

APPENDIX R

WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 7 JULY 2009

Title:

**IMPROVING THE HRA CONTRACT WITH EPS PROJECTS LTD
RESPONSIVE, VOID AND EXTERNAL REPAIRS**

[Portfolio Holder: Cllr Keith Webster]

[Wards Affected: All]

Summary and purpose:

This report advises of the suggested improvements and changes to the Responsive, Void and External Repairs contract and seeks agreement to these changes.

How this report relates to the Council's Corporate Priorities:

This report relates directly to the Corporate Priorities viz:

- 'Subsidised Affordable Housing' – Working for more affordable housing to be built, and managing council housing well.
- 'Value for Money' – Ensuring all our activities are customer focussed and provide good value for money.
- This proposed change of contract arrangement should result in efficiency savings and an improved customer service. Performance of job completion times, quality of work and customer satisfaction should also improve.

Equality and Diversity Implications:

There are no direct Equality and Diversity implications arising from this report.

Resource/Value for Money implications:

Improvements in the payment mechanism will generate efficiencies; reduce duplication within the repairs service; and provide better value for money.

Legal Implications:

The contract between Waverley Borough Council and EPS Projects will need amendment to incorporate the changes suggested.

Introduction and Current Arrangements

1. In July 2002, EPS Projects Ltd started working on responsive and void repair work for the Housing Revenue Account properties within Waverley Borough Council. At that time, EPS Projects Ltd worked on one half of the Borough with another contractor covering the other half of the Borough. At the end of this arrangement the contract was re-tendered on a quality and price basis incorporating the whole of the Borough into one contract. This contract was let on a 'Schedule of Rates' basis, with provision made in this contract to

move to an alternative, improved partnering arrangement with more efficient payment arrangement. This contract commenced in July 2006 and is scheduled to run for five years (2011) with an option to extend for a further two years (2013).

2. The current Schedule of Rates payment method comprises a range of rates (prices) for different jobs covering as many scenarios as possible. An explanation of how the Schedule of Rates works in practice is explained at Annexe 1.
3. The Schedule of Rates is priced by the organisations tendering for the work with a percentage adjustment either in addition or to be deducted from the rates. This method of pricing has a number advantages and disadvantages as follows:

Advantages

- Definite fixed payment for each job means a low cost risk.
- Tried and test mechanism – everyone knows the ‘ground rules’.

Disadvantages

- Pricing of Rates does not necessarily reflect costs of the contractor.
- Range of possible rates for similar jobs leads to a high number of variations and regular disputes.
- Limited incentives for improving performance.
- Large number of rates to chose from.
- Large number of repairs fall outside of the schedule of rates (some 20-30%)
- Large volume of variations that need to be requested and approved which means that it is difficult to ‘get it right first time’ in the tenants home.
- The operatives have little flexibility in the type of job.
- The use of a schedule of rates adds no value for the customer during the process.
- Significant administration costs of ordering and paying large numbers of claims / invoices.

Current Performance

4. During the life of the current contract, performance has generally showed continuous improvement. There remain a number of issues that can in part at least be attributed to the current arrangements. A good deal of officer and contractor time is spent agreeing the Schedule of Rates attributable to a particular task. This results in delays in completing the payment process and takes officers away from monitoring and improving performance. The greatest proportion of jobs rejected come from disagreements about which Schedule of Rates is applicable for the job.

Contract Improvements

5. During the course of the current contract there have been a number of improvements to the ways of working:

- Contractors Supervisors carrying out inspections for both responsive repairs and voids. The number of Waverley Inspectors has been reduced during the last 12 months.
- Electronic exchange of information via an interface between EPS and Waverley.
- Customer appointments at first point of contact for the repair.
- Repair Days – carrying out repairs in one area on a particular day.
- Payment for Void Work on a lump sum basis – agreed based on historic payments.
- Waverley staff working from EPS office and visa versa.
- Expansion of the range of work carried out by EPS to include disabled adaptations, kitchen upgrades, external repairs, legionella prevention work, programmed electrical safety inspections etc.
- Offering training for tenants in DIY skills.

