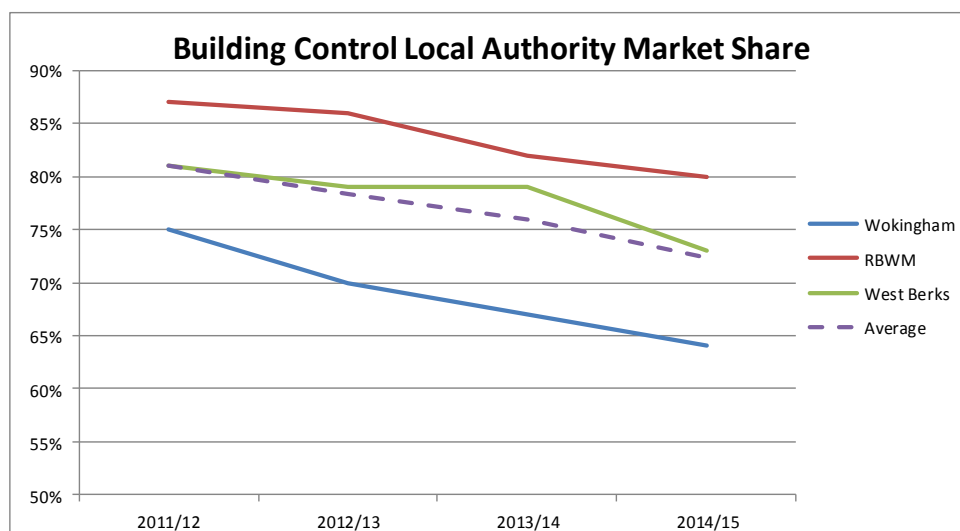


## **Shared Building Control Services**

### **Background**

Local Government building control services compete with the private sector. Since the market has been opened up to private firms (known as Approved Inspectors), local authorities have lost business. Recent market share figures reflect this ongoing trend:



Compounding this is that the private sector Approved Inspectors are able to cherry pick the high value work for the larger building developments, meaning that the business lost is generally the premium work for which the highest fees can be charged. Local authorities, who have a statutory duty to offer a Building Control service as a 'provider of last resort', are increasingly left with the high volume but low value activity.

The consequence is that local authority building control services across the country have found it very difficult to compete and to attract and retain staff for a number of years.

### **What has already been done?**

In April 2015, Wokingham Borough Council entered into a shared building control service with Royal Borough of Windsor and Maidenhead (RBWM) as a first move towards addressing this situation. WBC hosts this service and all previous RBWM staff were TUPE transferred to WBC, with the whole of the shared service now operating from WBC Shute End.

The key drivers for the current shared service arrangement the expansion of this now proposed are:

- Survival and viability of relatively small Local Authority Building Control Services in the face of competition from the private sector
- Safeguarding against having to 'buy-in' a service at increased cost to WBC

- Economies and efficiencies from combining to form a larger operation
- Service resilience and adaptability to respond to market conditions and customer demands
- Dependability and consistency of service
- Improving the customer experience in meeting their needs
- Opportunities for commercial development and to generate additional business
- Opportunities to diversify the business through offering a greater number of non-statutory services to generate non-restricted fee income
- Encouraging innovation
- Broaden the skills base
- Encouraging career development and improve recruitment & retention

To date, the existing shared service has been successful in attracting permanent staff and has appointed a manager who is now in place. Operationally, the service has made many improvements and is working through its action plan to increase efficiency and generate more business. Furthermore, the existing shared service has enabled the Council to make a saving to the general fund of £30k through cost savings and efficiencies.

### **A Larger Shared Service Model**

To build on the foundations of 2-way shared service between WBC and RBWM, it was always seen that further growth would strengthen the competitive position of the service and advance the strategic and operational objectives identified.

The proposal for the larger 3-way shared service (and possible 4-way if RBC joins in due course) is a staged process as set out below:

#### ***Phase 1 – Combine Current Services***

Expand the existing 2 way shared service to a 3 way shared service to include WBDC. The WBDC service has been well managed and it is considered that integration of this with the current 2-way service can be achieved relatively easily..

#### ***Phase 2 – Improve Efficiency and Competitiveness***

Further work to look at ways of improving the operational efficiency and effectiveness of the service:

- Optimise the organisation structure to better match staffing resources with activity and generate some further savings.
- Creation of new specialist functions and roles,
- IT platform integration of all three authorities to increase productivity and offer a more consistent service to customers.
- Single site operation

By virtue of their statutory responsibility, the 'trading accounts' of local authority building control services are ring-fenced and the Council is unable to make a profit from the mainly statutory activities undertaken. However, efficiency improvements and more focused use of resources will open opportunities to grow the business to include activities outside of the 'ring fenced' statutory services. Profits from providing these non-

statutory building related services such as consultancy and advice can benefit authorities directly.

A possible further part of Phase 2 will be the joining of RBC into the shared service arrangement which would be considered by a future Executive meeting. While the service would benefit from being 4-way as opposed to a 3 way model, if RBC does not join in the future, this would not undermine the ability of the shared service to achieve the objectives set out above.

### ***Phase 3 – Maximise Potential***

During Phase 1 and Phase 2 of the shared service, the Council and its partners will consider opportunities for an alternative longer-term model for Building Control Services (Phase 3) which could include :-

- Spinning off the BC service into a separate vehicle to deliver services and to allow surpluses/profits to be distributed. Options include
  - Arms-length trading company
  - Social enterprise
  - Other suitable vehicles
- Offering services beyond the partner authorities where capacity is created from sharing expertise and resources.
- Expanding the shared service to include or to sell services to other authorities
- Developing a business to sell other services not currently provided by the service to generate profit,

An alternative model should enable any surpluses or profit to be realised and returned to the partners as dividends or distributions, including those which are currently ring-fenced. This could make a significant difference to the financial case for the project and would be subject to further Executive approval in due course.

