


<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>CABINET</b></p> <p><b>4 MARCH 2019</b></p>	
<p><b>COSTS OF THE INTERIM HOUSING REPAIRS DELIVERY MODEL</b></p>	
<p><b>Report of the Cabinet Member for Housing – Councillor Lisa Homan</b></p>	
<p><b>Open Report with exempt appendix</b></p> <p>Appendix A is exempt from disclosure on the grounds that it contains information relating to the <b>financial or business affairs of a particular person (including the authority holding that information) under paragraph 3</b> of Schedule 12A of the Local Government Act 1972, and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.</p>	
<p><b>Classification - For Decision</b></p> <p><b>Key Decision: Yes</b></p>	
<p><b>Consultation:</b> Finance, Risk, Legal, Commercial, Business, IT, Equalities</p>	
<p><b>Wards Affected:</b> All</p>	
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## 1. EXECUTIVE SUMMARY

- 1.1 The 4<sup>th</sup> February Cabinet report *Details of the interim housing repairs delivery model* detailed the interim repairs model that will replace the Mitie contract from 17<sup>th</sup> April 2019 and last for 12 to 15 months. The purpose of this report is to lay out the costs of this interim repairs model.

- 1.2 The interim repairs model has been designed to enable the Council to take more control of housing repairs and compliance services so as to improve the resident experience, protect the Council's assets, and ensure resident safety.
- 1.3 The interim repairs model has been designed to realise the Council's strategic priorities:
- **Taking pride in Hammersmith & Fulham** – by protecting the Council's housing assets to deliver homes that residents can be proud of.
  - **Building shared prosperity** – by creating opportunities for local SMEs to win contracts and for local residents to gain employment.
  - **Doing things with residents, not to them** – the interim repairs model has been informed by resident feedback and key elements have been co-designed with residents.
  - **Being ruthlessly financially efficient** – by strengthening the clienting function in order to drive better value for money from contractors, revising performance indicators, and building competition into the model.
  - **Creating a compassionate council** – by investing in training and culture change to ensure that all repairs operatives and call centre staff treat residents with dignity and respect.

The transformation of the housing repairs model is consistent with the Council's vision of 'moving on' – of taking radical action when services are not meeting our standards, and learning the lessons from past models rather than sticking to old ways of doing things.

- 1.4 This paragraph is contained within the Exempt Appendix A.
- 1.5 One of the main themes from the resident engagement sessions held after the announcement of the decision to terminate the Mitie contract, was that residents want a high-quality customer service when they call to report a call. Residents expect to deal with knowledgeable operatives able to diagnose repairs problems and give reliable information, who treat residents with courtesy, dignity and respect. The feedback from residents was that the current Mitie call centre has frequently fallen short of these expectations. The interim repairs model will feature an in-house repairs call centre which will be designed and resourced to deliver excellent customer service.
- 1.6 This paragraph is contained within the Exempt Appendix A.
- 1.7 The interim model is designed to enable maximum control, transparency, and insight so that the 12-15 interim period is a period of learning about the true levels of demand, how they can be better managed, and how a more efficient

and effective service delivered. There is a strong expectation that there is significant failure demand within the existing repairs model based around the Mitie contract. The long-term repairs model may be deliverable at a lower cost than the interim model.

- 1.8 Quantifying the additional cost of the interim repairs model at £3.4m is to give a best estimate based on the information available. Final costs will not be confirmed until the procurement of all contractors is complete by 11<sup>th</sup> March (see section 5). It is necessary to bring this paper to Cabinet before the procurement is complete in order to agree budgets for those parts of the model where there is certainty, so as to unlock spending where it is needed to progress the project. For example, there is a need to recruit additional staff as soon as possible in order to deliver a high performing Call Centre and clienting structure from April 17<sup>th</sup>. A final report will be brought to Cabinet once all costs are finalised.
- 1.9 This report also lays out additional implementation and mobilisation costs required to transition from the current model to the interim model – above the £930,000 already approved by 8<sup>th</sup> October Cabinet. An additional £782,000 is estimated to be required to cover contractor mobilisation, the equipping of the DLO with vehicles, materials and tools, and a training budget for DLO operatives, Call Centre staff and client management staff. Training is a particular priority and an area of significant interest to residents and members, with the training of the staff TUPEing from the Mitie contract being a key area of focus. A breakdown of the training budget is provided in this report.

## **2. RECOMMENDATIONS**

- 2.1 To approve a one-off annual revenue budget of £22.2m for the interim repairs model, of which £18.1m will be funded from existing Property & Compliance division budgets within the Housing Revenue Account for 2019/20 and £4.1m will be funded as a one-off appropriation from the Housing Revenue Account General Reserve.
- 2.2 To approve additional implementation and mobilisation costs of £782,000, in addition to the £930,000 already approved by Cabinet. The additional £782,000 will be funded from the Housing Revenue Account Transformation earmarked reserve.
- 2.3 To approve the transfer of the Housing Revenue Account Parking Charges Review earmarked reserve balance of £500,000 to the Transformation earmarked reserve.

