

 EXECUTIVE 3rd September 2014		Agenda Item No. 9
Title	Building Control Joint Service	
For further information about this report please contact	Tracy Darke	
Wards of the District directly affected	All	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No	
Date and meeting when issue was last considered and relevant minute number	9 th October 2013	
Background Papers	Executive report 9 th October 2013, FFF Savings, Service Area Plan.	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes Ref: 519
Equality and Sustainability Impact Assessment Undertaken	Yes/No (If No state why below)

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive		Chris Elliott/Bill Hunt
Head of Service		Tracy Darke
CMT		
Section 151 Officer		Mike Snow
Monitoring Officer		Andrew Jones
Finance		Mike Snow/Gary Walker
Portfolio Holder(s)		Cllr John Hammon
Consultation & Community Engagement		
Employees from each authority affected have been involved in developing the proposal, including knowledge sharing and development of the model for the joint service. Discussions have taken place with Unison (the only union representing members across each of the four authorities). Fortnightly meetings have been taking place with all the staff and a Project Board has been operating prior to the commencement of the trial of the joint service.		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		
None		

1. SUMMARY

- 1.1 The purpose of this report is to provide members with an update on the trial of the Joint Building Control Service and to seek approval to agree to move to a permanent arrangement with Warwick District Council (WDC) to take over responsibility for the running of Building Control for Coventry City Council, Rugby Borough Council and Daventry District Council and that all of the staff are transferred to WDC.

2. RECOMMENDATION

- 2.1 That Executive notes the success of the trial scheme that has been operating since January 2014.
- 2.2 That Executive approves the principle of Warwick District Council taking over responsibility for Coventry City Council, Rugby Borough Council and Daventry District Council's Building Control Services on 1st April 2015, or as soon as practicably possible, with Building Control staff from those authorities being transferred to Warwick District Council under the TUPE regulations.
- 2.3 That Executive notes that, subject to approval of recommendation 2.2, the proposals will still require formal agreement from Coventry City Council, Rugby Borough Council and Daventry District Council and will not progress until that is secured.
- 2.4 That Executive agrees that if any of the other authorities decide not to approve the arrangement, the proposal can proceed with the remaining authorities.
- 2.5 That Executive delegates authority to the Deputy Chief Executive (BH), the Head of Development Services and the Head of Finance, in consultation with the Development Services Portfolio Holder, to agree the detailed working arrangements and legal agreements necessary to establish the proposed joint service.
- 2.6 That Executive approves the future use of the WDC Building Control Reserves, up to the value of £85,000, to support and improve the existing WDC IT system, to enable migration of the data from each authority and ensure that the proposed joint service can operate from a single IT platform when established.

3. REASONS FOR THE RECOMMENDATION

- 3.1 WDC has been working very closely with other nearby authorities, Coventry, Daventry and Rugby to explore and subsequently trial a joint service. The scheme has been evolving since February 2013, and formally went into a trial in January 2014 as Coventry staff moved to WDC, and Daventry staff moved to Rugby BC as a satellite office. A Project Board, consisting of officers from each authority, has enabled valuable input into the project.
- 3.2 WDC had originally only been in discussion with Coventry City Council about a joint service and it was felt that WDC should lead due to its good reputation. Rugby and Daventry then later expressed an interest to join, and whilst combining four authorities service at the same time is complicated, it was felt necessary to take the opportunity when it arose. The trial of the service was to give all partners confidence in WDC being the Lead Authority for the shared

service. Added to this we felt we could develop a service that others in the sub-region could join later. It is worth noting that there has been interest shown by several other authorities.

