

# Overview & Scrutiny

## Budget Scrutiny Task Group: Housing Maintenance

All Members of the “Budget Scrutiny Task Group: Housing Maintenance” are requested to attend the meeting to be held as follows:

**Monday, 14th November, 2011**

**6.00 pm**

**Room 102, Hackney Town Hall, Mare Street, London E8 1EA**

**Gifty Edila**

**Corporate Director of Legal, Human Resources and Regulatory Services**

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**Members: Cllr Daniel Kemp (Chair), Cllr Daniel Stevens and Cllr Geoff Taylor**

## Agenda

**ALL MEETINGS ARE OPEN TO THE PUBLIC**

1. **Apologies for Absence**
2. **Urgent Items / Order of Business**
3. **Declarations of Interest**
4. **Minutes of the Previous Meetings** (Pages 1 - 6)
5. **Service Review Summary** (Pages 7 - 24)
6. **Any Other Business**

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<b>Budget Scrutiny Task Group: Housing Maintenance</b> 14 <sup>th</sup> November 2011 <b>Informal Meeting Minutes</b>	Item No <b>4</b>
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## Outline

Attached are the draft notes taken at the two informal meetings that preceded this meeting, taking place on the 8<sup>th</sup> September and 3<sup>rd</sup> October.

## Action

The Budget Scrutiny Task Group is asked to:

1. agree the minutes

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## **BUDGET SCRUTINY TASK GROUP HOUSING MAINTENANCE**

**8 September 2011**

**Task Group Members in attendance:** Cllr Kemp (Chair), Cllr Taylor, Cllr Stevens

**Interested Members in attendance:** Cllr Siddiqui, Cllr Williams, Cllr Plouviez

**Officers in attendance:** Jim Paterson (Head of Building Maintenance and Estate Environment); Bruce Devile (Head of Business Analysis & Complaints); Ian Marriott (Business Analysis & Complaints Officer); Matt Clack (Overview and Scrutiny Officer)

### **Main points noted at close of meeting**

- **Member appetite for consideration of varied service delivery options**
- **Need for a second informal meeting to discuss the review approach with the Hackney Homes Chief Executive**

### **1. Introduction**

- 1.1. Jim Paterson gave an overview of the service, key actions implemented, outcomes being achieved, approaches to improving the service, current costs, and management structures.
- 1.2. Jim also gave some historical perspective to the service, explaining changes over the past few decades to the way housing maintenance and Direct Labour Organisations (DLOs) have operated, and outlined how Hackney had arrived at its current service model.
- 1.3. The approach to the fast track service review was explained, and the need to analyse different radical service options. Pinching small pockets of budget from services was no longer viable.

### **2. Initial Questions**

- 2.1. Members inquired about the value of the current service, either sold wholesale to a contractor for a fixed term, negotiated through a management buy-out, or other hybrid approaches
- 2.2. Consideration was given to the opportunities for generating income from the current service
- 2.3. Members queried opportunities for better back-office collaboration

- 2.4. Questions arose about the role of estate managers and communal repairs managers, especially whether there was crossover in their responsibilities

## **BUDGET SCRUTINY TASK GROUP HOUSING MAINTENANCE**

**3 October 2011**

**Task Group Members in attendance:** Cllr Kemp (Chair), Cllr Taylor, Cllr Stevens

**Interested Members in attendance:** Cllr Plouviez

**Officers in attendance:** Charlotte Graves (Corporate Director of Housing/Chief Executive Hackney Homes), Jim Paterson (Head of Building Maintenance and Estate Environment); Bruce Devile (Head of Business Analysis & Complaints); Ian Marriott (Business Analysis & Complaints Officer); Matt Clack (Overview and Scrutiny Officer)

### **Main points noted at close of meeting**

- **Member desire for consideration of the two remaining service delivery options**

#### **1. Introduction**

- 1.1 Charlotte outlined the service review paper which was circulated before the meeting, explaining which parts of the service are legally or contractually required. She also spoke about the services which are specific to tenants or leaseholders, and those which are common to both groups.
- 1.2 In relation to the service delivery options, she explained that most local authorities provide all services in-house, or wholesale contract out to a single provider. She discussed the benefits and threats of these models, together with the more radical approaches.
- 1.3 There was wide discussion about the need for savings, the success of the service's value for money approaches, and the changes to the Housing Revenue Account.
- 1.4 There was discussion about where the DLO is currently based, and options to develop the service in other council-owned locations.

#### **2. Initial Questions**

- 2.1 Members sought clarification about the cost difference between completing the works through an in-house DLO and contracting out. Charlotte noted that it's not impossible to believe that the service could

be cheaper if fully contracted out, but that quality could not be accounted for and the current service costs compare favourably to other local authorities.

