

Report of: Community Housing Business Manager

To: Executive Board

Date: 17th July

Item No:

Title of Report : The Lord Mayor's Deposit Guarantee Scheme – Options for the Future of the Scheme



Summary and Recommendations



Purpose of report: To outline the current situation with regard to the Lord Mayor's Deposit Guarantee Scheme, and to outline a range of options for the scheme's future.



Key decision: Yes

Portfolio Holder: Councillor Patrick Murray (Improving Housing)

Scrutiny Responsibility: Housing



Ward(s) affected: All

Report Approved by

Portfolio Holder: Councillor Murray

Legal: Lindsay Cane

Finance: David Higgins

Strategic Director: Michael Lawrence



Policy Framework: The recommended course of action supports the aims of the Homelessness Strategy.



Recommendation(s): It is recommended that:



(i) the Executive Board approve Option 5, that the scheme be brought in-house with sufficient budgetary resources to enable continued provision of the service to existing and future clients, as part of the homelessness prevention work of the Housing Needs team, subject to reaching appropriate agreement with OCHA on financial matters, and;



(ii) That a further review of best practice and value for money be



carried out twelve months from the date that the scheme is brought in-house, to determine the best way of delivering the activities of the scheme in future.

Background.

1. The Lord Mayor's Deposit Guarantee Scheme (LMDGS) was set up in April 1993 at the instigation of the then Lord Mayor of Oxford, Councillor Barbara Gatehouse. The scheme's purpose is to assist applicants on low incomes to access privately rented accommodation by the provision of a bond which acts in lieu of a rent deposit.
2. LMDGS receives grant funding from Oxford City Council. The officers administering the scheme are employed by Oxford Citizens Housing Association (OCHA), and are based at the OCHA offices in Barns Road, Cowley. In addition to providing rent deposit bonds for successful applicants, the scheme officers provide tenancy support in cases where tenancies are at risk of failing. The scheme also operates a successful savings scheme which encourages clients to save towards a rent deposit to remove the need for them to use the bond scheme.
3. The LMDGS, though conceived by the Lord Mayor's Charitable Trust for Oxford, has become simply a grant aided function of OCHA. The relationship between the City Council and OCHA is a contractual one in relation to the grant which has been provided for performing the services of the LMDGS, as is the case with all enterprises that the City Council funds through the grant-giving process.
4. The scheme has operated with reasonable success, but is limited by landlords' growing reluctance to accept bonds in lieu of cash deposits. Landlords by and large prefer rent deposits paid in cash, and the attitude of landlords in the city in this respect has undoubtedly been influenced by the success of the Council's own Home Choice scheme, which provides such deposits very successfully, and which has no shortage of landlords and letting agencies seeking to house its clients.
5. During the latter part of 2005, Council officers and elected members engaged the manager of the scheme in discussions intended to re-direct the scheme's efforts towards a particular group of applicants – largely those single individuals who, having passed through the hostel system in the city, and having no settled accommodation available to them, are not sufficiently vulnerable as to warrant acceptance as homeless by Oxford City Council, but present a risk of increasing vulnerability as a result of their need for housing. It was suggested that additional funding of £40,000 could be made available to enable the scheme to offer cash deposits for such applicants, and thus provide a valuable addition to the move-on system in the city.
6. On receipt of the grant application for LMDGS in early 2006, however, it became apparent that the scheme required an injection of revenue

funding well in excess of the levels that had been suggested. The reason for this was the decision by OCHA to recharge the scheme for previously subsidised infrastructure and support costs of £83,421 for the financial year 2006/07, an increase of £52,000 on the figure for 2005/06 as shown in their three year business plan. OCHA's decision to levy this recharge is unsurprising in light of the financial pressures that the efficiency agenda and changes to the allocation of Housing Corporation funding are now bringing to bear on the Housing Association sector. The LMDGS is not a core activity for the organisation, and OCHA undoubtedly feel that any such activities must not place a drain on their financial and staff resources. A breakdown of the scheme's initial projected budget for the 2006/07 financial year is at Appendix 1. This proposed budget formed the basis for the scheme's grant application.