- 2.4 To approve (within the annual revenue budget of £18.1m supplemented by a one-off reserve payment of £4.1m, referred to above) the creation of the following posts:

- (a) the new Customer Service Centre posts, detailed in section 4.5, at a cost of £1,700,491 per annum
- (b) the new posts within the Council's in-house Direct Labour Organisation (DLO), detailed in section 4.23, at a cost of £2,351,960 per annum
- (c) the new posts within Growth and Place's clienting structure, detailed in section 4.30 at a cost of £607,319

### **3. REASONS FOR DECISION**

- 3.1 The February Cabinet report *Details of the interim housing repairs delivery model* detailed the interim repairs model that will replace the Mitie contract from 17<sup>th</sup> April 2019. The process of moving from a Mitie managed repairs service to a more diverse range and mix of general and specialist contractors is now well advanced. Planning for the transition to this interim model also includes the setting up of 'H&F Maintenance', the council's own direct labour organisation, and a council run repairs call centre.
- 3.2 The focus of this report is on the costs of the interim service. This includes the new contractor costs based on their bids, the financial consequences of creating an in-house call centre and direct labour organisation and the strengthening of the client structures.
- 3.3 It is important to recognise that the change in delivery model is an interim step for between 12 and 15 months. The interim model is designed first and foremost to deliver a functioning repairs and compliance service that maintains residents' safety and wellbeing.
- 3.4 The interim period will give the council some time to assess the impact of the changes on the service, its costs, value for money and resident perceptions. Indeed, the approach has been structured, in part, to allow as much learning as possible to be built into the long-term solution.
- 3.5 Procuring for the long term will need to begin in Summer 2019. Decisions on the way the future service should be organised will, therefore, be brought to Members in the near future. The key decisions will revolve around the long-term size and shape of the service, whether there should be two or three general contractors (or any) and also if some of the specialist/other works should be absorbed into the general contractors' contracts.

- 3.6 All of these issues will be presented to Members using as much feedback as possible about the way the interim delivery model is working.

## **4 ISSUES**

### **4.1 Customer Service Centre**

- 4.2 The February Cabinet report *Details of the interim housing repairs delivery model* described how the new repairs model will feature a single, in-house, repairs customer service centre that will take calls and allocate them to the DLO and all contractors. This is critical to ensuring that the repairs service can function on day one post Mitie. It is also an area of real importance to residents, as indicated by the resident feedback gained from the engagement programme (detailed in the February report). One of the 'quick win' priorities of the new model is to significantly improve the quality of customer service provided by the repairs call centre. There will be a major and ongoing focus on training and instilling a customer service ethos in the staff, many of whom will TUPE over from the Mitie Call Centre.

- 4.3 The Call Centre is an exciting opportunity to help realise the Council's social value and economic development goals by creating employment opportunities for local residents. The service has been working with the Council's Workzone service to ensure that employment opportunities for local residents are maximised. The recruitment agency managing the recruitment of additional Customer Service Advisors (beyond those anticipated to TUPE from Mitie) has been given a target for local recruitment: 30% of recruited staff should be residents of Hammersmith and Fulham. There is a need for advisors who speak foreign languages, based on the most commonly spoken languages in the borough. This should present opportunities to borough residents. The assessment process has been carried out within borough (at the Macbeth centre). There is a commitment within the service to recruit two apprentice Customer Service Advisors in Autumn, once the Call Centre has become established and stabilised. We will again work Workzone colleagues to promote apprenticeship opportunities.

- 4.4 It is expected that the new repairs customer service centre will cost a total of £2m in its first twelve months of operation (see table below for a breakdown of this cost). This figure has been calculated based on analysis of twelve months of call demand. This paragraph is contained within the Exempt Appendix A.

- 4.5 Call centre budget for first 12 months:

	<b>Number of posts</b>	<b>Costs (includes on-costs)</b>
Customer Service Advisors	32	£1,185,216
Customer Service Team Leaders	4	£209,480
CSC Trainer	1	£48,416
CSC Workforce Optimisation Analyst	1	£48,416
Customer Insight Officers	2	£96,832
Customer Service Manager	1	£66,149
CSC Head of Service (50% of cost)	1	£45,982
<i>Total – staff</i>		£1,700,491
Ongoing training budget		£15,000
Customer feedback software		£60,000
Out of hours call service (external provider)		£70,000
Call handling software licences		£83,000
Cost of calls		£71,520
<i>Total – other resources</i>		£299,520
<b>Total</b>		<b>£2,000,011</b>

See appendix 1 for the Customer Service Centre structure chart.

- 4.6 This paragraph is contained within the Exempt Appendix A.
- 4.7 This paragraph is contained within the Exempt Appendix A.
- 4.8 This paragraph is contained within the Exempt Appendix A.
- 4.9 This paragraph is contained within the Exempt Appendix A.
- 4.10 There is also scope to run the customer service centre with ever greater efficiency so that the staff resource might be reduced. The Workforce Optimisation Analyst will identify patterns of demand and enable the service to allocate staff more efficiently. Embedding Customer Insight Officers in the service will enable a proactive, problem solving approach to customer service – identifying emerging problems quickly and supporting the service to respond, rather than passively allowing residents to raise the same problem time and time again. The additional ‘intelligence’ resource being put into the call centre is therefore based on an invest to save premise – the quantifiable impact of which will emerge during the 12 to 15 months of the interim model.

4.11 Alternatively, if the customer service centre can be run in an intelligent and efficient way, there may be corporate interest in expanding it to take on other Council functions. A review of call centre functions across the Council is already underway and this review will continue to work closely with the project implementing the new repairs model. The workstream lead, Roy Morgan, has met with Karen Sullivan, Assistant Director for Residents Services, to appraise her of the plan for the Repairs Customer Service Centre.

4.12 Colleagues in Corporate Communications are fully briefed on the plans for the Repairs Customer Service Centre, and are making it a major focus of the Communications campaign heralding the interim repairs model.