- 2.2 Members were keen to understand how the 5,000 properties in Tenant Management Organisations might be affected by changes to the council's DLO.
- 2.3 Questions arose about how issues relating to diversity, sustainability and local sourcing could be built into tender contracts. This included whether initiatives like the London Living Wage could continue to be offered to staff.
- 2.4 Income-generation approaches were considered again, and Charlotte outlined a few possibilities. She felt that it was important to focus on improving the service to the highest standard before expanding to other areas.

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<b>Budget Scrutiny Task Group: Housing Maintenance</b> 14 <sup>th</sup> November 2011 <b>Service Summary</b>	Item No <b>5</b>
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## Outline

The task group has been working informally to date alongside a 'fast track service review' process being carried out internally. The attached report provides summary findings from those reviews and presents and initial formation of options for redesigning service delivery.

## Action

The Budget Scrutiny Task Group is asked to:

1. question and comment on the information based on these reviews with lead officers
2. consider its preferences for action to be taken in light of the reviews, and form a report with recommendations to be submitted for approval to the Overview and Scrutiny Board

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Fast Track Scrutiny Service Review	
<b>Service Area</b>	<b>Hackney Homes Maintenance Costs</b>
<b>To</b>	<b>DMT/HMT/Scrutiny Task Group</b>
<b>Author/Ext.</b>	Ian Marriott
<b>Service Review Sponsor</b>	Charlotte Graves
<b>PPD Support/Contact</b>	Ian Marriott
<b>Cost Centre (s)</b>	
<b>Date of Report</b>	28/9/11
<b>Review Start Date</b>	
<b>Review End Date</b>	
<b>Version</b>	

**1.0 Executive Summary** - (Please give an overview of the Service Reviews based on the 4 deal breaker questions – see Appendix 1).

**1. Is the cost of the service clear and justified?**

Yes. The Council is the landlord and freeholder to some 30,000 properties and Hackney Homes is responsible for the maintenance of those properties on the Council's behalf. Failure to provide the service could result in action being taken against the Council and or Hackney Homes. The vast majority of the repairs which Hackney Homes carries out on behalf of the Council are those for which the Council has a statutory responsibility as a landlord or a repairing obligation under the lease. Works over and above these requirements include, for example, modest additional works for the most vulnerable.

**2. To what extent is value for money driving the development of the service?**

VFM has been driving the development of the repairs service, especially over the last two years. The service has implemented a VFM strategy that has focussed on four key themes:

- optimising the productivity of staff within the in house service.
- Every element of the cost of a repair has been analysed and action taken. For example, the labour cost has been addressed by reviewing the fair pay bonus scheme and multiskilling staff; the materials cost has been reduced by joining the national procurement for housing framework; and the fleet management process is more rigorous using trackers, and improving drivers quality and procurement of a modern fleet
- ensuring that value for money is obtained when outsourcing work to external contractors.
- restructuring the organisation and removing two tiers of management (7 posts saving £500k).

**3. Are existing savings proposals appropriate?**

It is clear from the answers to Q1-2 that a considerable amount of work has been undertaken to improve the efficiency of the service and that this is proving successful, and the benefits of this are being seen and will continue to be in the next few years.

Historically, the actual budget requirement (built on activity information via zero based budgeting) has been greater than the cash limit. For example, the 2011/12 budget requirement is £28m, £2m greater than the cash limit. For the past few years, HH has managed to contain the overall HRA R&M budgets, though this has only been possible by reducing planned works where possible and

maximizing capital spend, but with limited capital resources in the future this will not be an option.

Therefore, the plan for 2012/13 is to increase the HRA R&M baseline budget by £2m which in turn means that savings will be required elsewhere in the HRA. Additional savings have been identified by Hackney Homes as part of the 2012/13 budget process to allow a further £2m to be invested in the repairs budget.

The other potential saving which was raised during the course of the review but which has not yet been addressed is that of the location of the service. At present it is spread across a number of sites, with depots/offices at Florfield, Broadway, North Base and Robert House. It's the view of the Head of Property Services that there is significant potential for savings if a single site (around 1.5 acres) could be found.

#### **4. What alternative models of service delivery should be considered?**

There are a number of possible alternatives discussed in section 4 below, however at this stage none of them are being recommended.

5. Do options for change assure required quality?

## **2.0 Context:**

### **2.1 Service Justification** - *Why do we provide this service? Is it statutory or discretionary? What is the scale, nature and evidence for need? Does it clearly serve a greater public good through prevention etc.? Is it aligned to top local priorities?*

The Council is the landlord and freeholder to some 30,000 properties. Hackney Homes is responsible for the maintenance of those properties on the Council's behalf.