Proposed Arrangements

6. In order to further develop the relationships between EPS, Waverley and its tenants, there was a recent workshop facilitated by West Kent Housing Association. West Kent is one of the first organisations to achieve three-star status following an Audit Commission inspection of its services. It effectively operates a partnering arrangement with its contractor for its responsive repairs service. The 'West Kent Model' works on an "open book cost reimbursable payment" mechanism with target costs for repairs. Payment is linked to a number of key performance indicators. There are 'pain and gain' mechanisms applied, should these targets not be achieved or exceeded respectively.
7. When the Audit Commission inspected Waverley's Housing Service in the autumn of 2008, it suggested that the Council should actively develop the 'partnering approach' adopted by other social landlords. It is proposed that during 2009, Waverley should develop a similar "open book cost reimbursable" arrangement with EPS Projects based on the historic costs for the previous year (2008/9).
8. To achieve this, the last two full years costs are divided into a number of streams and the fixed costs including head office overheads, profit, fixed preliminaries, time related preliminaries etc are all separated from the actual work costs. These costs are then reviewed and challenged with EPS incorporating efficiencies and improvements before agreeing on final costs.
9. An average cost for each stream is then identified and this is used as the target cost for the stream of work for the following year. Once the target costs have been established and actual costs measured for at least 6 months we propose to introduce a pain / gain, penalty / reward for exceeding or not exceeding some of the target costs. The target cost for subsequent years will be based on previous years costs.
10. The work costs will consist of labour, material and plant costs incurred by EPS. These will be apportioned to each job and allocated to a cost stream. An average for each cost stream will be generated and used as the target cost for the next period. See Annexe 2 for an example.

Customer Service

11. The new arrangement will allow the customer services team to focus on the detail of the repair whilst speaking to the customer. In place of the Schedule of Rates, a 'schedule of problems' will be developed, which will be used to channel the work into the most appropriate cost stream. This will be developed directly from the request from the tenant. An example of this is requesting the 'repair of a dripping tap' rather than trying to determine whether the washer can be replaced or the complete tap needs replacement.

Payment

12. The non-work costs, once agreed, are then paid on a monthly basis with periodic reviews.
13. We currently make payment on completion of the work based on the Schedule of Rates agreed. With the new arrangement payment will be made based on costs incurred. This will enable a proportion of the payment to be made periodically and then reconciled retrospectively. This will improve cash flow, reduce administration with processing invoices, and generate efficiencies and savings.

Efficiencies / Improvements

14. The revised arrangements with EPS will bring about the following improvements / efficiencies to the service. The changes will benefit both Waverley and EPS:
 - Simplified invoicing process reducing the number of invoices.
 - Reduction in administration resources for both EPS and Waverley.
 - Reduced duplication of resources between Waverley and EPS.
 - Reduction in disputes as the Schedule of Rates is no longer the focus for the job/work.
 - Resources saved can be diverted to improving the service or identified as a saving.
 - More empowerment of the operatives leading to greater customer satisfaction.
 - Alignment of both EPS and Waverley to the same method of resource / expenditure measurement will enable efficiencies to be easily highlighted.
 - Mechanisms will be in place to identify and cost future improvements and changes and monitor those.
15. There will be a number of efficiency gains that EPS will receive. We will endeavour to negotiate transfer of these savings to ensure that these costs are offset.

Performance Targets

16. The key performance indicators of customer satisfaction, getting the job done right first time and repair timescale will be retained and will eventually be linked to the pain / gain payment mechanism. It is anticipated that these

changes will lead to major improvements. Other performance targets will also be introduced including achievement of the cost target.

Core Partnering Team

17. A Core Team will be identified to review performance, agree improvements and resolve disputes. This will consist of a number of staff at different levels on both teams.

Empowering Operatives

18. Key to achieving success with the new way of working is to empower the operatives to carry out the right repair at the right time for the customer. A schedule of problems will be developed with no cost attached and applied when ordering the work. The operative's capacity to make decisions will need to be extended by applying basic principles including:
 - Applying common sense - what is the right job?
 - What would be the right job in your own home?
 - What is the right job for the customer?
19. This will be a gradual process and will require regular reviews with the tenants, officers, supervisors and operatives to ensure we all agree on the standards being achieved in conjunction with the performance and costs.

