

Brighton & Hove City Council

Creating an In-House Responsive Repairs and Empty Properties Service (IHS)

September 2018

Prepared For:



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1.0 INTRODUCTION

1.1 Savills was instructed by Brighton & Hove City Council (BHCC) to assist in the development of financial modelling and procurement strategy advice in respect of the future re-procurement of the repairs, maintenance and capital programmes.

1.2 The scope of services is in accordance with the BHCC Financial Modelling Specification and Savills proposal dated 26th July 2018 and the scope of this report focuses on the IHS option as summarised below:

What could an In-House Responsive Repairs and Empty Properties Service (IHS) look like in Brighton?

This requirement is to focus on the possible establishment of a IHS in Brighton to focus on delivering the repairs function (responsive repairs and empty property refurbishment). The work is to focus on time, cost and resource requirements and expand on the risks, opportunities and current gaps in the service to deliver a fully functioning in house contracting service.

1.3 This work builds upon the previous Options Report prepared jointly by Trowers & Hamlins / Savills dated 19th April 2018 together with the Supplemental Report dated 30th May 2018.

1.4 In preparing this report, we have had the opportunity to review information provided by BHCC as well as meeting BHCC finance, assets and procurement staff on Tuesday 14th August followed by an extensive series of meetings with Mears and other BHCC staff on Tuesday 21st August and numerous subsequent conference calls.

1.5 We have taken the information provided, both written and verbal, at face value and have stated within the report the various assumptions and caveats that apply.

- 1.6 Whilst this report has considered the information provided in some detail, it is not a substitute for the preparation of a fully costed IHS business plan and requires full development of an Operating Model for a IHS which would form the next phase in BHCC's journey towards establishing a new repairs and maintenance delivery platform. The costs identified in this report are for budget purposes only.

2.0 DATA AND ASSUMPTIONS

2.1 Responsive Repairs Volume

2.1.1 Table 1 below provides the headline responsive repair statistics delivered during the 2017/18 financial year. This is the most recent complete financial year.

2.1.2 Note: Analysis of figures provided by Mears indicates that the variance in value over the last 3 financial years is a decrease in value of less than 0.9%. Therefore, for the purposes of this exercise the figure of £3,304,234 (excluding Overheads, Profit, and Management Fee) has been assumed as a baseline for forecasting the potential repairs value for the IHS (excluding Overheads) if it commences operations in April 2020.

Table 1 – Key Responsive Repair statistics

Value of Responsive Repairs (excluding Overheads, Profit & Management Fee)	£3,304,234
Total number of Responsive Repairs in the year	39,199
Number (and percentage in brackets) of repairs issued as Emergencies	11,777 (30%)
Number (and percentage in brackets) of repairs issued as Routine Repairs for completion within 20 days	26,866 (69%)
Number (and percentage in brackets) of repairs issued as Complex Repairs	556 (1%)

2.2 Anticipated Productivity from a IHS Workforce

2.2.1 We have suggested Operative productivity in the region of 3.3 to 3.7 repairs per day. The repairs per Operative per day metric is impacted by a number of factors including the approach to first time completion and the extent to which more major repairs are included. We have suggested this range considering the level that we believe it is likely that Mears are currently achieving and our current knowledge of the type of work and focus on first time completion. Using existing repairs volume of circa 39,000 repairs per annum, with a target for the direct delivery of these amounting to 80% of all repairs we can determine the number of Operatives required to deliver the Responsive Repairs service in a IHS. We understand from Mears that they currently

subcontract 23% of the value of the Responsive Repairs, however, it is not possible to reconcile this to the number of repairs that this represents. For the purposes of this calculation we will assume that BHCC will invest greater time in the training and development of Operatives, along with Team briefings and other consultation, and potentially improved annual leave entitlement, and therefore the number of productive days is likely to reduce slightly. For the purposes of this evaluation, the number of productive days is set at 216. The table below shows the number of Operatives required:

Table 2 – Required productivity level for IHS to deliver Responsive Repairs service

Number of Repairs (assuming 80% direct delivery, 20% subcontracted)	Number of repairs per day	Number of days per Operative	Number of Operatives required
31,200	3.3	216	44
31,200	3.7	216	39

2.3 Empty Homes Service Delivery

2.3.1 The approach taken to setting a budget for the delivery of the Empty Homes service is fundamentally different to that for responsive repairs for the following reasons:

