

Building Maintenance Services Trading Position and Outturn 2012/13
Report by John Blair, Director Corporate Resources

1 Purpose of Report

To inform the Committee of the anticipated financial outturn for the Building Maintenance Services Statutory Trading Account for the year to 31 March 2013.

2 Background

2.1 Statutory Trading Account

The Local Government in Scotland Act 2003 repealed Compulsory Competitive Tendering and set out a requirement for Statutory Trading Accounts to be maintained for Significant Trading Operations and that they should break even over a three-year rolling period. The Council maintains Statutory Accounts for Building Maintenance Services and Roads Maintenance Services which it considers to be Significant Trading Operations. For the rolling period 2009/10 to 2011/12 Building Maintenance and Roads Maintenance achieved the required financial objective.

	2009/10 £000	2010/11 £000	2011/12 £000	Cumulative £000
Building Maintenance Turnover (Property Maintenance)	£6,976	£7,179	£6,534	
Surplus	£473	£70	£62	£605
Adjustments				(£27)
Revised Surplus				<u>£578</u>
Roads Maintenance	£4,476	£9,006	£8,695	
Surplus	£104	£126	£147	£377
Adjustments				£64
Recent Surplus				<u>£313</u>

Notes:

(a) Adjustments relate mainly to the cost of capital and movements in the Accumulated Asset Account.

At its meeting on 29 January 2013 the Council's Audit Committee noted that:-

"The reduction in income of the Building Maintenance Service following its move to fixed salaries has resulted in the Director, Corporate Resources establishing a Task Group to undertake a fundamental review of the work of the section. Weekly monitoring was now in place and performance was improving and this would be reflected in quarter 3 monitoring. The Director, Corporate Resources would be submitting a report on the Building Maintenance Service with recommendations to the next meeting of the Audit Committee".

2.2 Changes to Employees Terms and Conditions

As part of the Local Government Craft Pay negotiations for 2008/09, discussions took place nationally regarding equal pay systems and consistency of terms and conditions between Craft Operatives and Local Government Employees covered by the Scottish Joint Council agreement. The agreement sought

“to assist Councils align their pay, terms and conditions of service structures across both employee groups to comply with the provisions of the Equal Pay Act and ensure consistent application of the total remuneration systems within each Council, the Trade Unions have agreed to encourage their local officials and representatives to engage in meaningful negotiations within individual Councils with a view to identifying and removing all inequalities and inconsistencies in the remuneration systems. The overall aim is to reach local agreements within each Council”.

The Council considered the reports at a number of meetings which advised on progress with negotiations between the Council and the relevant Trade Unions. The objective of these negotiations was to introduce a consistency in staff employment conditions (excluding Teachers) across the authority.

Date	Title
20 Dec 2011	Craft Workers – Review of Pay Terms and Conditions
31 Jan 2012	Craft Workers – Review of Pay Terms and Conditions
26 Feb 2012	Craft Workers – Review of Pay Terms and Conditions
27 Mar 2012	Craft Workers – Review of Pay Terms and Conditions

In making the move from an Individual Incentive Earnings Scheme for Building Maintenance Services to a weekly salary the following advice was a key consideration for the Director, Corporate Resources.

“3 **Human Resource Advice**

3.1 **General Advice - Incentive Earnings Scheme**

The Council’s legal advisors have been consulted and have provided the following advice relating to Craft Workers bonus schemes for employees within Property Services who operate on the Incentive Earnings Scheme:

Retain the Status Quo

On this basis, the risk of equal pay claims is likely to be significant if the existing scheme is continued.

Ceasing Bonus Payments

A robust review of the Incentive Earnings Scheme would require an initial overhaul, considering new methods and techniques as well as a revision of all listed rates. Thereafter ongoing maintenance costs would be incurred to review the rates and regularly review rates to reflect changes in methods and tools.