- 3.3 Whilst there have been many issues to resolve, the trial has been extremely useful and helped to give a clear picture about the benefits to WDC and Building Control in a wider sense, and has allowed WDC to be clear about the responsibility it is taking on. It has also given staff the opportunity to see the benefits of working jointly together, and to be able to understand how we can take the IT system forward, minimising the cost and disruption across the service. It has demonstrated to our customers that we are providing a new and more competitive service, which they have had input into developing with us. It gives the customer more flexibility as they can submit applications to one service for all four districts and receive a consistent service.
- 3.4 As a result of the success of the trial, officers are of the view that to retain and grow market share and provide a service that competes with the private sector retaining choice for the customer, the joining of the services is the way forward and this is supported by the National Local Authority Building Control body (LABC).. There have been no significant issues that have arisen through the trial that would prevent this as being successful, other than developing the IT system which is required to facilitate the new joint service and improve efficiencies. We have been in discussion with other shared and joint services, and the indications are that this is one of the better delivery models available. Through economies of scale, it results in the reduction of cost of service overall.
- 3.5 There are many further detailed issues that need to be addressed before the service can function fully. Some of these changes have been held back due to the need for final agreement to go ahead with the permanent arrangement, such as finalising the IT solution, purchasing equipment etc. The need to have a satellite office at Rugby BC has become very apparent during the trial, and although initially it was felt that having the whole four authorities located in one place may have been best from a staff relationship perspective and for customers, the practical working arrangements across a large geographical area made sense to split the offices. Whether this is the long term solution is not yet clear, but certainly in the short to medium term, this is the best arrangement. Alongside this, suitable legal agreements need to be in place to cover such things as:-
- The transfer of staff from Coventry, Daventry and Rugby to Warwick
 - Arrangements for charging non-fee earning work to these three authorities
 - Arrangements for the shared service office satellite office at Rugby
 - Transfer of Building Control Reserves from other authorities to Warwick
- 3.6 Officers consider that the opportunity to enable other authorities to join the service should be available. There has been interest from other authorities in the sub-region to join, and we will continue to have dialogue with those and other authorities to continue to grow the service. This helps to showcase the good work WDC has been doing on Building Control.
- 3.7 Officers have explored a number of IT solutions for the joint service as it is unfortunate that each authority currently have a different system. However, having assessed three options, as set out in Section 7, it is considered that having all authorities transferring over to WDC's existing system and retaining the hosting of this system on site will work well. However, this will require investment in the system as there is a cost for each of the authorities migrating

the data, not only in staff time, but also for the software supplier. Officers are of the view that the ring-fenced reserve account for building control can support this cost. Currently only WDC and Rugby have reserves to be used. Daventry have indicated a willingness to financially contribute to the project, and Coventry is to be consulted further on this point. It is therefore proposed that Executive approves a maximum sum that WDC would pay towards the costs, which is capable of being reduced subject to subsequent negotiation with the other proposed partners.

4. **POLICY FRAMEWORK**

- 4.1 **Policy framework** - The proposal fits into the strategic context of the Council as it shapes the service to enable it to be flexible and cost effective. It demonstrates good partnership working across the sub-region. For residents who live in the district, it maintains a service that gives choice, and ensures that the district is a safe place to live. The scheme meets the aims of 'fit for the future'.
- 4.2 **Fit for the future** – The proposal fits into the principles of Fit for the Future in that it will provide a service that is lean and efficient, offering good customer service and provide resilience in the future in retaining a service in-house that will offer best value for money.

5. **BUDGETARY FRAMEWORK**

- 5.1 The services offered by Building Control fall into two broad categories of statutory services for which no fee can be charged and other fee earning work. The former category is a charge to the General Fund whereas the latter operates within a ring-fenced financial regime. The Building Control Reserve account operates on a rolling 3 year basis with an expectation that the account will break even over that period.
- 5.2 The statutory non fee earning work includes, for example, all aspects of inspecting and advising on dangerous structures or demolitions, inspections of sports facilities, all general public enquiries, advising statutory agencies and any application aimed at benefitting a disabled person. In broad terms the fee charging element covers anything else, primarily work that involves checking plans, and/or undertaking site inspections.
- 5.3 At the start of the budget year a budget is set which assumes that the fee earning work will break even, leaving the cost to the authority of the statutory non-fee earning work. CiPFA guidance states that the non-fee earning element should equate to around 30% of the total cost of services, although this will vary between different authorities, depending on the character and nature of the area. The account is then monitored (and adjusted as appropriate through the year). Any surplus or deficit on the fee earning element is, at the year end, transferred to the BC Reserve.

