

The City of Edinburgh Council

10am, Thursday, 13 March 2014

Former Property Conservation Service – establishment of a new service

Item number	8.5
Report number	
Wards	All

Links

Coalition pledges	P40, P41
Council outcomes	CO19
Single Outcome Agreement	SOA4

Mark Turley

Director of Services for Communities

Contact: Peter Long, Interim Property Conservation Manager

E-mail: peter.long@edinburgh.gov.uk | Tel: 0131 529 7354

Former Property Conservation Service – establishment of a new service

Summary

The issues which led to the collapse of the former Property Conservation service in 2011 are well documented in Council reports, the media and both of the internal and external investigations. The operation of the service carries an inherent risk because by definition it involves the Council intervening where owners are not in agreement.

This report responds to the Council decision of 24 October 2013 'to note the significant level of planning and development work which had been undertaken to date and, acknowledging the challenges and risks which had been clearly articulated by the Director of Services for Communities, now instruct that a report on the Coalition's intention, to have an enforcement service up and running in the course of 2014, be fully developed including appropriate ways to mitigate risk and looking at the possibility of using partnership models.'

The development of an enforcement service has been discussed by the Corporate Management Team (CMT) and elected members on a number of occasions and both have considered in detail the lessons learned from the collapse of the previous service as described in Appendix 1. The Corporate Management Team recognises that the legacy of the City of Edinburgh District Council Order Confirmation Act 1991 and the previous Property Conservation Service is that owners have an expectation of Council intervention which is much greater in Edinburgh than in other comparable cities.

On assessment of risk alone, the Corporate Management team would strongly advise against the reintroduction of an enforcement service. It is therefore for Council to decide whether it is minded to proceed with the development of the service when considering the needs of affected owners against the risks of the service to the Council as a whole.

Should Council decide to reintroduce an enforcement service however, this report sets out proposals for establishment of the service which seek to mitigate the risks of running such a service.

A series of objectives have been developed for the service which seek to balance the Council's commitment to protect the fabric of the city and to support owners to achieve necessary repairs to their homes with a principle of encouraging and enabling owners to take responsibility for property issues themselves, so that Council intervention is a last resort.

A process based on these principles is proposed in this report. Approaches for delivery of the final stage of the process, where the Council decides to intervene and commission a repair on behalf of owners, have been analysed and on balance a Special Purpose Vehicle is identified as the recommended delivery model.

Subject to the Council's decision, implementation of the new service would take around 6 months with the service going into operation on a phased basis from the end of 2014.

Recommendations

It is recommended that Council:

1. Notes the risks associated with an enforcement service as set out in Appendix 1 and Appendix 5 and the advice of the Corporate Management Team as detailed in the report;
2. Following consideration of the balance of risk, decides, in principle, whether it is still minded to proceed with the development of a new enforcement service as set out within the report, and, if so;
3. Instructs the Director of Services for Communities to take forward the new Enforcement Service so as to mitigate the risk to the Council as far as possible, and in particular to ensure careful planning and execution of the organisational design, financial modelling, procurement strategy and operational procedures of the new service.
4. Agrees the service objectives in section 2.17, in particular the principle that the service will seek to encourage and assist owners to take responsibility for property issues themselves, with Council intervention as a last resort;
5. Agrees that a detailed report on the project to work through outstanding notices will be brought to the Property Sub-Committee within the next two months;
6. Agrees to consider further the delivery approach of establishing a Special Purchase Vehicle (SPV) and that activities will start immediately to determine the form of this, noting that a further report will be submitted to the Finance and Resources Committee within three months.
7. Notes the estimated financial implications of developing a new enforcement service and that, if the Council decides to do this, further financial due diligence will be undertaken and reported back to Committee along with proposals for how compensatory savings can be achieved within the approved revenue budget for Services for Communities; and,
8. Agrees that a further progress report on the establishment of the service will be submitted to the Finance and Resources Committee within 3 months.

Measures of success

Objectives for the new service are set out in this report and performance indicators will be developed for the full end to end service as part of detailed process design. These will be used to measure the success of the service and will include financial, customer, service quality and strategic factors.

Financial impact

Based on the assumptions contained within this report (which, as stated earlier, still require further due diligence), the establishment of a new enforcement service is estimated to result in additional expenditure of £0.9m in Year 1. Taken with the current unbudgeted expenditure associated with the existing Shared Repairs Service (also £0.9m) this takes the total unbudgeted expenditure in this service area to £1.8m in Year 1. This figure reduces to £0.7m in Year 2 and equates to a total of £4.4m over the first 5 years of operation.

If the Council decides to maintain the existing Shared Repairs Service and begin to develop a new enforcement service as described in the report then the unbudgeted financial consequences will need to be found through compensatory savings within the approved revenue budget for Services for Communities (SfC). If such a decision is made then proposals for those compensatory savings will be the subject of a further report.

Separate to the service costs outlined above, the costs of the 6 month implementation project will be £135k in 2014/15 including project management business analysis resource, consultation activities, external legal and process design expertise, financial due diligence and process quality accreditation.

Equalities impact

An objective of the service is to provide a support framework for property owners who have exhausted all other means of agreeing and undertaking a repair. This will particularly assist owners who, for a range of reasons, are less able to take this forward themselves. A full Equalities Impact Assessment will be undertaken, as required, as part of the next stages of the development of the service.

Sustainability impact

The objectives of the service proposed in this report promote sustainability through:

- Maintaining the built environment of the city, which is of benefit to everyone in the community
- Encouraging owners to act in a more sustainable manner by taking responsibility for their properties and developing maintenance plans.

Further opportunities to have a positive impact on sustainability, for example through sustainable procurement or provision of training/employment opportunities, will be identified during detailed process design.

Consultation and engagement

The development of this service reflects the feedback from the substantial consultation exercise in 2012 which prompted 1,223 responses from a range of individuals as well as relevant stakeholder groups such as Edinburgh World Heritage and Edinburgh Conveyancers Forum. In addition, consultation and engagement activities are being planned in parallel with the production of this report and will be undertaken as a priority activity during the initiation of the implementation project. This activity will build on the

previous consultation exercise on property conservation re-design and will involve engagement with the public as well as specific stakeholder groups with an interest in this service. The consultation will inform the service specification development which will in turn inform the detailed process design and arms length business plan.

A parliamentary briefing took place on 3 March in advance of this report.

Background reading / external references

[Development of the Shared Repairs Service – Report to the City of Edinburgh Council 24 October 2013](#)

[Minute of the City of Edinburgh Council 24 October 2013](#)

[Development of Shared Repairs Service – Report to the Finance and Resources Committee 3 February 2014](#)

Former Property Conservation Service – establishment of a new service

1. Background

- 1.1 This report follows the report to Council on 24 October 2013 on the Shared Repairs Service and high level options for an enforcement service. It also addresses the Council decision 'to note the significant level of planning and development work which had been undertaken to date and, acknowledging the challenges and risks which had been clearly articulated by the Director of Services for Communities, now instruct that a report on the Coalition's intention, to have an enforcement service up and running in the course of 2014, be fully developed including appropriate ways to mitigate risk and looking at the possibility of using partnership models.'
- 1.2 The report sets out proposals for the development of an enforcement service and the context in which these proposals are made.

2. Main report

Existing Service Context

Previous Service & Lessons Learned

- 2.1 The former Property Conservation service provided an important means of repairing tenemental homes when owners could not agree on a way forward. Unfortunately, inadequate management of the service, combined with an underestimation of the risks involved led to the collapse of the service in 2011 with significant financial and reputational damage to the Council. The recovery process is well underway but is not yet complete.
- 2.2 A closure programme is at an advanced stage and addresses most legacy problems. However, there remain some 3,000 notices that were served on properties but where inconclusive action was taken by the Council. A project to review these and determine appropriate action is being established.
- 2.3 A summary of the service context and lessons learned from the previous service are included at Appendix 1.
- 2.4 The development of an enforcement service has been discussed by the Corporate Management Team (CMT) and elected members on a number of occasions and they have considered in detail the lessons learned from the collapse of the previous service. Feedback has also been received from key stakeholders currently advising the Council on property conservation.

- 2.5 In light of the above, the Corporate Management Team considers the reintroduction of an enforcement service to be very high risk.
- 2.6 It is recognised however, that the legacy of the City of Edinburgh District Council Order Confirmation Act 1991 and the previous Property Conservation service is that owners have an expectation of Council intervention which is much greater in Edinburgh than in other comparable cities. There is therefore considerable pressure from owner expectations and it is acknowledged that this needs to be carefully balanced against the serious risks described.
- 2.7 On assessment of risk alone, the Corporate Management team would strongly advise against the reintroduction of an enforcement service. It is therefore for Council to decide whether it is minded to proceed with the development of the service when considering the needs of affected owners against the risks of the service to the Council as a whole.