Retention of the scheme in a predominantly male group would require the council to consider the suitability of introducing a similar scheme in female dominated services. The Director, Corporate Resources is of the view that the costs to maintain the Incentive Earnings Scheme are significant.

3.2 Introduction of Reduced Working Week

As part of the ongoing discussions and dialogue with the trades unions the reduced basic working week for Craft Operatives in all Building Maintenance Services has been introduced on the following basis:

	Jun 2009	Oct 2010	Oct 2011
Local Government Employees	←—————	36 hours	—————→
Chief Officers	←—————	36 hours	—————→
Craft Workers	←—39 hours	←—37 hours	—————→ 36 hours

The Director, Corporate Resources is of the view that the possibility exists to compensate Craft Workers for the delayed introduction on the reduced working week. This is proposed on the basis of equality of treatment of all employees employed by the Council on Local Government Employee Terms and conditions.

This one off cost would form the basis of the discussions scheduled for the New Year to progress this matter”.

Accordingly one off payments were made to Craft Operatives during March 2012 on the following basis

Trade	Average Amount	Total Amount
Painter	£3,060	£45,900
Plumber	£3,360	£47,600
Joiner	£3,060	£76,600
Builder	£3,100	£39,500
Electrician	£3,160	£31,600
Total		£241,200

This one off payment amounted to £241,000 and is included in the 2011/12 accounts and if it were not paid the accumulated trading surplus would have been £819,000.

3.0 Financial Reporting

At quarter one financial reporting covering the period 1 April 2012 to 19 August 2012 concerns were raised regarding the lack of income through the ledger which would lead to a deficit on the Statutory Trading Account. It was recognised that the removal of the previous Incentive Earnings Scheme had contributed directly to the drop in productivity. This has occurred in other organisations where incentive/bonus schemes were replaced by fixed salaries.

In addition the completion of the Kitchen Replacement Programme and the delayed introduction of the Bathroom Upgrade Programme also had an adverse impact on the levels of income being generated by the service.

Trading Position 2012/13 as at Period 11 Ended 3 Feb 2013

The following table summarises the trading position for the financial year 2012/13 as at period 11:

	2010/11 Actuals £000's	2011/12 Actuals £000's	Monitoring 2012/13			
			2012/13 Budget £000's	2012/13 Actual (P11) £000's	2012/13 Outturn (P11) £000's	2012/13 Variance (P11) £000's
Staff Costs	3,864	3,643	3,022	2,293	2,975	(47)
Property Costs	0	0	0	0	0	0
Transport Costs	420	433	489	307	400	(89)
Supplies & Services	2,174	1,725	1,767	1,189	2,931	1,164
Third Party Payments	81	94	133	114	132	(1)
Transfer Payments	0	0	0	0	0	0
Capital Charges	68	109	125	0	125	0
Admin Allocated	482	489	432	0	432	0
Total Expenditure	7,089	6,494	5,968	3,903	6,995	(1,027)
General Fund Income	522	479	401	339	415	(14)
HRA Income	3,491	3,991	3,242	2,756	3,347	(105)
Capital Income	3,142	2,059	2,413	1,568	3,125	(712)
Other Income	24	5	13	2	2	11
Total Income	7,719	6,534	6,069	4,665	6,889	(820)
Deficit (Surplus)	(90)	(40)	(101)	(762)	106	
Adjustments	27	(10)	0			
Adjusted Deficit/Surplus	(63)	(50)	(101)			

In response to the adverse trading position during the first part of the financial year the Director, Corporate Resources established a Task Group to review the Service and specifically the trading position.

