



City of Westminster Cabinet Report

Meeting or Decision Maker	Cabinet
Date:	15 th October 2018
Classification:	General Release
Title:	Strategic Options for CityWest Homes
Wards Affected:	All
City for All Summary	This report seeks Cabinet approval to seek a mutual agreement with CWH to terminate the management agreement with effect from 1st April 2019
Key Decision:	No
Financial Summary:	See paragraph 5 of the report
Report of:	Barbara Brownlee, Executive Director for Growth, Planning and Housing

1. Executive Summary

- 1.1 There are serious problems with the performance and management culture at City West Homes (CWH) the Council's wholly owned Arm's Length Management Organisation (ALMO). CWH has developed a management culture with significant weaknesses that is insufficiently performance or customer service oriented.
- 1.2 Residents have expressed unprecedented dissatisfaction with the service and the non-responsive attitude of CWH. Consultation and engagement with residents have indicated that they are overwhelmingly dissatisfied by CWH's management of the housing service. An independent review by Campbell Tickell (CT) has concluded that there are serious issues with performance and weaknesses of management.
- 1.3 The Council's overriding priority is to improve service delivery for tenants and leaseholders.
- 1.4 It is recommended that the most effective option to achieve this would be to bring the management of the housing service back in-house, and that this should be done without delay.

2. Recommendations

2.1 Urgent steps be taken to return the housing management function outsourced to CWH to the Council's direct control, as follows:

2.1.1 The Council will seek a mutual agreement with CWH to terminate the management agreement with effect from 1st April 2019; and

2.1.2 In case that mutual agreement cannot be reached then the Council will give unilateral notice to CWH to terminate the management agreement with effect from as soon as possible after 1st April 2019.

2.1.3 The Council will continue to engage with its tenants and leaseholders on the future provision of housing management services and how these services can improve.

2.1.4 In line with 2.1.3 above, the Council will undertake a review of the housing service provision and consult on a potential revised structure for the service with the aim of embedding a new culture centred on high performance and excellent customer service. This will be in consultation with all relevant parties.

2.1.5 Authority is delegated to the Executive Director, Growth, Planning and Housing to take all steps and to execute all documents required to achieve the above outcomes and in order to ensure the smooth transition of the transfer of housing services back in-house.

2.1.6 Authority is delegated to the Executive Director, Growth, Planning and Housing to agree in respect of any contract to which CWH is a party and which the Executive Director considers could be of assistance to the council in delivery of the housing management services and performance of its relevant function, that such contract is novated to the council or held on trust for the benefit of the council and that any such novation or trust may be executed on behalf of the council by the Director of Law.

3. Reasons for Decision

3.1 CWH has experienced serious and ongoing service problems in a number of key areas particularly repairs and maintenance, the contact centre and responses to complaints and other queries from residents and Councillors.

3.2 It is in the best interests of tenants and leaseholders and in line with feedback from tenants and residents' groups for the Council to seek a mutual agreement with CWH to terminate the management agreement with effect from 1st April 2019 and transfer housing services back in-house.