#### 4.13 Training

4.14 The February Cabinet report described the training programme that will be delivered for Call Centre and DLO staff. It will focus on customer care and best practice in operational delivery (health and safety, compliance, technical competence, etc). We will undertake a full skills audit on the transferring staff and any new recruits. The programme will include a major drive for change on handover and then ongoing programmes going forward. A £100,000 budget for training will be set aside and will cover:

	<b>DLO</b>	<b>Call Centre</b>	<b>Client side, management, wider service</b>
Skills audit	£2,000	£2,000	£2,000
Repairs diagnostic training (covered by existing implementation budget detailed in section 4.38 below)		£13,250	
Ongoing Call Centre training (covered by Call Centre budget detailed in section 4.5 above)		£15,000	
Induction on transition (two/three days covering H&F values, service and resident expectations, customer care, H&S, etc)	£11,000	£11,000	
Technical development and skills update	£20,000		

Specialist training (diversity, working with vulnerable people, etc)	£6,000	£6,000	£3,000
Systems and technology training	£1,000	£5,750	£2,000
<b>Total</b>	<b>£40,000</b>	<b>£53,000</b>	<b>£7,000</b>

4.15 £28,250 of the training budget is already covered in the Project Implementation budget and the Call Centre annual budget – an additional £71,750 is required.

#### 4.16 Phased growth of the DLO

4.17 The DLO has been designed to address areas where Council priorities and resident feedback means the Council needs to achieve maximum control – estates and communal works, the delivery of minor works arising from Fire Risk Assessments, and more complex, multi visit, repairs. Direct delivery of repairs is not something the Council has done for decades and is a significant undertaking. With so much change going on across the Repairs function (such as new contractors and new clienting arrangements) there is a need to focus on getting the basics right and minimise the risk of service failure and disappointing residents. Therefore, the DLO will be grown gradually over the first twelve months to enable more control and more reliable delivery.

4.18 The two initial work streams, starting from April 17<sup>th</sup>, will be communal repairs and minor FRA works.

4.19 For communal repairs the operatives will be staff transferred from Mitie so there will be a ready-to-go workforce. We have time to ensure the team is set up with right resources, tools and support mechanisms in place. Work is currently underway to set a programme of communal and estates works. Staggering the growth of the DLO enables the service more time to priorities works both against available resources and through more structured engagement with tenants/leaseholders, Housing Officers on the estates, and Members. We will likely need to consult with leaseholders on some works of higher value.

4.20 The priority for communal works is to have a core team with a highly visible presence on estates addressing key areas identified by residents e.g. lighting, soil stacks, glazing, and some minor decoration works. We will provide details of when operatives will be in particular areas so residents and staff become familiar with the teams. We want the first few months to be an opportunity to rebuild relationships with residents, Members and H&F staff – the smaller team initially will help make this more of a personal approach.



- 4.21 For minor FRA works there is already a small team within Growth and Place. To date they have in many ways operated in isolation and just got on with the tasks presented to them. Staggering the growth of the DLO means that resources can be directed at integrating the FRA workstream into the wider DLO. This will help ensure that common behaviours are established across the different work streams. The works delivered through the FRA team are helping to mitigate a key risk to the council so we need to ensure appropriate infrastructure in place to support this. This experience of integrating the FRA team will identify guidelines and lessons learnt for when other work streams are delivered by the DLO.
- 4.22 The more general benefits of staggering the growth of the service are that it will provide time to:
- deliver a training plan so that operatives have clear understanding of our expectations for quality of workmanship, accountability, and customer service
  - embed behaviour change and instil a high-performance culture amongst management and operatives. Having a smaller team means the first tranche can act as ambassadors for future employees.
  - test the existing skills profile of operatives to ensure they meet the needs of the service
  - recruit the right operatives to meet the needs of the service (rather than a rushed recruitment at start)
  - further develop the internal systems and processes of the DLO (starting smaller allows us to test these systems and practices in a more controlled way)
  - further develop how we integrate with the repairs contractors' works management systems
  - This sentence is contained within the Exempt Appendix A.
- 4.23 Month 1 structure:
- 4.24 The plan is for the DLO to launch with 22 Operatives, full management structure and a suitable number of support staff (see appendix 2a for structure chart).

Post	Grade	Number of posts	Costs (includes on-costs)
Managing Director DLO	SMG 2	1	£86,422
Works Manager	PO7	1	£64,889

Fire Safety Works Manager	PO7	1	£64,889
Commercial Manager	PO7	1	£64,889
Works Planner	SC6	1	£35,980
Administrator	Scale 5	1	£33,005
Supervisor	PO3	2	£102,220
Operatives	<i>Range of salaries to be set by Union Panel. Costs based on expert salary estimates and assumed 27% on costs</i>	22	£1,079,955
Annual cost			£1,532,249
<b>Month 1 cost</b>			<b>£127,687</b>

4.25 Month 12 structure:

4.26 By month 12 the DLO will grow to 47.5 operatives with a corresponding growth in support staff (see appendix 2b for structure chart).

<b>Post</b>	<b>Grade</b>	<b>Number of posts</b>	<b>Costs (includes on-costs)</b>
Managing Director DLO	SMG 2	1	£86,422
Works Manager	PO7	1	£64,889
Fire Safety Works Manager	PO7	1	£64,889
Commercial Manager	PO7	1	£64,889
Quality Assurance Officer	SC6	2	£71,960
Works Planner	SC6	4	£143,920
Business Officer	SO1	1	£39,527
Administrator	Scale 5	3	£99,015
Supervisor	PO3	4	£204,440
Operatives	<i>Range of salaries to be set by Union Panel. Costs based on expert salary estimates and assumed 27% on costs</i>	47.5	£2,331,720
Annual cost			£3,171,671
<b>Month 12 cost</b>			<b>£264,306</b>

4.27 The DLO will grow in a stable, straight line, basis so that the annual cost of the DLO staff is expected to be **£2,351,960**.