This group chaired by the Director, Corporate Resources comprises the following personnel:

Name	Title
John Blair	Director, Corporate Resources
Margaret Black	Senior Accountant
Andrew Brown	Policy Officer
Jacqui Dougall	Commercial Services Manager
Billy Jackson	Surveying Manager
Mike O'Rourke	Senior Finance & Support Officer
Garry Sheret	Head of Property & Facilities
Murray Sinclair	Maintenance Manager
Claire Sinnet	Accountant
Jim Thomson	Quantity Surveyor

Since September 2012 the group formally met on the following occasions:

- 21 Sep 2012
- 28 Sep 2012
- 5 Oct 2012
- 12 Oct 2012
- 19 Oct 2012
- 2 Nov 2012
- 23 Nov 2012
- 28 Nov 2012
- 30 Nov 2012
- 14 Dec 2012
- 10 Jan 2013
- 31 Jan 2013
- 21 Feb 2013

Through these meetings the Task Group has implemented the following:

- Staff meetings outlining the situation emphasising the role for Craft Employees in turning the trading position around ;
- Review of the cost base of the service;
- Examination and revised the work programme leading to income generation;
- An action plan to improve the financial position in the short term;
- Details of the individual income achieved by each operative; and
- Working with Trade Unions to address the cultural and operational issues.

The Recovery Rates which form the basis of recharging works completed on behalf of Service Divisions have been reviewed to take cognisance of:

- The reduced number of operatives
- The review of the operating cost of the service

Accordingly the following rates have been introduced effective from 1 April 2012:

Rechargeable Rates

Trade	Unit	Mid Lothian	Auth.1	Auth.2	Auth.3	Auth.4	Auth.5	Auth.6	Auth.8	Average Rate
Joiners	Hour	£31.69	£25.07	£47.80	£31.88	£23.26	£23.95	£27.72	£32.19	£30.45
Electricians	Hour	£33.75	£27.81	£49.97	£31.88	£32.44	£23.95	£35.96	£36.91	£34.08
Plumbers	Hour	£31.56	£27.81	£49.07	£31.88	£29.27	£23.05	£32.92	£36.91	£32.92
Builders	Hour	£31.21	£22.56	£42.46	£31.88	£17.48	£22.09	£25.57	£29.34	£27.82

Midlothian Council are members of the Association of Public Sector Excellence (APSE) and were able to obtain recovery rates from other councils for comparison purposes. When undertaking comparisons it is necessary to note the following:

- The rates supplied by APSE were sent direct to Council;
- No indication on how they were formulated and rationale behind the individual rates;
- The rates are appropriate as at December 2012;
- Individual authorities' names not supplied by APSE; and
- No indication of specific recharge method used by individual authorities.

Employee Performance Monitoring

Information is available on the levels of income generated by the overall service, each trade and individual employees with Team Leaders and Supervisory staff being charged with ensuring production is maximised through additional training, guidance and support.

Expansion of Capital Programmes

The task group has reviewed the business model agreed in the short term to fast track the following works which are provided for in the Council's Housing Services Capital Programme:

- Installation of bathrooms funded via Scottish Housing Quality Standard budget
- Installation of smoke alarms funded via Scottish Housing Quality Standard budget

To complete these works the labour resources have been increased through the engagement of 21 agency staff until the end of March at which time the business plan will be reviewed by the Task Group.

This approach enables the services to recover costs whilst maintaining overhead levels.

4.0 Medium Term Plan

The Building Maintenance Management Team have been tasked by the Director, Corporate Resources to produce a five year Business Plan for Capital Programmes. This will facilitate closer monitoring of the Statutory Trading position and align to the improvement works programme being progressed by the Council.

It is also intended to fundamentally review the recovery rates for 2013/14 onwards to take cognisance of:

- The revised Business Plan;
- The anticipated levels of work;
- The introduction of additional Apprentices/Trainees; and
- The impact of any appropriate insourcing.

In reviewing the recovery rechargeable methods it is necessary to consider the following:

- Banded flat charge for works carried out (less than 1 hour, over 1 hour not exceeding 3 etc);
- New bespoke schedule of rates based on current catalogue; and
- Introduce a greater use of composite items to simplify processing and recharging.