4. Background, including Policy Context

- 4.1 In 2017 a two-stage report from consultants Campbell Tickell (CT) was commissioned. The first stage in March 2018 identified serious weaknesses in CWH's management and made recommendations for improvement. The second stage in September 2018 provided an appraisal of future housing management options.
- 4.2 The CT March 2018 report (attached as Appendix 1) acknowledged that there had been improvements to the service since the Autumn of 2017 but emphasised that "there is much work still to be done".
- 4.3 The September 2018 report (attached as Appendix 2) considered the following four options:
Option 1: Retain and refocus the current devolved management arrangement;
Option 2: Return the provision of housing management services to the Council;
Option 3: Adopt an alternative delivery model in the form of a trading company;
Option 4: Outsource the service to one or more external providers.
- Of these, options 1 and 2 were assessed by CT as "valid paths for the Council to select, each having associated strengths and weaknesses, opportunities and risks".
- 4.4 The final CT report concluded that "the quality of customer care, service delivery, local ownership and connection with residents has been significantly compromised over the course of last year as CWH implemented its new Target Operating Model" and identified "significant operational problems that have at their root weaknesses in the oversight and management of the service". It advised that there was an urgent need to re-establish residents at the heart of CWH's culture.
- 4.5 When preparing their final report CT conducted stakeholder interviews with the following: Chair of Residents Council, Residents Council representatives (focus group) and Area Panel representatives (focus group). CT attended a meeting of the Residents Council on 29 July 2018 and a meeting of tenants and leaseholders on 9 August 2018. CT reported that "The service delivery experience over the last year of residents interviewed can be characterised as being one of frustration at the poor level of customer care and patchy response, and concern that the on-the-ground focus and local ownership of the service have been compromised."
- 4.6 In February 2018 City West Residential was fined £15,000 and placed on the Mayor of London's Rogue Landlord and Agent Checker for breaches of consumer protection legislation concerning failing to advertise its fees.
- 4.7 On 20 September 2018 the Council issued a press release on behalf of the Cabinet Member for Housing and Customer Service stating that "Along with the Council's Leader and Cabinet, I believe there is no option now other than to bring the management of council housing under the Council's direct control. We believe that this will be the most effective way of driving through the improvements that our residents need to see."

- 4.8 Since the Autumn of 2017 the Council has worked closely with CWH to try to refocus the service, including weekly meetings with its former CEO and interviews and meetings with the scrutiny committee. However, it is considered that the weaknesses in management and lack of performance or customer service oriented culture are deeply ingrained at CWH and it would be a challenging and lengthy process to eradicate these problems. Pursuing this option (option 1 considered by CT) would not serve the best interests of residents.
- 4.9 Pursuing option 2, bringing the service back in-house, would be in the best interests of tenants and leaseholders and in line with feedback from tenants and residents' groups. This should be combined with consultation and engagement with tenants and leaseholders on the future provision of housing management services and how these services can improve, in order to re-establish residents at the heart of service delivery.

5. Financial Implications

- 5.1 The process of returning the housing management function to direct Council control will incur one-off costs - both directly through the project team in managing and implementing the transition and also potentially in altering certain contracts and agreements.
- 5.2 Specific areas such as TUPE and pension implications need to be worked through for CWH and its subsidiary company City West Homes Services Ltd (CWHS) to determine the potential costs associated with them. Not all staff within are currently part of the local government pension scheme (LGPS). As part of the TUPE process they will be given the opportunity to join the LGPS, this will increase overall revenue pension costs. The LGPS fund for CWH staff is currently in a surplus position from an actuarial perspective (although an accounting deficit due to accounting treatment), therefore there are no expected one off cash payments to the fund required as part of the transfer of the fund back to the Council, but an updated valuation will be required.
- 5.3 In year financial performance will continue to be monitored against the agreed savings of £0.950m already accounted for in the 2019/20 HRA budget. One-off costs may be incurred in the HRA and GF as part of the process and these will need to be identified and monitored. Such costs are not currently recognised within the budget and so are expected to be funded corporately. There is potential for further savings once the housing management functions are being delivered directly by the Council. This would mostly be within the HRA but there may be an element of General Fund cost reduction, work will commence on identifying potential further savings and the associated implementation costs prior to 1st April 2019.
- 5.4 The Council already incorporates CWH as part of the year end group accounts process. If the decision is taken to bring CWH back into the Council, the accounts for CWH (and CWHS) for the year ended 31 March 2019 will have to be prepared on the basis of them not being a going concern. As at 31 March 2018 there was a deficit balance on the balance sheet as a result of the accounting deficit on the pension scheme, while there were other usable

reserves of £569k. The final reserves, including pension reserve, of CWH would transfer to the Council on 1 April 2019.