Current Shared Repairs Service

- 2.8 The current Shared Repairs Service was established in April 2013 to provide a 24/7 emergency response service and an advice service to owners seeking to progress repairs with their co-owners.
- 2.9 A number of incremental enhancements are in development for the Shared Repairs Service including a Facilitation Service, Trusted Trader Scheme and Callout Charge. These were the subject of a report to the Finance & Resources Committee on 3 February 2014.
- 2.10 Customer feedback and service statistics gathered to date in the Shared Repairs Service evidence the following findings:
- The service is performing well and feedback from customers is largely positive
 - 46% of enquiries to the service were for advice only and 52% to report a repair or building defect (actual service requests for advice/info and inspections that do not result in Statutory Notice intervention account for 84% of business at SRS).
 - There is evidence of latent demand for an enforcement service that goes beyond the current advice remit of the Shared Repairs Service.
- 2.11 A report showing detail of the most recent customer feedback analysis will be presented to a future Property Sub-Committee.

Other Council Service provision

- 2.12 It is recognised that there are a range of property-related services within the Council that deal with different aspects of property repair, inspection, development and management for both private and Council owned properties. These services also cover the Council's work to address corporate emergencies such as fire, floods etc. A summary of these services is shown in the diagram at Appendix 2.
- 2.13 An opportunity has been identified to rationalise the approach to the services and reduce the number of points of contact to improve the customer experience

and deliver a more effective service. This work is currently being initiated and is likely to be taken forward as part of the BOLD programme. This will inform any further required development of the approach to customer contact and emergencies within the Shared Repairs Service.

Development of an enforcement service

- 2.14 As noted above there are significant financial, reputational and operational risks to the establishment of an enforcement service. However, the remainder of this report sets out an approach for an enforcement service that seeks to mitigate these risks as far as possible.
- 2.15 To develop this report and undertake the initial service design, option analysis and financial modelling, a working group was established following the October Council decision. This group comprises staff from the existing service, internal support service professionals from Finance, Legal Services and Procurement and external commercial and technical expertise. A senior member of the Corporate Programmes Office co-ordinated the analysis and delivery activities undertaken by the working group.

Objectives & Principles of new service

- 2.16 It is important to agree objectives and principles for the operation of the service to ensure that its purpose and scope of activity is clear.
- 2.17 The following objectives were identified and service design has been built around these objectives.
- To contribute to and support the delivery of Council outcomes and Capital Coalition pledges concerning the protection of the fabric of the city and conservation of the built heritage;
 - To provide a support framework for owners who have exhausted all other reasonable means of agreeing and undertaking a repair;
 - To take account of affordability and balance this against efficacy of the solution proposed when deciding what work is necessary on a property;
 - To form part of the re-design of services to address legacy issues with the Council's property services;
 - To deliver a customer-focussed service that has effective communications at its core;
 - To effectively manage & control risk on an ongoing basis;
 - To deliver a financially viable service, based on a realistic and robust set of planning assumptions, that effectively manages recovery and Council financial risk exposure;
 - To establish a service that over time encourages owners to take responsibility for property issues themselves – i.e. the Council service is the last resort;
 - In the longer term, to participate actively in discussions about new Scottish legislation in this area.

- 2.18 The approach to achieving these objectives is outlined in this report and will be developed further as part of detailed process development and accreditation during implementation.

Essential components of a successful service

- 2.19 A successful enforcement service will work within its defined objectives and will address, through its design and operation, lessons learned from the previous service.
- 2.20 The first table at Appendix 3 sets out high level essential components of a successful service and maps these against the objectives set out in paragraph 2.17 above. In the second table these components are shown with their key constituent deliverables against a summary of lessons learned derived from the Deloitte Project Power report, the internal disciplinary investigation, and the various workstreams of the Property Conservation Closure Programme.
- 2.21 These components have been used to develop the delivery model option appraisal below and will inform the approach and deliverables of workstreams in the implementation plan.

Service offering

Five Stage Process

- 2.22 A service delivery process has been developed by the working group and is shown in the diagram at Appendix 4.
- 2.23 This process sets out a sequentially staged approach starting with the current Shared Repairs Service. The process focuses on the provision of advice and the use of legislation to encourage owners to undertake repairs themselves. Council intervention to undertake the work (stage 5 'Do') is a last resort only when other options to enable and support owners to take work forward have been exhausted.

Stage 1: 'Help'

- 2.24 The first stage ('Help') corresponds to the advice and assistance currently provided by the Shared Repairs Service. As noted above many enquiries to SRS are for advice and the service has evidence from its most recent customer survey that in almost 50% of cases, people are using the advice provided. In some cases however, work may not be taken forward on the basis of advice and the Council will be able to take a decision to take a case forward to the next stage which is part of the new service described in this report.

Stage 2: 'Statutory Intervention'

- 2.25 In the second stage of the process ('Statutory Intervention') Council staff will review the case and determine the appropriate legislation to be used in the circumstances.
- 2.26 In the previous service the City of Edinburgh District Council Order Confirmation Act 1991 (the 1991 Act) was the only legislation used. The new service will seek to utilise a wider set of legislation to provide greater scope for encouraging and

enabling owners to take forward works in the most effective way. In addition, as part of the longer term objective stated above the service will participate in consultations about the development of Scottish legislation in this area.

Stage 3: 'Persuade'

2.27 Once owners have been advised of their responsibilities under the selected legislation the enforcement service team will place the case under review in the third stage of the process ('Persuade') and through a series of structured reviews and further advice and service offerings (such as facilitation) will encourage and assist owners to take action themselves. This stage requires clear procedures and defined steps to ensure that it achieves the greatest value for the effort put in by the enforcement service team.

Stage 4: 'Enforce'

2.28 If, following the activities in stage 3, works have not been taken forward by the owners, the Council team will take a decision about how to proceed. Potential outcomes include:

- Taking enforcement action short of actually carrying out the work: for example (i) payment of a missing share where one owner cannot be contacted or persuaded to participate in the repair. This will enable works to be done and the Council will thereafter pursue repayment from that one owner; (ii) review and sign off of a maintenance plan where this was the action requested at stage 2; (iii) action against an owner who is deemed to be at fault in the damage to the property.
- Taking enforcement action by notifying owners that the Council will take forward the management and commissioning of work on behalf of owners. This decision will be controlled by the service based on delivery capacity and need for the works i.e. level of severity or urgency.
- No further action: this may apply to pilot phase works described below and for new cases will be determined on capacity and urgency as noted above. The case can be retained on a case review list for periodic checking should it become an emergency or essential repair situation.
- Identification of other legislation that could be used in the particular circumstances of the case for a more suitable or effective outcome.

Stage 5: 'Do'

2.29 In the second enforcement scenario above the case would be passed to the fifth stage of the process. In developing this process it was recognised that there were a number of different delivery model options for the Council to undertake the work on behalf of owners. These are described below.

2.30 There are risks at all stages of the process described and these are set out with high level mitigation strategies at Appendix 5. These will be further developed as part of detailed process design.

Phasing

- 2.31 In order to implement the new processes in a planned way and manage volumes and throughput the cases dealt with by the new service will be introduced in phases.
- 2.32 The Shared Repairs Service maintains a register of properties that have been inspected under its emergency response service which did not meet the criteria for an emergency repair but where repairs were still deemed to be essential in nature. There are currently around 20 such projects on the live list from the first year of SRS operations. Owners in these properties have already been provided with advice and notified that the Council recommends that work is taken forward. These properties will be dealt with through the subsequent stages of the model as a first phase of the new service.
- 2.33 As noted in section 2.2 above, a project is being established to work through the outstanding notices from the legacy service. These notices will be taken through the stages of the model from stage 1 ('Help') following initial analysis and prioritisation. This body of work will form the main pilot phase of the new service commencing from November 2014 and it has been used to inform the volume and throughput assumptions for the financial modelling for the first two years of the service. A report with further detail on this project and the associated timescales will be submitted to the Property Sub-Committee.
- 2.34 Once the service is established and processes have been fully tested using the known caseloads identified above the service will be in a position to take on new cases. These will be logged by the Shared Repairs Service and taken through the sequential stages of the model. The target start date for the full service is April 2015 but will need to be kept under review as the early phases progress. These timescales are shown as part of the implementation timeline at Appendix 9.
- 2.35 A communications strategy will be developed to ensure that all stakeholders are aware of what the phasing in of the service means for them.