4.28 Client side

4.29 Additional client-side resources are needed to effectively client the three responsive repairs contractors. Currently, the Council has a very thin client, which is believed to be one of the main cause of the issues with the Mitie contract. Some resources are already in place. The table below lays out the additional cost of clienting the responsive repairs contractors (see appendix 3 for structure chart):

Post	Grade	Number of posts	Costs (includes on-costs)
Head of Client Services (Repairs)	SMG 2	Existing post	£0
Contract Managers	PO6	3	£187,071
Aids and Adaptations Manager	PO7	Existing post	£0
Quality Manager	PO4	1	£56,123
Finance Manager	PO4	Existing post	£0
Ad hoc schemes manager	PO4	Existing post	£0
Surveyors	PO4	7 existing posts 5 new post	£280,615
Technical officers	SO2	2	£83,510
Support officer	SO2	5 existing posts	
<b>Total</b>			<b>£607,319</b>

4.30 Cost of the interim repairs model

4.31 The overall cost of the interim repairs model arrangement is expected to be £22.2m over 12 months. This is £3.4m more than the cost of the current model. There will also be one off mobilisation costs of £1.7m. Certain costs are not yet confirmed as tender responses have not been received. In these cases, appropriate estimates based on market knowledge have been used. Given that the model has changed so fundamentally compared to the Mitie contract, it is difficult to explain how each and every element has increased or decreased in costs but the key variances are understood as:

- The Client Management structure has increased due to the added complexity of managing multiple contractors and a DLO. See appendix 3 for the structure chart. This new structure costs an additional **£607,000** per annum. This new structure reflects the increased control and governance that the Council wishes to have in-house to manage Housing assets effectively and safely. This sentence is contained within the Exempt Appendix A.

- The call centre is a major new capability for the council, providing an improved customer services and consistency of experience for residents. It will also provide better control of work and compliance for the council. However, the service comes with a cost of £2m an additional **£700,000** of costs. This sentence is contained within the Exempt Appendix A.
  - The new service model allows for the DLO to deliver c£1m of Fire Risk Assessment works when MITIE have delivered c£0.2m. Therefore, there will an additional cost of **£800,000**.
  - This sentence is contained within the Exempt Appendix A.
  -
- 4.32 Otherwise, the repairs and voids estimated costs are broadly in line with what MITIE currently spend. These sentences are contained within the Exempt Appendix A.
- 4.33 There are additional costs associated with the mobilisation of the new service. £930,000 was approved by the October Cabinet paper *Mitie partnership progress update*. An additional £600,000, in aggregate, is expected to be needed by the external contractors to mobilise their service. The DLO will need approximately £110,000 for new vehicles, uniforms, initial van stocks, and tools. Finally, there is a need for an additional £72,000 for training the DLO operatives, Call Centre staff, and client management staff – as details in section 4.15 above.
- 4.34 This paragraph is contained within the Exempt Appendix A.
- 4.35 It is important to recognise that the change in delivery model is an interim step for between 12 and 15 months. The interim model is designed first and foremost to deliver a functioning repairs and compliance service that maintains residents' safety and wellbeing.
- 4.36 The interim period will give the council some time to assess the impact of the changes on the service, its true costs, value for money and resident perceptions. Indeed, the approach has been structured, in part, to allow as much learning as possible to be built into the long-term solution. The ambition is to achieve a long term model that is more efficient and may be delivered at a lower cost.
- 4.37 This section is contained within the Exempt Appendix A.

## 5. NEXT STEPS

- 5.1 This report will be updated once the procurement of the specialist contractors is complete (11<sup>th</sup> March) and the costs of these contractors are known. The final costs and budgets will be brought to April or May Cabinet.
- 5.2 The key milestones on the procurement are as follows:

- 14<sup>th</sup> January Cabinet Member Decision to appoint **3 Repairs Contractors**
- 25<sup>th</sup> February Cabinet Member Decision to appoint **Gas** contractor
- 11<sup>th</sup> March Cabinet Member Decision to appoint **Electrical, Asbestos, Drainage, Roofing and other specialist contractors**

5.3 See appendix 4 (contained within the Exempt Appendix A) for a detailed procurement timeline.

## 6 CONSULTATION

6.1 Consultation has been carried out through the following means:

- Writing to all tenants and inviting them to respond on the new repairs in the manner set out below
- Eform on the Council's website asking questions about the changes to the Repairs service (56 responses)
- Freetext box on the Council's website for feedback on the changes to the Repairs services.
- Email submissions to project team inbox from members of public.
- Three public engagement sessions: 29th October, 31st October and 7th November in locations providing good coverage across the borough.
- Discussions at resident-led service improvement panels in early November: Sheltered Forum, Estates Services Working Group, and Repairs Working Group. There were c.100 attendees at these meetings.

6.2 The following key themes emerged from the consultation activities:

Feedback	Intended response
<p>Theme 1 – Resident experience reporting a repair to the call centre</p> <ul style="list-style-type: none"> <li>• Repair call centre has long waiting times</li> <li>• Staff attitude, poor customer services, not listening, lack empathy</li> <li>• Repair call centre staff to have better knowledge of estates across the borough</li> </ul>	<ul style="list-style-type: none"> <li>• Repair call centre staff will undergo customer services and repairs training, followed by ongoing call quality monitoring</li> <li>• Duty Surveyors will be based in the repair call centre to assist with complex repairs</li> <li>• We are looking at the staffing structure of the repair call centre to find ways to reduce longer waiting times during busy periods</li> </ul>