6. Legal Implications

- 6.1 The Council is able to terminate the management agreement with CWH dated 27 June 2013 in a number of circumstances. Preferably, this will be with the agreement of the Board of CWH, with effect from 1st April 2019.
- 6.2 The Council has an unconditional right unilaterally to terminate the management agreement by serving 6 months' written notice. Such a notice may be served as a fall-back in case agreement is not reached with the Board of CWH for earlier termination on 1st April 2019.
- 6.3 The Council is obliged by sections 105 of the Housing Act 1985 and 137 of the Housing Act 1996 to consult with secure and introductory tenants on matters of housing management, which might potentially include the termination of the management agreement, but only if WCC is of the opinion that bringing the housing service back in house amounts to a change of the Council's policy or practice that is likely to affect substantially its secure/introductory tenants. The Council may reasonably take the view that bringing the housing service back in house is not likely substantially to affect its tenants since no change to the content of services or permanent staff will result from termination, merely the governance of service delivery will come back in house, and that this will only benefit its tenants. Further, consultation and engagement with residents has indicated that they are overwhelmingly dissatisfied by CWH's management of the housing service.
- 6.4 DCLG guidance dated December 2011 contains advice on the manner of consulting with tenants about bringing housing services back in house from an ALMO. The Council is of the view that local and appropriate consultation and engagement has taken place to date with residents and stakeholders and further in-depth consultation will now take place in re-shaping the future of the new service if it is brought in house. There is now an urgent need to improve service delivery by bringing the service back in-house, which should not be delayed by a further consultation exercise.

7. Staffing Implications

- 7.1 The Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) will operate to transfer the contracts of employment of CWH staff to the Council. TUPE, which applies to employees only, preserves continuity of employment and existing terms and conditions.
- 7.2 A transition plan will be developed to define and embed the new culture of high performance and customer service and successfully relocate staff physically or virtually, as required.
- 7.3 The Council intends to inform and consult with employees and trade unions jointly with CWH. A joint communication plan for both internal and external

communications will be devised and reviewed throughout the project to ensure timely and accurate information is disseminated to all key stakeholders.

- 7.4 In line with TUPE the Council will notify CWH of the measures it expects to take after the transfer.
- 7.5 Early engagement and effective ongoing communication with employees and the trade unions will be aimed at mitigating any potential risks of not maintaining service delivery during the transition period.

8. Consultation

Consultation with leaseholders and secure/introductory tenants

- 8.1 The Council will consult with its tenants and leaseholders on how services can improve, following the formal decision to bring the management of housing services back into the Council's direct control. Consultation with residents will take place through the existing formal resident involvement structure. This includes the Residents Council, four Resident Area Panels and the 22 registered Resident Associations covering over 8,000 properties.

9. Transition

- 9.1 A transition plan will be developed to define and embed the new culture of high performance and customer service and successfully relocate staff physically or virtually, as required.

10. Proposed next steps if recommendations in this paper are approved

- 10.1 Obtain mutual agreement with CWH to terminate the management agreement with effect from 1st April 2019.
- 10.2 Serve 6 months' unilateral notice of termination of the management agreement forthwith on CWH, to terminate the agreement as soon as possible after 1st April 2019, as a fall-back in case such agreement cannot be reached.
- 10.3 Set up Member Governance.
- 10.4 Continue with the ongoing internal and external communication plan.
- 10.5 Inform residents and tenants and consult on re-shaping the service and which and how services could improve.
- 10.6 Obtain Employee Liability Information and carry out due diligence checks to better understand the WCC's obligations, future costs and risks going forward.
- 10.7 Begin planning the transfer of CWH employees to WCC.

**If you have any queries about this Report or wish to inspect
any of the Background Papers please contact:**

Barbara Brownlee

Appendix 1: Report by Campbell Tickell 'Citywest Homes Customer Services and Repairs
– Service Diagnosis', March 2018

Appendix 2: Final Report by Campbell Tickell 'City of Westminster Strategic Review of
Housing Management Options, September 2018