Affordability assistance

- 2.36 It is acknowledged that securing funds to afford their share of any repair has been a major difficulty for many owners.
- 2.37 At some point in the future the Council may look to develop financial support models, either directly or via a third party. The Council has experience in this area, having previously provided support under the former Homeworks scheme. However, the current view is that the priority service required is to ensure that repairs to properties are undertaken rather than to finance these. In addition, such financial assistance would have implications for the financial model for the service and its viability. This work is therefore out of scope for the time being.
- 2.38 The Shared Repairs Service already signpost owners to their mortgage providers or reputable loan providers such as the Capital Credit Union in order to discuss possible ways of funding common repairs. It also provides other forms

of advice on insurance, savings and investments, spreading the cost through carrying out the repair works in stages, and setting up a maintenance account.

Delivery models for the 'Do' stage (i.e. Project Management)

Delivery model options

- 2.39 The assessment group developed a number of potential delivery models for carrying out works and these are set out in detail in Appendix 6 of this report. The models identified and analysed were:
- In-house
 - In-house with external project management resource contracted in
 - Co-sourced
 - Special Purpose Vehicle (SPV) such as an arms length company, trust or partnership
 - Private Sector Provider
- 2.40 Informal discussions have taken place between members of the project team and firms in the surveying, project management and construction fields to gauge appetite both in terms of participation as partners in the different delivery models and to undertake works on properties through this service. These discussions suggest that all models are deliverable although appetite for the fully outsourced model was mixed among the larger tier 1 contractors with some stating that the ad hoc nature of the works would not suit the way their businesses are structured whilst at least one other felt it might fit within their company's Repairs & Maintenance arm.
- 2.41 An analysis of the delivery model options was undertaken against factors within the essential components for a successful service as well as timescales and costs to set up and market appetite. A summary of this analysis can be seen at Appendix 6.
- 2.42 There is no model that delivers best against all the appraisal factors and none removes all risk to the Council.
- 2.43 The full in-house and out-source models were dismissed early in the process for the reasons set out in Appendix 6. The co-source model scored reasonably well but it was recognised that the model was a short term solution ultimately reverting back to an in-house team.
- 2.44 The models considered the most likely to succeed were the in-house model with external project management support and the Special Purpose Vehicle (SPV).
- 2.45 On balance the SPV scores best although its viability is dependent on consistent work flow and being able to recover costs through the management fee. The in-house model with external project management support scored less well based primarily on a range of lessons learned from the previous service. While it was acknowledged by the assessment group that issues can be mitigated it was

considered unlikely that the level of change needed would be implemented to make the model successful.

- 2.46 An SPV represents lower overall costs to the Council than the in-house with external project management option.
- 2.47 On the basis of the option appraisal therefore, the preferred delivery model for the final stage of the enforcement service is the establishment of a Special Purpose Vehicle. The exact form of this SPV will be determined following further financial modelling and detailed design activities.

Management arrangements

- 2.48 As part of the establishment of a new approach to the former property conservation service it is proposed that the full service structure will be updated and renamed Mixed Tenure Management service.
- 2.49 The new Enforcement Service will be incorporated as a new function within an extended Shared Repairs Service and the SPV will deliver the new Statutory Project Management Service.
- 2.50 The inclusion of other existing services such as the Private Rented Service and Tenement Management Scheme are being considered and would sit as separate services within the Mixed Tenure Management Service. Further work to finalise the composition and management structure is being taken forward separate to this report.
- 2.51 A diagram showing the proposed Mixed Tenure Management functions, high level service remits and staffing can be seen at Appendix 7.
- 2.52 Recruitment to key management posts within the enforcement service has commenced, with a view to early appointments following a Council decision on the proposed service.

Financial Implications

- 2.53 A financial model was developed to analyse the proposed new service. This model is being reviewed to test the assumptions and overall robustness and will require further due diligence if the Council decides to proceed with development of the new service.
- 2.54 The analysis has shown that regardless of the delivery model chosen the net cost to the Council for the first year of service operation is around £1.8m including the costs of the existing, unbudgeted Shared Repairs Service (c£0.9m). Net costs subsequently vary slightly among models but average approximately £0.6m p.a. regardless of the caseload in the service, although if average project values decrease then costs will increase.
- 2.55 In developing this financial model it has been necessary to make assumptions regarding the management fee which the Council would charge (previously 15%). This is an issue which requires further consideration as it will be a major determinant of how attractive the service is to owners. The fee level will need to reflect the balance between encouraging owners to do the work themselves

wherever possible whilst not penalising those who require the service having exhausted all reasonable alternatives. Given that owners would not require to pay VAT on work undertaken by the Council it is also important that this does not become a perverse incentive to turn to the Council as a first, rather than last resort. Members will be aware that, at 15%, the previous service failed to achieve financial performance targets. Whilst further work is therefore needed on this important issue, for the purposes of this report the fee has been set at an illustrative level of 35% (equivalent to VAT plus 15%). At this level, early modelling would suggest that the fee would cover the operating costs of the SPV together with costs incurred by the Council in delivering this enforcement service. During previous consideration of this issue, members have indicated a desire that this service should be self-financing if at all possible. Work so far suggests that the fee would need to be of the order of 35% in order for that to be achieved. However, as stated earlier, these figures are purely illustrative at this stage and members will be asked to take a decision on this matter at a later stage.

- 2.56 Given the lower complexity and value of works within the current Shared Repairs Service dealing with emergencies it is assumed at this stage that the management fee for that part of the service will remain at the current 15% fee. This position will be reviewed in future as part of ongoing financial development of the service.
- 2.57 The total cost of the extended Shared Repairs Service and Statutory Project Management Service will be £1.8m in 2014/15 and £0.7m in 2015/16. The table below shows the detail of this.

	2014/15	2015/16
Costs		
Shared Repairs Service		
- Advice and emergencies (existing)	£959,338	£975,525
- Enforcement Service	£862,925	£727,184
Statutory Project Management Service (SPV)	£572,076	£1,444,065
Debt write-off (10%)	£341,844	£1,229,469
TOTAL COSTS	£2,736,183	£4,379,243
Income		
Management fee	(£886,263)	(£3,656,802)
Interest on debt (payment plans, inhibitions)	(£0)	(£59,129)
TOTAL INCOME	(£886,263)	(£3,715,931)
TOTAL COSTS (net)	£1,849,920	£663,312

- 2.58 Year 1 costs are higher as a result of service start up costs and the lag as the service is phased in before jobs are completed, billed and costs recovered.
- 2.59 Outstanding debts to the Council as a result of work done and paid to contractors but not yet collected will rise by year 3 to around £10m. This figure includes payments to contractors made in advance of the billing (work in progress) and delayed payments of invoices by property owners.

- 2.60 If the Council decides to maintain the existing Shared Repairs Service and begin to develop a new enforcement service as described in the report then the unbudgeted financial consequences will need to be found through compensatory savings within the approved revenue budget for Services for Communities (SfC). If such a decision is made then proposals for those compensatory savings will be the subject of a further report.
- 2.61 Further financial detail based on the modelling is shown at Appendix 8.
- 2.62 Separate to the service costs outlined above, the costs of the 6 month implementation project will be £135k in 2014/15 including project management business analysis resource, consultation activities, external legal and process design expertise, financial due diligence and process quality accreditation.

Enforcement Service Implementation Approach

- 2.63 The implementation approach has been divided into two phases; Initiation and specification, and Service Operation.
- 2.64 Once the in-house team has been recruited it will take over implementation and service development tasks from the project team.
- 2.65 A timeline for implementation of the service is shown at Appendix 9. Key milestones in this plan are as follows:
- Establishment of Council enforcement service team: August 2014
 - Special Purpose Vehicle set up: August 2014
 - End to end process review and quality accreditation (in line with SPV business plan): October 2014 (internal) and February 2015 (external)
 - New end to end service ready for operations (phase 1: Identified cases): November 2014
- 2.66 Consultation and engagement activities are being planned in parallel with the production of this report and will be undertaken as a priority activity during the initiation of the implementation project. This activity will build on previous consultation exercises undertaken on property conservation re-design in autumn 2012 and will involve engagement with the public as well as specific stakeholder groups with an interest in this service. A parliamentary briefing with MPs and MSPs took place on 3 March.
- 2.67 An initial specific interest stakeholder list is shown in Appendix 10. The consultation will inform the service specification development which will in turn inform the detailed process design and arms length business plan.
- 2.68 Further reports to the Finance and Resources Committee will be provided as required to report on progress.

