

OUTSOURCING LOCAL AUTHORITIES' HOUSING STOCKS

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The debate whether outsourcing is the real solution has been ongoing and there are strong arguments to support both chains of thought. This paper analyses Service level agreement (SLA) with emphasis placed on cost, quality, personnel and sustainability. The analysis of each agreement is made through a series of questionnaires, case studies and interviews with senior management team, staff and customers. The result indicates that performance has improved with a notable increase in tenant satisfaction and participation. The use of key performance indicators (KPI's) help to demonstrate that outsourcing has brought better value for customers. The survey however indicates that in spite of some of its overwhelming tenant satisfaction, the Council does not fully support outsourcing.

Keywords: local authority housing, outsourcing, partnering, SLA.

INTRODUCTION

Many companies and Local Authorities in UK have now adopted the strategy of outsourcing their non-core services to partnering companies. This has been seen as good practice and can have notable benefits to the outsourcer, including skill sharing, transfer of risk, achieving better value for money and providing service improvements (Franceschini *et al.* 2003, Khong 2005; Harland *et al.* 2005). The Outsourcing Institute noted (Casale 1995) the growth of outsourcing many years ago, stating that “*strategic outsourcing is a new frontier for today's industry and, like all frontiers, there are people and organisations that have taken the initiative to trailblazer a path for others to follow.*” According to the (BSRIA 2006), the outsourced market for facilities management in the UK will increase to be worth £22.1 billion in 2008. In its fifth report on the UK FM market, BSRIA found that £18.9 billion (44 per cent) of the potential £42.6 billion market was outsourced.

The paper focuses on outsourcing of Local Authority Housing Stock, with this selection fundamentally made given the infancy of this practice and the huge range of comparable agreements in place for analysis. Traditionally Local Authorities have managed their own Housing Stock and it is only in the last few years that Arms Length Management Organisations (ALMO) and Stock Transfers have been established and therefore studies into this sector are still relatively rare.

It uses four key indicators namely costs, quality personnel and sustainability. These criteria have been selected on the basis that the three most common measures of success are quality, cost and time (Bradley *et al.* 1998; Claude *et al.* 2001). The latter

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(time) is not usually directly associated with outsourcing, so therefore the criteria set exclude this particular element. The criteria used to establish success or failure is achieved by analysing each arrangement under the following categories:

- Quality – The level of service quality provided to customers.
- Cost – The savings or loss in financial terms following outsourcing.
- Personnel – The effect on the people involved with the outsourcing agreement.
- Sustainability – The likelihood and impact of outsourcing agreement in the future operations.

People are central to any outsourcing agreement and therefore it is important to include them in any analysis, and to complete the picture an examination into the sustainability of outsourcing is included.

METHODOLOGY

The first phase of this study discussed in this paper features four outsourcing arrangements set up at around the same time for the management of Local Authority Housing Stock. For comparison purposes, one unrelated outsourcing agreement is analysed from the private sector (Boots Shopfitting Pool). All five outsourcing agreements become the subject of an in-depth analysis with the aim of analysing strengths and weakness of Local Authority housing stocks outsourcing.

The questionnaire was also headed under the above four measures (quality, cost, personnel and sustainability) established and split to allow analysis of the views of three parties involved in the outsourcing agreement, namely senior management, staff and customers. Each question was carefully considered and specifically worded to provide valuable feedback on one of the four measures. It was also noted that although the majority of the study focused upon public sector Housing Stock provisions, repairs, maintenance and management, it was deemed important to offer a Private Sector comparison, therefore special care was given to ensure each question targeting Housing Stock stakeholders could be equally applicable to another sector.

As part of the interviews undertaken, the questionnaires were introduced to the participant and advice sought on who could be targeted in the organisation featured to complete a questionnaire in a timely manner. At each organisation, the Chief Executive undertaking the interview, distributed questionnaires to both staff and management on site, they were completed and collected after the interview was concluded.

Customer participation offered another difficulty in respect to the data protection of the company's customers or tenants. To overcome this difficulty questionnaires were left with the organisation to distribute to tenants, typically through local tenant groups, or with staff visiting customers. These distribution methods allowed for a return rate of over 90% on questionnaires, which is far higher than would normally be expected through traditional distribution techniques in the post. The possibility of phone questionnaires was also considered, but without knowledge or contact details of customers, staff and management this would have been near impossible to complete. It should be acknowledged that the organizations featured had the choice of who they distributed the questionnaires to and ultimately could have avoided staff and customers with negative views on outsourcing.