- 5.4 The table below sets out the likely financial position for each authority, based on the 2013/14 accounts:

	Coventry	Rugby	Daventry	WDC	Total
	£	£	£	£	£
Current Service Cost	525,882	237,543	272,000	602,596	1,638,021
Service costs transferring +	311,768	187,092	199,000	602,596	1,300,456
Non-Fee earning work @ 30% -	93,530	56,128	59,700	180,779	390,137
Cost of fee earning work =	218,238	130,964	139,300	421,817	910,319
Income -	423,000	218,898	122,000	439,838	1,203,736
Surplus on fee earning work =	204,762	87,934	-17,300	18,021	293,417

Of the current service costs of Coventry, Daventry and Rugby, only a proportion of these will transfer to Warwick as the proposed joint service is formed. These primarily relate to the costs of the staff transferring, associated transport costs etc.

As the table above shows, the overall cost of proposed joint service of £1,300,456, less 30% which equates to £910,320. Income is £1,203,736, giving a profit of £293,417.

- 5.5 The service will incur additional support service costs. These are likely to accrue from:-

- Professional services provided by WDC, eg. HR, Finance
- Additional ICT costs
- Costs of the satellite office at Rugby (office accommodation, ICT etc)

These costs will increase the cost of the fee and non-fee earning work, and so reduce the surplus shown in the table above. Of course, it is well known that the service should not be in profit, so this income, if realised should be used to reduce the fees and/or recycled back into improving the service.

- 5.6 Other points of note with regard to each authority are set out below:-

Daventry

There are some savings that can be made through managing the budget differently, however, it is recognised that there is a need to transfer some of the resource to support other areas that are struggling with the high level of work. There is also a need to market Daventry's service better.

Rugby

Rugby also has a ring-fenced reserve account of in the region of £60K which should be invested into the new service.

Coventry

Coventry has had a significant fall in income over the last 5 years. There has been in that period a reduction in the number of employees and more recently income has started to improve. Whilst there are no reserves, there has been a lot of work done to reduce the cost of the service, and with the reduction of the majority of the cost of support services, and an increase in income the service is currently breaking even.

Warwick

WDC has a very healthy ring-fenced reserve account. It is anticipated that this, together with the reserves from Rugby will assist in the cost of the IT solution for the joint service.

- 5.7 Each authority has a set fee rate per hour which its fee schedule is predicated on. The calculation of the fee rate was done by each authority when the fees were de-regularised in 2010. The difference in the fee rate is so insignificant, that an average rate will be taken of the current fees to form the fees to be charged from 1 April 2015. These will be included within the Fees and Charges Report to the Executive in October. These fees will be re-assessed ahead of the financial year 2016/17.
- 5.8 The detailed accounting arrangements are still being determined, along with the arrangements for charging each authority for the non-fee earning work.

6. RISKS

- 6.1 The Development Services risk register relating to Building Control includes the impact of the joint service not going ahead on WDC's service.
- 6.2 One of the key risks for WDC taking on the joint service is that income is not guaranteed and the market has been unstable over the last 5 years. However, each of the services have survived through this, and whilst the end of year figures show Daventry and Coventry in a deficit, if they had been in a shared service, this would have not been the case. The risk for those authorities is that the service may not survive if they decide not to go ahead. Rugby's service has been reliant on seconding some of the staffs time to other areas, which is not sustainable in the future as a reliable income stream. However, the risks associated with staying as separate authorities are that each individual authority is vulnerable to a competitive market and not being able to deliver the needs of the customer to a level the private sector can. At WDC we have seen the impact of one officer leaving the service and becoming an Approved Inspector, and if the service does not develop and grow, then this may continue to happen with other staff.
- 6.3 A further risk for WDC to consider is the impact of a drop in income, as the authority will have all the staff transferred across, and will therefore be liable for any redundancy costs that may occur. It is not possible to mitigate against this, other than the service as a whole is particularly lean as a number of staff have been lost from the Coventry service, and recent new recruits have been taken on with temporary contracts to build in this buffer.
- 6.4 Finally, the three authorities will need to pay for their non-fee earning work to be delivered, which the joint service would wish to do. Each of those authorities will need to be assured that the quality of the service to be delivered on their behalf is acceptable, and this can be addressed through an SLA which will include expected outputs and measures.

