

**PAPER NO. 4**

**REPORT TO THE EXECUTIVE MEETING OF 15<sup>th</sup> JANUARY 2018**

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**Meeting:** Executive

**Date:** 15 January 2018

**Subject:** Provision of Building Control Services by Blaby District Council

**Report of:** David Atkinson - Head of Planning and Regeneration

**Portfolio Holder:** Councillor Jonathon Bateman-Environment and Regulatory Services

**Status:** Decision

**Relevant Ward(s):** All

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**1. Purpose of the Report**

- 1.1 To seek approval to enter into an agreement with Blaby District Council (BDC) to provide Building Control services on behalf of Harborough District Council (HDC) as set out in this report.

**2. Recommendations:**

- 2.1 **Subject to the approval of the 2018/19 Budget at Council on 26 February 2018, that Executive agree that Blaby District Council will provide the Building Control Services detailed in paragraph 4.9 of this report, with effect from the 1st April 2018; and**
- 2.2 **Subject to the approval of 2.1 above delegate authority to the Head of Planning and Regeneration in consultation with Head of Legal Services and the Environment and Regulatory Services Portfolio Holder to negotiate and enter into an agreement with Blaby District Council under Section 1 of the Local Government (Goods and Services) Act 1970 and Section 113 of the Local Government Act 1972 (and regulations made thereunder) for the provision of the Building Control service to Harborough District Council and to take any steps necessary to ensure that the agreement is implemented.**

**3. Summary of Reasons for the Recommendations**

- 3.1 The provision of Building Control services by BDC on behalf of HDC will provide the opportunity to deliver a more robust, resilient and competitive commercial Building Control service, that is able to operate more effectively in an increasingly competitive environment.
- 3.2 HDC will enter into an agreement with BDC for the provision of Building Control services. The agreement will set out the details of the Building Control

service to be provided and also place certain officers at the disposal of HDC to provide those services.

- 3.3 The operation of the agreement will be reviewed on a quarterly basis between the Head of Planning and Regeneration and the Leisure Services Group Manager at BDC. Performance measures will also need to be agreed as part of the negotiation of the final agreement, which will be reported to the Executive as part of the usual performance management reports.

#### **4. Key Facts**

##### **Background**

- 4.1 The Building Control service undertakes both statutory and non-statutory work to implement and enforce Building Regulations.
- 4.2 Over the last two years the HDC Building Control Team has lost key members of staff to either the private sector or other Local Authorities. This has resulted in the need for HDC to employ agency managers and Building Control surveyors on a temporary basis, which is not economically sustainable, as the service aspires to be run on a cost neutral basis. It has also resulted in the addition of market supplements to existing posts and whilst this has helped with recruitment and retention it clearly has an additional cost.
- 4.3 Set against the above staffing issues and exposure to competition, there is the need to increase resilience, grow income and deliver efficiencies.
- 4.4 Due to the staffing issues HDC has procured a Building Control Manager and an Administrative Technician on a part time basis from BDC since January 2017 and this is due to expire on 31 March 2018.
- 4.5 The purpose of this arrangement is to:
- a) Provide management and leadership support to the Harborough Building Control team;
  - b) Assist in reaching a cost neutral service;
  - c) Determine a potential future delivery model for shared working; and
  - d) Provide administrative and technical support and develop IT systems for the benefit of both parties and share best practice and learning.
- 4.6 This ongoing work has been regarded as beneficial and successful and this has acted as a driver to explore in more detail the opportunity of a closer working arrangement.
- 4.7 In addition to the discussions with HDC, BDC has also been working with Oadby and Wigston Borough Council (O&WBC) and this has resulted in O&WBC reaching a similar agreement with BDC to provide a Building Control Service for them which is due to start early in 2018.