The questionnaires had a total of 35 questions, made up of 5 sections, each with 7 multiple-choice questions. Each stakeholder was asked to complete three sections applicable to them, with a total of 21 questions to complete. Section 1 was aimed at all respondents and included a series of questions aimed at establishing general views on the outsourcing agreement under consideration, looking at; perceived service levels, benefit of the outsourcing to the respondent, likelihood of returning the provision in-house and how the respondent felt about the future. The second set of questions were aimed exclusively at senior management with the aim of acquiring statistics in relation to the outsourcing; such as changes in cost, staff turnover figures, loss of working time and customer complaint numbers.

The middle part of the questionnaire was targeted at staff to gauge their thoughts on the outsourcing process. It asked for opinions on TUPE, their motivation, effect of outsourcing on take home pay, pension and benefits. The aim was to gauge what effect outsourcing has had on employees both through measurable elements, such as pay and holidays, but also intangible aspects, like motivation and their home life. The penultimate set of questions moved to the viewpoint of customers asking if customers have had the need to complain, if they feel they are receiving better value for money following outsourcing, their thoughts on changing providers and their perception on the attitude of staff. Finally, the questionnaire concludes with a set of questions on generic outsourcing opinions, aimed at all respondents. These sets of questions were included to analyse if the respondent had a clear viewpoint on outsourcing, or just specific opinions on their own agreement. It would also highlight any variations between views on their own outsourcing arrangements and their thoughts in general.

THE BENEFITS AND LIMITATIONS OF OUTSOURCING LOCAL FOR AUTHORITY HOUSING STOCKS

This preliminary research undertaken through the questionnaires indicate that the level of service provided by each organisation has improved in each of the outsourcing agreements analysed. Notably the majority of customers believe that service levels provided has improved as a result of the outsourcing (figure 1). Overall only 2% of the questionnaire respondents believed the level of service had in fact deteriorated. The questionnaires do not cover specific areas in which service levels had improved, however, evidence of improvements have been noted, particularly in the quality of housing accommodation now provided following the multimillion-pound investment each organisation has made in their housing stock and also the emphasis now placed on customer care and support services by each organisation.

A further indication of the improvement in quality is the fact that 93% of customers had not needed to complain following the outsourcing, supported by only one of the five companies featured in this preliminary phase of the study noting an increase in customer complaints. Nevertheless, it is worth pointing out here that there are no guarantees that all outsourcing will be a success or provides service level improvement as service levels can fall, particularly during the upheaval of change management process and customers and employees can be left confused by the formation of a new company or transfer of services to another organisation.

