

North Lanarkshire Council Report

Communities and Housing Committee

approval noting

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Mears LLP: Operational Performance Monitoring Report for Quarter 1 and Quarter 2 2018/19 and Financial Performance as at 30th September 2018

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Executive Summary

This report outlines Mears Limited Liability Partnership (LLP) performance against its' business objectives and Council priorities for Quarter 1 and Quarter 2 of 2018/19, as well as financial performance as at 30th September 2018. This report also provides an update on progress with the agreed actions from the Year 8 Best Value Service Review.

Recommendations

Members are asked to:

1. Note Mears LLP's operational performance for Quarter 1 and Quarter 2 of 2018/19, along with service delivery highlights from the same period;
2. Note Mears financial performance as at 30th September 2018;
3. Note progress with the actions arising from the Year 8 Best Value Review; and,
4. Identify areas of activity requiring further detailed consideration by the Communities and Housing Committee.

Supporting Documents

Council Plan The Council's Agreement with Mears requires the LLP to not only deliver satisfactory service performance, but also to deliver a number of additional benefits to support Council priorities. Indicators have been developed to measure the impact and contribution of these to the Council's priorities and these are illustrated within the key performance indicators attached to this report at Appendix One.

Appendix 1 2018/19 Performance Indicators and Outcomes

Appendix 2 Financial Performance as at 30th September 2018

Appendix 3 Balance Sheet as at 30th September 2018

Appendix 4 Financial Performance Budget 2018 and Budget 2019

1. Background

- 1.1 In 2010, Morrison Facilities Services Ltd successfully bid to become the Council's strategic partner to deliver housing and corporate property repairs over a ten year period. The contract commenced on 21 January 2011. Mears PLC subsequently bought Morrison Facilities Services Ltd from Anglian Water as a going concern, so now own the 67% shareholding in the Mears Scotland LLP (Mears) strategic partnership and the inherent North Lanarkshire service contract. North Lanarkshire Council owns the remaining 33% of Mears Scotland LLP.
 - 1.2 The Council expected the partnership to secure local employment, source local supplies and services, and ultimately secure continuous improvement in the repairs services delivered to North Lanarkshire residents.
 - 1.3 A Management Committee consisting of representatives from both Mears and North Lanarkshire Council is responsible for the LLP's governance, which includes operational delivery and management, staffing, financial control and reporting, health and safety, performance monitoring and risk management. The Management Committee, which meets quarterly, consists of one senior Council officer, one elected member and up to 4 Mears representatives.
 - 1.4 The former ALEOs and External Bodies' Monitoring Committee agreed in May 2016 that the LLP's performance would be subject to six monthly monitoring.
 - 1.5 This report highlights how Mears is supporting the strategic activity of the Council and a separate report to this Committee focuses on Mears operational performance. At future meetings of the Committee a composite report will be submitted which combines both operational and strategic aspects of Mears activity and performance.
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2. Report

Performance Indicators

- 2.1 The outcomes from Quarter 1 and Quarter 2 2018-19 performance indicators are detailed within Appendix 1.

Overview of Governance Arrangements

- 2.2 Council representation on the management committee, as outlined in paragraph 1.3 above, enables the Council to maintain an overview of the LLP's overall performance and governance arrangements.
- 2.3 Mears LLP largely satisfies the Council's required oversight arrangements and routinely submits the monitoring information expected by Council officers in line with the timeframes specified within the LLP Agreement. Mears have continued to fail on their requirement to prepare a draft business plan, although work on this is currently in progress and meetings have been held with the Council to confirm work content and values in advance, to allow Mears to plan their resources accordingly.