7. ALTERNATIVE OPTION(S) CONSIDERED

- 7.1 **Delivery options:**
For the reasons set out above, a 'do nothing' option is not considered to be a viable option. Also, the other authorities that are part of this proposal may set up as a joint service without WDC and be in direct competition with WDC.
- 7.2 Outsourcing the service has been rejected as this would result in the termination of the fee generating part of the business although the Council would still be required to provide a service that met the statutory non-fee earning element of the service, adding to the General Fund costs. Outsourcing

would also mean a loss of staff and potentially have a detrimental impact on the Council's reputation. This authority recognises the importance of maintaining the service as part of the Councils vision for providing good, cost effective services for the residents of the district.

7.3 **IT options:**

IT will remain a significant cost for each service until we move all services over to the same system operating at WDC. There has been a project team considering IT solutions, and it would be ideal to have each authority on the same system as WDC. There are three options to consider:

- (i) Continue with the current systems, and all new cases that are submitted are put into IDOX. There will be all the historical data including three years of live files that will still require access into the current system... Officers could continue to access the old system for history. The only benefit for this is that it is the cheapest solution, but not good long term. From an operational point of view, the central administration team will ultimately need to access four systems on a day to day basis, which is not practicable or acceptable.
- (ii) Migrate each of the services over to IDOX to deliver one solution with the system being hosted off site. This is an attractive solution but expensive. There will be an initial migration cost in the region of £225K with an additional annual cost in the region of £40K. Furthermore, there is a resource cost to each authority in transferring the data to allow IDOX to migrate it into our system. Whilst data migration is always fraught with difficulties, the end position is one system which works well and is easily accessible. All upgrades and changes happen automatically at no extra cost.
- (iii) The third option is as two above, but hosted on site at WDC. This gives the one system solution, but is significantly cheaper on the annual maintenance costs when grouping the authorities together. The cost of the migration is likely to be in the region of £85K with an annual maintenance cost of approximately £8K thereafter. The disadvantage is the need to buy any upgrades or changes to the system each time, which can happen once or twice a year and cost in the region of £6-8K .

8.0 **BACKGROUND**

8.1 Building Control (BC) services are changing radically across the country as Approved Inspectors (AI's) take more of the market share. They work in direct competition with Local Authority BC services and the Government also appears to be encouraging LA's to consider different operating models based on the way the private sector is working. This is further borne out by the fact that last year they announced that LA's could apply for AI status, which gives wider scope to attracting other areas of work, in particular cross boundary. Therefore, LA's are being focused to adapt their traditional service offer and consider adopting new commercial models that offer a clearer focus on the needs of their business customers.

8.2 Some LA's have already merged their building control services with their neighbours, working on the principles of economies of scale, helping to reduce costs and enable delivery of a more attractive service to the customer by providing more specialist skills. Officers have seen successful shared services

such as Lichfield/Tamworth/South Staffs and have been in contact with the Lead Officer to understand all the practicalities of doing such a joint venture, and the advice is that this works well, as standing still and complacency are not an option. Locally the best example of this is Birmingham City Council who has established an arms-length entity to run the BC services, and have recently received AI status. In addition, the Local Authority Building Control Association (LABC) which is the member organisation representing LA's across England and Wales, has been working closely with us to progress the joint service and are very supportive of the proposal. They can draw on many models across the country from their experience and therefore, much weight should be given to this advice. Even where an individual service is breaking even and financially stable, circumstances can change very quickly in such a competitive market.

Benefits for each authority:

- 8.3 **WDC:** Although BC has been fairly stable for a number of years and has developed a very good reputation, maintaining in the region of 75% of the market share (indeed one experienced agent has suggested it is 'one of the best'), it is not immune from the national trends. Income has covered the cost of the service excluding non-fee earning which is in line with CIPFA guidance. Profits have built up and the reserve account is in the region of £250K, which should be re-invested back into the service. However, last year, we lost an officer who became an AI and did take approximately £60K business with him through established contacts, so we cannot afford to be complacent. The pattern of income over the year was less consistent and perhaps improved just before year end due to an imminent change in the regulations. It is clear that if the current trend is unchecked the future loss of income to the competing AI market is likely to rise significantly.
- 8.4 Officers consider that a joint service option offers the best means of addressing the threat posed by the changing external environment and the growing competition from Approved Inspectors. Also, building up a joint service that is large enough to respond to customer's needs and have staff trained in specialisms such as fire risk assessments and structural calculations will be more cost effective, and also give the staff a chance to develop themselves in other areas.
- 8.5 Given the close relationship that WDC and CCC had developed recently, it was felt opportune to consider the benefits of a joint service. Then with further interest from Rugby and Daventry, the proposal evolved
- 8.6 **Coventry City Council:** This service has suffered over the last five years primarily due to the change in economic climate and loss of major commercial contracts as many developments were put on hold. The perception of the service by the public historically has been poor, which has been addressed to a great extent over the last few years as there has been significant changes taking on board customer feedback and comparing the service to others. However, due to the loss of income, CCC has been exploring alternative options for a number of years. The decision to join services with WDC is an alternative to outsourcing the service to the private sector, the latter option may ultimately result in the customer losing choice of service and the staff potentially losing their jobs. Since the trial has commenced, the number of staff has reduced and WDC has been assisting in covering some of the work and re-charging CCC. In addition to this and possibly as a result of the promotion of the joint service, the amount of income seems to be improving. This helps to demonstrate that agents like the joint service model where they can submit a number of