- Uninterrupted productivity is significantly higher due to the opportunity to work in single properties for days at a time.
- A target for Operative productivity is therefore used as a driver and benchmark for determining resource levels. Whilst this can vary significantly across the sector the productivity level selected for this analysis is in the range of £65k per Operative per annum to £75k per Operative per annum (nett of Overheads and Profit).
- The number of empty properties, and their condition, will vary considerably at points throughout the year. Therefore a higher proportion of works will be subcontracted to take account of specialist works, such as asbestos removal, rubbish removal, environmental cleans, external works, and to assist with peaks in demand in order to ensure average turnaround times are not unduly affected by volume of work.

2.3.2 An assumption has been made that 50% of the works will be delivered using directly employed Operatives. This is significantly higher than the volume of works directly delivered by Mears' Operatives, which is currently 16%, however, it is a realistic and achievable target.

2.3.3 Through the use of these metrics we are able to set a target figure for Operatives to be deployed on the Voids service as set out in the table below:

Table 3 – Number of Operatives estimated for delivery of Empty Homes service

Annual value of Voids	Value directly delivered (50%)	Value delivered per Operative per annum	Number of Operatives required
£1,801,394	£900,697	£65,000	14
£1,801,394	£900,697	£75,000	12

Note: The figure for Empty Homes expenditure mirrors the current arrangement with Mears that includes Seaside Homes and Temporary Accommodation within its scope.

2.4 Potential Impact of Operative Resource Restructuring

2.4.1 From the data provided and assessed there appears to be a resource requirement of between 51 and 58 directly employed Operatives. This represents a potential decrease over Mears' existing establishment of between 2 and 9 Operatives. It should be noted that there is some uncertainty over current resource levels- this is noted further later in this report. Further clarification is required.

- 2.4.2 An increase in the number of directly employed personnel does not imply that there will not be potential implications with TUPE transferring Operatives. Due to the reduced flexibility to utilise Operatives across a wider range of work streams it may be necessary to re-model the workforce to provide added flexibility. For example, there may be a need to increase the number of multi-skilled Operatives. Where this cannot be achieved through re-training TUPE transferring personnel, redundancies may be required.
- 2.4.3 Professional, Technical and Administrative staff transferring under TUPE may also not fit the new IHS model and staff numbers or roles may also need to be re-aligned, with the potential to generate redundancies.

3.0 BUDGET BUILD UP

3.1 Labour

3.1.1 Whilst it is acknowledged that TUPE will apply to any alternative service option chosen by BHCC at the end of the current contract arrangements it should be noted that TUPE information has not been made available to Savills during this evaluation. Therefore all figures relating to labour costs, salaries, or any other aspects of remuneration or employment benefits are estimates based on similar roles in the current market and may vary significantly from salaries or employment packages awarded to Mears' employees who may be subject to TUPE. Mears employ additional direct resource to deliver the concessionary gardening and decoration schemes and some capital works. These employees are not included in this analysis and it has been assumed that these staff will transfer to the provider that delivers these services beyond the current agreement.

3.1.2 BHCC may choose to align the employment terms and conditions of transferring staff with those of current BHCC employees. It is not possible to quantify the impact that this may have on the IHS financial model at this time.

3.1.3 The Labour Cost for delivering the Responsive Repairs and Empty Homes services is indicated in the table below:

Table 4 – Estimated Labour Cost

Number of Operatives	Average salary	Total cost
51	£36,875*	£1,881,000
58	£36,875*	£2,139,000

*Note: Salary comprises £29,500 basic salary plus 25% addition to cover NI and BHCC Pension contribution as advised by BHCC. These on costs are likely to be higher than those currently incurred by Mears.

3.2 Apprentices

3.2.1 We note that Mears currently employs 26 trade apprentices and 6 administrative apprentices across the Responsive Repairs and Empty Homes services. This poses significant challenges for a IHS to deliver this level of apprenticeships sustainably. Factors that must be considered when assessing the future of the apprenticeship scheme are:

- The impact on the productivity of Operatives as they endeavour to train, mentor, and ensure the safety, health, and welfare of apprentices in their care.
- It is notoriously difficult to fulfil the practical requirements of apprenticeships through responsive repairs and empty homes work due to a lack of variety of work, and the exclusion of specific tasks that must be completed by apprentices to satisfy the practical requirements. Currently, Mears overcomes this by seconding apprentices to other workstreams on the Planned and Major Works programmes to enable them to fulfil their practical requirements. This facility will not be available to BHCC.