<ul style="list-style-type: none"> <li>• Repair call centre staff to be trained properly on diagnosing repairs</li> <li>• Technical surveyors to be in the repair call centre to deal with complex repairs</li> </ul>	
<p>Theme 2 - Resident experience of repair appointments</p> <ul style="list-style-type: none"> <li>• Repair appointment slots should be 2 to 4 hours slots</li> <li>• Appointment reminders should be sent to residents by telephone/text messages</li> <li>• All day appointments should be for external, Health &amp; Safety compliance works.</li> <li>• Repair appointments need to be more flexible based around residents needs</li> <li>• Residents should not have to chase up follow repair works</li> </ul>	<ul style="list-style-type: none"> <li>• Require contractors to define their appointment slots in their tenders and evaluate them accordingly</li> <li>• Explore with contractors the possibility of appointment reminders and enabling operatives to book follow up whilst on residents' property</li> </ul>
<p>Theme 3 - Resident experience of repair works</p> <ul style="list-style-type: none"> <li>• Operatives do not leave calling card if residents are not at home</li> <li>• Operatives don't have the right materials or tools to complete repair Right First Time</li> <li>• Workmanship is not of good quality</li> <li>• Operatives don't clean up their mess after repair has been completed</li> <li>• Operatives give poor customer service</li> </ul>	<ul style="list-style-type: none"> <li>• Through our commissioning of new contractors, we will review: <ul style="list-style-type: none"> <li>○ the no access process including calling cards</li> <li>○ what materials we need to keep in the vans</li> <li>○ processes for quality checking of workmanship</li> <li>○ the possibility of operatives covering specific areas of the borough on specific days</li> <li>○ customer services training for operatives</li> </ul> </li> <li>• Operatives will follow code of conduct for completing repairs</li> </ul>

## 7. EQUALITY IMPLICATIONS

- 7.1 An equality impact assessment accompanied the February Cabinet report that detailed the interim repairs model. It highlights potential adverse impact on some groups of people with protected characteristics affected by the interim changes particularly people who are elderly, pregnant and/or disabled. It also

highlights the groups of people with protected characteristics who presently receive services, picking up on race and faith protected characteristics. The assessment draws on consultation and demographic and service information. Mitigating actions are set out to address any potential adverse impact identified.

- 7.2 Equality implications completed by Peter Smith, Head of Policy & Strategy, tel. 020 8753 2206.

## **8. LEGAL IMPLICATIONS**

- 8.1 This report is seeking approval for the increased budget required for the implementation of the new repairs model.
- 8.2 The new repairs model set out in this report has entailed or will entail a number of new procurements and variations to existing contracts. As outlined in section 5 of the report, approvals for these are in the process of being put in place.
- 8.3 Under paragraph 4.7 of the Scheme of Delegation to Officers within Part 3 of the Constitution (Responsibility for Functions), the Chief Executive and Chief Officers are able to “undertake, in consultation with the Director of Corporate Services, minor re-organisations of staff structure (directly affecting a maximum of 25 posts) provided no post subject to Member appointment procedures is affected, there is no increase in cost and the relevant Cabinet Member is advised in advance about forthcoming minor re-organisations.” By implication, any reorganisation involving more than 25 staff or involving increase in costs need to be approved by the Cabinet. Therefore, the creation of the new posts in both LBHF Direct and the Customer Call Centre require approval.
- 8.4 Pursuant to S.105 of the Housing Act 1985, the Council is required to carry out consultation with secure tenants where they are “likely to be substantially affected” by changes to housing Management, and the consultation carried out is described in section 6 of the report.
- 8.5 Legal Implications prepared by Deborah Down, Senior Associate with Sharpe Pritchard Solicitors, on secondment to the Council,  
[ddown@sharpepritchard.co.uk](mailto:ddown@sharpepritchard.co.uk)

## **9. FINANCIAL IMPLICATIONS**

- 9.1 The 4<sup>th</sup> February Cabinet report “*Details of the interim housing repairs delivery model*” approved the interim repairs model that will replace the Mitie contract

from 17<sup>th</sup> April 2019 and last for 12 to 15 months. The main purpose of this report is to set out the costs of and to approve an interim budget for the interim repairs model. As work progresses and contracts are let, there will be more certainty over these costs and final estimated costs will be brought to April Cabinet.

### **Additional revenue and capital costs of interim repairs model**

- 9.2 This paragraph is contained within the Exempt Appendix A.
- 9.3 This report sets out the main reasons for the £3.4m difference in revenue costs in paragraph 4.15 and these are summarised below:
- Increase in the Client Management structure due to the added complexity of managing multiple contractors and a DLO (£607,000) and improvements to the call centre (£700,000). These increases and the costs of the new structures have been validated by Finance officers.
  - Additional Fire Risk Assessment works (£800,000).
  - This sentence is contained within the Exempt Appendix A.
- 9.4 In addition to the increase in costs of £3.4m above current spend, there is also an ongoing overspend against the approved budget under the current contract with Mitie.
- 9.5 The annual revenue budget for 2019/20 within the Housing Revenue Account for the Property & Compliance division (this largely includes the budgets associated with the former Property Services and Housing Repairs divisions) was formally approved by Cabinet on 4<sup>th</sup> February 2019 as £18.1m. Therefore, when compared with the last full year revenue outturn (2017/18) of £18.8m, the budget shortfall is £0.7m. Together with the increase in costs arising from the interim repairs delivery model, this indicates that the overall additional annual revenue budget requirement for the interim period is £4.1m.
- 9.6 The current capital budget for capitalised repairs and staffing costs capitalisation approved at Cabinet as part of quarterly capital monitoring on 14<sup>th</sup> January is £2.04m and £1.85m for 2019/20 respectively. Whilst the budget for capitalised repairs is sufficient to cover the anticipated costs set out in the table in paragraph 4.18, there is a shortfall of £0.9m on the staffing costs capitalisation budget. The capital budget is scheduled to be considered for revision at Cabinet in April as part of the annual capital outturn process and this shortfall will be addressed in this report.
- 9.7 The revenue funding shortfall of £4.1m will be addressed through a one-off drawdown from the Housing Revenue Account General Reserve. The reserve currently stands at £9.95m but is currently projected to increase by £2.72m to £12.67m by 31<sup>st</sup> March 2019, in line with the Corporate Revenue Monitor for month 6, approved by Cabinet on 14<sup>th</sup> January.
- 9.8 There is a risk that if the interim repairs delivery model continues for an additional 3 months to 15 months in total, then a further drawdown from the



HRA General Reserve of approximately £1.0m will be required. A further decision report will be needed at a later date if this is required.

