

SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO: Leader and Cabinet 9th December 2004
AUTHOR: Housing & Environmental Services Director

DIRECT LABOUR ORGANISATION COSTS

Purpose

1. To alert Cabinet to the projected loss on the building maintenance activities of the Council's Direct Labour Organisation (DLO) and to advise of action to be taken to investigate causes and minimise the impact on the Council's Housing Revenue Account (HRA).

Background

2. The Council's housing repairs budget is monitored through monthly reconciliation meetings which bring together staff from Finance & Resources, Shire Homes and the DLO. By the 29 October meeting it appeared that the DLO was making a significant loss on its building maintenance activities, to the tune of £250k. This matter was reported to the Housing Portfolio Holder in November, but officers initially believed that the loss was affected by delays in charging for works carried out earlier in the year.
3. However, further financial analysis of the position at 19 November, reported to the reconciliation meeting of 29 November, suggested that the invoicing problems, where remedial action had now been taken, did not explain the extent of the DLO loss reported of £390k to 19 November, projected to £580k at year end.
4. The DLO's annual expenditure is £1.74m, the bulk of which it seeks to recover through its responsive and empty homes repair activities.
5. Any trading loss made by the Council's DLO will be charged to the Housing Revenue Account at year end. In 2003/04 the DLO charged an operating loss of £326,278 to the HRA

Considerations

6. It appears that the DLO is failing to recover its costs across the range of its responsive repairs and allocated work activities. Preliminary investigations carried out by Finance & Resources staff have confirmed the projected financial position. The Head of Shire Homes and Principal Projects Manager have carried out preliminary enquiries to ascertain the causes of the operating loss. Among the areas being investigated are productivity levels, accuracy of invoices charged, stores and supplies systems.
7. The DLO successfully tendered for new responsive repairs contracts in September 2004. In view of the projected DLO operating loss the assumptions made in the tender will need to be assessed and verified as deliverable.
8. Cabinet last month approved additional management capacity for the housing property management service as part of Shire Homes re-organisation. It is not

proposed to proceed with the appointment of a Property Services Manager until this matter has been investigated and appropriate actions agreed.

Options

9. The Housing & Environmental Services Director proposes to undertake an urgent and comprehensive review of the DLO's building maintenance operation which will include the following:
 - Analysis of repair order volumes and comparison between three contract areas
 - Analysis of DLO operatives 'productive' time including levels of sickness absence
 - Review of stores and supplies ordering systems
 - Review of out of hours service costs
 - Review of DLO invoicing and payment systems
 - Testing of assumptions within DLO tender for new responsive repairs contract
10. This work will be undertaken over the next two weeks with conclusions and proposals for remedial action reported to Management Team, and the Housing and Resources & Staffing Portfolio Holders prior to a progress report to Cabinet on 13 January 2005.
11. The review will be led by the Housing & Environmental Services Director and will involve interviews with DLO managers and operatives, process mapping, and a sample review of repairs orders, timesheets, supplies orders, and invoices. In view of the nature and urgency of this review external assistance will be sought.

Financial Implications

12. Any loss made by the DLO will be charged to the Council's Housing Revenue Account at the end of the financial year.

Legal Implications

13. The Council must budget to balance the Housing Revenue Account at the year end; if during the year the Authority becomes aware of any significant new expenditure, it must accommodate this by making a compensating reduction elsewhere or, if available, allocate the sum from balances.

Staffing Implications

14. The question of staff productivity will be investigated as part of the urgent review proposed above.

Risk Management Implications

15. The size of the Council's repairs and maintenance budget and volume of its activity means that failure of the DLO to recover its costs poses a significant financial risk to the Council's Housing Revenue Account.

Consultations

16. Initial discussions in preparation of this report have been held with the Finance & Resources Director, Chief Executive, and Head of Shire Homes.

Conclusions/Summary

17. The Council's DLO is failing to recover its costs, leading to a projected end of year loss of £580k. The causes of this operating loss and proposals for remedial action are to be the subject of urgent review by the Housing & Environmental Services Director, with a further report being provided to the January Cabinet meeting.

Recommendations

18. Cabinet is recommended to
 - (a) note the projected operating loss by the DLO
 - (b) agreed that the Housing & Environmental Services Director carries out an urgent review of DLO operations in order to identify the causes of the operating loss and puts in place appropriate remedial measures, and that a progress report is presented to Cabinet at its meeting on 13th January 2005.

Background Papers: the following background papers were used in the preparation of this report: None

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