3. Recommendations

It is recommended that Council:

- 3.1 Notes the risks associated with an enforcement service as set out in Appendix 1 and Appendix 5 and the advice of the Corporate Management Team as detailed in the report;
- 3.2 Following consideration of the balance of risk, decides, in principle, whether it is still minded to proceed with the development of a new enforcement service as set out in the report and, if so;
- 3.3 Instructs the Director of Services for Communities to take forward the new Enforcement Service so as to mitigate the risk to the Council as far as possible, and in particular to ensure careful planning and execution of the organisational design, financial modelling, procurement strategy and operational procedures of the new service.
- 3.4 Agrees the service objectives in section 2.17, in particular the principle that the service will seek to encourage and assist owners to take responsibility for property issues themselves, with Council intervention as a last resort;
- 3.5 Agrees that a detailed report on the project to work through outstanding notices will be brought to the Property Sub-Committee within the next two months;
- 3.6 Agrees to consider further the delivery approach of establishing a Special Purchase Vehicle (SPV) and that activities will start immediately to determine the form of this, noting that a further report will be submitted to the Finance and Resources Committee within three months.
- 3.7 Notes the estimated financial implications of developing a new enforcement service and that, if the Council decides to do this, further financial due diligence will be undertaken and reported back to Committee along with proposals for how compensatory savings can be achieved within the approved revenue budget for Services for Communities.; and
- 3.8 Agrees that a further progress report on the establishment of the service will be submitted to the Finance and Resources Committee within 3 months

Mark Turley

Director of Services for Communities

Links

Coalition pledges	P40 - Work with Edinburgh World Heritage Trust and other stakeholders to conserve the city's built heritage P41 -Take firm action to resolve issues surrounding the Council's property services
Council outcomes	CO19 - Attractive Places and Well Maintained – Edinburgh remains an attractive city through the development of high quality buildings and places and the delivery of high standards and maintenance of infrastructure and public realm

Single Outcome Agreement	SO4 - Edinburgh's communities are safer and have improved physical and social fabric
Appendices	Appendix 1 – Legacy Service and Lessons Learned Appendix 2 – Council Property Services Appendix 3 – Essential Service Components Appendix 4 – Service Delivery Process Appendix 5 – Stage Risks and Mitigations Appendix 6 – Delivery Model Analysis Appendix 7 – Mixed Tenure Management Service (initial) Appendix 8 – Financials Appendix 9 – Implementation Timeline Appendix 10 – Stakeholder List

Appendix 1 – Legacy Service and Lessons Learned

Legacy Service Context

The former Property Conservation Service intervened where property owners could not reach agreement on repairs to shared areas of tenement type properties. It was responsible for managing the statutory notice process whereby the Council could undertake common repairs and recover the costs from owners where there was a failure among owners to agree to undertake the work themselves. This highlights the inherent risk in delivering an enforcement service as by definition the Council will only be involved where owners are in dispute which significantly increases the complexity of progressing work either directly or indirectly.

The issues experienced within the service and which led to its collapse in 2011 are well documented in a number of Council reports and in the [Deloitte LLP investigation reports](#) which are available in redacted form on the Council's website.

Deloitte are in the process of concluding their Project Joule work to complete billing for work previously completed on properties. Although their final report on this has not yet been published the Deloitte team has prepared the following statement:

“Our work on ‘Project Joule’ has focussed on the review and recovery of monies against over 400 unbilled projects, which were delivered by the former Property Conservation Service. Through this experience we have identified numerous issues resulting in a series of learning outcomes in relation to how the previous enforcement service operated. These were discussed at a workshop with the Council on 11th February 2014 and the outputs of this workshop will be contained within our final report, which will be produced upon completion of our engagement. Our findings were that each of the granular learning outcomes could be categorised into one of the following four areas;

People - Resource pressures, skills gaps, poor management and governance arrangements led to a lack of customer focus and service

Process - Insufficient operational procedures and assurance processes resulted in an inconsistent service delivery from staff and external consultants/ contractors

Systems - The lack of integrated information and finance systems leading to insufficient security controls, oversight and monitoring of the service

Inherent Risks - Construction projects are inherently risky in their nature. These risks are significantly increased in situations where work is forcibly carried out on property owned by multiple third parties, who may have diverse opinions and varying degrees of opposition to the work being completed

In summary, largely due to the inherent risks, we are of the opinion that the Council should consider not returning to the enforcement of work, except in emergency situations where there are matters of public safety and welfare. We believe that even by taking on board all of the learning outcomes and recommendations for service improvement that we have identified through our work, a return to widespread

Appendix 1 – Legacy Service and Lessons Learned

enforcement of Statutory Notices will inevitably lead to contract disputes, poor performance and continued disagreements between property owners, contractors and consultants with a continuing reputational risk to the Council.

Should the Council decide that the development of a new enforcement service is required, it must ensure careful planning and execution of the organisational design, financial modelling, procurement strategy and operational procedures of the new service. The sourcing of, and partnering with, the highest quality service providers and contractors will be essential. Whilst we believe some form of out-sourcing/ co-sourcing arrangement would be appropriate, a ‘minimum enforcement’ model with a low volume and value of throughput may conflict with the ability to source the right calibre of external providers and contractors. Finally, whilst the inherent risks can be mitigated and shared with external third party organisations, they cannot be transferred entirely and ultimately the financial, reputational and delivery risks will remain with the council.”

The development of any new enforcement service must therefore be taken forward against the context of the inherent risks of such a service and the problems experienced in the previous service. Service development must look to the lessons learned from the legacy service and a summary of these lessons is provided below.

Lessons Learned

This Lessons Learned summary was compiled using a number of sources, including the Deloitte Project Power report, the internal disciplinary investigation, and the various workstreams of the Property Conservation Closure Programme. These lessons will be updated as required following completion of the Project Joule report.

Lesson	
General Management Practices	
1	There were no defined objectives of the service and poor strategic direction i.e. drive to serve more notices to help fund the already overstretched service, and a focus on enforcement instead of advice.
2	There were no risk management processes in place.
3	There were inadequate written operating procedures, health and safety policies, guidance for consulting with internal and external services (e.g. Planning, Structural Engineers, etc) or quality controls in place; and little understanding of the importance of having these documents and ensuring staff are properly trained in them.
4	The service operated in virtual isolation from other Council services, systems and policies, with little understanding of the role of corporate teams such as Internal Audit, Procurement, Legal and Finance resulting in failure to act on the growing value of invoices not billed to owners or the concerns raised by internal audit.
5	Staff management was weak with staff carrying particularly heavy caseloads, with little or no training, recognition or reward, resulting in staff feeling isolated and ignored. The team was under-resourced and was often reduced further as part of budget savings exercises.
6	The Council experienced issues with attraction and retention of suitably-qualified and experienced staff, particularly surveyors, in part due to heavy caseloads and the fact that the Council cannot offer the same benefits to those typically offered by the private sector.