It is a statutory service:

- For tenants the Council has responsibilities under the landlord and tenants act, gas safety regulations and the tenancy agreement.
- For leaseholders there is a similar statutory responsibility and contractual responsibilities under the lease as freeholder.

Failure to provide the service could result in action being taken against the Council and or Hackney Homes.

Hackney Homes offers a slightly enhanced level of service to vulnerable tenants as a result of recommendations made by the Audit Commission, as set out in our vulnerable repairs policy.

Hackney Homes has a diverse customer base and provides services in ways to meet the needs of that diverse customer base. For example:

- The workforce is representative of the community
- Appointment slots are available that avoid the school run
- Cultural sensitivities are addressed by using female operatives
- A range of languages are spoken by staff at the contact centre and by operatives themselves
- A disabled adaptations service is provided

### **2.2 Related Services, Agencies and Agendas** - *What are the key national and local policy drivers? Are there opportunities for joining-up services, and what are the dependencies and consequences of that? What are the key national and local policy drivers?*

There are number of significant policy changes such as welfare reform and different tenures and rent levels affecting housing, however, with minor exceptions such as the tenant cashback scheme the changes do not impact the repairs service.

Alongside financial considerations close attention is paid to minimising the impact on the environment. For example we use water based paint, recycle materials as much as possible and limit vehicle movements by using Optitime and vehicle trackers.

The Contact Centre takes the majority of repair requests. The out of hours service, which is currently outsourced, provides the service when the call centre is not operating.

Some of the ten TMOs have the responsibility for the repairs service on their own estates, and can choose their own contractors.

The housing management service is a key link in terms of ensuring communal and estate repairs are raised and also in assisting with securing access to properties for example to allow gas servicing to take place.

There is close liaison with Community Services around the disabled adaptation service

The Fire Brigade takes a close interest to make sure that Hackney Homes meets its requirements under the Regulatory Reform Order.

Hackney Homes also work closely with the police on aspects such as safety and security.

**2.3 Current cost and VFM management strategy** - *What is the current cost and Value for Money management strategy for the service? If there is no VFM management strategy please indicate? Is the VFM clear and working?*

The current cost of the repairs service is some £28m. A full breakdown of budgeted and actual costs since 2009/10 can be found in Appendix 1.

The VFM strategy has taken two themes, one for the in house maintenance service and the other for services provided by external contractors.

For the in house service HH has been focussing on optimising the productivity of staff in a variety of ways including:

- Improving the diagnosis of responsive repairs in the contact centre.
- Using the Optitime workforce scheduling tool
- Multiskilling throughout the organisation, thereby enabling one visit repairs.
- Imprest stock in all vehicles
- Vehicle Tracking devices in all HH vehicles.
- Getting repairs right first time
- Making individual operative responsible for any call backs that may be necessary.
- Optimising the cost and usage of material by using Procurement for Housing and upgrading the stores system.

For external contractors:

- The services that are provided are competitively tendered.
- HH makes sure that any volume discounts due are secured.
- The Hackney Allowance framework has put HH's buying power into large contracts. Where this has generated savings HH are migrating individual contracts.
- HH have also been able to negotiate savings with contractors.

Overarching these themes has been the major reorganisation of the Property Services Directorate to reduce tiers of management and establish formal client and contractor arrangements.[The Scrutiny presentation highlights the major restructure of the organisation, with two tiers of management (7 x £50,000 managers) removed. Is this a third theme?]

HH measure VFM via a range of indicators including: (a) the cost of a reactive repair, (b) customer satisfaction and (c) benchmarking costs via Housemark. These are detailed in Appendix 2.

#### **2.4 Learning and Experience - *How has the service been provided previously? What learning and experience should not be forgotten?***

The service has a degree of history.

Going back five years when Hackney Homes was established, all the repairs work was raised to the DLO, at the schedule of rate prices. The DLO undertook the works directly or decided to subcontract, often at a significant discount in excess of 20%.

There were concerns raised about the transparency of the procurement of those sub contractors and the potential for the subcontracting to cross subsidise the in house service.

Some specialist work was outsourced, but the gas servicing was brought in house some years ago.

### **3.0 Detail Mapping and Analysis:**

#### **3.1 Service Delivery - *How is the service provided? What is the service delivery model and plan? What are the staff structures, partnership arrangements, supplies and services including key third party contracts?***

To address the concerns outlined above the current arrangement is that repairs are raised to the DLO up to its capacity at any point in time.

The peaks of demand are met by raising orders to one of three back up contractors on their tendered schedule of rates. These costs do not go through the DLO trading account.

Specialist work such as entryphone, CCTV, disabled adaptations, and lightning conductors are tendered to specialist companies.

The use of an inhouse DLO has allowed service improvements such as 5 appointment slots a day to be implemented. There are other benefits from having a DLO; these include greater control of resources in times of emergencies and a significant contribution to central overheads which would not be made with other delivery models.

