

Cabinet

7 May 2014

Future of the Housing Repairs and Maintenance Direct Labour Organisation



Key Decision R&ED/05/14

Report of Corporate Management Team Ian Thompson, Corporate Director Regeneration and Economic Development Terry Collins, Corporate Director Neighbourhood Services Councillor Brian Stephens, Portfolio Holder for Neighbourhoods and Local Partnerships

Purpose of the Report

- 1 The purpose of this report is to propose the transfer of the Council's Durham Housing Maintenance Direct Labour Organisation (DLO), currently providing the repairs and maintenance function to Durham City Homes (the Council's in-house provider), to the new County Durham Housing Group should the large scale voluntary transfer of the Council's housing stock take effect in March 2015.
- 2 Whilst the focus of this report is the proposal to transfer the Durham Housing Maintenance DLO, reference will also be made to the wider considerations required, as this project progresses, in relation to current support services provision and Service Level Agreements (SLAs), not only provided to the proposed transferring functions, but also to the incumbent providers i.e. East Durham Homes and Dale & Valley Homes (the Council's two Arm's Length Management Organisations – ALMOs) which may also be affected by the stock transfer and service provision changes moving forward.

Background

- 3 The Council decided to apply to the Government for agreement and financial support to transfer ownership of its homes to a group structure of its existing housing management organisations in December 2012. If tenants support the proposal and the Secretary of State provides formal consent to the transfer in March 2015, the Council will hand ownership of its homes to Durham City Homes, (which will, prior to the transfer become a separate entity to the council) East Durham Homes and Dale & Valley Homes. These organisations would become locally based landlords, but would work together as a group. The proposed new group would also include a Parent Organisation which would be responsible for leading on

governance and financial viability issues and providing support services to the three new landlords.

- 4 The Council's application to transfer its homes was approved by the Department for Communities and Local Government (DCLG) in March 2014. Following this approval, the Council is able to proceed with formal consultation with all of its tenants in the summer of 2014 on its proposal to transfer ownership of its homes. The DCLG have asked the Council to complete the transfer of its homes by 31 March 2015, if it is to qualify for the cost of writing off its housing debt. To meet this challenging timescale, the Council must start to shape the proposed new group of landlords now so services can continue seamlessly following the transfer.

Housing Repairs and Maintenance DLO

- 5 Durham Housing Maintenance (the DLO) is a service within Direct Services and part of the Neighbourhood Services Grouping. It is a discrete service, that currently undertakes reactive repairs, voids, gas servicing and Decent Homes/capital works, including heating installations and internal improvements (kitchens, bathrooms, rewiring) on behalf of Durham City Homes (an in-house provider based in the Regeneration and Economic Development Service Grouping).
- 6 Durham Housing Maintenance (the DLO) also undertakes gas servicing on behalf of Dale & Valley Homes under a Service Level Agreement (SLA).
- 7 Dale & Valley Homes and East Durham Homes have commissioned external private sector contractors to provide their repairs and maintenance service and these contracts are in place until 2017/18.
- 8 The previous Housing Transfer Manual (2005) stated at paragraph 3.13:

"An authority will need to decide whether the DLO should transfer [to the new landlord or group of landlords]. In making this decision it will need to review the efficiency and performance of the current DLO operation within the authority and consider whether an independent DLO health check is necessary so an action plan for improvements can be put in place by the new landlord should the DLO transfer."
- 9 The revised Housing Transfer Manual (2013) does not refer to the transfer of the DLO and there is no prescription from the Department for Communities and Local Government that the council must obtain an independent health check before reaching a decision to transfer the DLO. However, regulatory requirements set out by the Homes and Communities Agency (HCA) will apply to the proposed new group of landlords (should transfer go ahead) and the HCA will place a duty on the proposed new group to demonstrate that resources are being managed effectively and the financial viability of the group is safeguarded.