- 9.9 Finance officers have worked closely with the service and have validated all staffing costs included within the new interim repairs delivery model. Finance officers will continue to support the service to deliver the new interim repairs model, to ensure costs are closely monitored and that the necessary action is taken to contain spend within the approved budget envelope.
- 9.10 The costs associated with the interim repairs delivery model in this report do not include any additional Fire Safety revenue expenditure. These costs are currently funded from the Fire Safety Plus reserve.
- 9.11 The additional budget required does not include an estimate of potential TUPE costs which may arise from the transfer of former MITIE staff to the general (repairs and voids) repairs contractors. An estimate of 10% is a reasonable risk premium based on historic market trends and this equates to a revenue risk of £616,000 and a capital risk of £197,000.
- 9.12 The additional budget required is based on a best estimate of the additional cost of the interim repairs model. Final costs will not be confirmed until the procurement of all contractors is complete by 11<sup>th</sup> March (see section 5). Budget approval is required at this stage so that spending plans (such as recruitment of staff) may be implemented to ensure the interim model can be delivered from 17<sup>th</sup> April. A final report will be brought to Cabinet once all costs are finalised.
- 9.13 The 12 to 15 month interim period is designed to serve as a period of learning which will enable a more efficient and effective service to be delivered. The long-term repairs model may be deliverable at a lower cost than the interim model. For example, savings are expected to be made as a result of getting jobs right first time and these may offset any additional costs of retendered contracts. Over the course of the next 12-15 months, in addition to supporting in embedding the interim repairs delivery model, Finance will work with service colleagues to develop the long-term repairs model and to ascertain the budget requirement, in the context of delivering a sustainable long-term 40-year financial plan for the HRA.

#### **One-off implementation and mobilisation costs**

- 9.14 The costs of additional implementation and mobilisation costs (as set out in paragraph 4.17) required to transition from the current model to the interim model is expected to be £782,000. This is in addition to the £930,000 already approved by Cabinet on 8<sup>th</sup> October 2018 which will be funded from the Housing Revenue Account Transformation earmarked reserve. The current uncommitted balance on the Transformation reserve is £362,000. However, £500,000 of the balance of £606,000 held on the HRA Parking Charges Review earmarked reserve is no longer required following the implementation of a project to review parking arrangements on housing land. As the current balance on the Transformation reserve is insufficient to fund the additional

mobilisation and implementation costs, the £500,000 will be transferred to the Transformation reserve. This ensures that the additional £782,000 can be funded and leaves a balance of £80,000 on the reserve to provide funds for other Housing Revenue Account related transformational projects.

- 9.15 The plans set out in this report will reduce the current projected level of HRA cashable reserves. The current projected level of HRA cashable reserves before any appropriation or transfer to the reserve for the 2018/19 financial year outturn is forecast to be £37.6m. The drawdown of £4.1m from the General Reserve and the drawdown of £782,000 from other reserves would reduce this balance to £32.7m.
- 9.16 The HRA cashable reserves provide a financial provision that mitigates against the risk that unexpected adverse events may result in additional expenditure. The level of HRA General Reserves of 11% of turnover compares with the average level for London local housing authorities of 27%. The level of HRA General Reserves as a result of this report will fall to 10%.
- 9.17 The plans set out here may also increase the level of debt in the HRA as measured by the HRA Capital Finance Requirement (CFR) as set out in the Capital Programme Monitor & Budget Variations, 2018/19 (Second Quarter) report that went to Cabinet on 14<sup>th</sup> January 2019, though the CFR would remain within prudential borrowing limits.
- 9.18 *Implications completed by: Danny Rochford, Head of Finance (Growth & Place), tel. 020 8753 4023.*

*Implications verified by: Emily Hill, Assistant Director, Corporate Finance, tel. 020 8753 3145.*

## **10. IMPLICATIONS FOR BUSINESS**

- 10.1 There is scope to create opportunities for local SMEs and suitable contractors to bid for work as part of the new model. Collaboration with the Council's Local Procurement Initiative has already started and aims to identify and engage suitable local businesses.
- 10.2 Business implications completed by Albena Karameros, Economic Development Team, tel. 07739 316 957.

## **11. COMMERCIAL IMPLICATIONS**

- 11.1 There are no direct procurement implications resulting from this report. Procurement officers will continue to work closely with all parties involved in the project to ensure all contracts relating to the recommended budget approvals are compliant with Procurement Regulations.

- 11.2 Commercially, the estimated value of the interim measures seem to be higher than the current contractual arrangements in place (according to the Contracts Register). However, this would be expected from an interim measure, given the time constraints and the need of ensuring residents safety and satisfaction with regards to the delivery of these services.
- 11.3 Implications completed by Andra Ulianov, Procurement Consultant, tel 020 8753 2284.