Accordingly the Task Group are presently considering the following points relating to cost recovery:

- Introduction of a minimum charge;
- Finalise the hourly recharge rate for 2013/14 taking cognisance of all key factors;
- Separate charge out rates for day to day maintenance and capital works;

- Looking to introduce inclusive schedule of rates to cover travel time and non productive time; and
- Remove all historic references to target times which were a feature of the previous incentive earnings.

5 Report Implications

5.1 Resource

The movement in the Building Maintenance Services Trading Position during the year is shown in the following table:

	2010/11 Actuals £000's	2011/12 Actuals £000's	2012/13 Budget £000's	2012/13 Monitoring			2013/14 P11 £000's
				2012/13 Quarter 1 £000's	2012/13 Quarter 2 £000's	2012/13 Quarter 3 £000's	
Staff Costs	3,864	3,643	3,022	3,103	3,023	3,035	2,975
Property Costs	0	0	0	1	1	1	0
Transport Costs	420	433	489	375	369	378	400
Supplies & Services	2,174	1,725	1,767	1,966	1,760	1,672	2,931
Third Party Payments	81	94	133	112	143	139	132
Transfer Payments	0	0	0	0	0	0	0
Capital Charges	68	109	125	125	125	125	125
Admin Allocated	482	489	432	432	432	432	432
Total Expenditure	7,089	6,494	5,968	6,114	5,853	5,782	6,995
General Fund Income	522	479	401	307	391	416	415
HRA Income	3,491	3,991	3242	3,004	3,013	3,181	3,347
Capital Income	3,142	2,059	2413	2,424	2,127	1,930	3,125
Other Income	24	5	13	2	2	2	2
Total Income	7,719	6,534	6,069	5,737	5,533	5,529	6,889
Deficit (Surplus)	(90)	(40)	(101)	377	320	253	106
Adjustments	27	(10)	0				
Adjusted Deficit (Surplus)	(63)	(50)	(101)	377	320	253	106
Three Year Position							
Movement by Quarter					+57	+67	+147
Cumulative Movement					+57	+124	+271

5.2 Risk

A failure to robustly address the adverse trading position of the Building Maintenance Service would potentially lead the Council to significant reputational damage.

In the quarterly reports to Council on 18 December 2012 and 5 February 2013 the Council's Section 95 Officer, the Head of Finance and Human Resources commented:

"The position within the Building Maintenance Service has improved slightly from quarter 1 based on plans to accelerate HRA capital works. Close monitoring will be required to ensure that work is carried out in accordance with this plan.

It is anticipated that projected costs and income for the Building Maintenance Statutory Trading Account will result in a trading deficit for the year to achieve a statutory objective and will be commented upon by the Council's external auditors".

Accordingly based on the projections set out in this report it is the view of the Director, Corporate Resources that the Building Maintenance Services shall achieve its three year statutory break even target.

5.3 Policy

Strategy

The actions outlined in this paper are in line with the objective of delivering responsive, efficient and effective services to the people of Midlothian.

Consultation

The Director, Corporate Resources has consulted with colleagues within Corporate Resources Division, the relevant Trade Unions and directly with employees who operate within Building Maintenance Services. In addition the Director, Corporate Resources has briefed the Chief Executive and colleague Directors on the steps put in place to address the trading position.

Equalities

This report is not proposing any new policies or procedures therefore have not been assessed for Equality Implications.

Sustainability

This report is not proposing any new policies or procedures therefore have not been assessed for Sustainability Implications.

5.4 IT Issues

There are no direct IT issues arising from the report which are not compatible with existing computer systems.

6 Recommendations

The Committee are invited to:

- a) Note the action plan put in place by the Director, Corporate Resources to address the trading deficit;
- b) Note the short term actions taken by the Task Group;
- c) Note the medium term actions of the Task Group; and
- d) Note the intention of the Director, Corporate Resources to continue to prepare regular updates on the statutory trading position and report via existing quarterly monitoring arrangements.

Date: 5 March 2013

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