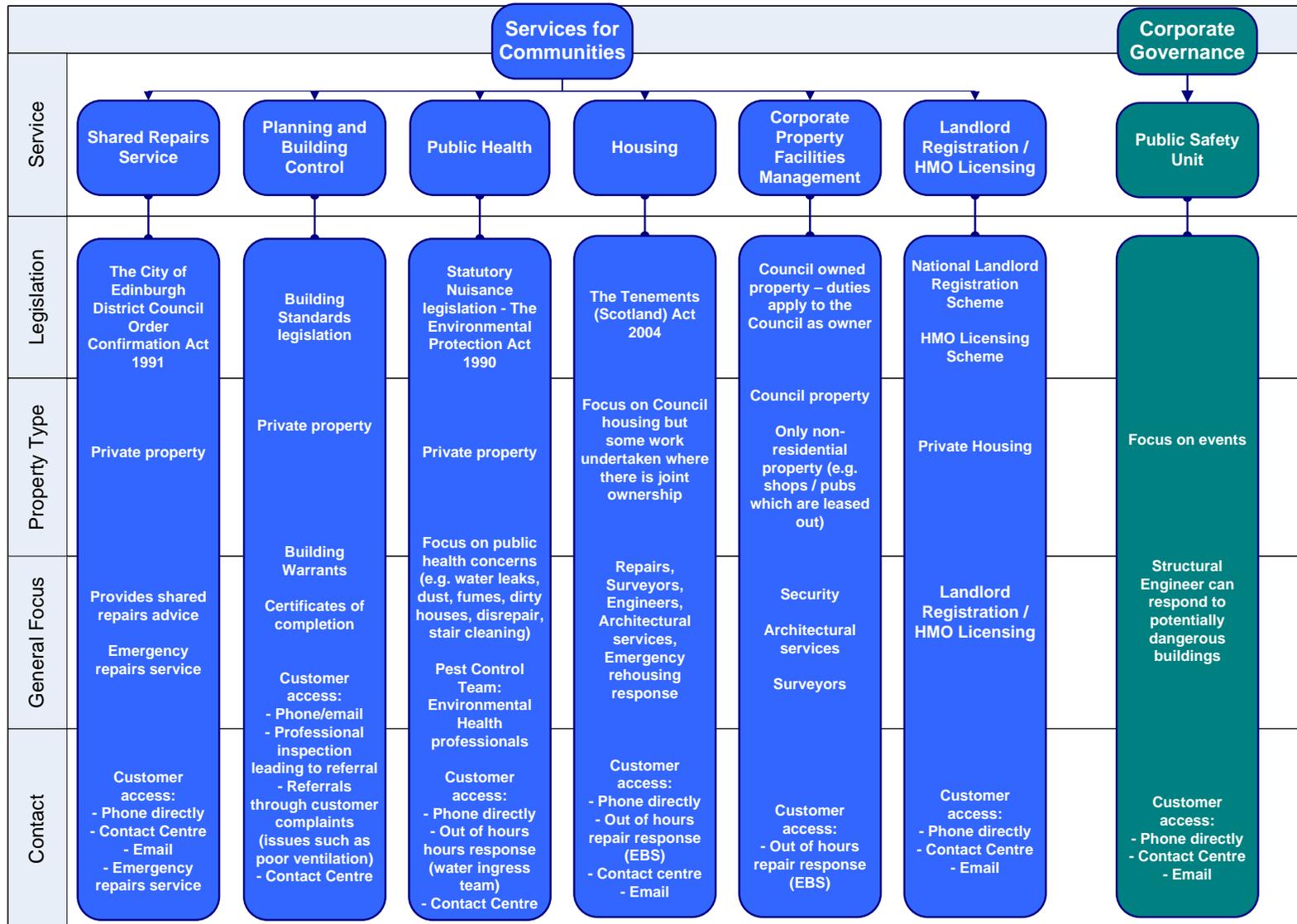
Appendix 1 – Legacy Service and Lessons Learned

Lesson	
Customer Service	
7	Inadequate structure or process for keeping owners up to date with progress or changes in the project.
8	Insufficient resources to allow the team to respond to complaints, enquiries and FOI requests appropriately and timeously, ultimately resulting in extreme dissatisfaction from customers.
Project Management	
9	Communication with owners was poor resulting in poor management of customer expectations and excessive complaints regarding the service.
10	Ground level surveys often resulted in additional issues being identified after work started and work often being carried out outwith scope of the notice.
11	Control of costs on site and challenge of contractors' in this respect was often inadequate.
12	Filing and archiving system was often inadequate for managing projects comprehensively and ensuring a suitable audit trail was in place in case of challenge by contractors or owners.
13	No structured project management training in place.
Financial Management	
14	The VISA system was improperly procured, did not have sufficient segregation of administration duties and failed to meet Council security standards.
15	Final accounts from contractors were often not sufficiently thorough.
16	The 15% administration fee did not cover the costs incurred by the Council in running the service.
17	Reconciliation and financial monitoring processes that were in place from which the financial status of individual projects could be easily identified and which sought to ensure the project is recharged to owners were often insufficient.
18	Monitoring and understanding of the balance sheet was often inadequate, in particular work in progress and debtors by corporate finance. Also, there was a lack of adequate challenge of this.
19	Inadequate controls to ensure completeness, promptness, accuracy and relevance of financial recovery resulting in invoices not be recharged to owners and a subsequent £30m deficit to the Council and subsequent significant write off of unrecoverable debt.
Performance Management	
20	Inconsistencies in qualifications and training of staff, no individual performance management process in place; and inconsistency in application of policies and procedures with individual members of staff often adopting different approaches with no challenge or guidance.
21	No performance management framework in place to monitor the service as a whole.
Governance/Audit	
22	Decisions taken at management level without adequate political governance (via committee reports).
23	Inadequate attention given to concerns raised by Internal Audit, and inadequate challenge of this by

Appendix 1 – Legacy Service and Lessons Learned

Lesson	
	Internal Audit.
24	Inadequate understanding of the concept of conflict of interest and gifts/hospitality; and no process in place to manage potential conflicts of interest and gifts/hospitality.
	Management Information Systems
25	<p>Insufficient IT systems in place resulting in the ineffective operation, recording and monitoring of the following:</p> <ul style="list-style-type: none"> • The proper issue of all SNs and subsequent actions taken by way of enforcement; • Requests from owners for CEC to commission the work; • Initial assessment of work required and value; • Fair and transparent appointment of contractors; • Detailed estimates from contractors; • Communications with owners; • Gateway reviews; • Robust quality control assessments; • Guarantees for work and/or materials; • Complaints; • Monitoring of work in progress and appropriate payment of contractors; • Prompt and effective evaluation of final accounts; • Prompt and effective evaluation of costs to be allocated and invoiced to owners; • Prompt and effective collection of debts from owners
26	Isolated IT systems in use resulting in inadequate security controls and inadequate links with Council systems.
27	No Project Management, Building Surveying or Quantity Surveying software.
	Contractor/Consultant Management
28	Non-framework contractors were frequently awarded contracts.
29	Inadequate contract management procedures, lack of quality control checks, and lack of challenge on standard of workmanship.
30	No clear expectations of the role of consultants and a lack of challenge on standard of work managed by consultants despite an increase in projects managed by consultants
31	There were inadequate procedures on procurement processes, documentation of procurement, or deviations from procedures.
32	Issues with availability of good quality contractors in the market.
33	Issues with external project management resources not providing a sufficiently high enough quality of work (80% of unbilled work relates to externally managed projects)

Appendix 2 – Council Property Services



Appendix 3 – Essential Service Components

Service Principles & Objectives	Essential Components for service delivery
To contribute to and support the delivery of Council outcomes and Coalition pledges concerning the protection of the fabric of the city and conservation of the built heritage	Council Control and Visibility Credibility
To provide a support framework for owners who have exhausted all other means of agreeing and undertaking a repair	Strong Customer Focus
To take account of affordability and balance this against efficacy of the solution proposed when deciding what work is necessary on a property	Council Control and Visibility Strong Customer Focus Robust Financial Management
To form part of the re-design of services to address legacy issues with the Council's property services	Council Control and Visibility Robust Financial Management Robust ICT Appropriate Skills and Resources
To deliver a customer-focussed service that has effective communications at its core	Strong Customer Focus
To establish a service that is complementary to other Council services providing related services, ensuring that the customer experience is clear and seamless	Council Control and Visibility Credibility Strong Customer Focus
To effectively manage & control risk on an ongoing basis	Council Control and Visibility Robust Financial Management Credibility
To deliver a financially viable service, based on a realistic and robust set of planning assumptions, that effectively manages recovery and Council financial risk exposure	Robust Financial Management
To establish a service that over time encourages owners to take responsibility for property issues themselves – i.e. the Council service is the last resort	Council Control and Visibility
In the longer term, to participate actively in discussions about new Scottish legislation in this area	Council Control and Visibility

Appendix 3 – Essential Service Components

Essential Components	Deliverables	Lessons Learned topic cross reference
Council Control and Visibility	Robust Governance and Management <ul style="list-style-type: none"> • Defined management control and oversight • Clear objectives • Defined service / business plan • Defined operating procedures • Integration with other (related) Council services • Performance management framework • Regular committee reporting • Close links with operational governance e.g. Internal Audit etc 	General Management Practices Performance Management Governance / Audit
	Robust Project Management <ul style="list-style-type: none"> • Health & safety procedures • Quality Assurance • Environmental assessment • Risk management • Workflow management • Change control procedures 	Project Management
	Control of Scope <ul style="list-style-type: none"> • Clear parameters for service • QA process for serving of notice • Clear terms of reference for delivery partner / organisation 	

