

Appendix 1 – Extract of RCPM Business Case

Proposal for the Activation of
River Clyde Property Management Ltd (RCPM)

The Business Case

Commercial - in- Confidence

26th February 2018

Key Context

This is the first iteration of the Business Plan for River Clyde Property Management (“RCPM”). As a fledgling business, the RCPM Business Plan will be subject to regular review by RCPM Management and the strategy will be subject to ongoing validation through governance arrangements within RCPM and parent company, River Clyde Homes (“RCH”).

The RCPM Business Plan should be read in conjunction with the following RCH Business Planning documents:

- RCH Five Year Business Plan (2018-2022)

River Clyde Homes (RCH) was formed in December 2007 following a large scale voluntary transfer of housing stock from Inverclyde council. The transfer was undertaken with the support of tenants to secure additional financial resources for much-needed investment in their homes while maintaining affordable rent levels, their security of tenure and providing an opportunity to have greater influence over the standards and quality of their services.

Since the transfer RCH have transformed the company and service delivery to customers. RCH has redesigned the way they provide many of our key services to make them more customer focussed and to improve operational performance and efficiency. They have invested in new IT systems, developed new, more effective job roles across the business, and raised their expectations of and aspirations for, their staff. The next stage of this continues business improvement and transformation has been the launch of a subsidiary company, River Clyde Property Management Ltd (RCPM).

RCPM is a non-charitable, fully trading company aiming to make a profit. It is the home of several planned maintenance and property investment projects, as well as a grounds maintenance service and technical services team. All surpluses from its trading activities will be passed onto the parent company, RCH. These surpluses will help to support the resourcing of the business plan and continued business growth.

RCPM Business Plan is fully aligned to River Clyde Homes Asset Management Strategy 2017 – 2022, and River Clyde Homes Business Plan for 2017, which provides high-level direction for this document. It is a critical business tool to allow strategic decisions to be made across the organisation to drive efficient and effective asset management.

River Clyde Homes is a registered social landlord, established in December 2007 following a whole stock transfer from Inverclyde Council. Currently owning 5,789 homes and factoring over 2,226 properties, RCH is one of the largest registered social landlords in Scotland. As the largest developer of homes in Inverclyde, they maintain a significant new build development programme that will deliver an additional 750 new homes over the next five years, on top of the 474 new homes that has been built since 2007.

Vision, Values and Strategy

The RCPM Vision and Values are fully aligned to those of RCH they are:

Vision:

To provide high quality and cost-effective solutions to property management to improve lives and places.

Values (the key principles RCPM live by):

1. Cost conscious solutions
2. Customer committed
3. Passion for our work
4. Quality first
5. Safety and reliability
6. Respect for others
7. Focussed on performance
8. Growing business

RCH's Aims are fully supported by RCPM and are clearly the outcomes that we want to support over the next five years:

1. Excellent Service
2. Thriving Communities
3. More and Better Homes
4. Engaged Colleagues

RCPM aims to support RCH Asset Management Vision

By 2022 we aim to have an asset portfolio that delivers positive values for the company as well as sustainable homes & communities, through the use of new technologies and ways of working. We are committed to growing our business and financial strength to propel River Clyde Homes into the top quartile of the market.

RCH's Asset Management Key Themes

RCH Asset Management Strategy is built around four key themes which are fundamental to RCPM:

1. Sustainable homes and communities;
2. Effective and efficient property management;
3. Performance and value for money; and
4. Support business growth.

We want to reach our full potential as an organisation, further developing the services that we already provide, looking to deliver new services both within and beyond Inverclyde. This is not just about bricks and mortar, or the physical assets that we own; it's about providing a top of the market service delivery to customers in our properties and owners of the properties in which we factor. Business growth is a key ambition for RCPM in developing our organisation.

RCPM has a key role to play in delivering across all RCH strategic initiatives. However, it is expected that the initial activities of the business will be focusing on developing "Sustainable homes and places" as well as facilitating delivery of the "efficient company" initiative.

Introduction

The provision of services using River Clyde Property Management Limited (RCPM) potentially carries great benefits provided they become competitive with the external market. This means they must deliver an equal or better service consistently and demonstrate proactivity and excellence in customer focus.

One significant area where RCPM can deliver over and above the external market is through their unique position of being able to create close customer relationships on a personal basis without the complication of being branded, rightly or wrongly as, 'a contractor'.

The key to successful delivery will be the management structure supported by strong technical and external market skills. The Head of Service must be a leader, one who fully understands the capability of his team to become 'best in class'. Conveying this

understanding only comes through direct communication with stakeholders (our customers), explaining their importance to the organisation.

Outsourced contract maintenance is becoming an increasingly prevalent method for companies to maintain their property assets including numerous other industries, from aviation to IT and manufacturing. RCPM are uniquely placed to step into this growing market given the capital investment works that River Clyde Homes are planning to undertake.

Developing RCPM does not mean abdication of management responsibilities, on the contrary, it will require dedicated management personnel tied into contract management.

Only with a detailed examination of these factors can it be realistically established whether outsourcing is a viable option or not.



Figure 1: RCPM Strategy Map

Planned Approach

There are three approaches to maintenance management: RCH staffing (DLO), a hybrid of in-house and outsourcing (RCPM) and complete outsourcing. How these

may be applied and to what extent is driven by River Clyde Homes (RCH) Asset Team and our own unique needs.

The list below highlights the key advantages and disadvantages of outsourcing planned and reactive maintenance with particular reference to the following key factors:

- i. Cost;
- ii. Work quality;
- iii. Obtaining expertise;
- iv. Tools;
- v. Equipment and technology;
- vi. Risk reduction management; and
- vii. Focus on core business.

