

# **Best DLO: the direct labour organisation providing the most innovative maintenance service**

## **Shepherds Bush Housing Group**



## **NHMF Best Practice Awards 2010**

### **What is innovative about the service provided?**

Shepherds Bush Housing Association (SBHA) has formed a joint venture company (JVC) with its responsive maintenance contractor, Collective Maintenance Solutions (CMS), to deliver all of SBHA's responsive maintenance services.

This arrangement is unique for two reasons: firstly, the JVC is a collaboration between three Small and Medium Enterprises (SME) contractors. Secondly, the JVC is delivering a responsive maintenance service.

SBHA is a community based organisation in west London. We are a tenant influenced housing association with 5000 homes located mainly in Hammersmith and Fulham and the surrounding boroughs. Two thirds of the stock are Victorian and Edwardian street properties converted into flats. More than half of the properties are one bedroom flats.

As a community based, medium sized housing association, SBHA has traditionally procured its maintenance services through SME contractors.

In 2005 SBHA employed four contractors to deliver the day-to-day and void maintenance service and two gas servicing and maintenance contractors. SBHA wasn't benefiting from any economies of scale, as the contractors were all working to different Schedule of Rates (SOR) uplifts and the administration involved in the contract was excessive. SBHA was looking for improvements in communication, IT, speed of invoicing and the Key Performance Indicators (KPI's).

All the contracts were due for renewal at the same time, so SBHA reduced the number of contracts to two day-to-day and void contracts and one gas contract.

SBHA was concerned that the existing day-to-day and void contractors wouldn't have the skills or capacity to win one or both of the larger maintenance contracts on their own. SBHA encouraged the four contractors to work together to form a new company to bid for the work.

The contractors took SBHA's advice and formed a company called Collective Maintenance Solutions (CMS). The new company shared labour and management. The four contractors worked together easily because SBHA had embraced the partnering agenda in the late 1990s and held monthly partnering meetings with all of its principle contractors. The four contractors knew each other well through these regular and open meetings.

CMS was successful in winning one of the two area maintenance contracts in September 2005. In January 2007 SBHA had decided to revert to a single maintenance contractor.

However, SBHA was still working in a very traditional way with the contractor using a SOR contract, managing the repair call desk and using a housing management system to manage the service. The KPI's were satisfactory, tenant satisfaction was

average and budget control was mixed. We were delivering an acceptable responsive maintenance and we knew we wanted to deliver an excellent service.

SBHA agreed with CMS that we would revamp the delivery of the maintenance service in two stages. Stage One was to jointly procure a repairs management system, transfer the repair call desk to CMS and introduce an open book fixed price frame work. The three contractors (one had dropped out) also had to transfer staff into CMS permanently.

In September 2008, CMS took over the provision of the gas servicing and maintenance contract. Then in April 2009, CMS took over the out of hours call handling contract.

During this period, SBHA was preparing to implement Stage Two of the improvement plan: the formation of a JVC responsive maintenance company.

On Monday 03 August 2009, Domus Maintenance Services LLP was launched.

The staff of CMS all transferred through TUPE (Transfer of Public Employees) into Domus. CMS's assets, such as the leasing of their vans and offices, also transferred to Domus.

The launch was completely seamless. SBHA residents had been told about the new company, but because the personnel and contact details remained the same, they saw no change in the service.

Although the new company is part of the Shepherds Bush Housing Group (SBHG), it is jointly owned by SBHA and CMS. SBHA owns 51% of the shares and has three of the five places on the board, which together with the chair of the board being an SBHA nominee, means that SBHA has overall control of the company.

The JVC will take over the direct management of all SBHA's specialist and sub contractors in January 2010. SBHA's cyclical redecoration programme will end in 2013 and Domus will take over that contract. The housing services department is assessing whether the cleaning and gardening contract should be transferred across to the JVC.

The Domus board has drawn up a business plan which targets acquiring external responsive maintenance contracts with other housing associations in west London.

## **What are the benefits to...?**

### **a) The client**

The biggest benefit to the client is that SBHA have control of how the JVC operates. By having three members on the board and appointing the chair, SBHA is able to dictate how the company is run.

Another benefit is the initial financial saving created by setting the JVC. As Domus is part of SBHG, there is an immediate saving of 15% on the labour costs of the company, as VAT isn't paid on direct employment costs. SBHA also saves on the fee paid to CMS to manage the contract. The 8% management fee has now been halved to reflect the changes in the contract management. SBHA has immediately saved more than £200,000, which has been used to offset the central services staffing costs needed to support the maintenance contract.

SBHA has partly offset these savings by providing services to the JVC. SBHA now provides training, finance, HR and IT support to Domus. These services will enable the JVC to perform better and provide an improved maintenance service.

The cost of setting up the new service has been relatively low compared to buying an existing contractor.

There has been a seamless transfer of the service from CMS to Domus.

SBHA will have the ability to develop and build the JVC over time without the need for tendering for additional work.

### **b) The contractor**

CMS benefits from the financial security of a long-term contract. The contract has no contract period, but the arrangement is formally reviewed every five years.

CMS has a guaranteed profit and return on their investment. In this case, its main investment is the staff, as everything else in the contract has been funded by SBHA, as demonstrated by the open book contract.

This arrangement eliminates the requirement to re-tender the contract every four years, in accordance with OJEU requirements. There is a resource saving for CMS in having to prepare for the tender process.