Appendix 3 – Essential Service Components

Essential Components	Deliverables	Lessons Learned topic cross reference
	<p>Accountability of Contractors and manageable supply chain</p> <ul style="list-style-type: none"> • Allocated responsibility for contract management • Training / Development for contract management staff • QA process • Defined procurement approach • Detailed service planning • Workflow management and controls 	<p>Project Management</p> <p>Contractor Consultant Management</p> <p>Performance Management</p>
<p>Robust Financial Management</p>	<p>Operational Cost to Council</p> <ul style="list-style-type: none"> • Defined financial controls • Clear financial management ownership • Regular scrutiny • Agreed tolerances 	<p>Project Management</p>
	<p>Ease of financial systems integration / accounts reconciliation</p> <ul style="list-style-type: none"> • Fit for purpose system • Integration / data sharing with other systems as required (e.g. CRM, Oracle) • Master records (single-source of truth) • Clearly defined protocols • Regular system/process audit • Staff training 	<p>Financial Management</p>

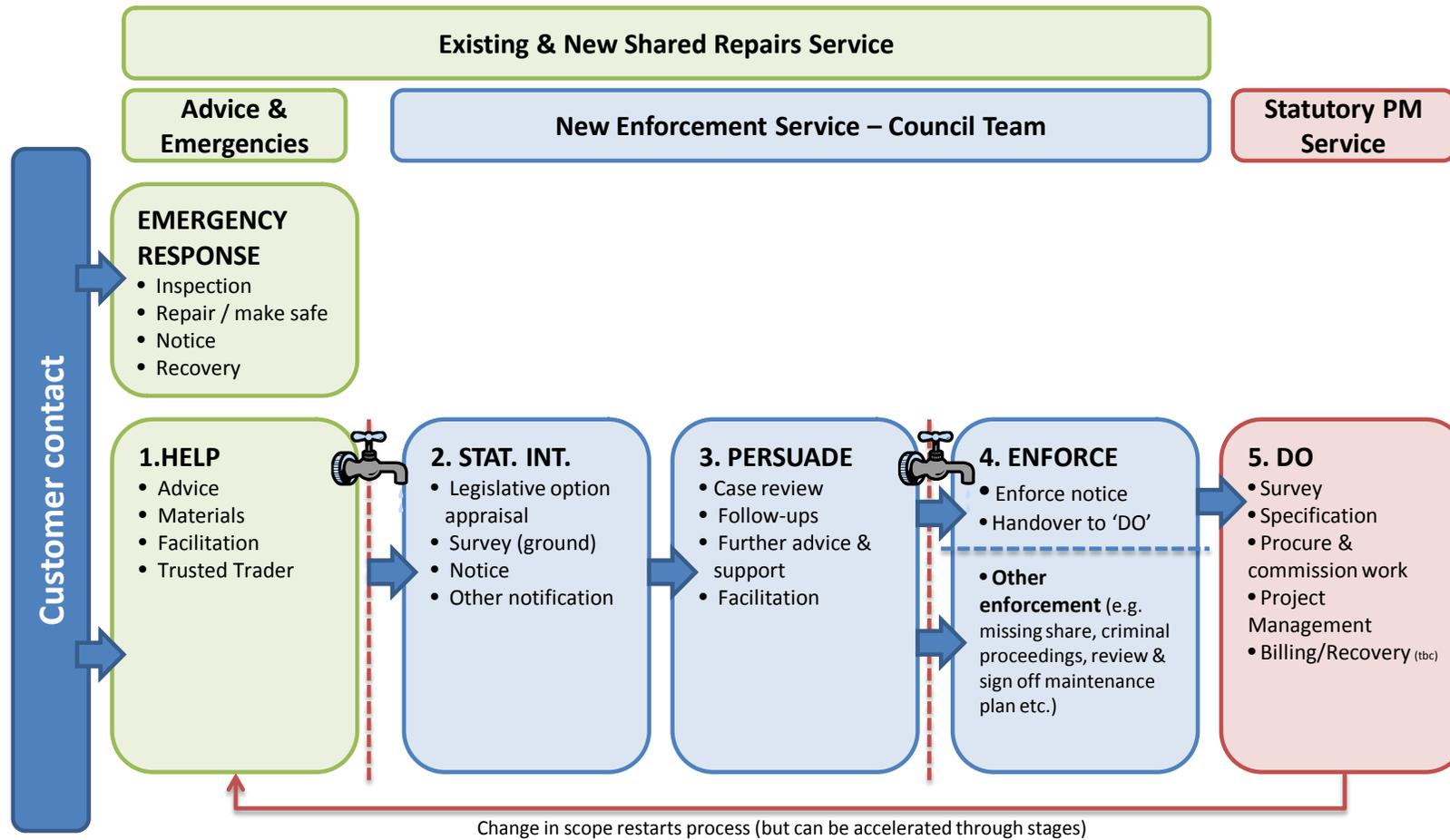
Appendix 3 – Essential Service Components

Essential Components	Deliverables	Lessons Learned topic cross reference
Robust ICT	Existence/readiness of PM and Contract Management system(s) <ul style="list-style-type: none"> • Fit for purpose system • Integration / data sharing with other systems as required (e.g. CRM, Oracle) • Master records (single-source of truth) • Clearly defined protocols • Regular system/process audit • Staff training 	Management Information Systems
	Ease of Financial Systems Integration / accounts reconciliation <ul style="list-style-type: none"> • Fit for purpose system • Integration / data sharing with other systems as required (e.g. CRM, Oracle) • Master records (single-source of truth) • Clearly defined protocols • Regular system/process audit • Staff training 	
Credibility	Credibility in delivery <ul style="list-style-type: none"> • Trusted service (customer feedback & complaint levels) 	Customer Service Project Management
Strong Customer Focus	Customer service effectiveness <ul style="list-style-type: none"> • Defined communication strategy and standard • Customer feedback mechanism • Customer feedback review process • Complaints procedure (in line with Council process) • Customer service training and responsibilities 	Customer Service Project Management
	Breadth of customer service offering (i.e. other services)	

Appendix 3 – Essential Service Components

Essential Components	Deliverables	Lessons Learned topic cross reference
Appropriate Skills and Resources	Skills/capability availability and retention <ul style="list-style-type: none"> • Initial skills analysis and recruitment • Training programme • Performance Management framework • Controls to check application of operating procedures 	General Management Practice Project Management Performance Management
	Resource flexibility (to manage peaks and troughs)	

Appendix 4 – Service Delivery Process



 = volume control point based on capacity / severity

Appendix 5 – Stage Risks and Mitigations

Risk Description & Impact	Inherent Risk			Stage affected					Mitigation
	Likelihood	Impact	Rating	HELP	STAT. INT.	PERSUADE	ENFORCE	DO	Mitigation action
Costs are not fully recovered	4	5	20		✓	✓	✓	✓	Set management fee at appropriate level Manage scope effectively to ensure expenditure is recoverable Identify ongoing Council budget to fund the service Establish close financial monitoring to facilitate early action on cost pressures
Culture change to encourage/enable owners to take forward work themselves is not achieved and the volume of works that the Council undertakes does not reduce or is higher than expected.	4	4	16			✓			Clear procedure for new process stages Focus process development on 'Persuade' to achieve effective process that drives value Develop a clear change and communications engagement strategy Investigate legislative change to support cultural change
Scope of work in the Statutory Notice is not accurate / clear leading to 1) poor specification by the SPV 2) carrying out of work that is unenforceable/unrecoverable	3	5	15		✓		✓	✓	Detailed process design will build in sign off of the specification of works and build in a QA process Any change of scope identified will require an update or new notice and re-issue by the Council Tightly controlled contractor management by the SPV
Statutory Notice is not served to the right people /owners cannot be identified	3	5	15		✓	✓	✓	✓	Reference to the land registry to be built in as part of the process
There is a lack of clarity about what legislation should be applied in what circumstances	3	5	15		✓		✓		Decision process will be developed detailing how legislation is used and staff training will cover this.
Lack of experience in using legislation means it is applied ineffectively	3	5	15		✓		✓	✓	Staff training Legal advice to inform detailed process design
Volume throughput to the SPV is too low or not optimal for company viability	3	5	15					✓	Close monitoring & early action Financial model based on prudent assumptions
Customer expectations are not met by the service	3	4	12	✓	✓	✓	✓	✓	Clear remit for the service and clear communications about this and the processes
Staff are not clear on how the new process works and customer service is diminished	2	5	10	✓	✓	✓	✓		Staff training & performance management Procedures manual Quality control
Service objectives are not understood or not clearly defined leading to inconsistent processes	2	5	10	✓	✓	✓	✓		Service to be designed to be objective led Staff training & procedure manual supported by performance management
Processes are defined but are not followed (internal)	2	5	10		✓	✓	✓		Quality control & performance management processes