3.2.2 Given the foregoing, we believe the best way for BHCC to continue with the apprentice programme will be by establishing a BHCC Training Agency to manage the process and supervise the training regime. The Agency would effectively employ the apprentices and deploy them not just across the IHS but to all the main contractors working on the capital programmes thus maximising opportunities for apprentices to receive the comprehensive level of training required to obtain qualifications. This will require that the capital works procurement process sets this out in detail so that it becomes a contractual obligation. The Agency would seek to bring in grant funding/levies etc to help defray cost and also monitor each individual's training.

3.2.3 We estimate the cost of managing the Agency (one senior and one admin person) could be circa £75 – £85,000pa and that the total cost of the Agency, including the 32 apprentices, would be in the region of £500,000 per year.

3.3 Subcontractor Costs

- 3.3.1 A robust supply chain is crucial to support any effective and efficient IHS model. It is needed to provide the specialist support that a IHS cannot reasonably be expected to directly employ; such as asbestos removal, the provision of specialist access equipment, environmental cleaning services and such like. A supply chain is also required to support a IHS with the management of peaks in demand, to ensure service provision is not adversely affected, and to provide the Client with risk mitigation should issues arise with the performance or capabilities of its IHS in the future. The supply chain is responsible for the provision of labour, materials, plant and preliminary costs within its charges to the IHS and therefore the costs identified within this section can be deemed to be inclusive of these.
- 3.3.2 Without the granular detail to facilitate an in-depth analysis of the potential spend on subcontractors the approach taken is to assume like-for-like work types, and average job values, but adjusted to take account of the fact that these subcontractors will be engaged through a new procurement exercise.
- 3.3.3 For Empty Homes the value and volume of subcontractor works will be reduced in order to optimise the benefits for the IHS. This means a reduction in subcontractor value from 74% to 50% (see Table 3 above).
- 3.3.4 The current supply chain was procured by Mears. In considering likely future costs care should be taken to appreciate the relationship that Mears has with supply chain members in terms of the volumes of work issued through multiple workstreams on the BHCC contract, through other contracts with Mears, and in terms of the length of commercial relationship they may have mutually benefitted from over a number of years.
- 3.3.5 The establishment of a IHS will break this chain and the procurement of a new supply chain will potentially increase costs. The reasoning underpinning this is:

- Volumes of work will be reduced.
- There is no opportunity for subcontractors to cross-sell across other workstreams such as planned or major works.
- There are no pre-existing commercial arrangements through which mutual trust would historically have been forged. The supply chain will assess its own appetite for risk, however, it is likely to generate cost increases.
- BHCC Financial Regulations and Standing Orders may require greater administrative resources for supply chain members with respect to becoming an approved supplier, and also to process works orders and invoices.
- Payment terms *may* be less favourable than existing suppliers enjoy through Mears.

3.3.6 Taking the foregoing into consideration a cost increase allowance of 15% has been made to anticipated subcontractor expenditure. The anticipated subcontractor expenditure is outlined in the table below:

Table 5 – Estimated Subcontractor Expenditure

Workstream	Percentage of work subcontracted	Adjusted subcontractor expenditure
Responsive Repairs	20%	£760,000
Empty Homes	50%	£1,040,000

3.3.7 In the assessment of subcontractor costs no allowance has been made for the potential impact of TUPE. It quite possible, given the current level of subcontractor spend on Empty Property refurbishments that TUPE may apply to some subcontractor personnel. If this turns out to be the case this may increase the level of direct labour employed on this workstream, or it may lead to additional costs due to redundancies that could arise.

3.4 Materials

3.4.1 As with subcontractor procurement, a new materials supply framework will need to be procured. When assessing the potential impact on material costs the following factors should be borne in mind:

- The materials supply framework will be a new procurement to BHCC and therefore subject to market conditions at the time of the procurement.
- The purchasing power of the IHS will be significantly less than that of Mears which has national agreements with suppliers and is therefore likely to be able to procure materials at a lower cost than the IHS.
- The volume of materials procured will be less than the volume that Mears procures over a broader range of workstreams and is therefore likely to be more expensive.

