

<b>Committee:</b>	Audit Committee
<b>Date:</b>	10 <sup>th</sup> April 2014
<b>Title of report:</b>	Review of Building Maintenance Unit (also known as Housing DLO)
<b>Purpose of Report:</b>	To update members of the Audit Committee on the steps taken to date to review the Building Maintenance Unit
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<b>Portfolio Holder:</b>	Councillor Kenneth P Hughes

## **1.0 Introduction**

### **1.1 Key steps taken since the last Report to Audit Committee are as follows:**

- i) A second workshop with staff and individual meetings with staff including Finance, Performance management officers, and information from Human Resources, a comprehensive options appraisal of the future of Housing Service's repairs service has been undertaken. Completed February 2014.
  
- ii) The results from this appraisal exercise have concluded that a recommended option of retaining the service in house, but merging the client and contractor teams into one repairs service, whilst modernising and transforming the service would achieve the highest possible benefits for the service, at a reasonable cost. Options appraisal enclosed with this highlight report.
  
- iii) Draft Report shared with Senior Leadership Team and Executive Committee members, with a recommendation that it is presented to Scrutiny Committee, before presentation to the Executive Committee.

**1.2.** Between the date this Report was written and the date of the Audit Committee, further work will have been undertaken to develop a Business Plan and Business case showing how the Service will achieve excellence status. Key headlines will be presented verbally during the Audit Committee.

## **2.0 Key features behind recommended option**

**2.1** The recommended option of retaining the service in house, but merging the client and contractor teams into one repairs service, whilst modernising and transforming the service, was considered the strongest option due to the following aspects:

**2.1.1** Ownership - this option retains full ownership and control of the service by Anglesey (as opposed to outsourcing to an external contractor to deliver the service) and ensures that local services are provided by local people. By retaining full ownership, the service can also ensure full internal alignment with the strategic vision and objectives of the Council;

**2.1.2** Flexibility – by retaining internally, this offers a higher degree of flexibility to the Housing Service than outsourcing, which would involve a rigid contract specification being in place. It was thought that an internal service has the ability to respond quickly to emerging issues without the need to renegotiate the contract (including the possibility of additional payments) with an external contractor;

**2.1.3** Value for Money – the option would ensure that all the available resources were spent on the housing stock, rather than a proportion being paid for the contractor's profit. It is believed that efficiencies can be delivered with an in house arrangement and that a target minimum of £250k of annual savings is possible from retaining the service in house. The service would have a priority of being customer focused, rather than being profit driven, but at the same time it was recognised that the internal service needed to develop improved commercial acumen and make more effective use of resources. Any savings generated can be retained by the Housing Service;

**2.1.4** Integrated Service – by merging the client and contractor functions together and bringing these closer to the Housing Service as a whole, it was felt that the service in future could act as one team, overcoming present problems surrounding communication, differing priorities, staff frustration and a blame culture. The new service would work on team-working principles within the context of working towards a shared goal of excellent services;

**2.1.5** Risk – this option avoids the risk of an external contractor going out of business;

**2.1.6** Accountability – there would be clear accountability in place as the newly merged service will be solely responsible for delivering its business plan and achieving its vision and strategic objectives. Senior managers will be held accountable for their decision making, actions and the resulting performance of their service;

**2.1.7 Regulatory issues** – this option will directly address the concerns of the Welsh Audit Office’s report in 2012 and Solutions for Housing’s VFM and Service Review report in 2012.

### **3.0 Requirements of the Head of Housing Service**

**3.1** In recommending this option, the Head of Housing Services has specified a number of requirements that must be met in order to give assurance to the Council and its stakeholders that future excellent service levels will be achieved and within a reasonable timeframe. These are as follows:

- i. That the restructuring of the proposed newly merged repairs service must be aimed to be achieved within the first six months of 2014/15, recognising that much of the transformational change with the teams cannot take place during this period and therefore it was important that this was carried out as quickly as possible whilst at the same time ensuring that all necessary staff consultation takes place;
- ii. That following the restructuring, the newly merged service would have a two year timeframe to embed the service and drive performance up to the levels expected of an excellent performing repairs provider. Should performance levels not be achieved, then the Head of Housing may wish to consider again the outsourcing of the service. This would however be the entire repairs service (i.e. client and contractor elements);
- iii. That an accommodation review be undertaken to enable the co-locating of teams within the newly merged service (wherever possible);
- iv. That the new service is underpinned by a comprehensive business plan demonstrating what, how and when the business improvements will be delivered and will set out the stepped performance targets to be achieved;
- v. That an independent VFM review and options appraisal of the stores function be conducted within the first six months of 2014/15;
- vi. That multi-skilling of operatives be implemented to ensure a flexible and responsive service, capable of delivering a high level of right first time repairs;
- vii. That the structure of the workforce be reviewed to ensure that the profile and number of trades matches the repairs demand from the housing stock;
- viii. That a trading account still be maintained in the newly merged service, to capture the income and costs of the contractor ‘trading’ element of the merged service, which will in term demonstrate its continued viability and VFM to the overall housing service;