Controls and Safeguards

20. In conjunction with Internal Audit and Finance the methods of monitoring and control will be further developed with the new arrangements. An audit strategy will be developed before the new arrangements start. The controls of post inspection by officers, postal and telephone satisfaction questionnaires will continue but the numbers carried out will reduce and become more targeted as performance improves. Regular management review meetings will also continue and we will appoint an external cost consultant to carry out a periodic review of work including benchmarking against other organisations.

Future Improvements

21. The open book arrangements will enable the cost of any future improvements to be transparent so the cost / benefit relationship can be easily seen. It will also enable the identification of areas where cost savings can be made. Possible areas for future improvement include the contractor receiving the repair request directly from the customer.

Risks and Opportunities

22. A risk evaluation and apportionment process will be carried out and incorporated within the new contract. This will seek to identify each parties risks and limit costs associated with them with the intention of reducing the costs apportioned to the work. Officers will also carry out a risk analysis associated with the change in the contract. Generally a number of the risks are being transferred from EPS to Waverley and part of the negotiations with

EPS will be recognition of these and corresponding savings agreed. Key Risks are identified in Annexe 3.

Contract

23. The current contract is a JCT Measured Term Contract. To incorporate the revised ways of working an alternative form of contract will be more appropriate. Three forms of contract are being reviewed in conjunction with our Legal Team:
- JCT Constructing Excellence Contract,
 - Term Partnering Contract TPC 2005 (Amended 2008), and
 - New Engineering Contract.
24. Additional specialist legal advice may be necessary depending on the option chosen. Provision will be made for reverting to the current contract arrangements should the proposed arrangements not be successful.

IT Systems

25. The existing Orchard IT systems within the Housing Service can be adapted to accommodate the proposed changes with little additional resources required. Similarly EPS systems require little alteration.

Resources

26. Whilst efficiencies will be achieved in the proposed ways of working, the role of all those involved in the process will change over time, with greater emphasis being passed to the operatives to carry out the right job at the right time.

Professional Advice

27. West Kent Consulting (an arm of West Kent Housing Association) are providing advice on the implementation of the revised arrangements and we are utilising their experience to avoid some of the pitfalls they (and others) have experienced. We will also be benchmarking costs, productivity performance with West Kent.

Implementation and Timescales

28. The implementation of the new contract will require a number of changes to the terms and conditions of the current contract with EPS Projects. It is suggested that the Chief Executive and Deputy Chief Executive be given authority to agree the revised terms and conditions to be applied to this contract.
29. We are endeavouring to have the new arrangements in place from the start of October 2009 for the second half of the financial year.

Resource Implications

30. There will be no change to the overall budget envelope for the revenue repairs budget within the Housing Revenue Account. Cost certainty will be improved by alignment of cost information and more timely financial information enabling earlier identification of fluctuations.
31. There will be one off costs associated with changing to an open book cost reimbursable contract arrangement with EPS Projects. Estimated amounts are as follows:
- | | |
|-----------------------------------|-----------------------------------|
| Officer Training | £5,000 |
| Legal Advice / Contract Change | £1,000 to £10,000 |
| Partnering Advice | £5,000 |
| Cost Consultants Periodic Reviews | £3,000 to £5,000 for each review. |
32. These costs can be contained within the HRA revenue budgets. We anticipate that savings agreed with EPS and any future savings or efficiencies will match or exceed these costs in the longer term making the implementation cost-neutral or giving a saving in future years. There will also be additional Housing and Support Officer time required for this change and the ongoing implementation and management.

Conclusion

33. The alternative payment mechanism and the proposed changes detailed in this report presents the best opportunity to align the needs of both EPS and Waverley Borough Council to those of the customers and generate opportunities for efficiencies and improvement in the delivery of the service.

Recommendation

It is recommended that:

1. the Housing Service moves towards an alternative payment mechanism and proposed changes with EPS Projects for the remaining contract period, as detailed within this report; and
2. the Chief Executive and the Deputy Chief Executive, in consultation with the Portfolio Holder, be given authority to agree the revised terms and conditions with EPS Projects Ltd.