Advantages:

Cost savings: Cost control is a driving issue for outsourcing to RCPM. In-house staff wages and benefits (such as pension, medical, holidays) may have become too costly for the company to subsidise. Cost is also a function of a contractor's ability to flex up and down faster than in-house staff; additionally, hiring costs are absorbed by the contractor. An outsourced contractor assumes the burden of these, and other, financial liabilities associated with workers. Another benefit is the flexibility around procurement routes, which would improve service response times.

Staffing flexibility, expertise and work quality: RCPM can provide flexibility in delivering the proper staffing level and required skill set quickly, with less cost and time investment, as well as providing expertise that may not be available, or is inadequate, within the in-house staff. This expertise will also positively impact the quality of the work being performed. It provides the flexibility to utilise specialised services as needed, instead of incurring the cost of developing in-house competencies that are not needed on a permanent or continuous basis.

However, it should be remembered that this is also a potential weakness. Dependent upon location, and in certain markets, the craft pool may be limited and the required skill sets may not be easily obtained. Alternatively, if they are acquired they may command top dollar and cost more in the long run.

Tools, equipment and technology: An out-sourced contractor can provide staffing well-versed in the usage of the most current technology, without the need of the company to provide training to the in-house staff in its use, or the cost of acquisition of the technology/equipment. The same holds true for specialised tools and

equipment, in that the contractor would be required to supply the tools and equipment to perform the work required.

Core business focus: Out-sourcing allows management to concentrate on their core proficiencies and critical objectives to drive the business.

Disadvantages:

Loss of control: Outsourcing the maintenance function may be cost-effective, but there are restrictions when working with contractors, such as the RCH's inability to directly manage and instruct the workforce, although a hands-on approach is possible given that RCPM is an extension of RCH. Another example is it may be difficult for RCPM to fulfil all of RCH's requirements such as staff flexibility or equipment availability within the expectations of RCH.

Staff turnover: In-house employees are inclined to have more years of service at a facility than employees of a contractor and know the business and its expectations better. This is a common issue for clients, as outsourced staff do not, as a rule, possess as much allegiance to the company. As such, the intellectual knowledge they possess regarding a site's maintenance function, equipment and business model is more readily lost if/when they leave, as their loyalty is more tenuous.

Redundancy in management roles: Roles may be duplicated within a client and contractor organisation, contributing to the overall cost. Overlapping roles and responsibilities can lead to inefficiencies within the maintenance organisation and contribute to the appearance of too many bosses and not enough workers, create conflicting priorities and confusion.

Response time: When dealing with speciality contracts a response time to problems may be handled more rapidly in-house when compared with a phone call to an offsite vendor. The RCH must balance the needs of the Assets against the decision to outsource this work and negotiate an acceptable response time, such as 24 or 72 hours with clear KPI's. Since a longer response time equates to more downtime, the response time must be defined in the contract, or the host company may be unable to meet their goals and objectives. This needs to be considered as RCPM grows and take on more responsibility, such as emergency and responsive repairs which could be considered in the future.

Description of Business

Corporate Aims and Activities

As a wholly owned subsidiary of River Clyde Homes, the aims of RCPM in 2017 were primarily focused on the delivery of activities for and behalf of RCH. The initial activity were the completion of the fitting of kitchen, bathrooms and rewiring (“KBRs”) for 375 properties within the Broomhill estate, at an outline value of ██████. The Broomhill KBR project was tendered at the cost of ██████ before VAT. Therefore a substantial saving even without profit was identified.

RCPM delivering this contract at ██████ has demonstrated the full potential of the subsidiary moving forward with very positive VfM for RCH’s at over ██████ betterment on the full contract sum without the additional consideration of the VAT saving that also has been achieved.

The first year’s pilot project and activities were based upon contractual arrangements between RCH and RCPM, which were:

- i. Contract for provision of fitting of KBRs
- ii. Intercompany loan agreement (initial funding from RCH to RCPM)
- iii. Floating charge (granted by RCPM in favour of RCH)
- iv. Service Level Agreement (“SLA”), (provision of certain corporate support services)

It is envisaged that the scope of activities for RCPM will change through time and the new structure will ensure the business can maintain an agile approach to work and opportunities. The newly proposed activities highlighted below will be agreed upon between RCH and RCPM; whereas items (ii), (iii) and (iv) will be subject to ongoing review, but less change in nature over time.

Moving forward the scope of activities that RCPM will be involved in but not exclusive will include primarily work that is currently undertaken by external contractors for RCH and are planned be taken in-house to achieve the best possible VfM will include:

- i. Property asset management including Public Private Partnership (PPP) management
- ii. Further investment activity including more KBR work (aligned with asset management plan)
- iii. Aids and adaptations
- iv. External roof, doors and window programmes
- v. Ground maintenance and environmental improvement works
- vi. Electrical testing, close lighting, landlord switch gear and distributions board

- vii. Facilities maintenance general repairs and maintenance and painting
- viii. Gas servicing and maintenance (year 3) this has an assumed saving of [REDACTED] on contract cost and [REDACTED] saving on VAT. Additionally there is a saving of up to [REDACTED] per year on capping gas in voids that could be achieved year one
- ix. Factoring (year 2)
- x. Project management and design
- xi. Streetscape
- xii. Caretaking and cleaning services (to be considered)
- xiii. Building maintenance
- xiv. Housing property maintenance and improvements
- xv. Project management for new build activities
- xvi. DLO
- xvii. Property Inspections (various)