from the joint owning council's to cover the cost of acquiring the new system but rather a loan of £223,000 from each of the four council's based on an equal (25%) share of the cost.

4.1.3 The business case shows that the loan will start to be repaid from 31 March 2017, the point at which EKH expects the system to start delivering savings. The EKH business case indicates that the maximum period within which the loan will be repaid will be 6 years.

4.1.4 In the event that the council cannot provide an interest free loan an interest rate would need to be agreed and charged. For the duration of the loan EKH will need to increase the management fee to the council to cover the increase in their overheads. This will facilitate a repayment back to the council.

#### **4.2 Legal**

4.2.1 The procurement process will require EKH to directly enter into contractual relationships with a new system supplier with the result that EKH will own the new system. There are clauses within the Owners Agreement and Management Agreement which relate to this procurement arrangement and which will require unanimous, Joint Decisions of the Officer Panel to enable it to proceed. The specific consents that will be required from all four councils are:

- Consent to contract directly with a supplier other than the councils (Clause 9, schedule 3 of the Owners Agreement).
- Consent to borrow money (Clause 10, schedule 3 of the Owners Agreement).
- Consent to use new software that interfaces with the council's systems (Management Agreement)

4.2.2 While these consents are referred to in the recommendations section of the EKH business case report they do not require formal cabinet approval as the necessary decision making authority is delegated to the council's Client Officer.

4.2.3 The procurement arrangements will not require any variations to be made to the terms of the Management Agreement or the Owners Agreement.

### 5.3 Corporate

5.3.1 A single IT system for EKH is central to the delivery of their vision document and future efficiencies. There are a number of potential risks associated with this project and these are detailed below.

| Potential risk  | Mitigation   |
|---|--|
| The council chooses not to provide loan finance for the system                              | EKH will not be able to provide the level of savings required by the councils and the management fee for Thanet DC will increase.  |
| The council chooses to end the relationship with EKH and no longer has a suitable database. | The specification for the system includes separate areas for each council's data to be held. This will allow Thanet to access its data if necessary. There would be a cost associated with this for the council, but this does not prevent the council ending the relationship if considered appropriate in the future.  |
| The council is unable to provide an interest free loan and decides to charge interest       | EKH is owned by the four councils and therefore additional charges are likely to be reflected in EKH's ability to provide the predicted level of savings. This will affect the management fee for future years which is likely to increase.  |
| Issues of state aid as a result of an interest free loan                                    | State only becomes an issue if EKH undertake activity outside of the current agreements that are in place. If EKH expanded their services to the private sector then an interest free loan could be seen as giving them a market advantage. There is mention of such activity in the EKH vision document but such activity and services have not been agreed by the four councils. |
| Risk of cost overrun on the project   | EKH have used external specialist advisors to prepare the detailed business case. EKH have confirmed it will carry the risk of cost overruns where these are part of the project. It will not cover the costs where the reason for overrun is due to the council.  |

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|---|---|
| Risk of default on the loan finance                                 | The business case has included prudent assumptions about savings that can be used to cover the cost of the loan repayment. As joint owner of EKH, the council has control of its activities. The loan will be accounted for as capital expenditure in the first instance. |
| Risk that the new system does not provide expected functionality    | There is a mature market for housing management software and products are well tested by other providers. The council will work closely with EKH to ensure that the specification and tendering robustly test functionality.  |
| EKH do not secure efficiency savings as a result of the investment. | Assumptions about efficiency savings within the business case have been prudent.  |

#### 5.4 Equity and Equalities

5.4.1 It has not been necessary to undertake a review for this project as there is no adverse impact in providing a loan for the system to be developed.

#### 6.0 Recommendation

6.1 To agree to a loan of £223,000 for EKH for the purposes of purchasing a single IT system. Delegate authority to determine the terms of the loan to the Section 151 Officer, in consultation with the Portfolio Holder for Finance.

#### 7.0 Decision Making Process

7.1 This is a Key decision for Cabinet.

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| Reporting to:    | Madeline Homer, Director of Community Services       |

#### Annex List

|         |                                 |
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| Annex 1 | East Kent housing Business Case |
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#### Background Papers

| Title | Details of where to access copy |
|-------|---------------------------------|
| None  | N/A                             |

#### Corporate Consultation Undertaken

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| Finance | Nicola Walker, Finance Manager - HRA, Capital & External Funding  |
| Legal   | Steven Boyle, Interim Legal Services Manager & Monitoring Officer |