7. The size of the requested grant funding was such that officers felt unable to recommend the increase (from £95,000 in 05/06 to £234,581 in 06/07), and instead sought permission for continuation of current funding levels. This permission was received as part of the general grant funding round for 2006/07. Representations were then received from scheme officers and managers at OCHA, stressing that without the additional funding the scheme would founder, and that redundancy notices for all staff would need to be served. City Council officers and elected members agreed that the best way forward was to re-allocate the existing funding for a six month period rather than the intended year, and that a review of options for the scheme's future should be undertaken in the shortest possible time. This course of action was ratified through the Council's procedure for taking decisions in the best interests of the Authority, and approval was granted by the then Portfolio Holder for Strategic Planning & Housing, no objections having been received from the opposition members copied into the decision request. The decision was duly noted at the Executive Board meeting held on June 17th 2006.
8. A review of the scheme's future was thought to be especially appropriate given the changes in the rental market which have led to landlords becoming more reluctant to take bonds in lieu of cash payments. The review was carried out by the Community Housing Business Manager, with assistance from the Neighbourhood Renewal Special Projects Officer. Given the sensitive nature of the review in relation to staffing considerations, it was not felt to be appropriate to involve any of the scheme officers. Conversations did take place, however, with the senior manager with responsibility for the scheme at OCHA. Both the current Portfolio Holder and the Chair of Housing Overview & Scrutiny Committee were kept informed of the issues and progress of the review. This report is the result of the review process.

Options for the future of the LMDGS.

9. There are five clear options for the future of the scheme.
 - i) Termination. The scheme has sufficient funding to operate only until September 2006. It would be possible to allow the scheme to end, with the consequence that staff would be issued with

redundancy notices, and some support would need to be provided for the existing client base. This could be achieved by using the services of the Home Choice scheme currently operated by the Housing Needs team, without continuing use of the scheme identity. The requisite support could be achieved within the current staffing and budgetary provision.

- ii) Increased Funding. The additional funding required to meet the cost of overheads recharged by OCHA plus other scheme costs is close to £100K in the current financial year. An allocation of funding at this level would enable the scheme to continue operating in its present form. Considerable further funding would be required to enable the scheme to offer cash deposits rather than bonds, thereby increasing its effectiveness and utility in homelessness prevention.
- iii) Competitive Tendering. It would be possible to draw up a contract specification and tender for an external organisation to run the LMDGS, with the aim of driving down overheads and delivering a service which better meets the changing needs in the city.
- iv) Commissioning via the Grant Process. Assuming that the current proposals for revision of the process for awarding grants are accepted, the scheme could form part of the raft of services commissioned from the voluntary sector.
- v) In-House Provision. It would be possible to bring the scheme “in-house”, retain the LMDGS branding, and provide a more cost effective service linked to the current Home Choice scheme, subject to reaching agreement with OCHA on issues including existing funding and transfer of staff (if applicable).

Options appraisal.

- 10. Option i). Officers consider this option to be the least favoured. The LMDGS has provided a valuable service over the years since its inception, and with some remodelling and retargeting of its activities can continue to provide a useful adjunct to the other homelessness prevention work being carried out in the city. However, continuation of the scheme in any form must remain subject to reaching the necessary agreements with OCHA.
- 11. Option ii). Officers believe that the level of overhead generated by the scheme’s current location within the OCHA organisation is higher than is warranted by the effectiveness of the scheme. Provision of extra funding to maintain the status quo via the grants budget would therefore be of low cost effectiveness, and for this reason should not be considered.
- 12. Option iii). This option has obvious advantages in terms of market testing of the service, meeting constitutional procurement requirements, and possibly in providing value for money. However, there are a number of problems with taking this route. Firstly, the scheme has funding only until

the end of September, and the process of drawing up a tender specification and putting the offer out to market is time consuming. It would be advisable to seek a minimum three year contract to ensure stability for the service, and at current funding levels this would necessitate following the European Union tendering process, which again adds to the length of time needed to finalise a contract.

Secondly, this is a very specialised service, and there is no developed market for provision of such services – it is entirely plausible that the tender process could fail to deliver a suitable provider for this reason alone.

Thirdly, any provider would face initial set-up costs, and the possibility of the TUPE regulations applying to existing staff, thereby reducing the possibility that the service could benefit from cost savings/ income generation resulting from use of the provider's existing resources to deliver of the scheme. These considerations could well dissuade housing organisations and other voluntary providers from bidding for the contract, given that the budgetary pressures that have led OCHA to reduce their financial support to LMDGS are common to the sector as a whole.

13. Option iv). This option is not feasible in the timescale necessary to ensure that the scheme does not founder in the current financial year. It remains a possibility for the future, however, as does option 3, and members' attention is drawn to paragraph 14(v) which discusses the future arrangements for reviewing the provision of this service.
14. Option v). Officers believe that this is the only viable option for the immediate future of the scheme, given the financial pressures, possible TUPE obligations, and tight timescale. The LMDGS would sit comfortably alongside the existing Home Choice scheme, and would offer a valuable alternative housing option to a growing number of applicants, as previously described.