Year 8 Best Value Service Review

- 2.4 As per the Works Agreement, Service Reviews require to be carried out jointly at years 4 and 8 of the strategic partnership. The outcome of the Year 8 review was presented to the Enterprise and Housing Resources Committee in May 2018, and highlighted high levels of service delivery being achieved across the partnership. The review also considered whether an extension to the contract would be of benefit to the Council, however, the projected spend for revenue, plus some additional capital works, would take the contract spend at January 2021 over the total contract value, and so an extension of the contract beyond that timeframe was not recommended.
- 2.5 A short term improvement plan was approved to strengthen current service delivery arrangements with Mears LLP in the interim, including the requirement for Mears LLP to produce a Business Plan, as outlined in section 2.3 above.
- 2.6 There was also an agreement for the Council and Mears LLP to work together to ensure a successful TUPE transfer to the Council of staff currently employed within the repairs planning team in Mears LLP. Work with HR is underway to implement the transfer seamlessly and as soon as practicable. The saving to the LLP of this transfer will be offset by Mears employing 13 apprentices each year until the contract end date.

Comments, Compliments and Complaints

- 2.7 During Quarter 1 and Quarter 2 the Council received 69 stage 1 complaints regarding Mears (65% of which were upheld or partially upheld (45)). This number is down by 10% from the same period last year:-

Housing Property Complaints received via Council	2018/19			2017/18 (for comparison)		
	Q1	Q2	Total	Q1	Q2	Total
Stage 1	37	32	69	45	31	76
Stage 2	2	2	4	4	5	9
Total	39	34	73	49	36	85

The number of stage 2 complaints received also decreased from 9 to 4 over the same period.

- 2.8 The Mears Customer Service team also receive complaints directly. During Quarter 1 and Quarter 2, 63 complaints were logged directly by Mears (53% upheld/ partially upheld), which is down significantly from 149 over the same period the previous year.
- 2.9 This brings the total number of complaints raised over the six month reporting period to 136 (73 via the Council, 63 directly to Mears).
- 2.10 13 compliments were received by Mears during Quarter 1 and Quarter 2 of 2018/19. This compares to 17 over the same period the previous year. These compliments praised the excellent workmanship and professionalism of operatives.

Service Delivery Highlights

2.11 A sample of service delivery highlights over the period include:

- An apprentice employee painter and decorator has, for the third year running, won the South Lanarkshire College Apprentice of the Year award. The apprentice attended Skillbuild painting and decorating event representing the College and Mears Scotland LLP and has reached the final of the Scottish Decoration Federation awards.
- In response to the Council's Family Firm initiative, MEARS are providing a year-long work experience placement for a care experienced young person. Working in collaboration with the Partnership Planning Group, a young person was identified who is interested in completing an apprenticeship to become a joiner. The young man started his apprenticeship in September and is undertaking a programme of rotational 3 month placements (Stores, Fleet, Waste Management and Joinery) with the aim of providing him with key skills and increased confidence to enable him to apply for the joiner apprenticeship programme next year
- Two managers and an apprentice attended an event at Kilsyth Civic Week to promote the Safer Homes service and received 21 referrals from elderly residents of the area. Mears also donated 100 notebooks and pens for inclusion in the information packs for each participant.
- Hospice Midnight Walk - Two employees volunteered to drive Mears 4x4 vehicles on the route to ensure the safety of the walkers. Three employees also took part in the walk.

3. Equality and Diversity

3.1 Fairer Scotland

There are no considerations which require to be addressed at this time.

3.2 Equality Impact Assessment

There is no requirement for an Equality Impact Assessment.

4. Implications

4.1 Financial Impact

Public Accountability Obligations – Financial Year 2018

- 4.1.1 To satisfy the Council's duty to ensure the organisation delivering property repairs and upgrade services on its behalf is financially sound, the Council's Section 95 Officer maintains appropriate and proportionate processes and procedures for scrutinising Mears financial performance.
- 4.1.2 The Council's Legal Agreements with Mears specify the financial information which it must submit to the Council including an annual business plan, quarterly management accounts, audited financial statements etc., to enable Financial

Solutions to assess and report any financial risk likely to arise as a result of the Council using Mears to deliver these services.