### **Financial case**

The financial arrangement for local authority Building Control is unique in that it is the only statutory service within the Council that is exposed to open competition, whilst being restricted by the provision of the Local Government Act that prevents it from making a profit.

There are 2 sources of funding for the service:

- i. WBC General Fund – for non-chargeable activities that the Council has a statutory obligation to provide for which it cannot charge a fee, such as identifying unauthorised building work, enforcement & prosecutions, demolitions and dealing with dangerous buildings. This is therefore a real cost to the Council and any efficiencies in the shared service will help to reduce this cost, although as it only accounts for 15% of WBC activity (17% across the 3 authorities), any General Fund benefit will be relatively low.
- ii. Fee income – for chargeable services such as the passing of plans for building works and site inspections. This accounts for 85% of WBC's activity (83% in the 3-way) and is where the service competes with other Approved

Inspectors for business from residents and commercial customers. Fee income is expected reflect the true cost of providing the service for local authorities. Therefore, efficiencies generated from combining to form the shared service in Phase 1 and Phase 2 will create surpluses on the ring-fenced trading account which cannot be used for anything other than reinvestment in the building control service or to reduce fees to customers. The potential for the shared service partners to benefit from surpluses on the trading account will only be achievable if a viable alternative model can be implemented in Phase 3.

#### *Financial Impact on the General Fund*

Savings of approximately £30k have been realised this financial year (2015/16) from the 2-way shared service.

For the expanded 3 way shared service, it is expected that there will be very limited further savings to be achieved in phase 1 upon implementation. The position will essentially be cost neutral for the General Fund (being 17% of the shared service):

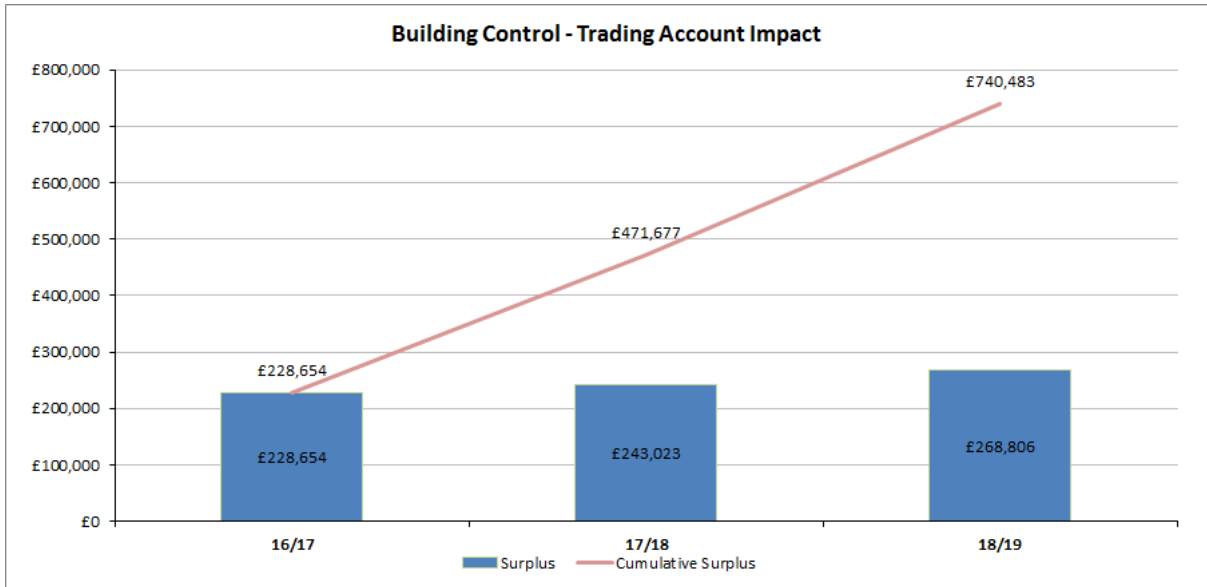
Cost/(Saving) £'000	General Fund Impact			
	WBC	RBWM	WBDC	TOTAL
Year 1 (2016/17)	0	0	0	0
Year 2 (2017/18)	2	2	2	6
Year 3 (2018/19)	(2)	(2)	(2)	(6)

WBC will however, as hosts, have protection against any reasonable increases in costs to run the shared service by being able to charge legitimate increases in WBC direct costs or overheads to the shared service.

In addition, the expected resource and effort that WBC as hosts would have to invest in leading the shared service through Phase 1 to 3 will be captured as project expenses of developing / investing in the shared service, and will be an allowable cost against the shared service trading account going forward. This ensures that WBC are not left in an adverse position, bearing the cost within its General Fund. The real benefit to the Council's financial position in Phase 1 is the development of the business to allow it to retain an in-house service at a reduced cost relative to having to 'buy- in' the service from an external provider.

#### *Financial Impact on the Trading Account*

It is projected that the Trading Account will have a surplus of £740k by the end of year 3, which the Shared Service will hold on behalf of all 3 authorities. As this is ring-fenced, it cannot be distributed to the authorities.



However, reinvestment of some of the surplus will enable the shared service to grow and move towards an alternative model of delivery more quickly and effectively, and this will provide the real opportunity for the service to benefit the Council and its partners financially in the medium to longer term. Also, this surplus will allow the Council to legitimately reimburse itself for the project costs associated with business growth and development and setting up any further delivery model.

*Note: all financial year figures above are calculated on a full 12 month year. If the shared service starts part way through the year, the impact will be reduced proportionately.*

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