

## **FINANCE, AUDIT & PERFORMANCE COMMITTEE**

### **REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE DIRECTION)**

#### **RE: HOUSING REPAIRS REVIEW UPDATE**

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#### **1 PURPOSE OF REPORT**

To provide members with an update on the progress made against the Action Plan produced in response to the review of the Housing Repairs Service.

#### **2 RECOMMENDATIONS**

That members:

- Note and endorse the completion of the Action Plan.
- Note the increase to the Schedule of Rates (SOR) in place for the Housing Repairs Service.

#### **3 BACKGROUND TO THE REPORT**

- 3.1 In response to two independent reviews and a further internal financial review, an Action Plan was developed to address the issues identified within the Housing Repairs Service. Delivery against this Plan has continued to be closely monitored.
- 3.2 This Plan was reported to members at previous meetings and it was agreed that updates and significant variations to the plan would be reported back. This report will therefore set out some of the key areas of progress made to date. Progress against the plan has also been assessed as part of the latest Internal Audit Review of Housing Repairs, along with testing of the improved controls and procedures. The findings of this Review are also being presented to members as part of the Block Report.
- 3.3 There were 15 tasks within the Action Plan and all have been fully implemented. The completed Action Plan is attached at Appendix 1 for information.
- 3.4 A significant item on the Action Plan was to review the SOR that has been in place for the Housing Repairs Service since it was brought in-house in September 2011.
- 3.5 At that time a 20% uplift was applied to the bespoke SOR which had last been used in 2003 by contractors N & L and Quadron who each undertook one area of the Borough. The 20% uplift was calculated as the approximate inflation level that should be applied and took effect in 2011. No further uplifts have been applied. It is also worth noting that they were last tendered in the open market in 2000. The Business Case for returning the service in-house was focused on costs and not cost recovery and therefore did not consider the impact the SOR could have on the trading account .

- 3.6 Since the service was brought in-house, there has been an assumption of a break even position on the trading account, however in practice it is running at a deficit. Whilst the Housing Repairs Account overall is still generating a "profit", we needed to understand if the charging mechanism in place with the SOR would explain the deficit.
- 3.7 The Chartered Institute of Housing (CIH) were commissioned to complete a review of the SOR with a focus on two key areas:
- An assessment of the value for money of the SOR and how it compares to other providers across all housing sectors
  - Guidance on whether the SOR enables the Council to recoup costs including support service recharges that have been applied for the first time
- 3.8 In terms of high level findings, the CIH reported the following:
- The bespoke Schedule as currently priced is unlikely to enable the Service to generate sufficient revenue to recover a value equivalent to £1.733 million as required and will require adjustment in order to achieve this.
  - The analysis of the bespoke SOR has indicated that the pricing levels are below the current market levels and well below the National Housing Federation (NHF) Schedule 6.1 base rate. The NHF Schedule is just over 30 per cent higher than the bespoke SOR. This means that if the work was priced at the base level for the NHF Schedule it would generate just over 30% more income.
  - There are also a number of income and productivity monitoring measures that should be put in place to operate on a more commercial basis. (An extract of these measures are attached in Appendix 2).
- 3.9 Through modelling, we have demonstrated that an increase of 32.27590% applied to the SOR will enable the Service to recoup costs and operate on a break even position. This therefore justifies an uplift of 30% in line with the NHF schedule. An uplift of 30% is therefore being applied for all work completed by the Service from 1<sup>st</sup> April 2014. Whilst it is acknowledged that there are differing rates available on the open market, the CIH report supports this approach, along with the introduction of some commercial operating measures.
- 3.10 These measures are being introduced as part of ongoing management changes.

#### **4 FINANCIAL IMPLICATIONS (KP)**

- 4.1 The contractor arm of the in-house housing repairs service operates using a trading account within the General Fund. All expenditure incurred for in house operations is posted to this code. Income is posted to the account following interfaces from Orchard which are calculated on the basis of the schedule of rates held. At the year end, any surplus or deficit held on the trading account is removed and transferred to the housing repairs accounts. The balance is proportioned between capital and revenue based on the value of jobs completed to date.

- 4.2 The original trading account budget was set for 2013/2014, as in previous years to achieve a “break even” position and therefore no surplus or deficit was budgeted to be posted to the Housing Repairs account.
- 4.3 A break even position was not achieved in 2012/2013 and a deficit of £230,000 was charged to the housing repairs accounts. As at December 2013 it was forecast that the deficit for 2013/2014 will be £387,472. Council approved virements to both the capital and revenue housing repairs accounts in February 2014 to absorb this pressure within under spent budget.
- 4.4 In light of the deficit position in both the current and prior year, and ahead of any assurance on the schedule of rates used, it was deemed prudent to forecast a similar position in 2014/2015. A total deficit of £400,000 was approved by Council as part of the 2014/2015 budget setting process. This was split between revenue and capital based on a 36:64 ratio.
- 4.5 Modelling has been performed using the outputs of the CIH review to calculate what element of the deficit could be recovered using differing uplifts. This can be summarised as follows

<b>Uplift</b>	<b>15%</b>	<b>20%</b>	<b>32.2759%</b>	<b>30%</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Budgeted deficit	-400,000	-400,000	-400,000	-400,000
Recovered income	185,896	247,862	400,000	371,794
Resulting deficit (surplus)	-214,104	-152,138	0	-28,206

- 4.6 As detailed, an uplift of 32.3% is required to achieve a breakeven position and this has informed the recommendation detailed in section 2.