The JVC could add other contracts to the agreement, thus benefiting CMS, as its profit is based on turnover.

Domus receives back office support from SBHA.

The JVC will benefit from SBHA's reputation when seeking new work.

### **c) The residents**

SBHA's residents have benefited from substantial improvements in the maintenance service over the past two years.

By moving the repair call desk across to the contractor, residents can report repairs more easily and receive much more accurate feedback on current issues.

Similarly, the shared repairs systems allow both the contractor and SBHA staff to track repairs and to keep tenants up to date on the progress of their repairs.

By transferring all the staff from CMS to Domus, SBHA has ensured continuity with the maintenance service. Some tradesmen have worked with SBHA for more than ten years, so they are familiar with the stock and the residents. Residents often value seeing a familiar face when repairs are carried out.

Residents have the opportunity to feedback on the maintenance service through the partnering panel, maintenance forum, repairs focus groups and written or phone satisfaction surveys.

SBHG's 2009 STATUS (Standardised Tenant Satisfaction Survey) survey showed repairs satisfaction has increased by more than 10% from 2006. This was a direct result of the service provided by CMS, and through Domus, SBHG has achieved 100% gas checks.

### **d) The neighbourhood**

The neighbourhood benefits because Domus is a local contractor, so that it draws its workforce from the local community.

The JVC contributes to the local economy by using local builder's merchants to source its materials. In particular, Domus has entered into a Service Level Agreement (SLA) with a local builder's merchant, Poores of Acton. SBHA has worked with Poores for 15 years. The SLA ensures that Domus maximise their use of Poores for the procurement of responsive maintenance materials. Poores, in turn sponsor Domus' vans and uniforms.

Poores provide all residents and staff with a 15% discount card to use in their store. Poores also agreed that 2% of the income from residents and staff and 1% of the income from Domus will be given back to SBHG for community projects.

## **What were the financial costs and cashable benefits?**

The costs of setting up the JVC were fairly minimal. The project management of setting up the new company was carried out in house. The largest outlay was for legal services and tax advice, which was limited to a few thousand pounds.

There has been one new post created to run the service. A post of head of client services has been created to guide and support the new contractor. All of the support services were in place to run the existing maintenance contract. This post is on fixed-term contract for two years to ensure that the JVC is running smoothly.

The largest financial benefit is the immediate saving of 15% on the labour costs of the company, as VAT isn't paid on direct employment costs. SBHA also saves on the fee paid to CMS to manage the contract. The 8% management fee has now been halved to reflect the changes in the contract management. SBHA has immediately saved more than £200,000.

The contract has also benefited from reducing the average repair costs by 5% over the last two years.

The contract is independently audited every quarter.

CMS is paid a fee for their management of Domus. This fee is based on KPI's targets being achieved. There is also a profit share agreement in place if the cost of the maintenance service comes in under budget.

With efficiencies in working and administrative practices being implemented, SBHA expects the profit share agreement to benefit both parties more in the future.

## **How relevant is this as an example that might be followed by other organisations?**

This type of arrangement is ideally suited to small or medium sized housing associations that have long-term relationships with their responsive maintenance contractors. It is a logical step to take for those organisations who already have established partnering arrangements in place.

The two organisations must have an open and honest working relationship with each other for this arrangement to work. It is unlikely to work for large organisations, either housing association or contractor.

The project needs a dynamic and committed team leader to make it work. The technical knowledge can be obtained externally, but the driving force needs to come from inside the housing association.

Managers and operational staff need to be committed and understand the principles of partnering to make this collaboration work.

At SBHA, we were committed to setting up a JVC because we had the personnel in-house and the contractor to make it work. Whilst we would certainly recommend this option, other organisations could explore the options of setting a company in much

more detail, as the ultimate outcome would be the same: greater control of the maintenance service and VAT savings on labour costs.

When SBHA decided to set up the JVC, they employed Keith Simpson from Just Housing to kick start the project. Keith has extensive experience in setting up and running DLOs. Initially, he was able to advise us on IT systems for contractors and open book price frameworks. We sought guidance from our auditors, BDO Stoy Hayward, on which type of company to set up. They were able to advise us about the tax implications between setting up a Limited Liability Partnership or a JVC. Our solicitors, Prince Evans, were able to draw up the LLP contacts.

SBHA's maintenance staff and the contractor's staff needed very little training on the new arrangements. Refreshingly, all of the contractor's staff have been totally focussed and committed to the new company. We have ensured that SBHA's corporate training plan has been extended to Domus. The training has been delivered in a different way to accommodate the contractor's working methods. SBHA maintenance staff have seen little change in the way that they operate. At the moment, we have decided to keep the contractor-client relationship separate to ensure that the new arrangements are working satisfactorily. As we have operated under a partnering ethos for the last ten years, the staff have received plenty of training and guidance in working collaboratively.

We set up a partnering workshop for all internal stakeholders, key residents, Domus and the supply chain three months before the company was launched. This day was very successful, but breaking down the client-contractor relationship is ongoing.

When working on a project like this it is really important to make sure that the budget and time scales are realistic and take into account the time it takes for other organisations to carry out their work/checks. If necessary we would recommend using a specific project manager.

Overall the JVC has been a success for SBHA, we have more control over the service and resident satisfaction with our repairs service continues to increase bucking the trend in London.