applications for different areas all at the same place and have a range of officers who they can work with, giving them choice. Whilst through the trial there have been IT issues, some of these have slowly being resolved with a better solution mapped out. However, this can only be implemented on agreement of the permanent arrangement, due to the financial investment required. The joint service trial has allowed CCC BC to work differently, including having the administration staff back within the service area and it is felt that this has been beneficial.

- 8.7 **Daventry District Council:** This service has been reducing over time as AI's have taken over quite a large part of the market share (approximately 50%). The service has suffered as two of the four staff has been on long term sick leave, resulting in the remaining two officers struggling to keep up with the work, consequently losing further business. The officers have now returned to work and there is the opportunity of marketing the service better, as there is a considerable amount of development taking place in Daventry area. Daventry officers have already had Member agreement to go ahead with the joint service, subject to WDC's agreement.
- 8.8 **Rugby Borough Council:** Rugby's service, like WDC, has a very good reputation and has maintained a significant amount of the market share (approximately 80%). The Authority has a very forward thinking approach to BC and sees the benefits of the larger service in the sub-region and beyond. Staff has been very co-operative in supporting the joint service, particularly in accommodating Daventry's service in the Rugby office. The service has made a small profit in recent years and this has gone into the reserves, although this has been partly as a result of two of the staff being temporarily seconded to other service areas. The reserves are in the region of £60K.

Effect on Support services

- 8.9 Support services will be impacted upon for the joint service. Clearly these services in the main will fall away for Coventry and Daventry, but will remain to some extent for Rugby, and will increase for WDC as it takes over the responsibility of the services, such as HR, IT, Finance etc. Accommodation costs for Rugby will not change as they have accommodated Daventry in the same space they were using for just Rugby staff. WDC accommodation cost will slightly increase as they have accommodated Coventry staff, although if the Council moves offices, and progresses with flexible working arrangements, there may be opportunity to reduce accommodation costs.
- 8.10 Finances are being aligned across the shared service. The intention is that there will be one account operating from 1st April 2015. One of the key issues that will need to be understood is the non-fee earning part of the accounts, as this cost will remain with the respective authorities. Officers have been doing timesheets to quantify the time spent on non-fee earning work so that there is transparency in the amount being charged back to each authority. The arrangement may be through a Service Level Agreement, which can be regularly reviewed. Of course, each authority can make a separate decision to outsource the work if they wish. The industry indications are generally around a 70/30 split between fee and non-fee earning work, 30% being the non-fee earning.
- 8.11 Legal services at the County have been assisting on the insurance and liabilities of the joint service. Agreement has to be made on who takes on any liabilities, although the general agreement through the project board has been that any

cases that arise on work prior to the joint service stays with the respective authority.

- 8.12 Human Resources at WDC have provided a very useful timetable of each event that will take place to achieve the joint service, particularly in relation to TUPE of staff across to WDC and the roll-out of the new structure. This also includes the stages for reporting to employment committee as the establishment will change. The stages of consultation working with staff and Unison (this is the only union that staff are with across the four services) are very important, although we have been meeting with staff fortnightly through the trial period to keep them informed of progress and to attempt to address any issues or concerns the staff may have. Staff have and will continue to help shape the new service. The TUPE consultation is proposed to commence October 2014.