
REPORT TO:	HOUSING AND COMMUNITY SERVICES COMMITTEE	AGENDA ITEM: 16
DATE OF MEETING:	23rd NOVEMBER 2006	CATEGORY: DELEGATED
REPORT FROM:	DIRECTOR OF COMMUNITY SERVICES	OPEN PARAGRAPH NO:
MEMBERS' CONTACT POINT:	BOB LEDGER (EXT 5775)	DOC:
SUBJECT:	PROCUREMENT OF HOUSING DLO SERVICE	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: HCS01

1. Recommendations

- 1.1 Note the independently commissioned DLO Value For Money Study undertaken by the Housing Quality Network (HQN) Consultancy Group (appendix 1).
- 1.2 Decide not to tender the responsive repair function at this time subject to a programme of modernisation of processes and work practices within the DLO that will build upon and enhance improvements and lead to improved service delivery.

2. Purpose of Report

- 2.1 To agree a strategy and way forward for the responsive repairs and DLO function of the Housing Service.

3. Detail

- 3.1 The day to day responsive repair function for the Council was last competitively tendered in 1999. The contract was successfully won by the in-house DLO team under competition.
- 3.2 The legal requirement to tender (CCT) was removed in 2000. However, the Audit Commission rightly require landlords to prove that non-tendered services offer value for money and justify, particularly where performance to customers is questionable, why a service has not been market tested. As a consequence, in the run-up to inspection in 2005 the Council approved a recommendation to commit to tendering the responsive repair part of the business given that our service to customers was questionable. The report also highlighted that this element of the service had not been properly invested in for many years either in terms of resources or management and therefore making any significant improvements could not happen in a short timescale and the simplest way to make improvements quickly would be to re-write the specification and tender the process. The resolution to do this displayed our commitment as a Council to improve and was inevitably taken on board in the inspection process.
- 3.3 There was a balance to be struck though. It was assessed that given the underinvestment in the DLO it would not be fair on them to tender immediately

without allowing for some investment particularly of management time in that they would be in an extremely weak position to compete. The commitment given, therefore was to tender in 2006 allowing a balance of getting the DLO ready to a position where it could mount a reasonable bid but keeping that timescale short to introduce an improved service for customers as soon as possible.

- 3.4 A repairs action plan was consulted upon and introduced before inspection last year and was worked upon through the remainder of the year and into this year. The most significant outcome of this has been dramatically improved performance results with 90%+ of work carried out within target timescale rising to 98+% for urgent and emergency work.
- 3.5 Although officers had evidenced in the inspection process that the DLO offered value for money there was limited independent external verification of this. In July of this year, before preparations for tendering were to commence and against a background of significantly improved performance, an external independent report on value for money of the DLO was commissioned. In relation to tendering, the primary finding of the report is that going to tender could be an unnecessary and expensive exercise with questionable benefit to the authority. The report recommends investing in the DLO and not tendering at this time.
- 3.6 The rationale behind this comes down to a number of key factors:
 - Improving performance
 - Increased monitoring and management. Due to the implementation of the housing service management software, Orchard, management are challenging performance and targets with more efficiency than previously possible. This has led directly to the improved performance and continues to shape the service today.
 - High customer satisfaction levels
 - The potential to make the service very cost effective – reinvestment in the service.
 - Above average productivity of operatives whilst salaries are broadly average suggesting an opportunity to increase rewards in return for further flexibility and operational efficiency. The introduction of an appointments system has been made and continues to evolve.
- 3.7 The critical finding of the report in relation to tendering is contained within 1.4 of the report namely that: "If procurement costs are added to the costs of a contractor, the exercise of market testing would appear to hold out a small chance of increasing value for money and a greater risk of losing value for money". However the report also highlights that investments need to be made in the DLO service to both ensure that current value for money and performance become embedded and the potential to enhance these elements still further is created.
- 3.8 Given the acceptance and commitment to the need for further investment it is therefore recommended that the responsive repair service currently undertaken by the DLO is not tendered at this time and that the key findings of the external value for money report (as detailed at 3.10 below) are implemented over the next 12 months and the position be reviewed at that time.
- 3.9 There is currently a momentum of change within the responsive and DLO side of the Housing Service. However there may be a risk that a decision not to tender at this time may lead to a loss of momentum and that is why a 12 month review of the decision is recommended.

- 3.10 The other recommendations of the report, given a decision to retain the service in-house, are listed below and discussed in more detail in section 4 of this report:
- Invest in the national schedule rates and primarily, thereby, enable the operation of an effective trading account.
 - Invest in technology through hand-held and diagnostic support systems
 - Invest in improved Finance and IT support
 - Negotiate service change with operatives through increased reward
 - Consider increasing the range of work done by the DLO
- 3.11 Given that the Audit Commission were previously advised of our commitment to tender the responsive repair element of the Housing Service's work, their view has been sought on the proposed change in strategy and retention of the service in-house through the DLO operation. The response of the Housing Inspectorate (the specialist Housing part of the Audit Commission) was that as long as the Council had an audit trail of its decision making process then they would not have an issue but advised that the position would also need to be checked by the Council's 'relationship manager'. His view has been recently sought but was not available at the time of writing the report. It is suggested that if his view impinges on the recommendations of this report that members are formally advised at the next meeting of the Committee.

4. Future strategy

4.1 Schedule of rates

4.1.1 One area of continued under investment within the service is the continued use of an outdated and cumbersome Schedule of Rates, which, amongst other issues, means that the DLO is not collecting the correct amount of income. The report produced by HQN reveals on average the section is under recovering on all works undertaken by approximately 28% (schedule of rates are detailed lists of the work to be carried out alongwith a coding and charging structure).