## **5 LEGAL IMPLICATIONS (EH)**

None arising directly from the report

## **6 CORPORATE PLAN IMPLICATIONS**

The Housing Repairs Service significantly contributes to the delivery of “Creating a Vibrant Place to Work and Live”.

## **7 RISK IMPLICATIONS**

It is the Council’s policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer’s opinion based on the information available, that the significant risks associated with this decision/project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report/decision were identified from this assessment:

<b>Management of Significant (Net Red) Risks</b>		
<b>Risk Description</b>	<b>Mitigating Actions</b>	<b>Owner</b>
Variances to Housing Repairs Account	An improvement plan for the service has been developed and implemented. More rigorous budget monitoring procedures are also in place	Julie Kenny

**8. KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

None.

**9. CORPORATE IMPLICATIONS**

By submitting this report the author has taken the following into account:-

- Community Safety Implications
- Environmental Implications
- ICT Implications
- Asset Management Implications
- Human Resources Implications

Background Papers:           None

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Executive Member:           Councillor KWP Lynch

## Appendix 1

Key Task	Comments
Clear historical backlog of jobs through the Orchard System.	<b>Complete</b>
Review structure and allocation of budgets.	<b>Complete</b>
Work in Progress (WIP) within the Orchard System is to be analysed and monitored.	This is now done routinely as part of the performance management and budget monitoring process.  <b>Complete</b>
Map existing processes for responsive repairs.	<b>Complete</b>
Update Service Procedures and Controls.	Day to day procedures have been reviewed, updated and implemented. These procedures require prompt delivery and closure of jobs on the system based upon new procedures adopted by the engineers. The review has also identified additional policies that were required, such as Acceptable Vehicle Usage and operational requirements regarding engineers availability.  <b>Complete</b>
Review use of Schedule of Rates	<b>Complete</b>
System Training.	<b>Complete</b>
Develop Procurement Plan.	<b>Complete</b>
Review Invoicing Procedures.	<b>Complete</b>
Review staffing structure.	<b>Complete</b>
Introduce Performance Management.	Performance Indicators now being monitored: <ul style="list-style-type: none"> <li>• Customer Satisfaction</li> <li>• Priority 1 jobs completed within target</li> <li>• Priority 2 jobs completed within target</li> <li>• Priority 3 jobs completed within target</li> <li>• Priority 4 jobs completed within target</li> </ul> These will now be reviewed and expanded to include those from CIH. <b>Complete (but being monitored)</b>
Review pre and post inspection regime.	<b>Complete</b>
Complete "health check" of Orchard System and data.	<b>Complete</b>
Consideration to diagnostic software.	<b>Complete</b>

Key Task	Comments
Manage risk of overspend.	New procedures and budget monitoring arrangements are in place to address this. However, it is always being reviewed.  <b>Complete but always subject to review</b>

## Appendix 2

### **Repairs Value for Money Measures**

1. **Jobs per day target** – no target is set although a carpenter will be expected to do five jobs a day. Most organisations adopt a target of either four or five jobs per operative per day. Within this there is an expectation that plumbers and electricians should achieve a higher number (6+) and that bricklayers and plasterers will achieve a lower number.

Some alternative approaches to measuring productivity are also advisable:

#### **Productivity**

**Type:** Day to day management

**Formula:**

$$Performance = 1 - \frac{No\_of\_non\_productive\_minutes}{No\_of\_possible\_available\_minutes\_workable}$$

$$non\_productive\_minutes = Time\_worked - \{Allocated\_Jobs \times Job\_SMV\_Time\_Values\}$$

**Purpose:** To gain a measure of how productive the workforce are overall.

**Scope:** SMV is Standard Minute Value defined within the NHF schedule of rates of the amount of time (including travel) that jobs of a particular description should take to complete. This should include all items which are fully or partially complete in order to assess per task performance.

#### **% of jobs completed within SMV timescale**

**Type:** Day to day management of Productivity

**Formula:**

$$Performance = \frac{No\_jobs\_completed\_in\_Time\_based\_on\_SMV}{Total\_No\_Jobs\_Completed}$$

**Purpose:** To define what proportion of tasks are completed within the target time.

**Scope:** SMV is Standard Minute Value as defined within the NHF schedule of rates of the amount of time (including travel) that jobs of a particular description should take to complete. This should include all items which are fully or partially complete in order to assess per task performance.

#### **% of jobs completed within SOR value of works**

**Type:** Day to day management of productivity

**Formula:**

$$Performance = \frac{Cost\_jobs\_completed\_in\_Time\_based\_on\_SMV}{Total\_Cost\_Jobs\_Completed}$$

**Purpose:** Is to express the effect in monetary terms of failing to complete jobs within the standard times.

**Scope:** SMV is Standard Minute Value as defined within the NHF schedule of rates of the amount of time (including travel) that jobs of a particular description should take to complete. This should include all items

which are fully or partially complete in order to assess per task performance. Cost is calculated using the standard prices supplied within the Schedule of Rates.

**Cost of non-productive time worked**

**Type:** Day to day management of productivity

**Formula:**

*Performance = non \_ productive \_ minutes × labour \_ rate \_ of \_ operatives*

*non \_ productive \_ minutes = Time \_ worked - {Allocated \_ Jobs × Job \_ SMV \_ Time \_ Values}*

**Purpose:** To gain a measure of the cost of non-productive time

**Scope:** SMV is Standard Minute Value as defined within the NHF schedule of rates of the amount of time (including travel) that jobs of a particular description should take to complete. This should include all items which are fully or partially complete in order to assess per task performance.