Appendix 5 – Stage Risks and Mitigations

Risk Description & Impact	Inherent Risk			Stage affected					Mitigation
	Likelihood	Impact	Rating	HELP	STAT. INT.	PERSUADE	ENFORCE	DO	Mitigation action
Poor management decisions in the SPV lead to a poor service impacting on the council e.g. complaints, reputation	2	5	10					✓	Council representation in SPV governance structure Robust recruitment process to put in place effective management Clearly defined customer service objectives
Integration with other Council services is not achieved at first point of contact leading to customer confusion and ineffective processes	3	3	9	✓					Link with the BOLD programme Service-wide change management
There is pressure to shorten timescales or bypass stages in the process for particular cases	3	3	9		✓	✓	✓	✓	Communicate process to all stakeholders Design process to enable prioritisation by severity / urgency
ICT systems are not fit for purpose and there is a lack of integration between the Council and the SPV (customer and accounting systems) impacting customer service and process robustness	3	3	9	✓	✓	✓	✓	✓	ICT requirements will form part of detailed process review and will link with new Council ICT strategy Costs included for ICT development in Council and SPV
Volume of enquiries/cases is high and impacts the service quality	2	4	8	✓	✓	✓			Use pilot volumes in controlled manner to get team size right for full service
Integration between existing SRS and new Enforcement Service is not achieved impacting effective service delivery and customer service	2	4	8	✓	✓				The updated service structure will support more integrated working Staff training Procedures manual Quality control
Handover of cases to Statutory Intervention is not controlled leading to inconsistency of process and volume issues	2	4	8	✓	✓				Test volumes through pilot phase with outstanding notices
Skilled staff cannot be attracted to/retained in internal positions	2	4	8		✓	✓	✓		Review overall career development opportunities Better workload management Clear messaging about the new service and its approach and values
The SPV does not have sufficient resource flexibility to manage peaks and troughs in workflow	2	4	8					✓	Process volumes will be monitored and managed. SPV will be able to investigate contracted PM resource and costs for this have been built into the financial modelling
Poor product delivery / workmanship impact service standards, recoverability of costs.	2	4	8					✓	Robust KPI development and performance management Robust procurement of contractors Possible QA process of SPV by Council in year 1

Appendix 5 – Stage Risks and Mitigations

Risk	Inherent Risk			Stage affected					Mitigation	
	Description & Impact	Likelihood	Impact	Rating	HELP	STAT. INT.	PERSUADE	ENFORCE	DO	Mitigation action
The right balance of Council involvement is not achieved affecting the operations of the SPV (too much) OR reducing Council oversight and risk management (too little)	2	3	6						✓	Build in to appropriate governance documentation e.g. Shareholder Agreement or SLA
The SPV develops mission creep, undertaking additional activities and these diminish the delivery of the core service	1	4	4						✓	Controlled by Council through reserved matters in shareholder agreement

Appendix 6 – Delivery Model Analysis

This appendix sets out the delivery models appraised and the results of those appraisals. The delivery models looked at were as follows:

In-house	Wholly Council team providing all management, professional and technical disciplines and utilising a framework contract to commission construction contractors to undertake the work.
In-house with external Project Management resource contracted in	Similar to the previous delivery model in the old service with an in-house team managing the service but handing over the project management of some jobs to external resources to manage to commission and run from a Council contractor framework.
Co-sourced	Internally located team comprising both Council and private sector partner staff with key management and technical roles provided by the partner organisation to facilitate knowledge share and skills development. Generally a time-bound solution that would revert in-house after the end of the contract term.
Special Purpose Vehicle	A Council-owned and controlled organisation established to undertake the specification, customer liaison, project management tasks and the commissioning of contractors.
Private Sector Delivery Partner	An external partner procured to deliver services under contract with the Council. This would operate with the same scope of works as the arms length company.

The results of the appraisal of the models against factors within the essential components for a successful service as well as timescales and costs to set up and market appetite are shown in the matrix below.

Appraisal Factors		Delivery Model				
		In house	In house (external PM)	Co-source	Special Purpose Vehicle (SPV)	Private Sector Partner
Operational	Council Control	Green	Red	Yellow	Red	Red
	Visibility of operations to Council	Green	Yellow	Green	Yellow	Red
	Existence/Readiness of PM & Contract Management system(s)	Red	Red	Yellow	Yellow	Yellow
	Ease of financial integration / accounts reconciliation	Yellow	Yellow	Yellow	Yellow	Yellow
	Credibility	Red	Red	Red	Yellow	Red
	Breadth of customer service offering (i.e. other services)	Green	Yellow	Yellow	Yellow	Red
	Customer service effectiveness	Yellow	Red	Yellow	Green	Yellow
	Operational cost to council	Yellow	Yellow	Yellow	Yellow	Yellow
	Resource flexibility (to manage peaks & troughs)	Red	Yellow	Yellow	Yellow	Yellow
	Skills/Capability availability & retention	Red	Red	Red	Green	Yellow
Set-up	Cost to council to implement	Yellow	Yellow	Red	Yellow	Red
	Time to implement & have operational service	Green	Yellow	Yellow	Yellow	Yellow
	Market appetite (consultant / contractor) to work with this model	Red	Yellow	Yellow	Yellow	Red
	Participants' appetite to be in the model	Yellow	Yellow	Yellow	Yellow	Yellow

Appendix 6 – Delivery Model Analysis

Selection of recommended model

In-House and Out-Sourced Models

The full in-house and out-source models were dismissed early in the process. While the in-house model provides a level of control and visibility it was considered unlikely that the full range of skills exist within the Council to deliver the scheme with no external support. A fully in-house approach would also lack focus and may not encourage market participation at the tiers required to improve the service. There were also issues around overall credibility of an in-house model. The out-sourced model scored quite well in relation to a number of appraisal factors but it was deemed that adopting the model would cede too much control to the delivery partner and significantly reduce any visibility the Council would have on service delivery. It was also deemed to be the most expensive model and following an informal market consultation there was very little market appetite among tier 1 and tier 2 contractors.

Co-Source Model

The co-source model, where the Council would appoint a delivery partner to work within the delivery team, scored reasonably well but it was recognised that the model was a short term solution ultimately reverting back to an in-house team. For this reason the model was less credible than others and would not provide long term retention of skills and capability. The model is also more expensive to implement than others with the exception of the out-sourcing option.

The models considered the most likely to succeed were the in-house model with external project management support and the establishment of a Special Purpose Vehicle.

In-House Model with External Project Management Support

The in-house model with external project management support scored well against some appraisal factors but scored poorly against others. The credibility of the model scored poorly given the experiences encountered previously. Concerns were raised that the model may appear to be “business as usual” and this could damage the overall success of the scheme. With regards to Council control and visibility a number of issues were raised as part of the lessons learned report. Indeed 17 of the observations raised in the lessons learned report related to poor control and a lack of visibility with the model. While a number of the issues raised could more than likely be mitigated the problems may prove to be endemic and the group concluded that starting from such a low base would represent a high risk to the Council. Data from closure activities shows that 80% of unbilled work relates to work managed by external project managers.

Regarding the existence/readiness of project management and contract management systems the group concluded that the existing Council systems are not sufficiently robust to support the works element of the service and further work will be required to bring the systems up to the required level of fitness for purpose. While external project management companies may be able to provide some systems support, the model would still be reliant on Council systems in relation to project management controls and finance.

The in-house model with external project management was also considered sub-optimal in relation to customer service effectiveness as the fragmented nature of the delivery team may lead to a lack of clarity on who is responsible for customer service, indeed one of the lessons learned acknowledged a lack of expectation with regards to the role of the consultant.

Appendix 6 – Delivery Model Analysis

Finally, the model scored poorly in relation to skills/capability availability and retention. While it is recognized that the project management out-sourcing could provide a level of flexibility there is no evidence to suggest that the experiences set out in the lessons learned paper with regards to staff management would be remedied if the model were to be adopted again. It was acknowledged that the delivery teams involved in the service previously were often under resourced and even reduced as part of budget savings.

Special Purpose Vehicle

A Special Purpose Vehicle (SPV) model scored reasonably well against all the appraisal factors. It scored particularly well against customer service effectiveness as the group felt it would be the most focussed of all the options considered. The SPV would be established with the sole purpose of delivering on a range of specified objectives without the day to day distractions that may exist within the Council. It also scored well against skills/capability availability and retention as it will be able to recruit in a less bureaucratic environment and will be able to avail of external support as required.