- 4.1.3 The Council expends revenue and capital resources annually with Mears to deliver services which assist the Council in achieving its priority outcomes. For financial year 2018, the company's budgeted turnover equates to £45.696m turnover with a net trading profit of £1.333m (2.9%) as per Appendix 2. The majority of this turnover is anticipated from housing and property repairs, with the remainder representing capital and other works.
- 4.1.4 As previously advised the contract with Mears includes scope for the Council to receive additional financial benefits including;
- a) a "volume discount", which gives the Council a 6.28% return on the value of relevant works awarded through the partnership. For financial year 2018, the Council has budgeted to receive £1.650m.
 - b) the partnership agreement also makes provision for a Best Value Efficiency Saving (BVES) to be applied to the schedule of rates paid by the Council on 1st July each year. The BVES receivable is dependent on turnover achieved by Mears, with a rate of 2.75% applicable on works to the value of £30m, a further 4.69% applicable on works between £30m and £35m, and any turnover in excess of £35m attracting additional BVES of 7.69%. Recognising the Council's 2018-19 budget of £30m for housing repairs, the partnership is expected to deliver a minimum benefit of £0.825m.
 - c) Scope also exists for the Council to receive dividends from this partnership arrangement. However as a result of the previous cumulative negative trading position, there have been no dividends declared to date.
 - d) In return for satisfactory service delivery and effective financial performance through the LLP, Mears PLC is entitled to receive a management fee which comprises both fixed and variable elements, and is partially linked to level of works delivered through the contract. The minimum management fee due to Mears PLC from the LLP is £0.5m.

Current Year Financial Performance as at 30 September 2018

- 4.1.5 Appendix 2 indicates the company anticipates budgeted full year turnover of £45.696m and net profit of £1.333m (2.9%), during financial year 2018, which assumes a reduction in capital and other additional works from the Council compared with 2017.
- 4.1.6 Based on their financial statements to 30 September 2018 Mears were reporting a year to date turnover of £38.700m and a net profit of £0.912m (2.4%) which is slightly down on the budgeted year to date position by £0.203m. This decrease is mainly due to delays in fire door work commencing. However based on a revised forecast to December 2018 turnover is anticipated to be £52.081m resulting in a net trading profit of £1.562m (3%). This increase reflects greater activity in the second half of the year.

Overall Financial Standing as at 30 September 2018

- 4.1.7 Appendix 3 provides 2018-19 key balances to give members an indication of the overall financial standing of the company, as at 30 September 2018, along with the previous year end comparator figures. Key balances and indicators worthy of specific note include:
- a) The rolling loan facility with Mears PLC is running with net cash of £1.909m (£2.098m cash less £0.189m inter co. creditors), against a rolling loan facility of £8m secured on a parent company guarantee.
 - b) A comparison of current assets (debtors, stock, cash etc.), with its current liabilities (trade creditors, payment to HMRC etc.) equates to net current liabilities of £1.208m, and a current ratio of 0.87. Members are reminded current ratio less than 1 is a general indication that the company has insufficient resources to meet its commitments at that point in time and demonstrates continued reliance on the £8m loan facility.

Budget 2019

- 4.1.8 The outline budget for 2019 is shown at Appendix 4, with turnover of £56.934m forecast and a net profit of £2.295m anticipated. Turnover is expected to increase by £11.238m in comparison to 2018, and is largely due to fire door works (budgeted turnover of £7m). Net profit is budgeted to increase by £0.962m from the 2018 budget. The financial performance in 2019 will be measured against this going forward.

4.2 HR/Policy/Legislative Impact

- 4.2.1 As referred to in section 2.6, TUPE transfer to the Council of staff currently employed within the repairs planning team in Mears LLP is underway.

4.3 Environmental Impact

- 4.3.1 The LLP positively addresses environmental considerations through delivery of activities which increase environmental efficiency and comply with National Home Energy Rating Standard assessment procedures.

4.4 Risk Impact

- 4.4.1 Mears LLP have not yet completed a risk self-assessment in line with the Council's process for determining the risk robustness of each of its Arm's Length Organisations and External Bodies. This will be completed in the coming months. There is, however, assurance from the Year 8 review that the LLP does have effective risk management and reporting arrangements in place.