- 4.8 This report recommends a model for service delivery that would operate for an initial 3 year period with the option to extend for a year and then a further year (3+1+1). The proposed model for delivery offered by BDC is an income share model where BDC will provide the service, establish the parameters for operation, manage performance, governance and business delivery and provide staff to cover vacancies at the partner organisations.
- 4.9 The detail of the Building Control Service will be set out in the agreement, but will provide the following:
- Management and delivery of the Service;
  - Leadership
  - Marketing and branding;
  - Driving growth and income levels;
  - Preparation, implementation and review of Business/Service Plans;
  - Overseeing all Performance Management; and
  - Staff Recruitment.
- 4.10 The service will be referred to as the Blaby District Council Building Control Partnership and other local authorities may enter into similar agreements with BDC in the future. The Partnership aims to generate growth and income and provide more frontline capacity to ensure flexibility in service delivery thereby providing a strong and responsive service and realising wider cross boundary benefits. It will provide resilience to enable the services of its partner Councils to better compete in the commercial environment. The proposed model for delivery will also permit the opportunity to tackle a known shortage of Local Authority Building Surveyors and create an opportunity for career progression.
- 4.11 The proposed model is one where the Building Control Service will be provided through a combination of staff employed by BDC with existing staff still employed directly by HDC.
- 4.12 The income generated will be retained by HDC, however there will be an income share percentage for BDC. This is partly to account for their role in managing the service and to ensure that there is a clear incentive in growing the service. The proposal is that in Year 1 BDC will receive 5% of income generated increasing to 7.5% in Year 2 and 10% in Year 3.
- 4.13 In recent year the cost of the Building Control Services has exceeded the approved budget due to the need for interim managers and Building Control Surveyors. This also limited the Council's ability to grow income and led to the loss of some commercial plan checking to other providers. This has also necessitated in 2017/2018 the need to pay honoraria and undertake re-grading's to retain the existing staff. Factoring this all into the budget has resulted in the net cost of the service including central recharges increasing from £124K in 2017/18 to £210 in 2018/10 assuming that HDC enter into the partnership.
- 4.14 The proposed structure to deliver Building Control Services for HDC is for 6.8FTE Building Control staff with 3 FTE staff employed by HDC and 3.8 FTE provided from BDC. The salary cost in 2018/19 is estimated to be £364K. In

addition to the salary costs HDC will pay a new 'income share' as detailed in paragraph 4.12 above. All other costs and central recharges will remain the same.

4.15 Through the introduction of different working methods and seeking an increased market share BDC is forecasting increased income for HDC and have made the following assumptions;

- for 2018/19: **£314K**,
- for 2019/20: **£352K**, and
- for 2020/21: **£373K**.

This income will be subject to the income share arrangements detailed in paragraph 4.12 above.

**Table 1 Harborough District Building Control Service Predicted Costings within the Proposed Partnership: 2018 - 2021**

	<b>18/19 (Partnership)</b>	<b>19/20 (Partnership)</b>	<b>20/21 (Partnership)</b>
<b>Staff Costs</b>	£363,934	£374,852	£386,097
<b>Income Profit Share (paid to BDC)</b>	£15,779	£26,407	£37,259
<b>Income</b>	*£313,575	**£352,088	***£372,586
<b>Costs</b>	<b>£66,037</b>	<b>£49,170</b>	<b>£50,769</b>

\*This forecast income level is based on 2.5% growth on the income forecast in 2017/18 of £306,165.

\*\*The forecast income level in 2019/20 is based on a further 12% growth.

\*\*\*The forecast income level in 2020/21 is based on a further 6% growth.

The forecasts in Table 1 assume marginal income gain in 2018/19 through standardisation of processes and fee-earning potential per staff member. It is forecast that the significant gain will be made in 2018/19 where income is forecast to increase by £38,513 offset by an income share contribution to Blaby of £10,728. Further income growth is forecasted in 2020/21 linked to efficient working and increased market share.

4.16 The above table illustrates that the proposed delivery model is cost effective. The proposed model shows that HDC entering into an agreement with BDC will reduce costs going forward. The proposed delivery model will also provide a static staff structure that does not rely on agency staff to support the structure. There is potential for income growth targets to exceed those forecast for the benefit of all partner Councils, which will serve to further drive

down any costs incurred by the Council.