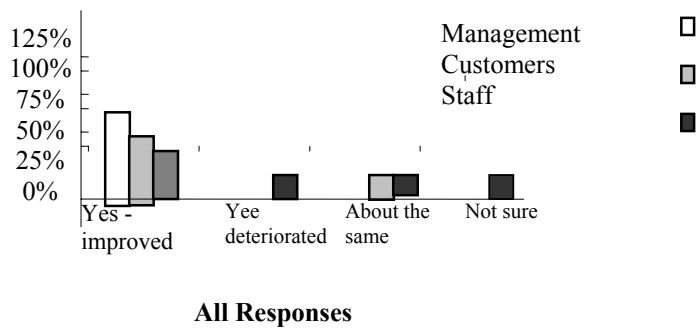


Figure 1: Service level to customers following outsourcing

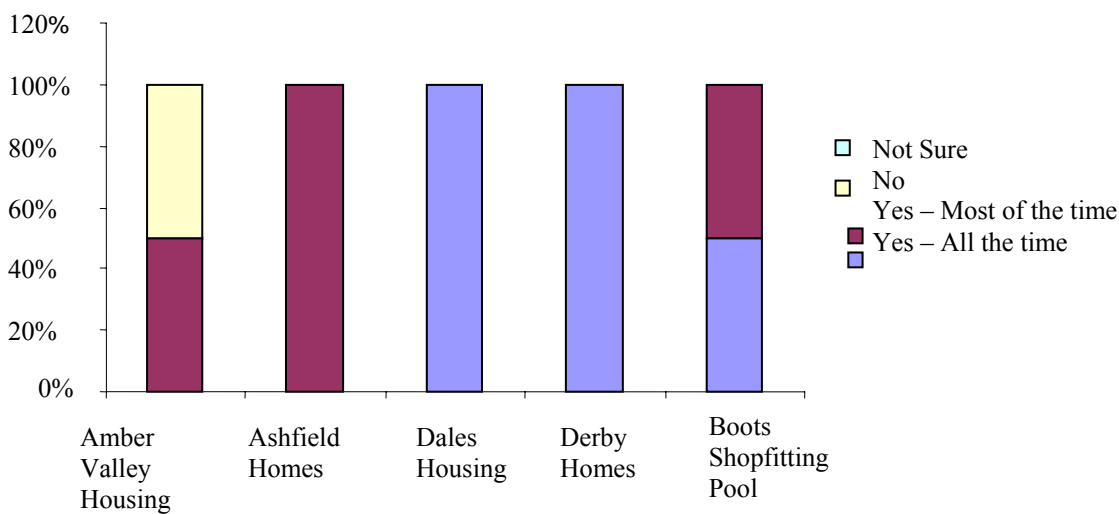


Figure 2: Customer satisfaction with service levels

The use of KPI's and SLA's are seen as a way of controlling quality (Keogh *et al.*, 2003), however these can be time consuming to establish, implement and control and can be often misunderstood.

Overall the general perception of outsourcing is favourable, the only exception being Amber Valley Housing's customers where 50% stated that they did not think outsourcing was for the better (figure 2). The result obtained indicates that the increase in quality has not come at the cost to customers. 64% of the customers completing questionnaires felt they were getting better value for money as a result of outsourcing.

A third of all senior management team did however believe that the cost of their services had risen following outsourcing. Also, the majority of people involved with outsourcing now had an improved level of confidence about the future and in fact all management, nearly all staff and 57% of customers felt this way.

A total of 72% of those questioned were happy with the way the outsourcing had been set up, including consultation and timescales, with just 9% expressing their concerns over this element. At each of the organisations analysed there had been no job loses as

a result of outsourcing, with a third of those asked stating employment had increased following outsourcing.

There is also strong evidence supporting the financial gains for staff, with the majority of respondents noting an increase in take home pay and the remainder noting no change.

There was also good feedback for the Transfer of Undertakings (Protection of Employment (TUPE) regulations in the Public Sector with three quarters of staff stating they felt it gave them sufficient protection, and nobody stating they felt it left them vulnerable. The majority of staff had their terms and conditions unaffected, the only notable exception being in the private sector where all staff lost their bonus scheme following transfer. Finally staff had reacted positively to the changes, with majority stating they were now more motivated.

On sustainability, the results suggest that the possibility of returning some of the outsourced agreements in house and bringing the outsourcing to an early conclusion should not be ruled out, with only 47% of those asked believing the outsourced service would never return in-house, however, only 7% felt the service would definitely return in-house in the future. Interestingly, 30% of people believe that discussions have already taken place regarding returning the function in-house in the future (see figure 3).