4.1.2 It is consequently recommended that the service invest in the national schedule of rates (approximately £8,000) both to ensure that the DLO recovers its costs at an acceptable level and that the service can be continually benchmarked against other similar providers. Being able to compare the DLO rates with other providers will assist in continuing to demonstrate value for money.

4.1.3 However, increasing the DLO rates by the recommended 28% (HQN) obviously has an effect on the overall HRA account i.e. it effectively increases costs to the 'client' by 28%. The real crux is that with an in-house service the 'profit' element that the DLO would make in upping its rates by 28% would be returned to the HRA and the benefit of tenants whereas if the service was privately operated the profit element would be lost to tenants.

4.2 Hand held and diagnostic IT technology

4.2.1 The report states that: "These have been shown to be more than self financing in creating operational efficiency through reductions in aborted visits, ending cold calling through maximising appointments and maximising the time available to operatives to carry out work rather than simply travel to pick up further work orders and return completed paperwork".

4.2.2 Hand held technology is basically about issuing work to tradesmen and getting them to complete details of work actually carried out in a paperless IT form thus enabling more up to date accurate information to be available. For tradesmen

working on emergency work it also enables details of the next job to be forwarded to them whilst they are on-site.

- 4.2.3 A diagnostic tool is essentially about making the original description of work issued to the tradesmen as accurate as possible and improving the knowledge of work estimated or 'in the pipeline' thereby improving financial monitoring of the responsive repair function.
- 4.2.4 Adopting a diagnostic tool also allows more flexibility in the staff ordering work in that currently this is a relatively specialist function within the service whereby the diagnostic tool, with some training for the staff concerned, is intended to allow occasional as well as regular users of the software to accurately issue work.
- 4.2.5 Money is not however, the only consideration to be taken into account when deciding on the future provider of the responsive repair service. High levels of performance are essential. As detailed above in this report the current performance levels of the DLO are good to excellent, a marked contrast to what they were 18 months ago.

4.3 Improved Finance and IT Support

- 4.3.1 As well as the IT issues in 4.2 above there also improvements in the analysis of information that need to be made, learnt from and then actioned. This is down to the Managers of the service to implement with the assistance of the Housing Accountant.
- 4.3.2 Members may recall that the staffing restructure report agreed at the October meeting of the Committee included additional provision for IT support.

4.4 Negotiate service change with operatives through service reward

- 4.4.1 The report finds that although our tradesmen are rewarded at broadly average salaries their productivity is broadly higher than average. This is a good starting point for introducing changes to working practices and the introduction of additional flexibility in that there may be some scope to increase remuneration in return for such operation. Efficiencies could be further enhanced by the introduction of hand held technology.
- 4.4.2 Flexible working arrangements including opening hours, multi-skilling and changes to current work ethics would need to be introduced to ensure the service improves still further in providing value for money.
- 4.4.3 The current high levels of performance have not just happened, they have been a combination of better management arrangements and increased monitoring, but crucially the trade operatives that provide the service to our tenants have shown a willingness and commitment to improve the service. In 2005 the Council invested in two apprentices that have proved to be very effective and continue to achieve success in their academic studies.

4.5 Consider increasing the range of work done by the DLO

- 4.5.1 The DLO's efficiency could be enhanced if its overheads were distributed over a broader work schedule e.g. if the number of operatives were increased by upto 6 additional personnel the management arrangements, depot arrangements, etc (and therefore costs) are likely to remain the same.

4.5.2 The HQN report itself though considers the DLO position in isolation and does not attempt to examine whether there is a need for the DLO to take on other work because of inefficiencies elsewhere. Our analysis of arrangements across the rest of the Housing Service work on major improvements, planned maintenance and servicing contracts is that we are generally receiving good value for money. Taking a broader perspective of value for money therefore may mean there is limited scope to considerably increase the work of the DLO at this time.

4.5.3 Additionally the improvement plan for the DLO has always been about improving the core service first and once this is done and consolidated, only then look to expand on the basis of increased efficiency through the distribution of overheads over a wider cost base

5. Financial Implications

5.1 It is recommended to increase the current schedule or rates by an average of 27.68% now to compare with similar rates charged by other providers in the social housing maintenance sector within our region. In doing this exercise the extra income generated for the DLO will effectively provide a trading surplus of approximately £116,000. This would have to be funded from the HRA but will be returned to the HRA i.e. in effect whilst the DLO remains in-house this is a paper exercise but it does put the DLO on a fair footing with its private sector competitors.

5.2 It is recommended to invest time and money within the existing service in five key areas. The overall additional cost is estimated at £56,500.

- Maintain and effective trading account £Time
- Invest in the National Schedule of Rates £8,000
- Invest in a diagnostic system £23,500
- Invest in hand held technology £25,000
- Increased financial and IT support £Time

5.3 In the first instance a service bid has been submitted into the current corporate process to meet these costs.

5.4 Investing in the existing service could enable the expected £50,000 cost of going to external tender to be in effect 'saved'.

6. Corporate Implications

6.1 The report recommends retention of the DLO function in-house on the basis of providing a value for money service to the tenants of South Derbyshire.

7. Community Implications

7.1 To continue to provide a cost effective and efficient maintenance service to our tenants.

8. Background Papers

Housing and Community Service Committee 21 April 2005

Audit Commission Report of the Repairs and Improvement Service October 2005

DLO Value for Money Study October 2006 – Housing Quality Network

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