## **12 IT IMPLICATIONS**

- 12.1 The council is currently delivering a new desktop strategy (Tech-tonic) to provide laptops and smartphones for officers. TUPEd Mitie staff and new staff for Call Centre and DLO will require the same IT solutions as existing council officers and the Tech-tonic programme will coordinate the migration of staff with the service.
- 12.2 The Contact Centre will use the corporate Netcall system for managing calls. IT Services is working with the service and the third-party supplier to minimise impact of annual running costs.
- 12.3 The service will work with corporate IT to review network security in relation to how the new suppliers access the replacement repairs system (iWorld) and how information, including sensitive information, is made available to contractors to enable them to carry out work.
- 12.4 Existing Privacy Impact Assessment(s) for the Repairs Service will need to be updated to ensure that all the potential data protection risks around implementing the core repairs service and the out of hours call service are properly assessed with mitigating actions agreed and implemented. Any contractors will be expected to have a GDPR policy in place and all staff will be expected to have received GDPR training. Any contracts will need to include H&F's new data protection and processing schedule. This is compliant with the General Data Protection Regulation (GDPR) enacted from 25 May 2018.
- 12.5 Data to be collected by the customer feedback software should be included to assess whether it is likely to contain any personal information.
- 12.6 Information Sharing Agreements are needed with the new suppliers, and a supplier checklist which confirms how suppliers connect to our network. The council's Information Management Team can advise on what's needed. Supporting documentation is also available on our Intranet.

- 12.7 IT implications completed by Veronica Barella, Chief Information Officer, tel. 020 8753 2927.

### **13 RISK MANAGEMENT**

- 13.1 The Council requires a repairs service which meets its objectives, which provides flexibility in how it manages its housing asset to deliver a higher level of resident satisfaction in its repairs service, which ensures compliance with all statutory health and safety requirements and which delivers on a range of other policies including social value and use of local suppliers. In line with the ruthlessly financially efficient priority, the Council also needs to demonstrate that the repairs service demonstrates and delivers value for money in managing and maintaining its housing stock to an appropriate standard.
- 13.2 In terminating the Mitie contract and putting transitional arrangements in place that will lead to a permanent DLO being established, officers have identified a range of risks associated with managing the termination, notice period and transitional period of up to 12 months, as set out in Appendix 5 (contained within the Exempt Appendix A).
- 13.3 It is essential that appropriate project management resource and governance arrangements are put in place and that the project risks are reviewed and managed by the proposed Corporate Repairs Board. The project risk register needs to include key interdependencies with other change programmes taking place across the Councils during the notice and transition period, including but not limited to the West King Street regeneration/Town Hall Decant programme and the Desktop Strategy programme, and the mitigations which need to be put in place to minimise impact on meeting the objectives of this and other programmes.
- 13.4 The Corporate Repairs Board should regularly review Mitie's performance during the remaining contract period to enable decisions regarding early withdrawal of services, due to poor performance, to be considered in line with the legal comments provided for this report.
- 13.5 The Corporate Repairs Board will need to ensure that the termination process is progressed in line with the legal advice provided for the termination decision. Officers will provide further procurement strategy and contract award reports for approval by Members so that new contracts are procured in line with the Public Contracts Regulations (PCR) 2015 and with the Council's Contracts Standing Orders. These actions will mitigate the risk of contract/procurement challenge.

- 13.6 Further reports to Members will need to set out the risks and opportunities (financial and non-financial) with the proposed operating model once costs and structures have been finalised, both for the transition period and beyond, and the governance and legal framework within which the DLO will operate.

Risk management implications completed by David Hughes, Director of Audit, Fraud, Risk and Insurance, tel: 020 7361 2389.

## **14 BACKGROUND PAPERS USED IN PREPARING THIS REPORT (published)**

- 14.1 Cabinet Paper (8<sup>th</sup> October 2018) 'Mitie Partnership Progress Update'  
Cabinet Paper (4<sup>th</sup> October 2018) 'Details of the interim housing repairs delivery model'