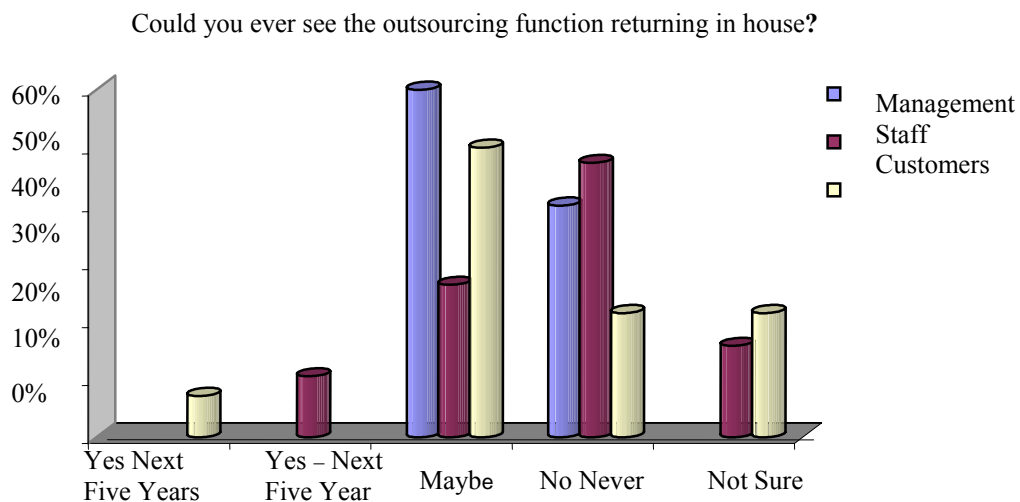


Figure 3: Possibility of returning the outsourced service in house

The majority of the customers believed that outsourcing was the correct thing to do, however a small minority (14%) would have preferred for the outsourcing not to have taken place. Only 7% of all stakeholders questioned believed there was no future for outsourcing, with 49% expecting a strong future and a further 37% suggesting there was some limited future for outsourcing. Finally a total of 70% of those asked stated that knowing an operation was outsourced would not discourage them from using it.

The interview conducted with the Project Controller of Boots Shopfitting Pool, one of the private sector analysed revealed that the operation is now managed more efficiently which has resulted in improved customer satisfaction in the monthly surveys and an increase in productivity recorded under the KPI's. Much like the

Public Sector agreements, the service level agreement linked to the overall performance and KPI's scores.

Historically the Boots shopfitting pool costs were absorbed into the site costs of Boots Head Office site however, outsourcing has brought better understanding and control of these costs, but overall it is acknowledged that costs are parallel to an in-house provision. Although costs savings are not noticeable, however, value to customers is recognised as being improved. For example, a new helpdesk has improved the front line service and restructuring of the Shop floor staff allow more staff to concentrate on delivering a high quality service within the existing costs restraints.

It is however acknowledged that the transfer of staff could and probably should have been managed much better. This is the only downside to this particular outsourcing and it is now known that little to no consultation took place with staff by previous management. However, the current management have worked hard to restore job satisfaction and security and as a result attendance levels are up, there is more ownership by staff and in general people are happy in their job.

It is recognised that the outsourcing will be ongoing on a 12-month rolling contract. Currently the Boots corporate procedure is to outsource non-core activities whilst this remains the case, the outsourcing look set to stay. It is thought that the Shopfitting pool has achieved a short-term fix at this stage, but hoped that this will be a long-term sustainable solution.

CONCLUDING COMMENTS

The overall questionnaire and interviews results offer wide support for outsourcing from all groups of stakeholders. There is a small percentage of negative feedback, but the vast majority of the respondents who completed the questionnaire provided positive feedback. Historically, Local Authorities housing stocks was seen by many to be low on the political agenda, particularly given the fact that only a small percentage of the population used such services, with activities such as planning, refuse collection and leisure service applicable to far larger markets.

As previously noted, historically outsourcing was used as a way of re-employing people in the same position, but for less costs. However, in 1981 The Transfer of Undertakings (Protection of Employment) Act was passed with the aim of protecting employee's employment rights, which Trade Unions and employees alike hoped heralded a new chapter in outsourcing. However, even with this Act outsourcing continues to have a mixed reputation with many critics regarding it as little more than a cost cutting exercise. (Lonsdale and Cox 1998: 13) offer a viewpoint that would anger many, challenging the TUPE agreement principles, stating, "*The ability to achieve savings in the UK is made somewhat complicated by the TUPE legislation... This means that where the Act applied the scope for accruing costs savings from lower wages is somewhat limited, at least in the short term.*" This is a cynical opinion but nevertheless is a viewpoint, which is still considered by some businesses.

In spite of recent outsourcing successes (Fill *et al.* (2000) and Handley-Schachler *et al.* (2003)), there is still reluctance within Local Authorities to participate in such outsourcing. This is thought to relate to a combination of factors; firstly, the poor reputation outsourcing developed in its early years (see Chapman 2003: 12). Secondly, with the privatisation of public services such as British Rail and prison management has left some politician, both at national and local level as 'outsourcing skeptics.' In addition, traditional Labour government supporters, who very often have

strong links with Trade Unions, have historically been opposed to outsourcing. At its outset outsourcing had a blemished reputation and became associated with job losses. Such action following a Local Authorities decision to outsource housing stocks would undoubtedly be damaging to the Councilors controlling the Local Authority, likewise the prospect of a private company making a profits out of tax payers' money can also discourage many local authorities.

Finally, Councils have traditionally managed their own services, having full control for all aspects ranging from daily operations to strategic planning. Outsourcing does remove some of this control and results in eroded authority, it can be envisaged that some Local Authorities oppose outsourcing for this reason.

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