

## Improving the efficiency of the housing repair and maintenance industry

Most people know from personal experience how difficult it is to find a reliable builder to carry out domestic repairs. The industry has many faults, including a fragmented structure, a lack of business skills, and a failure to develop the technical capacity needed for repair and maintenance work. But a detailed study of small-scale builders in the domestic repair and maintenance market by Sue Rolfe of the School for Policy Studies, University of Bristol, and Philip Leather of South Bank University found that co-ordinated action to reform the industry and educate consumers is required to boost standards and increase the volume of investment.

- f** Most firms operating in the small-scale domestic repair and maintenance sector are individuals or firms with less than six staff. Self-employment and sub-contracting are far more common than permanent employment.
- f** Contractors minimise overheads by using the proprietor's home as a base, carrying little stock, hiring larger items of equipment, and doing their own administration or using family members to do this work.
- f** Relations with clients are often informal, with some jobs based on verbal quotations; many are awarded on quality or reputation as well as through competitive tender.
- f** Only half of those working in the firms interviewed had a formal construction industry qualification, and few employed trainees.
- f** Few of the contractors interviewed have formal training in running a business. Some are entrepreneurial but others have been forced into self-employment by the structural changes to the industry.
- f** The researchers conclude:
  - Reforms necessary include the enhancement of the role of trade organisations, the provision of more specialised training opportunities, and a system of voluntary licensing of firms, backed up by regular inspections of work to ensure maintenance of standards.
  - 'Cowboy' firms flourish partly because home owners and the government allow them to. Incentives such as government-backed warranties and some measures of compulsion are needed to allow reputable builders a level playing field on which to compete.

## Background

By December 1993, 67% of dwellings in the UK were owner-occupied and responsibility for the repair, improvement and maintenance of the bulk of the nation's housing stock was therefore in individual hands.

The housing stock itself is ageing; 27% of dwellings are over 75 years old and a further 20% are between 50 and 75 years old. Disrepair in these properties was estimated by the National Housing Forum in 1994 to be as much as £69 billion. In the same year, repair and maintenance accounted for 59% of recorded private housing output in that year (and undoubtedly a higher share if unreported work by small firms is taken into account).

As well as having an impact on the current economy, an effective domestic repair industry is crucial to the future of the housing stock, reducing the need for state intervention to deal with poor housing conditions, and ultimately saving expenditure on health and social care.

Yet the problems associated with poor quality work in this sector are almost legendary, and most home owners have experienced the difficulty of finding a reliable builder. These concerns are far from new, but solutions have proved elusive and there is no sign of improvement. Difficulties stem not only from the deficiencies of the building industry but also from the attitudes of consumers, particularly in their willingness to avoid controls and standards and to employ contractors who cut corners and avoid tax and employment obligations, and thus undercut the prices of those who follow the rules. Any recommendations for change must also be accompanied by measures to compel, or give an incentive to, home owners to observe higher standards.

## Talking to the industry

Interviews were held with over 80 small-scale builders working mainly on repair and maintenance in the private housing sector in and around Bristol. It proved difficult to find builders with enough time to take part in face-to-face interviews so most discussions were conducted by telephone. Follow-up face-to-face interviews were also conducted with about a dozen of those who seemed to have particularly interesting points to make.

## The contractors

Three out of five of the contractors interviewed worked alone, and a further 37% consisted of only two people. Only 10% had six or more staff. The size of firms had declined in recent years as a result of the recession.

Self-employment and sub-contracting were the predominant employment arrangements, with only 35% of contractors employing staff. The small- or medium-sized general building firm with permanent employees is, on this evidence, a dying breed. Some single or two-

person contractors preferred to work alone but others regularly worked with other contractors with whom they had formed good working relationships as part of an informal network. Quite often there would be no dominant contractor but rather a variable pattern of working relationships, depending on who obtained work, who needed work, and what skills were required.