ix. That a review of sub-contractor usage and expenditure be undertaken during 2014/15 with the aim of reducing the current level of spend wherever possible;

x. That during the first two years of the new service, a review of the model for delivery of the gas servicing and gas repairs be undertaken to ensure that a good VFM service is being achieved for the Council;

xi. That the annual operational budget for 2017/18 for the combined client and contractor service is a minimum of £250k lower in real terms than the combined repairs budget for 2013/14. This will allow for sufficient time for the new service to 'bed in' and for VFM gains to be generated;

xii. That the service will require external specialist transformational change support in order to realise the full ambitions of the service within the timescale required. It is expected that some of the costs of this investment will be offset by efficiencies generated during the transformational two year period.

#### **4.0 Summary of the progress made on the previous action plans**

**4.1** The review found that positive progress is being made with the previous action plan, with almost 60% of actions either being completed, or in-progress. However, further progress is required in a number of areas to complete the action plan. It can be concluded that the service is moving in the right direction and that the client and BMU teams are starting to build a track record of achievement.

**4.2** Summary findings following the review of the current working arrangements of the service:

The current working arrangements are old fashioned and in need of urgent review. There are current tensions between the client and contractor functions however the source of these problems can be attributed to the current split arrangement, rather than to the staff themselves. As the recommendation is to retain the service in house, but with a newly merged structure and a modern approach to service provision, the Consultants believe that the current difficulties being experienced can be overcome. The service will however need to be prepared to undertake a major transformation project in order to fully realise the ambitions of the Housing Service for repairs in terms of it being a modern, efficient and excellent service. The Consultants believe that this process will take an initial six months to restructure the team and then a further two years to drive the service up to the levels of an excellent service provider.

## **5.0 Options appraisal**

### **5.1 Options Appraisal – summary [the full report is available]**

#### **5.1.1 Retaining the existing client contractor split but working with partnering principles and modernising the service:**

Retaining the service in-house gives Anglesey ultimate control over the service delivered to customers but also responsibility for achieving the vision required by the Housing Service. A client/contractor split has been heavily criticised in the past by both the Audit Commission, the Chartered Institute of Housing and the Welsh Audit Office and therefore there would need to be a convincing argument and business case to justify its retention. Solutions for Housing would suggest that this could only be achieved if a senior management level post was created to oversee the work of both the DLO and the client side, effectively bringing the two sides together into a 'one team approach to repairs'. This would however be costly and it may be difficult to quantify what the level of value would be added to customers and the service as a result. A medium term business plan would be required to demonstrate viability and the service would need to continue with its modernisation agenda. This option would be easy to outsource in future if it did not meet the customer and performance standards required.

#### **5.1.2 Merging the client and contractor functions and modernising the service:**

This would involve restructuring the end to end repairs service and merging the client and contractor teams into one repairs team. The restructure would also necessitate a review of the current office accommodation arrangement as it would be essential that teams who predominantly work together should be located close together. This would also avoid the risk of 'the title badge changing but not the person'. This by its very nature would ensure a one team approach to repairs and would be relatively easy to integrate with the rest of the Housing Service. Anglesey Council would retain ultimate control over the service delivered to its customers, but also the responsibility for achieving the vision set by it. This merged service would avoid the considerable problems of the current structure such as: duplication in tasks as a result of the split service, poor communication, adversarial relationship, lack of joined up thinking across the repairs service and lack of strategic alignment with the Housing Service's vision. A medium term business plan would be required to demonstrate viability and the service would need to continue with its modernisation agenda. This option would directly address the concerns of the Welsh Audit Office.

### 5.1.3 Outsourcing the service to an external contractor:

This would involve the Council undertaking a procurement exercise to outsource the contractor side of the service to an external contractor, but with the client side remaining in house however with a possible different structure than it has at present. Anglesey could opt for a fully compliant OJEU exercise, or has the option to use an existing procurement framework which would be less costly however it may provide some limitation in terms of the ability to focus the contract specifically on Anglesey's needs. There would also be potential ongoing costs of delivering the service through a framework agreement and if this is used, typically 3% of the annual contract value is payable to the framework itself.