3.4.2 Taking the foregoing into account an increase in cost of 12% has been allowed for in estimated materials expenditure.

3.4.3 The estimated expenditure on materials for Responsive Repairs and Empty Homes is set out in the table below:

Table 6 – Estimated Materials Expenditure

Workstream	Estimated annual expenditure
Responsive Repairs	£860,000
Empty Homes	£565,000

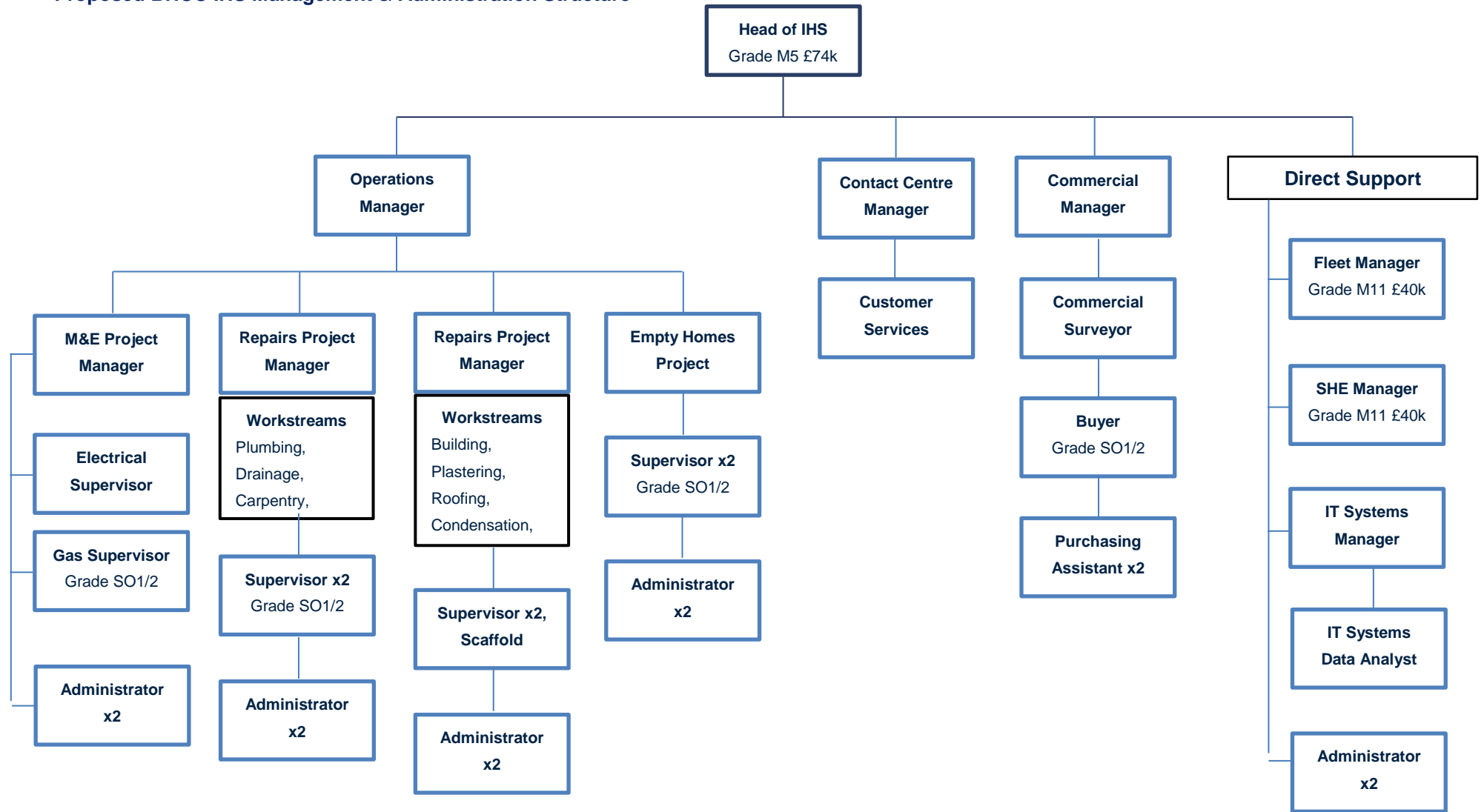
3.5 Management Team and Preliminary Costs

3.5.1 In creating the Management Team structure, and formulating a cost base for the Management Team, and associated Supervisory Preliminary costs the following has been taken into account:

- TUPE will apply and therefore the personnel currently undertaking supervision and management will transfer on Day 1 of the operation of the IHS. The structure therefore reflects a like-for-like transition.
- Mears staff salaries and benefits were not available at the time that this report was produced therefore, in order to benchmark against current BHCC salary grades, estimates have been made that align this structure with BHCC's salaries where like-for-like role comparisons present themselves. It should be noted that salary levels and benefits enjoyed by Mears personnel may vary significantly from this model.