A number of issues must be considered in this context.

- (i) Staffing. Legal advice suggests that the TUPE regulations may well apply to the transfer of a scheme such as the LMDGS in-house, although the legislation and case-law make it clear that each case must be treated on its merits. Careful consideration of the Council's responsibilities in this respect will need to be undertaken. Should TUPE apply, and given that the current funding will meet the needs of the scheme only until the end of September, there is an obvious shortfall in staffing budgets for the second half of 2006/07. A conditional bid for £50K to cover this gap has been made as part of the carry over process, and is dealt with in a separate report to Executive Board. Should a formal decision to pursue this option be taken, contact would be made with the staff affected to determine both their entitlements under TUPE, and their intentions as regards their future employment. Until these matters are clarified, it is not possible to give a firm forecast as to future staffing costs, but the

current level of funding would be sufficient to cover the salary bill for the three staff involved in 2007/08, should that be necessary.

(ii) Future funding.

The scheme currently receives funding of £95,000 via the grants budget. It is proposed that this sum be removed from the allocation which will be made to deliver the broad outcomes generated by the current review of the grants process, and is placed in a budget line controlled by those officers responsible for the grant allocation process, rather than being transferred to the mainstream homelessness budget. Should any future review of the scheme conclude that the service should be subject to external tender or delivery by a Community or Voluntary Organisation, this would allow for the easy transfer of funding to the chosen option.

(iii) Legal issues.

Any agreement to transfer the scheme in-house would, as previously noted be dependent upon reaching suitable agreements on the headings such as finance and staffing. In addition, the agreement would secure exclusive rights to the use of the scheme name.

(iv) Funds used to underwrite existing bonds were transferred to OCHA in 2001. The Council's ability to successfully bring the operation of the current scheme in-house is dependent on the transfer of these funds. Failure to reach agreement on this issue would result in officers recommending that the service should not be transferred to the City Council, and that OCHA should be instructed to begin winding down the scheme.

(v) Review. Should the recommended option be authorised and the scheme brought in-house, it is proposed that a review of the effectiveness and value for money of the service be carried out following one year of operation. This will give sufficient time for the service to be re-focused on homelessness prevention, and the review will seek to compare performance of the scheme whilst operating under the grant regime with performance as part of the Housing Options team, and generate recommendations for future improvements to effectiveness and value for money.

Conclusion

15. The LMDGS is a reasonably effective scheme, and the current situation offers an opportunity to refocus its work in line with the requirements of the homelessness prevention duty. There is a good fit between the activities of the scheme and the work carried out by the Housing Options team, and especially with that of the Home Choice officers. It is not feasible to develop a contract or agreement with a new provider organisation to take over the running of the scheme in the time available, and failure to have alternative arrangements in place will result in the loss of the scheme, which officers believe to be an unacceptable outcome.

Recommendation

16. It is recommended that:

- (i) the Executive Board approve Option 5, that the scheme be brought in-house with sufficient budgetary resources to enable continued provision of the service to existing and future clients, as part of the homelessness prevention work of the Housing Needs team, subject to reaching appropriate agreement with OCHA on financial matters, and;
- (ii) That a further review of best practice and value for money be carried out twelve months from the date that the scheme is brought in-house, to determine the best way of delivering the activities of the scheme in future.

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Background papers: None



Appendix 1. Initial Proposed Budget for Financial Year 2006/07

Income		£
OCC Partnership Grant		234,581
Total Income		234,581
Expenditure		
Salaries		
	Salaries (Gross)	82,300
	N.I. (Employer's contribution)	6,626
	Pension Costs (Employer's)	9,629
	Volunteer Expenses	150
Other Staffing Costs		
	Recruitment Costs	1,545
	Training	1,800
	Conferences	300
	Travel & Subsistence	250
	Car Allowance	2,750
	Car Mileage	1,100
Direct Admin. Overheads		
	Telephone & Fax (Offices)	660
	Books & Publications	50
	Marketing & PR	1,000
	Committee Expenses	50
	Printing, Stationery, etc.	1,300
	Photography for Inventory	500
	Office Fixtures & Fittings (Revenue)	450
Total Project Costs		110,460
Recharges		83,421
Additional IT for SPS worker		700
Total Expenditure		194,581
Rent Deposits/Rent In Advance for Additional Categories		40,000
Total requested from Oxford City Council		234,581

