# **Hexagon Housing Association Ltd**

# **Board of Management**

**24th November 2015**

###### Agenda Item 6

**Strategic matters arising from the Responsive Repairs Annual Report**

**Report by the Property Services Director**

**Lead Board Member Ian Watts**

**1.0 Summary:**

1.1 On the 28th October 2015, the Directors Group received an annual review report from the Responsive Repairs Manager. This report summarises the strategic issues arising from that review, which are as follows:.

* Contractor performance
* Budgetary control

It also reports on progress against actions agreed as a result of the equivalent report in November 2014.

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**2.0 Recommendation**

**2.1 The Board is recommended to discuss and agree the proposals as set out in paragraph 9.**

**Contractor performance: It is recommended that the Board approves the actions outlined and timetables for an interim report at the end of January 2016 to review detailed progress from the lead Board member.**

**Budgetary control: It is recommended that the Board approves the actions above and timetables for a report on the impact of the interim contractors due to cease at the end of January 2016 highlighting the lessons learnt and improvements made.**

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**3.0 Progress on matters identified at the last review:**

3.1 There were 5 strategic matters identified at the last review:

* Contractor performance
* Improving customer satisfaction and complaint performances
* Further developing all compliance activities, focussing on Gas and Legionella
* Enhancing budgetary control
* Enhancing Void performances

**4.0 Contractor performance:**

*Baseline:*

*4.1 This time last year we had just entered into our interim period between the demise of RR Richardson and the preparations for Breyer Group to formally takeover in April 2015 following mobilisation.*

*4.2 Complaints were at an all-time high, satisfaction was on its way down, we were mobilising 15 new contractors, identifying daily appointments that had not been met, works not completed and far too many jobs that had been confirmed as completed which had not been undertaken at all.*

*4.3 A temporary admin worker was brought in to call 1600 customers where we believed work had not been undertaken, so that Breyer could begin taking some of these on whilst gearing up for mobilisation.*

4.4 In December 2014 we were made aware of less than satisfactory performances by Breyer’s on a contract with an RP of similar size, and having undertaken a review of the situation with the RP involved and undertook a site visit to their HQ on the 8th January 2015 DG decided not to pursue the relationship and formally withdrew the offer.

4.5 This effectively signalled that we would have to undertake a new formal OJEU compliant procurement process once more.

4.6 This had a major impact on the service. We had little in the way of controls with no dedicated IT links, a return to paper invoicing, a manual work around for variation orders and a team of temporary surveyors which was further compounded by the departure of both the Manager and Senior Surveyor early in late January.

4.7 To resolve some of the uncertainty in January a decision was made to drop the 15 contractors down to 3 following a mini tender exercise at the end of March 2015 and to move forward on a fixed term contract with 3 contractors in April for a period of circa 9 months whilst the new OJEU procurement process was undertaken.

4.8 To mitigate further risks in the future from a sole contractor base, the operational area was split in 2 with circa 2000 units in each, one in the east and one in the west. This would ensure that we had 2 contractors in similar sizes of operation from which we could further control by having a compare and contrast activity between them. A third contractor was introduced to address communal area repairs, service days and large void activities as well as being on standby for any major issues whereby they would support either of those struggling to deliver in either of the areas.

4.9 In April the key risks were the potential to slide against the hard won recovery on the customer satisfaction won back following RRR’s demise. The other issue was the lack of familiarity with Hexagon’s stock for one of the three successful contractors following the mini-tender. 4.10 Without any direct IT connectivity with the three contractors for potentially another 9 months to a year meant that our manual work arounds and lack of live data would add further strain to our controls.

4.11 It was at this stage in late April / early May we were struggling with building a new surveying team, having unsuccessfully trailed a “temp to perm” system to in effect “try before you buy” scenario, we were in danger of changing surveyors on a 4 weekly basis.

4.12 With so many changes it added further challenges to the controls in place and as a result of the external audit, the business was given a management letter referring to the lack of control on the variations to works taking place at the end of the 2014-15 financial year.