3.5.2 The Structure Chart is set out on the following page. It should be noted that the supervisory staff are responsible for direct supervision and management of the tradesmen and are not a substitute for the BHCC Client side quality control resource. Typically we expect up to 10% post inspections of all repairs and these would be carried out by up to 2 staff contained within the Client structure. We understand these staff could TUPE transfer from Mears.

Proposed BHCC IHS Management & Administration Structure



3.5.3 The following table identifies salaries and numbers of posts within the Management and Administrative support structure:

Table 7 – Estimated Annual Management Salary Costs

Role	Number of Posts	Annual cost
Head of IHS	1	£74,000
Operations Manager	1	£55,000
Mechanical & Electrical Project Manager	1	£40,000
Repairs Project Manager	2	£80,000
Empty Homes Project Manager	1	£40,000
Contact Centre Manager	1	£40,000
Commercial Manager	1	£55,000
Fleet Manager	1	£40,000
Safety, Health & Environment Manager	1	£40,000
IT Systems Manager	1	£40,000
Electrical Supervisor	1	£33,000
Gas Supervisor	1	£33,000
Repairs Supervisors	6	£198,000
Scaffold Inspector	1	£33,000
Commercial Surveyor	1	£40,000
Buyer	1	£33,000
Administrators	10	£240,000
Customer Services Officers	8	£192,000
Purchasing Assistants	2	£48,000
IT Systems Data Analyst	1	£26,000
Total Staff Numbers	43	
Total Salary Cost		£1,380,000

3.6 Service Delivery Preliminary Costs

3.6.1 The service delivery Preliminary costs are those costs and overheads associated directly with service delivery and are not central office overheads. For the purposes of this evaluation we have taken depot and office premises at zero net cost to the IHS on the basis that the premises are currently shared with housing and no charge is made to Mears for their use. In this instance this zero cost also includes other property related charges including:

- Rates
- Electricity

-
- Gas

 - Water

 - Drainage

 - Maintenance of the depot

 - Insurance

 - Use of canteen and refreshments

3.6.2 The table below identifies the headline costs of key Preliminary items on an annual basis:

Table 8 – Service Delivery Preliminary Costs

Preliminary item	IHS with 51 Operatives – Annual cost	IHS with 58 Operatives – Annual cost
Vehicle Lease charges	£270,000.00	£302,000.00
Vehicle Insurance	£36,000.00	£40,000.00
Fuel	£72,000.00	£80,000.00
Vehicle Repairs (not covered by Lease)	£15,000.00	£17,000.00
Vehicle Tracking	£9,000.00	£10,000.00
Plant purchase hire & repairs	£10,000.00	£10,000.00
Skip Hire & Waste Management	£60,000.00	£60,000.00
Tool purchase hire & repairs	£13,000.00	£15,000.00
Uniforms & Protective Clothing	£18,000.00	£20,000.00
NICIEC, Gas Safe – obtaining and retaining accreditation	£4,000.00	£4,000.00
Staff Training costs	£30,000.00	£34,000.00
Handheld PDAs and Tablet computers	£40,000.00	£44,000.00
Mobile Telephone rental charges	£22,000.00	£24,000.00
Professional Fees	£18,000.00	£18,000.00
Total annual Preliminary charge costs	£617,000	£678,000

3.7 Out-of-hours Service Cover

3.7.1 Currently the Out-of-hours repairs service is provided by Mears using one of their regional 24 hour Contact Centres. With the transition to a IHS this service provision will end. BHCC therefore has 2 options available to it:

- Set up its own out-of-hours contact centre, or;
- Engage an independent service provider to provide the out-of-hours contact centre service

3.7.2 Given the complexity involved in creating an in-house service to provide out-of-hours cover an allowance has been made within the budget for provision of this service by an external organisation.