Customer satisfaction has improved along with the improved culture change and positive attitude to work.

#### **3.2 Cost of Service - *What does the service cost to provide? What cost pressures and opportunities for cost reduction (including income generation) are there? Please include the gross budget and % of total spend, staffing and operational costs, unit costs, benchmarking data and likely future demand.***

As stated above (and set out in full detail in Appendix 1), the cost of the service is some £28m.

Analysis of Appendix 1 shows that the main areas of pressure have been on reactive repairs and void works. Reactive repairs are demand led and therefore notoriously difficult to keep within existing resources. Void works have also caused consistent pressures, particularly where they have required major works to make them lettable.

It is also important to note that the budget overall has been limited by a similar base line cash limit each year. The budget setting process undertaken by Hackney Homes each year is a method of Zero Based Budgeting, with budget requirements being built up based on activity information. The Zero Based Budget consistently shows that the budget requirement is greater than the cash limit. In 2011/12, the ZBB showed an initial budget requirement of £28m, which is considered to be minimum need on R&M. There are also further considerations or budget needs on top of this (e.g. painting which we limit to £2m per year due to budget constraints but the asset management strategy recommends a programme of £8m per year)

Hackney Homes has managed these pressures via a combination of prioritization at budget setting and limiting activities where possible, close in year budget monitoring and utilizing other budgets where possible (such as reviewing all expenditure coded to R&M and ensuring that any items capital in nature are recoded to appropriate capital budgets). For the past few years, Hackney Homes has managed to contain the overall HRA R&M budgets, though this has only been possible by reducing planned works where possible and maximizing capital spend, but with limited capital resources in the future this will not be an option.

Therefore, the plan for 2012/13 is to increase the HRA R&M baseline budget by £2m which in turn means that savings will be required elsewhere in the HRA. Additional savings have been identified by Hackney Homes as part of the 2012/13 budget process to allow a further £2m to be invested in the repairs budget.

Costs have been reduced in line with stock numbers, but there is little evidence in Hackney or elsewhere that Decent Homes investment has a significant impact on the demand for repairs.

The cost of reservicing empty properties continues to be significant. This will increase if there is a higher level of turnover arising from "forced downsizing" as a result of various welfare reforms.

As stated in section 2.3, cost reduction opportunities arise from improvements to productivity of the in-house team and significant reductions in management tiers and costs (this forms the basis of the current VFM strategy). The reorganisation that is currently underway will complete this process.

As productivity improves, Hackney Homes will be able to reduce the level of work that is contracted out and increase the contribution to overheads as a result. The last two years have seen turnover increase by £1m via minor voids work being undertaken by the existing workforce (this work ordinarily would have been passed to partner contractors). The service has also made a contribution of £2m to Hackney Homes and Council overheads.

Income generation options have not been vigorously pursued at this stage as HH have focussed on productivity improvements for the existing service.

The other potential cost reduction opportunity which was raised during the course of the review but which has not yet been addressed is that of the location of the service. At present it is spread across a number of sites, with depots/offices at Florfield, Broadway, North Base and Robert House. It's the view of the Head of Property services that there is significant potential for savings if a suitable size site could be found for the service. This would reduce costs and would have the considerable side benefit of allowing the Council to make full use of the value of the Town Hall campus and realise asset sales.

### **3.3 Service Expectations - *What are the expectations for a) scope and scale of the service, and b) quality, standards, performance and equalities benefits? What could change? What are the implications/impact of a reduction?***

As this is a largely statutory service the scope is unlikely to change significantly in the next few years. The only changes will be commensurate with the changes in stock numbers.

HH will continue to seek to improve quality and standards and continue to deliver more services directly.

The HRA reform will change the environment somewhat. It will allow better long term planning to be undertaken by the Council, but at the cost of having to fund all the investment requirements - both revenue and capital - from existing resources.

## **4.0 Options and Recommendations:**

### **4.1 Future Service Design and Delivery - *What are the key guiding principals for the future design and delivery of the service? What will change and what will stay the same in terms of structure, market position and operations?***

The key guiding principles moving forward will be to optimise the benefits of having a directly employed workforce by maximising productivity within the DLO such that all the operatives are fully employed. Key indicators of productivity such as the average cost per job and the number of jobs completed per operative will be benchmarked to ensure that the gains made to date are consolidated and built upon. At the same time any work being undertaken by external contractors will be competitively market tested

We recognise that there is still work to be done to improve the quality of interface with tenants and leaseholders in the contact centre. We will continue to review the work processes in the contact centre. We have implemented a new diagnostic system to improve the first time fixes. We will also introduce phone number recognition to identify customers. In addition all calls are recorded for training purposes.