- 10 An independent health check that examines performance and value for money can assist the HCA's Registration Committee to fully assess the registration of the proposed new group of landlords as a viable group of landlords.
- 11 The Council commissioned a commercial housing consultancy, to complete an independent health check of Durham Housing Maintenance in September 2013. The health check was intended to assist the Council and the proposed new group of landlords to determine the performance of the service and whether the housing repairs and maintenance DLO should transfer into the proposed new group of landlords, having considered performance and efficiency and to determine any required actions to improve the service.
- 12 The health check included a review of the following aspects of the service:
- The structure and trade base of Durham Housing Maintenance;
 - The approach to management and leadership;
 - The mix of work being undertaken i.e. reactive, void and capital.
 - The performance management system;
 - Benchmarking of value for money including customer satisfaction, key performance indicators and cost;
 - An onsite sample inspection of the work undertaken by Durham Housing Maintenance including capital works, reactive and void property refurbishments;
 - The support services provided to Durham Housing Maintenance by the Council's customer services, fleet and stores functions;
 - The overall direction of travel, and whether Durham Housing Maintenance is fit for purpose and capable of transferring to the proposed new group of landlords without representing a significant degree of risk;
 - Suggested improvements to maximise the potential of Durham Housing Maintenance;
 - An indication of the potential impact of the transfer of Durham Housing Maintenance on the Council.

Findings of the Independent Health Check

- 13 The findings of the health check were reported in November 2013 which showed that Durham Housing Maintenance (the DLO) offers value for money; has the potential to deliver further improvements; and has the necessary management and leadership skills and systems that make it suitable to transfer to the proposed new group of landlords. The report is clear that this suitability is dependent on the current positive direction of travel being maintained.
- 14 The key findings of the independent health check are:

- The service has a clear focus in its management team (which has a strong ethos and desire to deliver) and within its workforce on providing a quality service to customers by maximising the use of its in house resources;
- Workforce levels are planned and managed and this is supported by the partnership approach with Durham City Homes;
- Briefings and interviews with trades staff on the future of the service found a dedicated, informed workforce, with a desire to expand and take on new activities. The staff spoken to as part of the review expressed a view that the proposed transfer of the Council's homes could be a benefit to their long term future;
- Durham Housing Maintenance demonstrates a positive direction of travel, and is delivering value for money within its current operating environment;
- There is a high degree of rigour in Durham Housing Maintenance in maintaining and keeping current its core business management information i.e. repairs completion and gas certificates;
- There is an understanding within the service of the need for the client to operate within budgets and this is supported by a clear focus on the performance management framework, monitoring performance and improving the quality of the service provided to customers;
- There is evidence of good partnership working between Durham City Homes and Durham Housing Maintenance and information is shared to support proactive asset management;
- There is a relatively high level of customer satisfaction with the service, particularly with the attitude of trades staff;
- Productivity levels are at the midpoint of the range that would be expected in relation to the level of turnover per operative compared to the level of overhead and recharge being incurred;
- Repairs costs are well within the benchmark costs and sub-contracting costs are not significant because they are only used to supplement peaks in activity;
- The systems used by the service are in line with expectations and are valid in supporting the recording and reporting of performance.

15 The report recommended a number of improvements to ensure the capacity of the service is developed to take on additional activities in the future, which include:

- Investment in new IT systems, equipment, training and staff;
- Undertaking a review of the volume and type of voids, scope, standards and resourcing in light of an increase in the current level of voids;
- Ensuring managers have the skills and experience to take on different types of work;
- The Council's stores currently serve a wide range of users including roads, public buildings and Durham Housing Maintenance. There is a mismatch in the service required by Durham Housing

Maintenance (a fast paced housing repairs business) and that currently provided by the Council's stores. Improvements in this area will enhance the service offered by the Council's Stores, making the service more attractive to Durham Housing Maintenance and reduce the time spent by the service sourcing materials;

- The Council's Fleet Service should be included in improving the current service to include possible out of hours servicing for vehicles and the availability of alternative vehicles when vehicles are being serviced;
- Durham Housing Maintenance should continue to work in partnership with other parts of the Council to seek to identify further beneficial changes in the service and enable its expansion.

16 The report recommended that the transfer of Durham Housing Maintenance to the proposed new group of landlords could offer the following benefits:

- Major potential for VAT savings on labour for repairs and maintenance that could be redistributed into the service and eventually throughout the group;
- Customer satisfaction associated with a continuation in the existing service;
- A more cohesive approach to preventative maintenance based on the service's detailed knowledge housing stock;
- Subject to the continuity of work and the service being allowed to undertake the correct mix of work (i.e. voids, reactive and planned/capital works) social dividends will also be achieved as long term employment can be offered, training provided, and opportunities become available for supply chain partners.