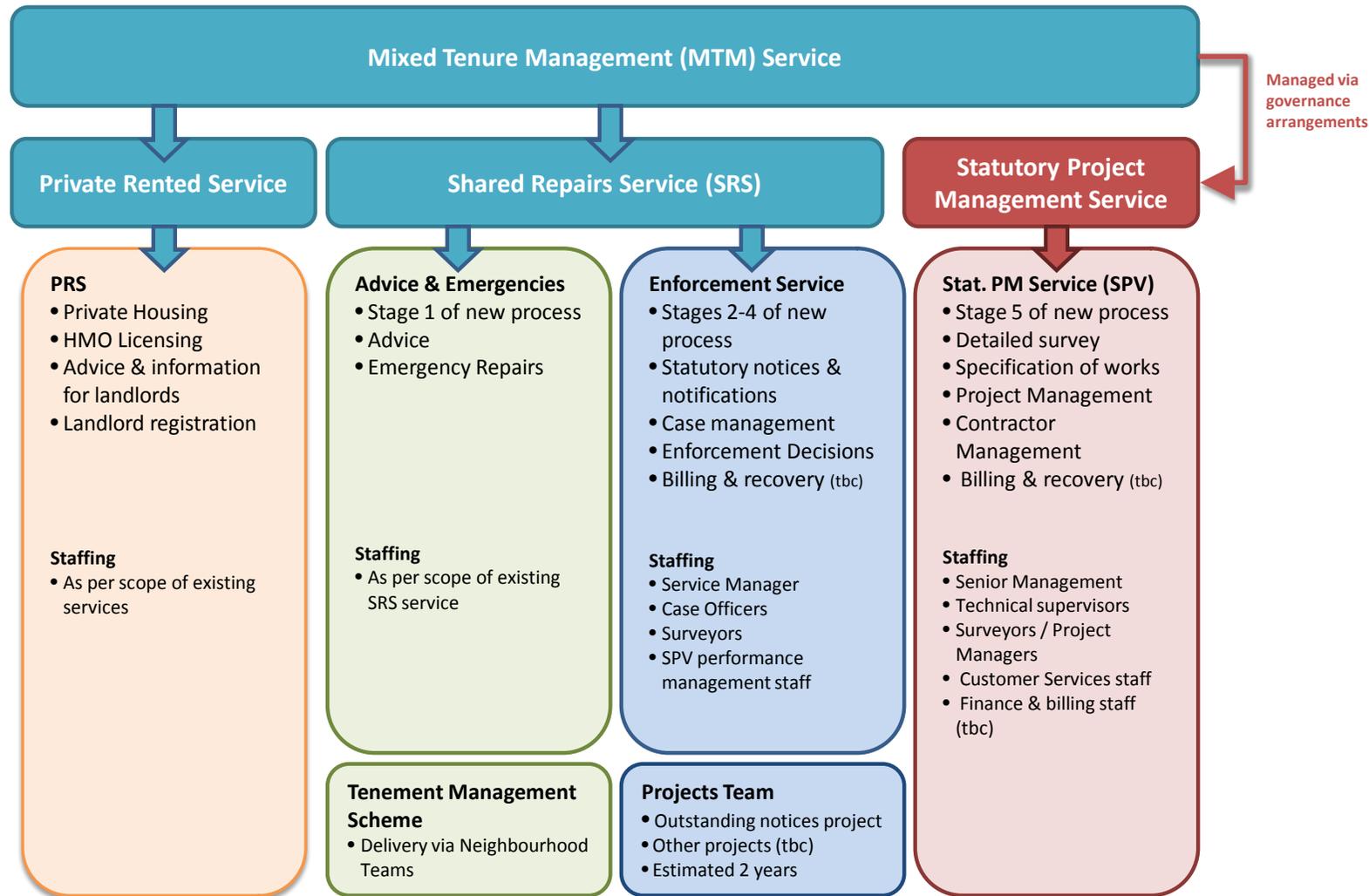
There are some challenges around Council control and visibility over the SPV although steps could be taken to mitigate these. The approach is felt to be credible as it provides a blend of Council experience with new ideas and a clear remit. The SPV would not be bound to utilise Council systems and could tailor its systems to meet the needs of the business. The company could also be established relatively quickly and would benefit from greater scope for more responsive decision making.

The viability of the Special Purpose Vehicle however is dependent on the volume of work that is referred to it by the enforcement team and certain assumptions have been made with regards to this. Its viability also depends on being able to charge a set percentage fee across all projects. If work falls below a threshold or the percentage fee cannot be set at the appropriate level the commercial viability of the organisation reduces.

Conclusion

There is no model that delivers best against all the appraisal factors. On balance the Special Purpose Vehicle scores best although its viability is dependent on consistent work flow and being able to recover costs through a percentage add-on to all works carried out. The in-house model with external project management support scored less well based primarily on a range of lessons learned from the previous service. While it was acknowledged by the assessment group that issues can be mitigated it was considered unlikely that the level of change needed would be implemented to make the model successful.

Appendix 7 – Mixed Tenure Management Service: Initial Functional Structure and Service Remits



Appendix 8 – Financials

The table below shows current modelling for the existing Shared Repairs Service, new internal Enforcement Service including costs for the outstanding notices project and the new Statutory Project Management Service (Delivery Service) via a Special Purpose Vehicle.

COSTS	5 Year Costs	2014/15	2015/16	2016/17	2017/18	2018/19
Cost of Shared Repairs Service (existing)	4,992,433	959,338	978,525	998,095	1,018,057	1,038,418
Cost of Enforcement Service (new)	3,860,090	862,925	727,184	741,727	756,562	771,693
Cost of Delivery Service (SPV)	6,589,771 -	572,076	1,444,065	1,483,397	1,524,076	1,566,156
Cost of Write Offs	6,755,447	341,844	1,229,469	1,684,711	1,705,225	1,794,197
Interest Payable/(Receivable)	(1,198,496)	-	(59,129)	(245,860)	(383,216)	(510,292)
Total	20,999,245	2,736,183	4,320,114	4,662,070	4,620,704	4,660,173
Admin fee	16,647,536 -	886,263	3,656,802	3,839,642	4,031,624	4,233,205
Net Position	4,351,709	1,849,920	663,312	822,428	589,080	426,968

BALANCE SHEET

Debtors and WIP	3,076,599	7,948,049	10,260,259	12,114,593	14,095,041
Funding Requirement - Debt collection	1,135,367	7,063,004	10,694,203	13,744,692	16,876,898
Funding Requirement - Delivery Service	1,968,889	(129,694)	(2,366,077)	(4,747,771)	(7,282,672)

Key Sensitivities

Number of projects per month	10
Average cost per project	85,000
Percentage of project costs non recoverable	5%
Management fee rate	35%
Write off rate	10%

Notes

Estimation. Costs reduce as this increases and vice versa
 Net costs will increase as this decreases. Annual average value of works ca £11m
 Assumption of errors made by service which are not billable
 = 15% net of VAT (see comments in body of the report)
 Assumption of level of written off (unrecovered) debt

Appendix 10 – Stakeholder Engagement

Organisation Category	Organisation
Owners / Private Landlords / Letting Agents	<ul style="list-style-type: none"> • Owners • Private Landlords • Letting Agents
Housing	<ul style="list-style-type: none"> • Edinburgh Affordable Housing Partnership • ESPC Solicitors • Property Managers Association Scotland (factoring services) • Age Concern • Registered Social Landlords
Building	<ul style="list-style-type: none"> • Historic Scotland • Edinburgh World Heritage • Royal Institution of Chartered Surveyors • Scottish Builders Federation • National Institute of Roofing Contractors • Royal Incorporation of Architects in Scotland • Chartered Institute of Builders • British Geological Society • Edinburgh University
Neighbourhood Partnerships / Community Councils	<ul style="list-style-type: none"> • South Neighbourhood Partnership • West Neighbourhood Partnership • South West Neighbourhood Partnership • City Centre • Portobello Neighbourhood Partnership • Liberton/Gilmerton Neighbourhood Partnership • Craighentinny/Duddingston Neighbourhood Partnership • Leith Neighbourhood Partnership • Inverleith Neighbourhood Partnership • Forth Neighbourhood Partnership • Almond Neighbourhood Partnership • Pentland Neighbourhood Partnership • Community Councils
CEC/Partner Services and Organisations	<ul style="list-style-type: none"> • Political Sounding Board • Edinburgh Tenants Federation/ Edinburgh Private Tenants Action Group (EPTAG) • Edinburgh & Lothian Equality Council (ELREC) • Edinburgh Housing and Advice Partnership (EHAP) • Shelter Scotland • Police Scotland • Lothian Fire and Rescue Service