5. Measures of success

- 5.1 These reports are intended to give members an insight into where Mears LLP is supporting delivery or adding value to the Council's priorities. Some key points worthy of note include the following:

- The LLP actively delivers tangible benefits to the wider North Lanarkshire Community by: purchasing locally sourced supplies and services from 28 companies; maintaining a workforce which sees 85% (459) of employees living within the North Lanarkshire area; and, providing a range of work experience placements and career advice initiatives to local schools.
 - Mears contribute to the long-term economic sustainability of North Lanarkshire via their commitment to take on 13 new apprentices each year.
 - Mears continue to work in partnership with the Council and its subsidiary companies by leasing office space from North Lanarkshire Properties LLP.
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Q1 & Q2 2018/19 Performance

Service Area	Target Outcome/Purpose	2017/18 Actual	2018/19 Target	Q1	Q2	Comments
Improved Economic Opportunities and Outcomes						
OBJECTIVE: Provide supported routes out of unemployment or underemployment						
Number of trade and Modern apprenticeships	Contribute to the long-term economic sustainability of North Lanarkshire	0	13	0	11	11 of the 13 apprentice vacancies have been filled. Mears continue to work with NL Working to promote the 2 outstanding modern apprentice roles. Furthermore, all time out trade apprentices were offered 3 months contract extensions. Time out modern apprentices were offered 6 month contracts.
% of LLP workforce within age 16-24 age bracket		17.5%	18%	14%	14.86%	This is aligned to Mears succession plan
Trade tasters		4	4 (Target changed to 1 to reflect engagement in Family Firm Programme)	0	1	Focus of Trade Taster has changed to concentrate on providing a year-long work experience opportunity for a care experienced young person. Target changed accordingly.
OBJECTIVE: Help current and incoming businesses to grow and create employment						
Number of local suppliers	Contribute to the long-term economic sustainability of North Lanarkshire.	28	N/A	28	28	Mears spent £15.2m in 2018 through local branches of Buildbase and Plumbase who operate within Motherwell, Airdrie and Bellshill. Mears continue to encourage sub-contractors to recruit local people and offer work placements and training outcomes (via North Lanarkshire's Working)

Service Area	Target Outcome/Purpose	2017/18 Actual	2018/19 Target	Q1	Q2	Comments
Improving the Health, Wellbeing and Care of Communities						
OBJECTIVE: Enable more people to live longer at home and to live as independently as possible						
Void Property Repairs and maintenance	To minimise the number of long-term empty properties which are not available for letting	22.3 days	26.5 days	23.75 days	22.30 days	Void turnaround was quicker than target for both Q1 and Q2
Safer homes advice and installations	To provide safety and security measures to vulnerable groups such as elderly and victims of domestic abuse.	1257 items fitted to 305 properties	N/A	873 items fitted to 83 properties	255 items fitted to 53 properties	This is a <i>demand-led free service</i> provided by Mears in partnership with NLC to householders living within North Lanarkshire. Installations consist of door chains, door viewers, window and door alarms, bath mats, carbon monoxide detectors, dusk to dawn lights, personal alarms, telephone block a box, butt buckets, metal bins, fire retardant mats and stair gates.
Housing Improvements	To assist NLC in letting houses which satisfy SHQS requirements	95.5%	98.14%	97.39%	98.43%	Target is an estimate based on the projected stock as at 31/3/19.
Housing Adaptations	To enable older people and disabled people to live independently in their own homes.	99.7%	95%	99.7%	99.59%	Mears continue to exceed target in terms of the number of jobs in areas such as access ramps, handrails and adapted bathrooms, which are completed within the target 40 day time period.