3.7.3 The estimated cost of this service will be in the region of £20,000 based on up to 350 calls per month.

3.8 Acquisition of New Maintenance Management Software

3.8.1 It is noted that BHCC will go 'live' with a new Housing Management IT system in April 2020. In order to operate successfully from April 2020 a new IHS will require a new IT system. Mears utilises its own MCM system which is not commercially available to other organisations therefore continuity in the use of this system is unlikely to be an option.

3.8.2 BHCC will therefore need to procure its own software system, and associated hardware, to enable it to operate. There are a number of key considerations which will impact upon decisions to be taken, and the implementation of a new system. Principal amongst these will be:

- Any new system will have to operate as a standalone system. There will be no integration with the Housing Management system from Day 1. This does not have any immediate implications for the IHS because it will be able to raise, manage, and complete repairs using its new system, and through the dedicated Contact Centre whose staff will TUPE transfer from Mears. However, it may have implications for BHCC's Finance Team in terms of accessing and processing data for payments. It may also have implications for BHCC's central IT Team in terms of being able to support the system.
- A separate procurement of the new IT system will be required. BHCC's IT Team will be focused on the implementation of the new Housing Management system therefore a third party Project Manager will have to be engaged to manage the implementation of the new Maintenance Management system.
- Without Mears support to allow transferring staff to receive training prior to the end of the existing contract arrangements it will not be possible to go 'live' with the new maintenance system from Day 1, unless additional resources are engaged and trained to use the new system prior to the IHS commencing operations. This succession management workforce will provide cover whilst transferring personnel receive training. It will lead to increased costs in the first month of operation until all personnel are using the new system correctly, and the inevitable teething problems have been resolved.
- Consideration will need to be given to the plan to integrate the new Maintenance Management system with the new Housing Management system.

3.8.3 Additionally, within the IT procurement an allowance must be made for the acquisition of new Contact Centre hardware including a call handling system and telephony hardware. A budget estimate has been made within the project-specific IT costs but again this reflects basic stand-alone functionality.

3.8.4 The table below outlines estimated budget costs associated with the procurement and implementation of a new Maintenance Management IT system, and annual license and maintenance costs (based on a recent similar procurement exercise):

Table 9 – Project Specific IT System Costs

Project element	Procurement cost	Annual cost
Procurement of bids	£25,000	
Implementation Project Manager for 12 months	£120,000	
Implementation cost of new system	£75,000	
New IT system hardware	£66,000	
Integration with new Housing Management system	£30,000	
Annual licences and support costs (PDA and Tablet costs are accounted for within Preliminary costs – see Table 8)		£40,000
Telephony hardware and CRM software		£14,000
Total IT implementation costs	£316,000	£54,000

3.8.5 The costs in Tables 7 and 9 above assume that the Council will establish a standalone contact centre managed by the staff transferring from Mears. However, we understand that the BHCC Contact Centre together with the new housing management ICT system could potentially offer a combined solution. If the system contains a repairs diagnostic facility and is staffed by experienced repairs calls handlers then there would be a potential annual saving against staff costs in table 7 and telephony costs in table 9 that could be circa £246,000, ignoring any up-front TUPE implications.

3.9 Central Office Overhead Contributions

3.9.1 It is understood that the creation of a IHS will require a contribution to BHCC's central office overheads. We understand that the cost centres from which a charge to the IHS will arise are:

- Property
- ICT

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- Finance
 - HR
 - Legal
 - Corporate & Democratic Services
 - Communications

3.9.2 The decision as to what level of charge might be applied to the IHS is a decision solely for BHCC. It is our understanding that the total charge for these services is approximately £1.9m. It might make sense to apportion these costs on the basis of headcount within the IHS as a proportion of the headcount of all of the departments to which these charges apply. Without an understanding of how this might breakdown, for the purposes of producing a budget an agreed assumption with BHCC has been made that the IHS's equivalent contribution would be in the region of 20% of these costs. This would equate to approximately £380,000pa.