- 4.17 It is also anticipated that further increases in annual income will be achieved in the years beyond 2020/21 as the enhanced reputation of the Building Control Partnership grows further and the Partnership also potentially grows further with more Councils joining the partnership. The effect of this will be to further increase the critical mass of the Partnership and its potential to grow. However, the initial agreement is for the 3 years to 2020/21 with options for extension.
- 4.18 Prior to BDC working with HDC in the financial year 2016/17 three existing key members of the HDC Building Control Team left to take up employment elsewhere, one of which included the Team Leader. In order to keep the service functioning it was necessary to employ the services of an Agency Team Leader and two Agency Building Control Surveyors, this approach proved to be expensive and unsustainable.
- 4.19 The recruitment of permanent Surveyors has been generally unsuccessful over the past two years. This is illustrated by the level of turnover of agency staff (nine in the last two years) which has made it challenging to provide a stable, efficient, value for money and business orientated service that is capable of competing against any private sector Building Control Service provider.
- 4.20 Since BDC has started working with HDC in January 2017 a proactive strategy has been deployed to reduce agency staff costs. As a result the Building Control Service is now stable. BDC has recruited two Surveyors who work exclusively for HDC and is also providing a part time Building Control Team Leader and part time Building Control Technician.
- 4.21 The agreement with BDC would be managed through the Councils' contract management principles and an appropriate suite of performance management measures and indicators will be developed to monitor progress and performance. These will be captured in the Council's Performance Management Framework through the inclusion of necessary Key Performance Indicators (KPIs) thereby forming part of the Council's TEN-Performance Management Framework. The outputs will be reported to the Executive as part of the regular quarterly Performance Management report.
- 4.22 The agreement with BDC should provide HDC with improved service resilience and a critical mass which should provide opportunities to increase productivity and business growth in the light of ongoing intense competition from the private sector.
- 4.23 The aim of this approach is to eventually provide a cost neutral Building Control Service for the HDC.
- 4.24 The current structure of the service is shown in Appendix A with the proposed structure shown in Appendix B. The shaded boxes indicate posts which are provided by BDC and charged on the basis of costs and overhead recovery.
- 4.25 With respect to the Building Control Surveyor posts provided by BDC, an extra 20% recruitment cost will be payable. This is to reflect the costs associated

with the recruitment of highly qualified Building Control Surveyors when there is a national shortage of such qualified surveyors. In order to recruit these surveyors it has frequently been necessary to advertise positions on repeat occasions often without success. It is also necessary to offer a £2,000 'Golden Hello' type payment. This will be payable by BDC in order to ensure successful recruitment. In addition BDC will cover their additional administration, Human Resources and Finance department's costs arising all within this 20% payment.

- 4.26 There is an additional 10% charge rate payable to BDC in relation to the existing two members of staff already supplied by BDC to HDC that have been working at HDC since January 2017. This is to reflect the fact that the management costs of these staff will continue to fall primarily within the BDC expenditure budget in that BDC will need to cover the additional Human Resources and Finance Department costs within this 10% additional payment.
- 4.27 The service provision will be governed under the terms of an inter authority agreement. Operation of this agreement will be reviewed on a quarterly basis by the relevant lead officers sitting on an officer Management Board. For BDC the lead officer will be the Leisure Services Group Manager and for HDC it will be the Head of Planning and Regeneration. The quarterly review will cover issues such as: performance monitoring, contract management, marketing, business plans, service plans, key performance indicators, growth/income levels and staffing levels and any other related business. This will be supplemented by the operational monthly contract management meetings.
- 4.28 Plan checking income for work outside the administrative boundaries of the respective Councils will be credited to the Council who undertake the work. The officer Management Board will also ensure that each respective partner Council retains all of their own income in relation to these types of activities.

## **5. Legal Issues**

- 5.1 The Local Government (Goods and Services) Act 1970 allows local authorities to enter into agreements to provide certain technical, professional or administrative services to other local authorities. It is proposed that BDC will provide Building Control Services to HDC using this power, and by placing certain of its officers at the disposal of HDC for this purpose.
- 5.2 It is proposed that the agreement will remain in force for a period of three years from 1 April 2018; however there will be an option for the agreement to be extended for a year and then a further year (3+1+1) if both BDC and HDC agree. This would be subject to the Executive agreeing to an extension. Either party can terminate the agreement on giving six months notice.
- 5.3 The agreement will set out the service to be provided to HDC by BDC and the officers that will be placed at the disposal of HDC. Performance indicators will need to be agreed and recorded in the agreement and monitored as part of the quarterly review set out in 4.27.

## **6. Resource Issues**

- 6.1 The Council's Building Control Service discharges the Council's statutory

obligations for unsafe buildings and also trades in competition with Approved Inspectors for Building Control work. In recent years, the income target for the service has increased to just over £300K.

- 6.2 In recent years, as set out earlier in this report, the Council has only been able to continue to provide the service and generate income levels through the appointment of agency staff which has had an impact on the Building Control Trading Account. In order to secure Service resilience an interim management resource was secured from BDC leading to an increase in the budget requirement in 2017/18 from the approved budget for the year.