Background Papers (SDCS)

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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ANNEXE 1

Outline Of Current Repair Process Under the Schedule of Rates

1. A repair request is reported via Waverley Borough Council's Housing Maintenance Customer Service Team either by freephone number, letter, e mail or in person.
2. This is converted into a 'job' with a Schedule of Rate(s) on the Orchard Housing Management System, which is issued to EPS Projects Ltd.
3. Some jobs require a pre-inspection either to determine the exact nature of the problem or the extent of the work.
4. An appointment for the job or pre inspection is also normally agreed at this time. The job (and some pre inspections) are electronically transferred to EPS Projects Ltd who schedule this with the operative or supervisor.
5. The work is then carried out and job completion information is sent to EPS via the operatives handheld PC.
6. This is then confirmed by EPS Projects Ltd and forwarded electronically to Waverley.
7. EPS Projects Ltd generate cost information from the operatives time, materials and plant (equipment) used and convert this to a schedule of rates which is forwarded to Waverley for payment.
8. Waverley then input this information, check a proportion of the work and either accept or reject the payment request.

ANNEXE 2

Cost Stream Example

	Time in Minutes	Hourly Rate	Labour Costs	Material Costs	Plant Costs	Sub Total	Overheads Approx 6%	Profit Approx 4%	Total Repair Cost
Lock to Front Door not Working	35	£20.50	£11.96	£5.80	£0.00	£17.76	£1.07	£0.71	£19.53
Ease and Adjust Door	45	£20.50	£15.38	£3.00	£0.00	£18.38	£1.10	£0.74	£20.21
Reglaze Window	100	£20.50	£34.17	£65.00	£25.00	£124.17	£7.45	£4.97	£136.58
Refix Loose Handrail	30	£20.50	£10.25	£21.00	£0.00	£31.25	£1.88	£1.25	£34.38
Refix Loose Floorboard	35	£20.50	£11.96	£2.00	£0.00	£13.96	£0.84	£0.56	£15.35
Replace Skirting Board	30	£20.50	£10.25	£6.85	£0.00	£17.10	£1.03	£0.68	£18.81
Fit new Door	120	£20.50	£41.00	£85.00	£10.00	£136.00	£8.16	£5.44	£149.60
Replace Kitchen Cupboard Door	40	£20.50	£13.67	£31.00	£0.00	£44.67	£2.68	£1.79	£49.13
Replace Flooring	250	£20.50	£85.42	£180.00	£25.00	£290.42	£17.43	£11.62	£319.46
								Total Cost Total	£763.06
								Number of Repairs	9
								Average / Target Cost	£84.78

ANNEXE 3

Key Risks

	Risk	Mitigation / Control
1	Unclear identification of risk / transfer to Waverley.	Clearly identify risks with the current arrangements. Identify changes to the party responsible for carrying this risk. Obtain external advice from consultants on risk allocations identified. Review the risk allocation during the course of the revised arrangements.
2	Efficiency / Risk Transfer savings not identified and achieved.	Ensure an 'open book' approach so costs and savings can be easily identifiable. Challenge EPS to achieve savings prior to the transfer to the new arrangements. Ongoing reviews of the opportunities for adjustment to the risk allocation / efficiency savings.
3	Budget exceeded because of poor budget control.	Ensure regular budget reviews carried out. Continue and target quality and satisfaction checks. Introduce regular internal and external auditing of cost information. Monitor and manage performance and expenditure trends. Pass some of the budget management responsibility to EPS with the introduction of Pain / Gain mechanisms relating to budget targets.
4	Poor contractor performance.	Regular performance reviews to identify performance trends and introduce early correction. Pain / Gain mechanism to incentivise good performance. Transparent costs to enable adjustment of resource allocation. Reversion to the current contract arrangements.
5	Staff and Operatives not being able to adjust to the new approach / arrangements.	Regular updates during the implementation of the changes. Progress reviews after implementation. Appraisal targets relating to the changed approach. Regular training and 'toolbox' talks with operatives. Removal of operatives staff from involvement with the contract if unable to make the changes necessary.