4.0 IHS BUDGET ESTIMATE

- 4.1 In pulling together this budget estimate a wide range of assumptions have been made, and data upon which particular key assessments of cost have been made lack granularity and clarity to ensure that they are accurate. All sums indicated must therefore be considered provisional only.
- 4.2 In addition to the costs referenced above we have added provisional expenditure for external support. This includes the procurement of the new supply chain, specialist advice (tax, legal, HR) associated with establishing the IHS, and consultancy support to assist in the mobilisation.
- 4.3 We have added a contingency of c.5% on the initial investment costs and 3% on the annual operating costs.
- 4.4 We have also included a provisional sum to highlight the risks associated with the TUPE exercise/recruitment. This should be treated with caution at this stage as it is impossible to predict with accuracy without further information. In addition there is some uncertainty and conflicting information around the number of trades operatives employed on the contract with some data indicating that the contract is currently over-resourced. This is covered further in the risk section below.
- 4.5 The table below identifies the key cost contributors in the formation of a IHS, and estimates for the cost of running the IHS to provide Responsive Repairs and Empty Homes works only, based on today's costs:

Key element of cost	Source within document	One-off or Year 1 cost only	Annual cost (51 Operative IHS)	Annual cost (58 Operative IHS)
Labour	Table 4		£1,881,000	£2,139,000
Sub-contractor costs	Table 5		£1,800,000	£1,800,000
Materials	Table 6		£1,425,000	£1,425,000
Salary and Management Preliminary costs	Table 7		£1,380,000	£1,380,000
Service delivery Preliminary costs	Table 8		£617,000	£678,000
Out-of-hours Contact Centre provision	Section 2.7		£20,000	£20,000
Project specific IT costs	Table 9	£316,000	£54,000	£54,000
Central Office Overhead contribution	Section 2.9		£380,000	£380,000
Procurement and Legal Fees		£100,000		
Consultancy support to assist in mobilising and implementing new service		£150,000		
Contingency		£30,000	£227,000	£236,000
Potential TUPE Risk allowance		£200,000		
Total		£796,000	£7,784,000	£8,112,000
Adjusted Total excluding call centre	Para 3.8.5		£7,538,000	£7,866,000
Apprentice Programme	Para 3.2.3		£500,000	£500,000

4.6 We have also calculated an equivalent annual budget should BHCC outsource the repairs and empty property service under a single tender and estimate that at current costs this would likely be between £7.1 – 7.35m. This estimate is based on assumptions around average annual job and void numbers, average job costs and turnover void specification excluding any capital work.

5.0 RISK AND OPPORTUNITY

5.1 Establishing a IHS in Brighton offers a number of opportunities but also carries a fair degree of risk. We have summarised these below starting with the current key risks relating to the establishment of a IHS, allocated against either up-front mobilisation risks or longer term operational risks as follows:

5.2 Mobilisation Risks

5.2.1 **Skills** - BHCC will need to build the skills necessary to effectively run the IHS. Whilst we have assumed that these are transferred from Mears via TUPE this may not be the case. Indeed it is possible that the best staff do not transfer and this could result in a need to recruit the necessary skills. There will need to be a contingency plan in the event that this risk materialises. Whilst the contingent sums in the above budget may cover the cost of recruiting the skills consideration will also need to be given as to how this would be achieved in a timely manner.

5.2.2 **TUPE** – There is uncertainty and some conflicting information as to the level of resource employed on the current contract. This creates a risk that additional staff may transfer and restructuring would be required to achieve the levels of productivity outlined above. This will carry additional cost and the provisional sum outlined above may not cover this.

5.2.3 **Terms and Conditions**- We have no information on current terms and conditions including salaries or benefits. In addition, a decision on the benefits BHCC would offer incoming staff has not yet been made. Pensions benefits and sick pay in particular are likely to vary considerably from those currently received by Mears staff. This creates a risk of incurring additional cost not captured in the budget or covered by contingent or provisional sums. If staff do not transfer and recruitment is required BHCC will need to ensure that remuneration is sufficient to attract the appropriate calibre of staff. Whilst roles have been provisionally aligned to salary bands, market salaries may vary from this and this may have a cost impact.