We will continue to ensure sustainability is considered as part of service development. For example installing photovoltaic panels and having insulation programmes targeted to blocks where pipes were frozen the previous winter.

### **4.2 Options and Recommendations - *What are the associated options for future delivery? How do options compare for cost, value and risk taking into account national requirements and local priorities? Which option and changes are recommended? (see appendix 1)***

There are four types of model that could be applied to the future delivery of the repairs service: To make improvements to the service using the existing mixed economy model; expanding the DLO to do all the repairs work; outsourcing in full or in part; and more radical options

The recommended option is to continue with the current arrangements and increase the efficiency of the DLO by taking on more non specialist work as the productivity of the workforce increases.

### **4.3 Service Capacity to Implement the Review –**

The capacity to implement the recommendations already exists within HH.



## Recommendation Matrix

<b>4 Deal Breaker Questions:</b>  1. <b>Is the cost of the service clear and justified?</b>  Yes  2. <b>To what extent is value for money driving the development of the service?</b> Service improvement and improved productivity are key to the future viability of the repairs service  3. <b>Are existing savings proposals appropriate?</b> – Yes, the approach builds on savings already made  4. <b>What alternative models of service delivery should be considered?</b> Alternative models are not proposed, instead the preferred option is to improve the existing model  5. <b>Do options for change assure required quality?</b> What are the dis-benefits?	<b>Scope of Recommendations</b>	
	<b>Route</b>	<b>Benefits/Dis-benefits</b>
	<ul style="list-style-type: none"> <li>- Build on existing models to maximise productivity and customer satisfaction.</li> <li>- Optimise the use of external contractors to cope with peak demand</li> </ul>	<ul style="list-style-type: none"> <li>- Cashable savings.</li> <li>- Improved customer experience, and outcomes.</li> <li>- Improved long term sustainability.</li> </ul>
	<b>Lower Risk Recommendations</b>	<b>Higher Risk Recommendations</b>
	Building on existing processes is low risk.	Considering sub contracting is higher risk and not recommended at this stage.
<b>Recommendations for 12/13 (fully specified)</b>	<ul style="list-style-type: none"> <li>- Build on existing improvements to performance and vfm</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>-</li> <li>-</li> </ul>
<b>Recommendations for further assessment and planning.</b>	<ul style="list-style-type: none"> <li>-</li> <li>-</li> </ul>	<ul style="list-style-type: none"> <li>- Consider whether the DLO or the client side should take on the main contractor role for externally sourced work.</li> <li>-</li> </ul>

APPENDIX 1: BUDGETED/ACTUAL COSTS, 2009/10-2011/12

Code	Description	2009/10			2010/11			2011/12
		Adjusted budget	Final outturn CedAr	Capitalised amount	BUDGET	Actual out turn R&M CedAr	Capitalised amount	Budget
<b>Planned Works</b>								
200025	Gas Servicing	2,573,339	2,827,691	5,876	3,065,120	2,763,657	10,633	2,958,456
200030	Lift Servicing	1,118,928	1,277,261	1,635	1,240,443	1,116,745	2,243	1,053,109
200035	Play Equipment Surveys	53,241	23,959	0	25,920	24,001		24,885
200040	Water Tanks Planned	888,822	1,013,795	0	984,423	1,136,278		820,000
200044	Planned-Communal Ventilation	57,146	47,686	1,102	62,496	63,074		58,000
200045	DPA Electrical Testing	438,532	260,913	0	215,539	179,707		200,000
200049	Fire Alarm Servicing	22,894	18,109	0	27,090	20,107		24,765
200050	Communal Heating Services	279,873	298,328	0	331,199	348,337		331,200
200055	External Painting	1,774,717	1,814,250	0	2,000,000	1,889,326		2,000,000
200060	OAP Decorations	226,276	257,375	0	200,000	192,148		200,000
200065	Lightning Protection	38,245	8,827	16,227	39,939	30,074		39,939
200085	EIB	434,451	251,131	109,394	480,684	285,240		480,684
200091	Reactive-Abestos Removals	320,123	260,173	20,441	299,696	194,420	1,122	260,000
200095	Estate Lighting Planned	151,827	178,391	6,634	290,514	134,754	15,458	290,515
200104	Planned-Roads/Paths	443,679	36,442	242,479				450,000
200106	Drainage Planned	350,063	217,948	15,850	314,225	376,651		252,400
200120	R&M - CCTV	177,472	170,009	5,949	200,000	160,054		198,400
200135	184 planned communal works	1,242,302	261,446	474,544	1,400,000	1,511,402		1,400,000
	<b>Planned works Total</b>	<b>10,591,930</b>	<b>9,223,734</b>	<b>900,131</b>	<b>11,177,288</b>	<b>10,425,975</b>	<b>29,455</b>	<b>11,042,354</b>
<b>Reactive works</b>								
200026	Reactive-Gas Breakdown	44,368	27,758	0	40,000	52,334	4,146	60,000
200031	Reactive-Lifts repairs Servi	354,943	430,173	52,777	559,909	451,939	50,686	541,160
200036	Play Equipment repairs	21,297	60,280	3,360	64,800	61,041	4,030	61,155
200041	Water Tanks Reactive	62,736	62,578	0	72,800	84,189		50,000
200046	Electrical Mains Supply Repairs	94,237	36,594	2,507	70,849	22,982	8,140	50,000
200047	Door Entry System Repairs	265,675	282,743	17,314	291,091	212,382	16,339	270,000