Anglesey could choose from a range of options from a fully managed service, to one where the social landlord takes a more active involvement. In a fully managed arrangement for example, the contractor would take calls directly from the customer and would raise the job on their system, then interfacing this back with the clients system in 'real time'. They would perform pre and post inspections, with the client required to perform some level of post inspections to assure themselves of the quality being achieved. Pre-inspections would only be required on complex jobs outside of the norm, or above a certain financial threshold. Alternatively, the social landlord may want to take a more active role and this could be achieved by the landlord taking the calls from customers and booking appointment slots into the contractor's operatives diaries.

Different structures of contracts could be considered including open book accounting, schedule of rates contract, Average Order Value contracts, or a fixed core price for certain, but not all repairs, with the remainder of repairs being agreed on a schedule of rates basis. Other incentive mechanisms could be considered which may include for example, a pain/gain arrangement where the contractor could financially benefit if high performance levels are achieved, or alternatively would receive a reduction in their contract fee if these were not achieved. Ideally, this would be based on a balanced scorecard approach in which measures for cost, quality, performance and effectiveness in terms of customer satisfaction, be achieved before a financial 'gain' was paid.

In terms of the attractiveness of Anglesey's work to an outside contractor, the issue of geographical location needs to be taken into account. Contractors tend to place their best competitive bids for areas of work in which they already have a presence, which then secures economies of scale for the contractor. It should be noted that there is only Lovell Homes working in the North Wales area and this is on a new build contract rather than repairs, however there are a number of contractors delivering gas servicing and gas repairs contracts in the area.

There would be a need to consider TUPE issues for the Council's direct workforce and a thorough review of these issues must be considered at an early stage in the development of any outsourced service project plan.

#### **5.1.4 Outsourcing the entire service (i.e. client and contractor) to external contractors:**

This would involve outsourcing the repairs to an external contractor, but also outsourcing the client management to a professional contract management company. A low level of senior management time would be required within Anglesey to manage this arrangement, thus releasing the landlord to focus solely on housing management issues. This however would result in a loss of control by the landlord of its repairs service however this could be mitigated by building in a balanced scorecard mechanism for the contractor to achieve and the contract management company to ensure it was delivered, with possible links to incentive mechanisms.

#### **5.1.5 Outsourcing parts of the service:**

This would involve a procurement exercise which would result in another service provider delivering an element of the business. This commonly would be the gas service, or the stores functions and these have been delivered recently within North Wales at very competitive prices. This would enable the Housing Service to retain stronger performing parts of the service and outsource less strong areas, or ones where VFM could be better demonstrated by delivery from outside the service.

#### **5.1.6 Creating a joint venture:**

A joint venture option is the middle ground between an external and internal repairs service.

A joint venture would involve the creation of a separate legal entity in which both the repairs contractor and the Council would have a stake, but which the contractor would manage the day to day running of the service. This option allows the Council to benefit from the expertise of a private/commercial contractor whilst also providing it with a potential financial gain if economies were achieved in delivering the service. A further potential option is to joint venture with another registered social landlord.

A comprehensive management agreement would need to be put in place between the parties to ensure that the responsibilities of each party were clearly defined. It would be usual for the contractors IT systems to be used. This therefore carries a risk if the joint venture was not successful.

### **5.1.7 Social Enterprise:**

A social enterprise is a business that trades for a social and/or environmental purpose. The majority of its income is through trading goods and services and can only reinvest its surpluses in areas which pursue its social aims. These would generally be a separate legal entity such as a CIC (Community Interest Company) or an IPS (Industrial and Provident Society) and would be overseen by a separate board. This would be a completely new way of running the service and it should be noted that there is no other social enterprise currently in place to run repairs for a social housing landlord and therefore Anglesey would need to create its operating model from scratch which could be costly in terms of resources required to develop it. This option would also still retain a client/contractor split and TUPE would be an issue.

### **5.1.8 Wrekin Housing's same day fix service:**

A recent development in social housing repairs delivery has been Wrekin Housing's same day fix service for repairs. This is modelled on the AA's model for car breakdowns and ensures that a very high level of repairs are attended and fixed the same day that they are reported. Customers of Wrekin Housing have reported very high levels of satisfaction with this service. This would involve the service mainly running on a continuous emergency service basis, but with flexibility to accommodate appointments where requested by tenants. This would be delivered using an internally provided DLO, but working with a completely different operating model to now.

## **6.0 Recommendation**

That members of the Audit Committee note the process followed to review of The Building Maintenance Unit and recommend the need for any further future reports on this topic to be presented to Committee.

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