4.13 One note to remember here was that the contractual safety net was fully in place and any costs higher that would have been charged by RRR could be claimed back, not an ideal position nor an excuse but a little bit of comfort in the “annus horribilis” we had embarked upon.

4.14 At this point in time we had 3 core contractors in place which had clear and contractual obligations to be met, two new areas in place and a new contractor focussing on just communal repairs.

4.15 However the effect was almost immediate with an additional month’s worth of orders being placed in the first two months of the 15-16 financial year, and with a backlog of communal repairs which far exceeded the average order value, the 1st Quarter’s financial performance was extremely disappointing.

4.16 This in part was fuelled by 11 disrepair cases coming to light which cost us many thousands of pounds to resolve. Contractors quickly made their mark and satisfaction, albeit anecdotally, began to rise. In the absence of detailed satisfaction data a 3rd party was engaged to undertake this activity and Q2 and Q3 will give a more balanced picture of performance so far.

4.17 With satisfaction showing signs of improvement and works being undertaken were achieving the standards we requested, and complaints falling, our next biggest challenge was the financial performance which is covered in section 6 below.

**5. Customer satisfaction & complaint performances**

*Baseline:*

*5.1 The dark days of RR Richardson’s albeit brief reign caused a significant amount of damage to our customers and only through concerted efforts at the turn of the year were we able to win back some hearts and minds.*

*5.2 Unfortunately one element of our internal processes was proving difficult for many to handle, this being our Contact Manager reporting tool that captured our complaints and measured performance.*

5.3 Despite many attempts to get all members of the team utilising it we experienced very poor take up and it was not until August 2015 that effective training could be arranged to assist greater understanding and therefore use.

5.4 Since then we have seen it being utilised more regularly and effectively, although not the most intuitive tool, exposure to it does help. Whilst the number of complaints has substantially dropped by over 60%, the CM reports still suggest that our actions are not meeting the published targets. Further work is ongoing on this matter to ensure compliance targets are met in full moving forwards.

5.5 During this period the Responsive repairs team and PSD have met with the Performance Review Group and responded to their concerns, it has also spent time with the Repairs Group and its Chair in open discussions and conversations about opportunities for further improvements. Three members of the PRG / RG were actively involved in interviewing and scoring of prospective contractors on these very issues during the OJEU process.

**6.0 Compliance focusing on Gas and Legionella**

Baseline

*6.1 September 2014 Gas compliance had received its first Significant finding in more than a year and that Legionella received its second fundamental finding in a year.*

*6.2 The Gas finding related to regular quarterly reconciliations; in the past evidence had been sought and given; however on this occasion there was no retained evidence to prove that it had been completed.*

*6.3 The Legionella finding was that processes needed to be put in place to ensure that all remedial actions resulting from water risk assessments are carried out in a timely manner*

6.4 Immediate action was taken and in respect of the Gas reconciliation the department’s processes were further strengthened and evidence of reconciliation is retained for 12 months confirming the activity had indeed taken place.

6.5 The Legionella action points were addressed immediately with the creation of a central log recording all actions arising from water risk assessments, confirming a deadline for remedial works to be undertaken by the contractors responsible, liaising weekly and signing off when complete.

6.6 In the past 12 months we have focused our attention on the Co-op Gas performances as at times, this was impacting on the overall performance of the business. Following some clear instructions and the issuing of several notices of non- compliance, we have seen a sustained and improved performance within the Co-ops.

6.7 One incident temporarily caught us out where several boilers within a newly completed unit which was still within the 12 months defect period were deemed to be out of compliance. This identified that in some cases either the completion certificate is produced ahead of handover or certain elements are completed ahead of time due to specific requests from our funders. Data transfer between development and responsive repairs must be up to date and any potential issues in the future need to be flagged up between departments as a matter of course.

6.8 During the year we have seen a great deal of progress in the compliance activities within the department, however this is also being reflected in the associated costs where more reviews, audits, servicing and regulatory changes have to be made.