Code	Description	2009/10			2010/11			2011/12
		Adjusted budget	Final outturn CedAr	Capitalised amount	BUDGET	Actual out turn R&M CedAr	Capitalised amount	Budget
200048	Electric Heating Breakdowns	17,747	23,827	0	20,000	38,055	1,636	26,036
200051	Communal Heating Repairs	249,081	189,518	59,922	294,713	251,034	41,981	294,713
200066	Reactive-TV Aerial Repairs	28,484	32,271	0	40,837	-5,167	20,655	40,837
200070	Estate Safety works	53,241	1,109	21,011	60,000	39,993	32,183	60,000
200090	Environmental Health/Pest Control	443,679	568,287	0	488,910	648,567		487,500
200096	Reactive-Lighting Roads/Paths	282,624	376,123	0	354,902	256,365	45,390	354,902
200105	Reactive Roads & Paths	106,589	225,938	2,466	169,304	338,184		169,304
200107	Reactive-Drain Blockages	544,661	799,072	6,077	719,706	713,263	10,166	625,000
200121	Reactive-CCTV	211,191	70,851	171,772	60,000	43,295	47,390	60,000
200136 & 150	Reactive Maintenance Communal	2,142,260	2,250,104	181,402	1,927,775	1,743,067	240,492	1,550,043
200145 & 151	Reactive Maintenance - In dwellings	4,673,006	5,311,372	169,858	4,115,710	5,579,877	401,047	4,785,589
200155	Reactive Maintenance - Voids	2,262,764	1,603,339	1,998,000	2,500,000	2,894,218	326,932	2,500,000
	<b>Reactive works Total</b>	<b>11,858,585</b>	<b>12,351,935</b>	<b>2,686,465</b>	<b>11,851,306</b>	<b>13,425,617</b>	<b>1,251,211</b>	<b>11,986,240</b>
200125	R&M - Client Fees	2,849,485	3,265,653		2,916,090	2,535,596		2,916,090
	<b>Grand Total</b>	<b>25,300,000</b>	<b>24,841,322</b>	<b>3,586,596</b>	<b>25,944,684</b>	<b>26,387,187</b>	<b>1,280,666</b>	<b>25,944,684</b>

## APPENDIX 2

### (a) Cost of reactive repairs (LKPI 141)

<b>Period</b>	<b>Cost per Repair (£)</b>	<b>Source</b>
01/04/2010 – 31.03.2011	101.98	Annual report from Performance Team
01/04/2011 – 04/08/2011	100.43	Universal Housing

*NB: Housemark upper quartile benchmark is £105.00 per reactive ticket*

### (b) Satisfaction

LKPI 89: % of repairs completed on first visit (based on tenant satisfaction).

2010/11 = 77.73% (target 85%)

LKPI 11: resident satisfaction with quality of work

2010/11 = 87.45% (target 90%)

Description of Option	Advantages	Disadvantages
<p><u>Expand the DLO to take on all repairs</u></p> <p><b>This is not recommended</b></p>	<ul style="list-style-type: none"> <li>• Productive committed local workforce.</li> <li>• Able to cope with emergencies</li> <li>• No competing priorities</li> <li>• Ongoing contribution to overheads</li> </ul>	<ul style="list-style-type: none"> <li>• Repairs are cyclical in nature and there are always peaks in demand. Staffing to meet those peaks would have the effect of being overstaffed in less busy times.</li> <li>• There would be insufficient volume of work in some of the smaller specialist areas such that it would not be possible to establish a viable team with the necessary skills to meet fluctuating levels of demand. For example lift maintenance.</li> </ul>
<p><u>Make incremental improvements to the current delivery model</u></p> <p>Page 19</p> <p><b>This is the recommended option</b></p>	<ul style="list-style-type: none"> <li>• Productive committed local workforce.</li> <li>• Able to cope with emergencies</li> <li>• No competing priorities</li> <li>• Ongoing contribution to overheads</li> <li>• Improve efficiency by taking on more of the non specialist work which is currently undertaken by the external contractors. Initially this expansion could be by way of improved productivity but we are not ruling out expanding the number of direct employees in the future.</li> <li>• The apprenticeship scheme will ensure a steady flow of well trained skilled staff to replace those nearing retirement.</li> <li>• Shared purpose of the repairs service and the whole organisation in terms of budgetary control and sustainability and equalities policies</li> </ul>	<ul style="list-style-type: none"> <li>• Need to restrict the overall size to the troughs in demand to ensure optimum utilisation of resources.</li> </ul>