Many of those working in the industry as sole traders or self-employed people working mainly under sub-contract to others viewed themselves less as small businesses than as employees. They talked of wages rather than profits and showed little sign of wishing to expand. They lacked the skills and the motivation to take the enormous step of employing other staff. Many worked within larger networks of self-employed people. A decade or so ago they would have been happy to take permanent employment for a larger firm. A smaller group were clearly more entrepreneurial, as demonstrated by their larger size and turnover. The problems they faced were those of competition from 'cowboy' firms or simply those with lower overheads, together with the need for training in business management.

## Workload

Most of those interviewed worked for all or the majority of their time in the small-scale domestic repair and maintenance sector for private clients. Specialists such as electricians or plumbers were the most likely also to undertake commercial sector jobs.

Few were willing or able to provide a detailed breakdown of the size and type of jobs undertaken and an accurate level of turnover, but a general decline in larger jobs and an increase in cost consciousness amongst consumers in recent years was reported. Most firms had experienced a reduction in workload during the early 1990s, and nearly half of those interviewed had four weeks' work or less in the pipeline at the time they were contacted in mid-1994.

## Day-to-day operation

Most firms aimed to work within a few miles of the proprietor's house, and jobs further afield were disliked. Most contractors worked from home rather than a separate workshop, and used a van or a domestic garage for storage. They carried little stock and hired larger items of equipment such as scaffolding or cement mixers to reduce the danger of theft and the need for storage facilities.

Only 14% of contractors interviewed employed administrative or secretarial support. Most administrative work was done from home, often by wives, partners, children or other relatives, sometimes apparently on an unpaid basis. Few of those interviewed had training in administration or business management and regarded 'paperwork' as a chore which took up too much time. Evenings were typically spent dealing with estimates, telephone queries, preparation of invoices, and chasing of payments.

About half of the firms interviewed were members of a trade or professional body. Specialists such as plumbers or electricians were the most likely to be members, because of the need for accreditation. Respondents' views on the benefits of professional bodies were mixed, some valuing the associated prestige, but others feeling that those bodies which did not actively inspect and assess the quality of members' work had no credibility. Sole traders felt that professional bodies brought more benefits to larger firms.

### Training

About half of those working in the firms interviewed had a City and Guilds craft qualification and a further 6% had served an apprenticeship. The remainder had no formal qualification at all.

Only 10% of firms employed trainees on day release schemes and most said that they would not do so in future because of uncertainties over workload and competitive pressures, or because they were simply too small to sustain a trainee and provide the necessary range of experience.

Broader concerns were also expressed about the effectiveness of construction industry training. Some respondents questioned the commitment of trainees and the likelihood that once qualified they would join another firm for higher wages or set up in competition. Others felt that training in a single skill such as bricklaying was inappropriate for work in a small repair and maintenance sector firm.

### Competing for work

Most builders interviewed relied mainly on personal recommendation and visibility on site to generate new business. Little use was made of formal advertising, except in trade directories produced by professional and representative bodies such as the Federation of Master Builders (FMB) and in low-cost local sources such as parish magazines. Sources such as *Yellow Pages* could generate enquiries and quotations, but success rates were lower.

The process of commissioning work is informal. Often, builders were not required to produce a written estimate or quotation, especially the smaller firms working for regular customers. Many firms were successful at accurately calculating estimates; however, in some firms quotations were based more on guesswork than on accurate measurement.

A substantial proportion of jobs in this sector are not put out to competitive tender by clients. Contractors defended this by suggesting that many customers opt for reliability, quality, politeness of workers, or simply familiarity with the chosen contractor. Many contractors did, however, regularly compete for work and were concerned at the time spent on the preparation of tenders which did not lead to work. VAT posed an added problem as registered firms were less competitive than non-

registered firms. Despite this, nearly a half of all those interviewed felt that they were successful in gaining jobs in more than three-quarters of cases. Rates of success with tenders had, however, fallen considerably during the recession.

Written contracts between builder and client were virtually never used by those interviewed, except where work was for a commercial organisation or where the respondent was a sub-contractor to a larger building firm.

