

Housing & New Homes Committee – 26/09/18
Amendments to Agenda item 33

3.46 The following table includes details of the estimated costs to deliver the in-house service.

Table 2 – Estimated costs to deliver an in-house responsive repairs and empty property refurbishments service

Key element costs	Information	In-house annual costs (58 operatives)
Labour	Based on delivery of 31,200 responsive repairs jobs per annum (3.3 jobs per day 216 days) Empty properties refurbishment works inc. Seaside and Temporary Accommodation	£2,139,000
Subcontractor costs	20% responsive repairs 50% empty properties	£1,800,000
Materials	Expected that purchasing power is significantly less than a private contractor	£1,425,000
Salary and Management Prelim costs	Please see page 13 in Appendix 9 for proposed structure.	£1,380,000
Service delivery prelim costs	i.e. vehicles, uniforms, tablets, mobile telephones, vehicle tracking, tools etc.	£678,000
Out of hours call centre function	Estimated based on receiving 350 calls per month	£20,000
Project specific ICT costs	This is a standalone system that will enable the in-house service to be fully operational to raise, appoint and order materials to complete a repair	£54,000
Central Office Overhead	This is the addition contribution the in-house service would pay for support services (i.e. finance, HR, legal, communications, ICT etc.)	£380,000
Contingency and TUPE risk allowance		£236,000
Total		£8,112,000
Adjusted to exclude call centre costs	These costs are deducted as they cover the services detailed in 3.30	(£246,000)
Revised total:		£7,866,000
Adjusted to include cost of Assistant Director role		£102,000
Further revised total:		£7,968,000

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3.73 The key risks of this recommendation are:

- Initial costs estimated as £1.094m associated with the establishment of a new in-house service.
- The council will need to procure contracts for fleet vehicles, supply chains, ICT systems, van and store stock, consultancy as well as recruit additional staff to mobilise the service
- Higher ongoing costs of the service relative to contracting to one contractor as detailed in full in Appendix 9 (section 4.6). If a contract for these works and services was let for five years, the estimated cost difference could be £4.184 including the set-up costs of £1.094m detailed above.
- Risk that this will deliver fewer apprenticeship opportunities than the current contractual arrangements. In addition the cost of administering an apprenticeship scheme is estimated at £0.040m per annum.
- Challenges in fully establishing the service in the time available. Particular risks are around the development of ICT systems and support, handheld and stock management solutions and the range of additional procurements that would be needed to support the service.
- Risk that management staff will not transfer and the council will not be able to recruit the necessary set of skills required to mobilise and manage the in-house service thereby risking a poor quality service initially.
- Lack of established ways of working in relation to health and safety and carrying out construction works on site, method statements for operating in a safe way and the ability to tap into organisational experience of delivering services.
- Provision is currently set up as a contract management service with limited experience of managing an in-house service so this may present challenges around management of productivity which could lead to extra costs and present risks to the budgets of the service.
- The council is not experienced at managing staff carrying out the same roles on different terms and conditions and this may present operational challenges in managing the workforce.
- Exposes the council to more direct risks of market fluctuation such as materials cost increases and labour shortfalls which are currently protected to an extent through contract arrangements.
- The council does not have an established supply chain in place and is unlikely to be able to achieve similar economies of scale as a national contractor.
- Uncertainty around workforce levels prior to completion of TUPE transfer may mean increased cost with provision of additional

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staff/operatives in order to ensure services are delivered around transition period.

- There is a risk that staff restructuring will be required incurring redundancy costs if the number and skill mix of the staff being transferred is not as required.
- The in-house service will have to undertake procurements in compliance with the public procurement regime; this is more resource intensive than the type of procurement which a private contractor would undertake and is therefore likely to be more expensive.
- Employment processes tend to be more complex in a local authority which can incur additional costs and management time.
- The council will need to develop a compliant method of demonstrating the cost of works to leaseholders in order to recover expenditure. This will require the council to develop new processes for service charges to leaseholders.

4.6 It is estimated that this option would cost between £7.100m and £7.350m per annum (paragraph 4.6 of Savills report at Appendix 9). Using the higher of these costs, this is £0.618 lower than the estimated cost of the in-house service recommended in this report when the permanent Assistant Director post is included. If the contract were for five years, the total cost difference over a five year contract period is therefore estimated at an additional £4.184m including set-up and mobilisation costs of £1.094m.

7.13 Officers have worked with advisers, Savills, to compare the cost of providing responsive repairs and empty property refurbishment in-house with a contract arrangement whereby services would be tendered and provided by one contractor. Other than the cost of procurement, there would be no additional up-front costs relating to re-tendering the service. The estimated cost of a tendered contract would depend on the market conditions at the time of procurement and how many contractors bid. Based on advice from Savills and using the same assumptions on volumes of jobs etc. in order to make a direct comparison to the in-house option, it is estimated that contracting out such a contract would cost between £7.100m and £7.350m per annum (paragraph 4.6 of Savills report at Appendix 9). Using the higher of these costs, this is £0.516m lower than the estimated cost of the in-house service with 58 operatives excluding the call centre costs. However, adding in the annual cost of a permanent Assistant Director post to the costs of the in-house service, means that the estimated cost of the contracted out service is £0.618m lower. If the contract were for

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5 years, the total cost difference of the in-house service over a 5 year contract period is therefore estimated at an additional £4.184m when the estimated set-up costs of £1.094m are included.

- 7.14 The one-off set-up costs and the difference in annual costs would need to be met from the HRA which represents an ‘opportunity cost’ to the council (as Landlord) and the council would therefore be required to forego this level of spend (£4.184m over a five year period) on current tenants’ homes and/or building new homes.