**7.0 Enhancing budgetary controls**

*Baseline:*

*7.1 In September 2014 we were in the process of defining and implementing a new finance reporting tool, based on an excel suite of reports designed and developed by Mazars.*

7.2 After some teething issues it went live at the beginning of this financial year and offers a data set that enhances our understanding of our contractor’s financial performance and our internal accrual systems.

7.3 The suite has proved to be invaluable in recent months where we have been interrogating it on a weekly basis seeking to identify where additional costs are being derived from.

7.4 Here it is important to recognise that in the process relating to Responsive Repairs only information that is entered into Genero will find its way into the new system.

7.5 In June, the unit had its second indication of financial control weaknesses ( the first being the auditor’s letter on Variation Order controls) when we identified that the average cost per job was being far exceeded.

7.6 As the only financial data available to us from our contractors is via their paper invoices which relied upon our manual inputting them into the Genero system, attention was given to this process. It identified that large number of invoices were being sent in up to 8 weeks after completion and together with the pressure to maintain cash flow from our contractors whilst keeping our outstanding repairs invoices down to a minimum, mistakes were indeed happening.

7.7 Q1 figures stated that we had a position of £304k over budget, at the end of Q2 we had a position of £419k over budget and whilst circa £310k of that can now be accounted for there is still £109k in higher costs to be fully understood and explained.

7.8 It was in the process of undertaking a detailed review of all of our costs where we identified that circa 69% of our invoicing for repairs was way below our average cost per job of £143.79 inclusive, at a figure of circa £78 inclusive. This indicated that our focus needed to be turned towards jobs above the £144. In the six months so far in the 2015-16 year 1539 jobs have cost us £695k that is 31% of all works have cost us 76% of our expenditure.

7.9 As a result we have looked carefully at our Variation Order processes to see if the revised processes implemented after April 2015 were still performing well. Whilst on the whole they are providing us with some comfort, there are times at which the human element has faltered. By delving deeper we identified an issue with the £50 self- authorised variation orders granted to our contractors; these are intended to speed up any minor changes to works on site, however, this flexibility had been abused on many occasions.

7.10 This only came to light as a result of the detailed reviews of each invoice; several additional SOR codes had been regularly charged for, whilst at first sight, they are totally in line with the repair that was being undertaken, it is only detailed knowledge of the SOR codes and make up that identified that there had been some layering or job building taking place.

7.11 The job building is mainly restricted to plumbing activities, around overhauling stopcocks, fitting ball valves, adding toilet pan overhauls to cistern overhaul jobs, work that would have cost us £35 now were costing us £80. Whilst this review is not yet fully completed we are anticipating recovering about £130k.

7.12 A detailed and timed action plan has been implemented following, discussions with Directors Group and shared with our lead Board Member as a result of our root and branch review of our processes, practises and on the ground activities.

7.13 Until permanent IT linkages and the controls associated with it are established, our manual work arounds will be subject to occasional failures, and whilst we are constantly improving our controls, the human factor will continue to be an area of weakness for us.

**8.0 Developing void performance**

8.1 The baseline position at the end October 2014 was 41 days turnaround, at the end of Q2 September 2015 the position is 36 days.

8.2 A review by the Business Improvement Manager took place and identified the gaps in the management of certain elements of the process where time was lost between departmental activities. This project is in the final stages of completion and final enhancements are expected in the next month.

8.3 By continuing with our dedicated voids surveyor, we have seen both quality and price being improved upon; however from time to time there are voids which serve up many challenges not only in terms of costs but time scales, especially those requiring damp remedial works or suffering from higher numbers of viewings / refusals.

8.4 We have set some tight targets for the repairs element -which have been achieved in the last 12 months but not consistently - of 5 days for a Normal Void turnaround and 14 days for an Unlettable Void.

8.5 This is a contractual compliance element with financial penalties in our new contracts from 1st February 2016.

**9.0 Key strategic matters arising for the next 12 months into 2016-17**

***Contractor performance:***

9.1 From the outset contractors have been made aware of our targets and therefore their own performance requirements; these have been carefully enshrined within their contracts and clear performance targets have been set.