17 The Council's legal advisers for housing stock transfer reviewed the findings of the independent health check on the service and recommend that Durham Housing Maintenance should transfer to the proposed new group of landlords and should be employed by the Parent Organisation. The reason that the service be transferred to the Parent Organisation is because it allows for a straightforward expansion of the Durham Housing Maintenance's role on a group wide basis in the future. A strategic group wide approach could then be adopted without reliance on provisions set out in an intra group agreement (which defines the relationship between the Parent Organisation and Durham City Homes, East Durham Homes and Dale & Valley Homes).

18 Based on discussions with staff working for the service, it is likely that the workforce will favour transfer to the Parent Organisation as a key enabler of employment on a group wide basis. Transfer of the service to the parent organisation would also demonstrate a long term role for the service in the proposed new group, which would provide reassurance to the workforce. The relevant trade unions have been fully engaged in these discussions and are supportive of the proposals.

- 19 The workforce has expressed a wish for the Council to make a decision on the transfer of the workforce's employment (in accordance with TUPE) and clarify the part of the proposed new group of landlords their employment would be based at this stage in the proposed housing stock transfer process. The workforce have consistently expressed their optimism that transfer to the new group of landlords could offer expansion and growth opportunities. Conversely, the workforce have also expressed considerable anxiety that should they not transfer to the proposed new group of landlords they may eventually be transferred to a large external private contractor if the service is market tested and the contract is not won by the Council.
- 20 Under the proposals, Durham Housing Maintenance would continue to carry out gas maintenance work for Dale & Valley Homes, but would otherwise carry out most of its work for the stock to be owned by Durham City Homes.

Financial Benefits and Risks to the Proposed County Durham Housing Group and the Council

- 21 At present, Durham Housing Maintenance operates as part of a larger service grouping of the Council. The projected income for Durham Housing Maintenance for the next three years is £4M per annum. Subject to the housing repairs and maintenance service being able to offer competitive prices, the service also delivers 25% of Durham City Homes' capital programme.
- 22 The Council has a budgeted surplus for Durham Housing Maintenance of £600,000 and this supports the Council's Neighbourhood Services Grouping base budget. The transfer of the service to the proposed new group of landlords would put financial pressure on the Council's Neighbourhood Service. However, the Council has made provision for this loss of income from 2015/16 onwards in its MTFP, assuming stock transfer proceeds. .
- 23 This report focuses on Durham Housing Maintenance, and whilst there would be a direct TUPE impact on those Council employees who are assigned to that function should the proposed transfer to the new housing group go ahead, there could also be impacts on other non-housing maintenance employees associated with providing the service, and due consideration will need to be given to these aspects too. These areas broadly cover but are not limited to: customer services, stores provision, and fleet management and maintenance. Consideration will need to be given to potential TUPE implications in these areas, in consultation with the new provider, and /or whether separate SLA's are prepared to provide continuity of service provision at the point of transfer.
- 24 So far as the direct Durham Housing Maintenance workforce is concerned, it is likely that the service's employees (approximately 80 FTE employees

dedicated to this function) would transfer to the new provider, and be protected by the provisions of TUPE legislation. Detailed work is ongoing to assess all of the staffing implications associated with the proposed transfer, involving officers from Human Resources and Legal Services in consultation with service managers, and the trades unions. This includes those directly affected (i.e. Durham Housing Maintenance) and also those wider support services employees such as, but not limited to, customer services, stores provision, and fleet management and maintenance as referenced previously. The outcome of this work will help to determine which functions (and employees) would transfer directly and those which could be subject to separate SLA agreements in the short term.