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- 5.2.4 **Specialist advice** - There are considerable legal, HR, tax and accounting considerations as highlighted in earlier reports. It is essential that appropriate advice is taken to ensure that arrangements are appropriately structured. We have included a provisional sum based on a typical set up but would highlight the risk of additional expenditure if there are particular complexities.
- 5.2.5 **Timing**- Whilst April 2020 may seem some way off some of the effective mobilisation of a IHS typical takes 15-18 months. A contingency plan is need to manage the risk of not mobilising in time for the end of the Mears contract. We have included for the cost of a specialist external resource to help mitigate this risk. This is probably the greatest risk in terms of service delivery.
- 5.2.6 **ICT**- BHCC currently has no ICT functionality to support operating a IHS or the associated contact centre function. The budget outlined above makes assumptions around the type of ICT that would be required and assumes a basic stand-alone system. The timing also represents a considerable risk given the timing of the implementation of the new Housing Management System (also go live April 2020) and the lack of ICT resource available. Whilst we have suggested some mitigation in the form of an external resource this risk needs further consideration including where this sits against other ICT priorities.

5.3 Operational Risks

- 5.3.1 **Cost variance** – The current agreement insulates BHCC from certain cost increases as the prices are linked to CPI. Under the IHS model there would be greater exposure to labour cost inflation and, subject to the terms of supply chain relationships, subcontractor and material cost inflation.
- 5.3.2 **Productivity** - It will be incumbent on BHCC to manage productivity in the IHS and this may be impacted by management skill/systems and/or terms and conditions.

5.3.3 **Supply Chain** – As highlighted above it is unlikely that BHCC would be able to extract similar value from the supply chain to Mears. Whilst an allowance has been made for an increase in supply chain costs, the supply chain will need to be carefully procured and managed to get value for money. Any procurement must be structured to comply with the appropriate regulations.

5.3.4 **Leasehold**- Compliance with the appropriate regulations to ensure that BHCC meets its obligations and can recover cost.

5.3.5 **Service** - Any change in service provider creates a risk to service delivery through the demobilisation and mobilisation phases. Anecdotally there appears to be a feeling that Mears are doing a good job on the delivery of R&M works and customers are generally satisfied. Maintaining the service level presents a risk.

5.4 Opportunities

5.4.1 There are a lot of opportunities and benefits that can flow from having a local IHS and we have summarised the key opportunities as follows:

5.4.2 **Service/Culture** - Having directly employed staff who feel part of the organisation can offer service benefits. The operatives are the front line ‘face’ of the Council and can greatly reflect the image the Council wishes to present if well managed. Typically, the often given impression is that tenants feel they can trust the Council more than external contractors.

5.4.3 **Productivity** - Whilst there is risk around productivity there is also opportunity. Although the productivity levels outlined are reasonable at this stage there may be opportunity for improvement. Whilst this may unlikely in the period immediately following mobilisation, we do see well run and forward thinking IHSs realise additional efficiencies over time. This would have considerable benefits in respect of lower average job costs and importantly, increased customer satisfaction as jobs are completed more quickly.

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- 5.4.4 **Management Cost** – There may be some scope to consider the level of management costs and supervision ratios. Whilst changes here would not be advised immediately there may be future opportunity assuming risk and quality can be appropriately managed.
- 5.4.5 **Expansion** – Only responsive repairs and empty homes work has currently been considered. There is, subject to a robust business case, potential to expand to other areas. This may leverage fixed overheads. Subject to their ability to match private sector costs, we typically see IHS's moving into small capital work programmes, especially kitchen and bathroom replacements which are a natural extension of work to empty properties.
- 5.4.6 **Contractor Default Insolvency-** The risks associated with contractor default/insolvency are reduced.
- 5.4.7 **Costs** – if well managed, the IHS will have greater control and full transparency of all costs which will enable proper cost reporting and management decision taking if costs of some service areas vary from budget.
- 5.4.8 **Profit** – although a IHS should be structured to make a return to the Council, the level of return is entirely at the Councils discretion compared to an external contract which will always have the tendered profit margin and overhead contribution.
- 5.4.9 **Flexibility** – A IHS model can be adapted and flexed to suit the needs of BHCC as they change and develop. This is less easy to achieve through a traditional contractual model because of the key financial risks it carries, and additional charges that may be levied by a contractor against the Council.
- 5.4.10 **Improved Long Term Employment for Local People** – Because a IHS is not time limited in the same way as a contract it provides BHCC with the opportunity to offer long term employment stability to local people. Whereas TUPE is likely to apply to a new service provider when

contracts come to an end, the experience is both unsettling to TUPE transferring employees, and can lead to worsening conditions of employment in the long term.

5.4.11 **Sub Contractors** – BHCC will have clear oversight and hence greater control of the sub-contractors engaged by the IHS to deliver any additional/specialist services.