9.2 Our two key contractors will take part in weekly operational meetings with Area surveyors who will be striving to achieve their targets as well as beating the other area contractor and surveyors.

9.3 Monthly and quarterly meetings are established where Director level strategic discussions will take place and every 6 months the Chief Executive and PSD will meet with Owners / MD’s of businesses to ensure contractually we are on target.

9.4 Our MAP (minimum acceptable performance) targets are relaunched with the new term contracts on the 1st Feb 2016 and all contractors are aware of their importance and to emphasise that a financial penalty clause has been inserted into the contract to strengthen this point.

9.5 One of the key focal points for both HHA and the contractors will be to ensure regular and robust data flow on customer satisfaction; all contractors will be obliged to provide us with data at least weekly to begin with improving to daily once all IT connections are in place. All complaint responses are subject to compliance with HHA timescales and weekly reviews will take place at the operational contractor meetings.

9.6 KPI’s will be reviewed at each monthly meeting and be the subject of monthly reviews at DG. Several new operational KPI’s have been suggested as part of the tender process which will be discussed further in the new year.

9.7 One such element will be the compare and contrast activity between our two main contractors, looking at performance, P1,P2 and P3, End to end times, Voids, complaints, variation order levels and average costs per job. These will be shared and used to enhance performance.

9.8 Finally we will be working with all contractors to improve our value for money offerings and creating a weekly dashboard on performances to ensure a visual display keeps such activities in sight.

**It is recommended that the Board approves the actions outlined above and timetables for an interim report at the end of January 2016 to review detailed progress from the lead Board member.**

***Budgetary control:***

9.9 The pressure on the current budget is unprecedented and actions currently identified and those that will be derived from the action plan underway will be targeted to be embedded by mid-January 2016 at the latest.

9.10 In the absence of IT links and controls, further efforts and increased activity is underway in stemming the cost overruns that have taken place to date.

9.11 A review of the first 6 months’ invoices is underway, looking in detail at where job building may have happened, SOR codes which have been over used and specific areas of activity where our concerns are focussed.

9.12 All works over £420 + vat have to be countersigned by the Responsive Repairs manager before they can by passed to the contractor; this will enable a review of what is a repair and what is a replacement. This will then be taken further to establish what is actually required as part of the repairs process and what should be looked at as part of the Improvement or Planned process.

9.13 Both Managers in SIP and RR will have roles to play which may well result in the creation of a Minor Works element within the budget; this will not be in addition to monies already identified in the budget but reallocated and ring fenced.

9.14 The Administration section which has been covered by a back fill post and a part time post is benefiting from a detailed review with HR to see if we can establish a permanent team where additional training and support can be given and a leadership role to ensure our checks and controls are fully operational at all times.

9.15 Preparation for the mobilisation of new contractors will commence mid-November and the testing of new IT controls and interfaces has to be completed by mid-January. Meeting with IT and testing has to take place after Christmas 2015 and any issues within the Genero operating system must be sorted by the end of January 2016 at the absolute latest.

9.16 To emphasis the budgetary aspect and the IT implications moving forward, the PSD will be addressing all contractors by the end of November 2015 outlining what is expected, what will not be tolerated and the use of contractual clauses will be invoked if concerns on financial mismanagement or irregularities are identified.

9.17 The Mazars reporting system will be further developed during the next 12 months ensuring that both Responsive Repairs and Finance are always working from the same one version of the truth.

**It is recommended that the Board approves the actions above and timetables for a report on the impact of the interim contractors due to cease at the end of January 2016 highlighting the lessons learnt and improvements made.**

**10.0 Conclusion:**

10.1 Following the Responsive Repairs Managers annual report to Directors Group two strategic issues were identified for the next 12 months. Members are asked to note the contents of this report, comment as appropriate and approve the two recommendations made above which are highlighted in bold.