## **15 APPENDICES**

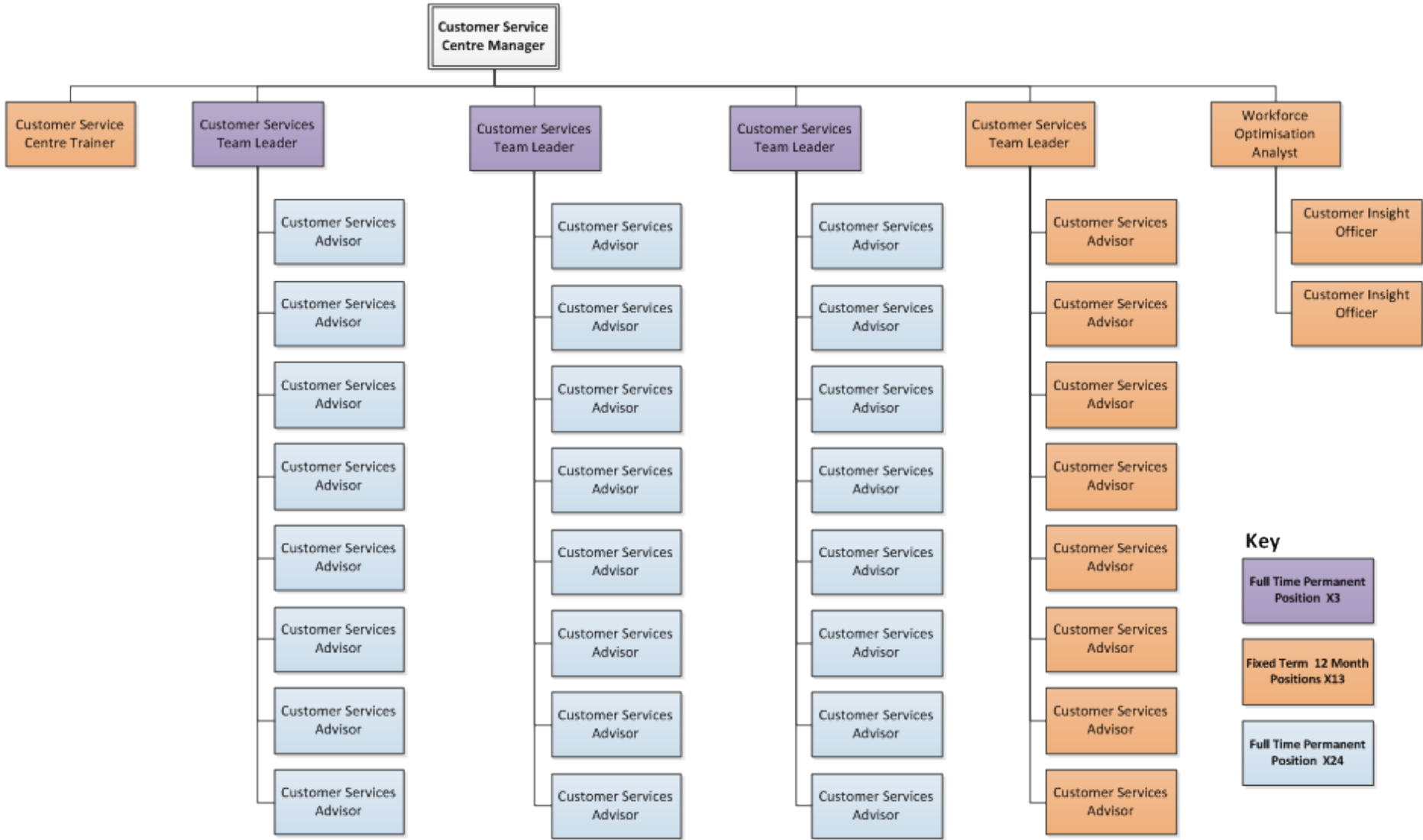
- 15.1 Appendix 1 – Customer Service Centre structure chart  
Appendix 2a – DLO structure in month 1  
Appendix 2b – DLO structure in month 12  
Appendix 3 – Client-side structure chart

Exempt Appendix A

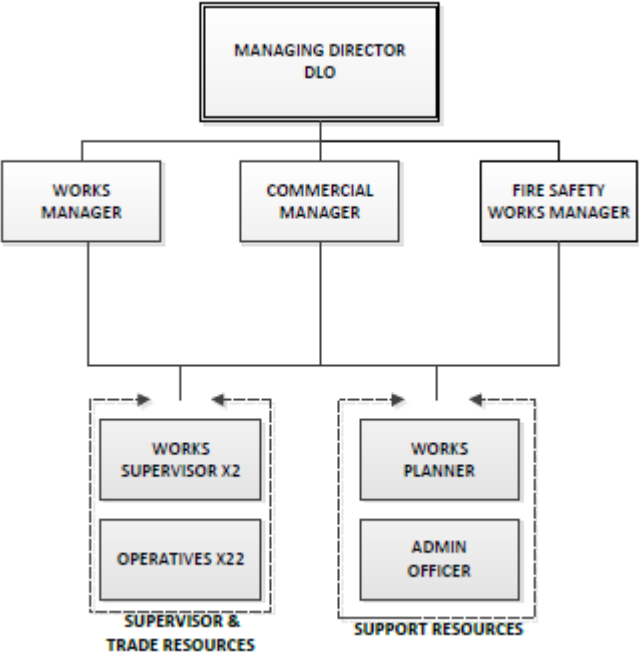
Appendix 4 – Detailed procurement timeline (contained within the Exempt Appendix A)

Appendix 5 – Risk Log (contained within the Exempt Appendix A)

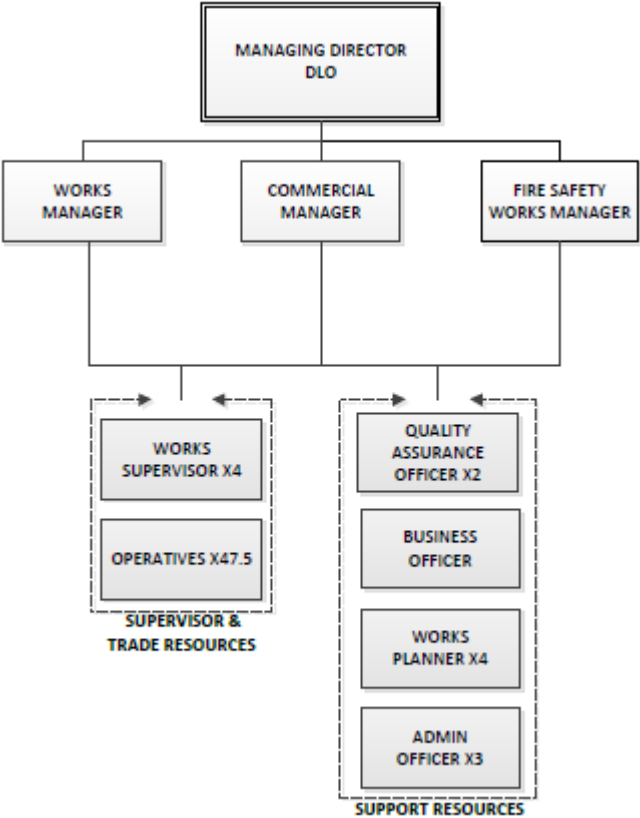
Appendix 1 – Customer Service Centre structure chart



Appendix 2a – DLO structure in month 1



Appendix 2b – DLO structure in month 12





Appendix 3 – Client-side structure chart