Description of Option	Advantages	Disadvantages
<p><u>Outsource</u></p> <p>Where services are not provided in house by other providers the models used are for a single supplier to cover the entire borough or for the borough to be divided into lots</p>	<ul style="list-style-type: none"> <li>• Reduction in the staffing headcount.</li> <li>• Fluctuating demand is managed by the contractor, no risk of unproductive time.</li> </ul>	<ul style="list-style-type: none"> <li>• Loss of control</li> <li>• Loss of ability to cope with emergencies</li> <li>• Would require a long term contract to ensure best vfm.</li> <li>• Profit motive could conflict with customer care equalities and sustainability objectives</li> <li>• Costs of clienting the arrangements</li> <li>• Benchmarking suggests that there are not significant savings to be made.</li> <li>• Costs of any transition and impact on performance.</li> <li>• Competing demands from other customers</li> <li>• Lower contributions to central overheads</li> </ul>
<p><u>Radical Options</u></p> <p>These options would include ideas such as</p> <ul style="list-style-type: none"> <li>• A trade sale of the DLO</li> <li>• Management Buy out</li> <li>• Management Buy out with Partner</li> </ul> <p><b>These are not recommended</b></p>	<ul style="list-style-type: none"> <li>• Potential to realise a one off receipt</li> </ul>	<ul style="list-style-type: none"> <li>• As for the outsourcing model</li> <li>• Could over bid such that the new organisation is not viable</li> <li>• Could underbid and take surplus out of the HRA.</li> <li>• Would require extremely long contracts.</li> </ul>

# Budget Scrutiny Task Group

## Repairs

### 1. Background

- 1.1 The Scrutiny task group has previously received significant amounts of information around the options for delivering the repairs service. This included the pros and cons some quite radical options, although these have now been discounted.
- 1.2 Having considered that information the Group have asked Officers to consider just two options, the status quo and then to compare that with an outsourced model such as the one operated by Tower Hamlets Homes.
- 1.3 The analysis undertaken has been constrained by time but there is sufficient information to draw some conclusions.

### 2. Overview of Service Models

- 2.1 As outlined above two models are being reviewed. Firstly a traditional DLO as currently employed by Hackney Homes on behalf of Hackney Council is reviewed and secondly this is compared with an outsourced model that is employed by Tower Hamlets Homes on behalf of Tower Hamlets Council.

#### 2.2 Traditional DLO

- 2.2.1 When Hackney Homes was established by Hackney Council in 2006 the repairs DLO was included in the ALMO so the repairs service transferred into the new organisation.
- 2.2.2 The DLO operates as a separate trading account within the Council's and Hackney Homes' accounts. The income to the account is the value of each repair as per the schedule of rates with the costs to the account being the direct costs, for example labour, materials and transport along with internal and external overheads.
- 2.2.3 There is a client function that ensures the contractor; in this case the DLO performs according to specification.
- 2.2.4 Although the DLO undertakes repairs it does not undertake all the repairs and maintenance functions on the Council's dwellings. The vast majority of the responsive repairs, painting and minor voids are undertaken by the DLO along with all the central heating maintenance and water tank programme.
- 2.2.5 Three external contractors are employed to undertake specialist works (such as asbestos removal) and additional work that exceeds the capacity of the DLO as and when necessary. This ensures that the directly employed staff are operating at optimum efficiency with the private sector picking up the peaks of demand. The use of external contractors also provides the opportunity to benchmark the DLO costs against those of the

contractors. When these contracts were tendered it was found that the DLO came a close second in terms of a costs comparison.

- 2.2.6 Previous presentations to the Scrutiny Group have set out the processes employed to maximise both staff productivity and customer satisfaction with the repairs service. This is more straightforward to deliver as the staff concerned are directly employed.
- 2.2.7 Similarly the benefits of having a large, directly employed workforce have been reported to the Group. It is hard to put a monetary value on having a largely local well trained and well managed workforce, but the ability to redirect staff to deal with emergency situations should not be underestimated. There are costs associated with such a model, for example the cost of the pension scheme and the allocation of overheads to a trading account. One of the challenges of running an in-house service is to provide a value for money service while meeting those costs.