- 25 All of the considerations being made in relation to TUPE and the associated obligations on the Council to formally consult with affected employees and their representatives will be done so in accordance with the Council's Change Management protocols, and whilst there are no prescribed timescales for doing so, it is deemed best practice to engage at the earliest possible opportunity with all affected parties, and indeed early work has commenced in this regard.
- 26 Running alongside this exercise is an associated piece of work to consider the potential impacts on Council employees currently providing services to East Durham Homes and/or Dale and Valley Homes, either through contract or SLA arrangements, in anticipation of any changes to these as a result of the proposed stock transfer. Work is ongoing in this respect and covers services such as, but not limited to, grounds maintenance, ICT, customer services, and finance support services.
- 27 In line with both ALMO's and Durham City Homes the DLO has a budget for an annual pension contribution and a budget for the annual deficit recovery. The final arrangements in relation to pension contribution costs for the new provider are yet to be finalised with the Pension Fund Actuary but it is expected the budget available will broadly provide the scope required to cover future pension costs.

Conclusion

- 28 The Council has decided to transfer the ownership of its homes to a new group of landlords that would include the Council's existing housing management organisations – Durham City Homes, East Durham Homes and Dale & Valley Homes.
- 29 The Council is responsible for assessing the effect of the transfer on its wider position and activities and its implications for services and employees. It is particularly important that the Council decides now whether Durham Housing Maintenance should transfer to the proposed new group of landlords if it is to:

- Provide certainty and reassurance to the employees working for Durham Housing Maintenance on their future employment arrangements;
 - Start to put into place the arrangements required to support the transfer of the service to the proposed new group of landlords and assist the service in expanding and improving.
 - Identify the further beneficial changes to services that could be made to support Durham Housing Maintenance in growing and expanding their services in the proposed new group of landlords.
- 30 A commercial housing consultancy was commissioned to undertake an independent health check of the housing repairs and maintenance DLO in 2013. The health check found that the service offers a high quality service and value for money; has the potential to deliver further improvements; has a strong and effective management focus; and systems in place that make it suitable to transfer to the proposed new group of landlords.
- 31 Legal advisers considered the positive outcomes of the independent health check and recommend that Durham Housing Maintenance transfers to the Parent Organisation in the proposed new group of landlords. The benefits of the transfer of the service to the Parent Organisation would include:
- A straight forward expansion of the service on a group wide basis in the future;
 - The provision of reassurance to the existing workforce on their situation in the proposed new group and potential for development in the future;
 - VAT benefits for the group.
- 32 The proposed transfer of the service will impact on some 80 employees within Durham Housing Maintenance who (should the transfer go ahead) will transfer to the new provider, and be protected by the provisions of TUPE legislation. Work is ongoing in this area to determine the exact implications and also to consider the impact on employees engaged in work on other related areas associated with the service, such as customer services, stores provision, fleet management and maintenance.
- 33 The proposed transfer of the service would have financial implications for the Council, which will exert pressure primarily on the Council's Neighbourhood Services Grouping although provision has been made in the Council's MTFP to meet any pressures from 2015/16 onwards in relation to the transfer of this function.

Recommendations

- 34 It is recommended that Cabinet:

- Agree to transfer Durham Housing Maintenance to the proposed new County Durham Housing Group of landlords as part of the transfer of the Council's housing stock by March 2015.

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Appendix 1: Implications

Finance

The Durham Housing Maintenance DLO employs some 80 staff and generates income of around £4m a year. The Council has a budgeted surplus for this function, although provision has been made as part of the overall impact of stock transfer on the Council to accommodate the loss of income. There could be other implications for wider support functions connected with the delivery of housing maintenance, and these could be subject to SLA arrangements in the short term or deferred TUPE arrangements.

Staffing

Direct staffing affected in Durham Housing Maintenance equates to approximately 80 employees. Detailed work is ongoing to assess the impact on other service areas associated with the maintenance function such as, but not limited to, customer services, stores provision, fleet management and maintenance. This work is being undertaken by Human Resources and Legal Services in full consultation with potential staff affected.

Risk

The transfer of the function to a new housing group needs to be planned and managed effectively otherwise there is a risk that the objectives and benefits of transferring the service are not achieved. An early decision on this issue will greatly assist the transition of the Durham Housing Maintenance into the new group of landlords.

Equality and Diversity

None

Accommodation

None

Crime and Disorder

None

Human Rights

None

Consultation

Consultation has been held and will continue to be undertaken for all affected staff.

Procurement

None.

Disability Issues

None

Legal Implications

Legal services are involved in discussions to assess TUPE implications and to ensure legal obligations with respect to staff are complied with.