

# 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.