### **2.3 Outsourced Repairs Contractor**

- 2.3.1 There are generally two or three reasons why an organisation such as an ALMO or local authority has an outsourced repairs service.
- Previous and sustained poor performance by the in-house contractor in terms of quality of service delivered;
  - High costs of an in-house contractor compared with an outsourced provider or
  - The organisational memory of a poor performance and the extent of the practical obstacles to bringing a service in-house being such that it is most efficient to re-tender an existing contract.
- 2.3.2 The service delivery model for an outsourced contractor can vary with some contracts being written solely for the repairs. Other contracts include the repairs reporting call centre and a measure of responsibility for controlling the budget. There is also a client function which has responsibility for inspections, signing off variations and approving payments to the contractor.
- 2.3.3 Contracts are usually based on a schedule of rates for a large number of common repairs. This schedule is pre-priced so that the bidders submit their tender on a % variation to that price. Then there will an indexation arrangement to account for price fluctuations during the course of the contract.
- 2.3.4 The contractors' own delivery models will be based either on having their own directly employed labour or sub contracting some or all of the work through their own supply chain. The longer the supply chain the more difficult it can be to ensure Council objectives are delivered such as paying the London Living Wage and securing training opportunities for local people.

### **3. Financial Appraisal**



- 3.1 As requested by the Scrutiny Group we have undertaken some benchmarking with a neighbouring local authority. This authority has just tendered its already outsourced repairs service and as a result has awarded a contract to new contractor.
- 3.2 This new contract has been let at the bottom of the market so the costs would be expected to be extremely competitive. This is indeed the case and is reflected in the level of profit and contribution to overheads that the new Company will be making. The contract is set out as an 'Open Book' and pricing will be subject to review by both parties mid year.
- 3.3 There is one innovation that has been adopted by this borough. They have agreed a fixed price per property for a basket of internal repairs. This option would be open to Hackney but it appears to pass risk onto the contractor, which they would have to price in to the contract. We will continue to work with colleagues to see how this experiment works as there needs to be a full year of operation before any conclusions can be drawn; a big profit or a big loss would be of equal concern as would any sense of rationing towards the year end.
- 3.4 The table below shows the costs incurred by LBH HRA for Repairs & Maintenance account compared with those of the Neighbouring local authority. It should be noted that Hackney Homes DLO undertakes the majority (approximately 75%) of the responsive repairs and void works.

	Hackney	Neighbouring Borough
Average Void cost per unit	£3,200	£3,500
Responsive repairs cost per job	£117	£105
Responsive repairs (internal) per property	£275	£266
Gas Servicing	£143	*£150
Gas Servicing % of return visits	81%	114%
Water Tanks cost of inspection per tank room	£92.56	£95.13
Cost of Contact Centre	£1.2m	£1.4m
Client management costs per property	£116	£118
Overheads and Profit	19%	X%

\*Tender price from previous contract

- 3.5 The table shows that Hackney is competitive overall with the tendered prices recently obtained by the neighbouring borough. . The one aspect on which Hackney Homes spends more is the cost per responsive repair and responsive repairs per property. This indicator is very difficult to compare accurately as every organisation raises job tickets in a different way, either per trade or per job or a combination so the figures are approximate. We have endeavoured to match techniques with the other borough which is why the figures may differ compared with other data produced. We anticipate the cost of a job will reduce to £112 by the end of the financial year.
- 3.6 The level of overheads and profits is commercially sensitive so is not shown separately in this report. Within the Hackney figures are corporate and

Hackney Homes overhead figures, some are variable, such as finance and HR support to the DLO but others fixed regardless of the nature of the organisation. Approximately £700k of LBH SLA charges are apportioned into the trading account, this is the correct accounting treatment but is a cost that an external organisation does not have to bear, thus any change of delivery model would result in that £700k remaining as a cost to the Council with a smaller figure for Hackney Homes fixed costs. Altogether these fixed costs broadly account for the different costs per job.

#### **4. Other considerations**

4.1 As has previously been reported to the Scrutiny Group the strong Officer recommendation is to retain the DLO and work to improve the productivity thus increasing the turnover without increasing the costs significantly.

4.2 However if Members were minded to consider the outsourced option further there would be some aspects of additional costs which would have to be considered:

- Costs of staff transferring under TUPE with adjustments to tendered prices
- Pension issues associated with a new contractor
- Cost of transition
- Review of the clienting arrangements given the different relationship with an external contractor.

#### **5. Conclusions**

5.1 HH repairs service offers a service that is broadly comparable with the cost of the recently tendered service for a neighbouring borough.

5.2 There is the opportunity to undertake further benchmarking with the Neighbouring Borough as their new contract beds down and qualitative as well as quantitative data becomes available.

#### **6. Recommendations**

6.1 That the current in-house service be retained

6.2 That Officers continue to benchmark with neighbouring boroughs to ensure that lessons are learned and best practice is maintained within the DLO.