### Payments and debts

Most contractors had experienced problems in obtaining payment, although few had been very seriously affected. In general this was not a widespread problem, with four out of five of those willing to give details owed less than £2,000.

Commercial clients had in the past been a safer source than domestic clients but now the position was reversed. Respondents also cited cases where larger building firms had failed to pay them as sub-contractors or had unilaterally made deductions or retentions. Legal proceedings were not felt to be a practical option for the recovery of debts in most cases.

### Proposals for reform

#### **Helping firms to operate more effectively**

A number of measures were identified during the course of the study which could improve the effectiveness of the small-scale domestic repair and maintenance sector. These include:

- improvement of the services offered by the trade organisations to small contractors, especially the introduction of frequent vetting to ensure high quality, and the dissemination of technical advances;
- provision of more accessible training opportunities in business administration and accounting;
- provision of training in estimating and programming of work;
- design of a brief but effective and even-handed contract for small jobs, and publicity to persuade customers and builders to make use of it;
- assistance with the resolution of disputes.

#### **Reforming the industry**

The aim of these measures would be to reduce the market share of incompetent or dishonest operators by improving quality and providing incentives to customers to use appropriate contractors:

- review of the need for financial inducements to persuade small firms to employ trainees;
- development of a qualification relating to repair and maintenance;
- extension of the training levy to secure contributions from small firms;

- a voluntary licensing system for general builders and specialist trades. This would extend the new Construction Skills Certification Scheme to the level of the firm. Licences could also be subject to regular inspection of work to ensure maintenance of standards.

### **Educating and assisting customers**

It may be necessary for government to introduce new controls or enforce existing measures, or to provide support for voluntary incentives, in order to dissuade customers from taking the cheapest option every time. Measures for consideration include:

- incentives to use licensed builders, such as access to reduced cost or extended coverage warranty schemes;
- independent advice to home owners on the solutions to house condition problems and the likely costs, so that they feel more confident about commissioning work;
- government and local authority campaigns to inform householders of the perils of using unlicensed builders;
- compilation by local authorities and trade organisations of lists of reputable and competent builders.

### **Government action**

Measures government could take to assist with the reform of the industry and public attitudes and behaviour include:

- active enforcement of existing regulations and requirements covering the building industry, to reduce the competitive advantage of those contractors which ignore them;
- reduction of the rate of VAT on repair and maintenance work to increase the incentive for home owners to use registered firms;
- provision of financial underpinning for educational campaigns;
- provision of financial underpinning for warranty schemes or other incentives to households to use licensed builders;
- extension of the building regulations or other legislation to require the employment of competent contractors on a wider range of jobs.

Conclusions

A range of reforms to the industry have been put forward for discussion, of which a system of voluntary licensing would be the most useful and far-reaching. But it is essential that any reforms are accompanied by measures to persuade home owners to make greater use of reputable builders, even if this costs them more. In the long term, better value for money will be obtained from good quality work.

A combination of incentives (such as government-backed warranties for work by licensed builders) and compulsion (for example, by stronger enforcement of regulations) will be required to achieve this. 'Cowboy' firms flourish not just through poor training and organisation within the building industry but also because home owners and the government allow them to. A comprehensive effort is needed to produce the quality of output necessary to safeguard the nation's housing stock into the twenty-first century.

### **Further information**

For further information contact Philip Leather (Tel: 0171 815 7254) or Sue Rolfe (Tel: 0117 974 1117).

The full report, *Quality repairs: Improving the efficiency of the housing repair and maintenance industry* by Sue Rolfe and Philip Leather, is published by The Policy Press in association with the Joseph Rowntree Foundation (price £9.95).

### **Related Findings**

The following *Findings* look at related issues:

#### *Housing*

- 137** Home-owners' response to a repair and maintenance service (Feb 95)
- 140** Creating local jobs from construction expenditure (Mar 95)
- 145** Housing associations' use of minority ethnic building contractors and services (Jun 95)

For further information on these and other *Findings*, contact Sally Corrie on 01904 654328 (direct line/answerphone for publications queries only).



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