Service Area	Target Outcome/Purpose	2017/18 Actual	2018/19 Target	Q1	Q2	Comments
Supporting all Children to realise their potential						
OBJECTIVE: Maximise employment opportunities through our Education Provision						
Schools work experience	Provide young people with an opportunity to get an insight into a possible career	15	15	1	1	Offered 3 places in each quarter, only 1 accepted (School holiday time)
Recruitment fairs/career talks	Provide young people with an opportunity to get an insight into a possible career and routes to work	5	5	3	1	Noble Primary (3 May) Summer Leaver event (14 May) CITB (7 June) SDS at Coatbridge College (9 Aug)
Community Apprenticeship projects	Provides apprentices with the opportunity to work with local communities to add value to facilities as well as work with local groups and events to enable others to deliver community benefits within their area	12	12	3	0	Walk for charity (24 April) Kilsyth Civic Week (13 May) Golf day for Hospice (15 June)
Improving Relationships with communities and the Third Sector						
OBJECTIVE: Improve community participation and engagement in the planning and delivery of services						
Housing Tenant Conferences	Positively promote the partnership	2	2	1	0	North Lanarkshire Tenants and Residents Federation Conference (12 May)
Sporting Events	Positively promote the partnership	2	2	1	0	Tour Series Sponsorship (15 May)
Improving the Council's Resource Base						
Best Value Efficiency Savings	To positively support the partnership, deliver efficiencies to the Schedule of Rates payable via the works agreement.	£0.921m	£0.825m	-	-	Recognising the Council's 2018-19 budget of £30m for housing repairs, the partnership is expected to deliver a minimum benefit of £0.825m.

Service Area	Target Outcome/Purpose	2017/18 Actual	2018/19 Target	Q1	Q2	Comments
Links with NLC and its subsidiary companies - Premises	Contribute to the long-term economic sustainability of North Lanarkshire.	1	1	1	1	Mears currently lease office space from NLP at Southerhouse, Coatbridge.
Links with NLC and its subsidiary companies - Vehicles	Contribute to the long-term economic sustainability of North Lanarkshire.	204	230	205	205	Whilst Mears have a National agreement with Ford, they also lease 205 vehicles from NLC Transport, which are serviced and maintained by North Lanarkshire Council's Transport Division based at Bellshill.
Links with NLC and its subsidiary companies – NL Industries	Contribute to the long-term economic sustainability of North Lanarkshire.	£0.006m	£0.006m	£1,506.24	£1,506.24	Archive and Storage Service purchased from North Lanarkshire Industries

MEARS Scotland LLP

Financial Performance as at 30 Sep 2018

Income & Expenditure	to 30 September 2018			2018 Full Year Budget £m	2018 Reforecast £m	2017 Actual Outturn £m
	Budget £m	Actual £m	Variance to Budget £m			
Total Sales	34.808	38.700	3.892	45.696	52.081	55.695
Total Direct Costs	26.796	31.006	4.210	35.230	41.579	43.474
Gross Margin	8.012	7.694	(0.318)	10.466	10.502	12.221
<i>Operational %</i>	23.0%	19.9%	-8.2%	22.9%	20.2%	21.9%
Total Overheads	6.897	6.782	0.115	9.133	8.941	9.884
Net Trading Profit.	1.115	0.912	(0.203)	1.333	1.562	2.337
<i>Profit %</i>	3.2%	2.4%	-5.2%	2.9%	3.0%	4.2%

MEARS Scotland LLP

Overall Financial Standing - Balance Sheet as at 30 Sep 2018

Balances/ Indicator	2018 Sep YTD Outturn £m	2017 Final Outturn £m
Total Fixed Assets	0.185	0.176
Stock	4.531	2.020
Trade & Other Debtors	(0.633)	0.269
Cash	2.098	8.439
Trade & Other Creditors	(9.438)	(9.675)
Government Bodies - tax, VAT, NI	(0.591)	(1.583)
Inter co. trading inc. parent company loan	(0.189)	(4.596)
Total Net Assets/ (Liabilities)	(4.038)	(4.950)
Current Ratio	0.87	0.95

MEARS Scotland LLP

Financial Performance Budget 2018 & Budget 2019

Income & Expenditure	2018 Budget £m	2019 Budget £m	2018 to 2019 Budget Movement £m
Total Sales	45.696	56.934	11.238
Total Direct Costs	35.230	45.840	10.610
Gross Margin	10.466	11.095	0.629
<i>Operational %</i>	<i>22.9%</i>	<i>19.5%</i>	3.4%
Total Overheads	9.133	8.800	(0.333)
Net Trading Profit.	1.333	2.295	0.962
<i>Profit %</i>	<i>2.9%</i>	<i>4.0%</i>	1.1%