**Table 2 2017/18 Original and Revised Budget**

	<b>2017/18 Original Budget £</b>	<b>2017/18 Revised Budget £</b>
Direct Costs	355,931	380,535
Indirect Costs	81,870	81,870
Income	(313,575)	(313,575)
<b>Net Cost</b>	<b>124,226</b>	<b>148,830</b>

The budget provided for the interim management arrangements provided by BDC. However, there has also been the need for agency staff to be employed during the year at a wage premium. The service was forecasting an overspend against this budget of £55,901 in the Quarter 2 monitoring.

- 6.3 All income relating to Building Control activity in HDC will be retained by HDC including any growth in income. However the agreement does include the following condition; that a percentage of the income will be paid to BDC as part of the partnership agreement. The income share of the Harborough Building Control Service income to be paid to BDC, should HDC join the partnership, is set out in Table 3, below.

**Table 3 Income Share to be paid to BDC**

	Income Share Proposal
2018/19	5%
2019/20	7.5%
2020/21	10%

The income share arrangement should incentivise the BDC led Building Control partnership to grow the turnover.

- 6.4 The estimated costs for HDC in 2018/19 are summarised in Table 4, below: the increase in costs are primarily from higher salaries paid to BDC employed staff and their associated overheads (expressed as a percentage) alongside the introduction of an income share.

**Table 4 Estimated Costs for HDC in 2018/19**

<b>2018/19 Estimated Budget</b>	<b>£</b>
Direct Costs	442,491
Indirect Costs	81,870
Income	(313,575)
<b>Net Cost</b>	<b>210,786</b>

- 6.5 The increase in net costs from 2017/18 makes the Council's ambition of moving to break even (Direct Costs less Income) very challenging. It is estimated that an additional £136K of income would need to be generated (less an income share on this of £7K) to meet this goal. It should be noted that the original 2017/18 budget also did not achieve a break-even position.
- 6.6 There is an opportunity through joining the Partnership of accessing income from developers working across District boundaries and through having more staff and common working practices to improve resilience and fee earning capacity of staff. It is unlikely that these income and productivity gains could be delivered just by the HDC Building Control Service continuing to work alone due to the size of the team.

## **7 Equality Analysis Implications**

- 7.1 There will be no adverse effect on any employees of Harborough District. Their existing employment terms and conditions will remain unchanged should HDC enter into this agreement with BDC.
- 7.2 There will be no adverse effect on the accessibility to customers and residents of the Harborough District to the Harborough Building Control Service, should the Council enter into this arrangement with BDC. Full Building Control Services will still be provided from HDC's offices in Market Harborough. More detail is set out in the Equality Statement at Appendix C to this report.

## **8. Risk Management Implications**

- 8.1 There is a risk that the anticipated levels of income generation are not reached. This risk will be mitigated through the deployment of regular monitoring and review of the income levels being achieved so that any slippage can be identified early and appropriate corrective and mitigating measures can be put in place promptly. Part of any mitigation strategy, should this scenario arise, would include strengthened and additional marketing of the partnership Building Control Service in order to raise income levels.
- 8.2 There is a risk that the Partnership lead (BDC), fail to deliver their contractual obligations adequately. The contract provides sufficient measures to ensure that the lead Council (BDC) could be held to account.



8.3 There is a risk that a downturn in the Building Control market could occur. In order to mitigate this it will be necessary to have a full and comprehensive understanding of all monitoring data concerning the Building Control market place so that appropriate mitigation strategies can be identified and successfully deployed.

## **9. Consultation**

9.1 Informal consultations have been undertaken with the existing staff in the Harborough District Council Building Control Service and with the Portfolio Holder. The Building Control staff are all aware that should this approach be agreed a formal 30 day consultation process will be undertaken immediately.

9.2 HDC Human Resources team have been working with BDC Human Resources Section to ensure that there is a consistent approach from both Councils.

## **10. Options**

10.1 Do Nothing - this is not recommended as the opportunity to work in partnership with another Council will ensure a more commercial and market-led approach. Doing nothing would mean that the Council would continue to fund the service going forward (including expensive agency costs) and as such this is not a sustainable solution.

10.2 Delegation Model - this was initially explored and considered, however this was not considered appropriate, as the preferred income share model, linked to the Partnership, means that each Partner will benefit from growth and enables HDC to maintain and grow its income.

## **11. Background Papers**

11.1 None.

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**Previous report(s):**

**Information Issued Under Sensitive Issue Procedure: Y/N**

**Ward Members Notified: Y/N**

**Appendices:**

**A. Current Building Control Structure**

**B. Proposed Building Control Structure**

**C. Equality Statement**