MAINTENANCE CONTRACTING IN SOCIAL HOUSING IN THE NETHERLANDS – A STATE OF ART REVIEW AND FUTURE PERSPECTIVE

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Abstract
Together, the housing associations in the Netherlands spend about € 3 billion per year on the maintenance and minor improvements of their 2.4 million social rental dwellings. By far the greatest share of the maintenance is contracted out to external contractors. Frequently heard justifications for this are that they are better equipped for such work, they work more efficiently and innovatively, and so they are cheaper. However, for day-to-day maintenance tasks, the housing associations draw frequently on their in-house maintenance contractor.

At the present time, in-house maintenance contractors are being put under considerable pressure to work in a manner that better meets market requirements. The housing associations draw up agreements with their in-house contractors with respect to productivity, the quality of the management, and the quality of the service provision to tenants. Automation and data processing support the drive for enhanced professionalism.

In the paper, attention will be paid to the factors housing associations have to weigh up when deciding whether or not to introduce outside maintenance contractors or retain their in-house contractor. There then follows an outline of the important discussion points and dilemmas that in-house maintenance contractors will have to address in the next few years. Consideration is given to the focus of the package of tasks and responsibilities, the organization, and the business assumptions. Finally, the drive for professionalization and the future perspective of the in-house maintenance contractors is outlined.

Keywords: social housing management; maintenance management; (in-house) maintenance contractors; the Netherlands

INTRODUCTION
At the present time there are 523 housing associations active in the Netherlands (Aedes 2003). The number of housing associations has fallen markedly in the last few years as a result of mergers. Together, the housing associations manage 2.4 million dwellings and spend an average of € 1,263 per dwelling per year on maintenance. The total maintenance expenditures of the housing associations amount to about € 3 billion per year. Closer analysis reveals that repair and mutation maintenance (necessary maintenance when tenant leaves) account for about one-third of the expenditures (namely € 448 per dwelling per year). The remaining € 815 is spent on planned maintenance, minor improvements and major maintenance (Aedes 2003).

Table 1: Volume of maintenance business according to maintenance types.

<table>
<thead>
<tr>
<th>Maintenance Type</th>
<th>Volume of business per dwelling</th>
<th>Volume of business on housing association property</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day-to-day maintenance</td>
<td>€ 448</td>
<td>€ 1,075 million</td>
<td>35%</td>
</tr>
<tr>
<td>Planned maintenance and minor improvements</td>
<td>€ 815</td>
<td>€ 1,925 million</td>
<td>65%</td>
</tr>
<tr>
<td>Total</td>
<td>€ 1,263</td>
<td>€ 3,000 million</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Aedes 2003
VOLUME OF MAINTENANCE BUSINESS UNDERTAKEN BY IN-HOUSE MAINTENANCE CONTRACTORS

The housing associations’ in-house maintenance contractors in the Netherlands account for 9% of the total maintenance expenditures (that is, €252 million). More than 90% of maintenance is thus outsourced to external building contractors. When we take a closer look at the underlying maintenance types, we see that the emphasis of the work package lies on day-to-day maintenance. In-house skilled workmen carry out 18% of the day-to-day maintenance work. This share drops to just 4% in the planned maintenance, minor improvements and major maintenance. It is worth noting that the large housing associations undertake relatively more maintenance through their in-house maintenance contractor than the smaller housing associations. Housing associations with more than 10,000 dwellings carry out 14% of the regular systematic maintenance with their own in-house contractor (Aedes 2001).

Table 2: Volume of maintenance business undertaken by in-house maintenance contractor.

<table>
<thead>
<tr>
<th></th>
<th>Volume of business by in-house maintenance contractor</th>
<th>Volume of business contracted out</th>
<th>Total (in millions €)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day-to-day maintenance</td>
<td>€ 194 (18%)</td>
<td>€ 881 (82%)</td>
<td>€ 1,075</td>
</tr>
<tr>
<td>Planned maintenance and minor improvements</td>
<td>€ 78 (4%)</td>
<td>€ 1,847 (96%)</td>
<td>€ 1,925</td>
</tr>
<tr>
<td>Total</td>
<td>€ 272 (9%)</td>
<td>€ 2,728 (91%)</td>
<td>€ 3,000</td>
</tr>
</tbody>
</table>

Source: Aedes 2003

KEY FIGURES AND CHARACTERISTICS OF MAINTENANCE CONTRACTORS

It appears from research that, in the Netherlands, 61% of the housing associations have their own in-house maintenance contractor (that is to say, they themselves employ skilled craftsmen for their maintenance work). That percentage amounts to 320 housing associations. It is noted how much more frequently than average the larger housing associations have their in-house maintenance craftsmen. Of the housing associations larger than 10,000 dwellings, for example, 76% have their own in-house maintenance contractor. On average, that would comprise from 11 to 12 skilled workers, so that in total, about 4,500 people are involved. The emphasis lies (as stated above) on day-to-day maintenance. The focus of the work content is constructional maintenance (carpentry, plumbing, plasterwork, electrical work). It is worthy of note that the level of the sales tax has a direct effect on the decision whether or not to outsource maintenance work. A few years ago, the Dutch government decided to reduce the tax on plasterwork and paintwork in dwellings older than 15 years to 6% (moving from the high –19%- to the low –6%- tariff). The Economic Institute for the Building Industry in the Netherlands calculated immediately a shift of several percentage points in favour of outsourcing plasterwork. Thus, following the change in the tax regulation, outsourcing plasterwork became considerably more attractive (EIB 2001). Paintwork was already being almost completely contracted out to third parties before the tax regulation change. It is also worth noting that housing associations almost completely outsource such specialist work as central heating maintenance, lift maintenance, garden maintenance, and cleaning work to third parties.

We can draw on the results of a study carried out in the Netherlands in 2001 by the Maintenance Contractors Platform to investigate a number of business characteristics. About 40, mostly in-house maintenance contractors are registered with the Platform (thus 13% of the target group); fifteen companies assisted in the research. Although this research group was not representative, the results give an indication of the activities of the vanguard of the in-house contractors in the Netherlands (Platform Onderhoudsbedrijven 2001)

A worker in the building industry completes an average of about 1,500 productive hours per year (CBS 2002; EIB 2001). This total includes about 70 hours compensation for time lost through wind and rain. This bad weather compensation hardly applies to those employed in the housing associations’ in-house contractors, since most of their maintenance activities are carried out indoors. The number of productive hours worked by a craftsman on in-house maintenance amounts to 1,434 hours. As reported above, this figure applies to 15 forerunners. The average number of productive hours per worker for all 340 in-house maintenance contractors can be expected to be substantially lower.

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Figures are also available for the hourly rate. The benchmark of the Platform shows that in 2001 the rate for an all-round craftsman amounted to € 36.76. If we index that figure, then the 2002 hourly rate comes to about € 38.50. The hourly rate for the self-employed craftsmen who are members of ZZP [Zelfstandigen Zonder Personeel] is somewhat lower, namely from € 30 to € 32, including VAT. No data is available for the larger external maintenance contractors. The impression is that these companies apply a comparable hourly rate including VAT for all-round activities such as in-house maintenance contractors. Excluding VAT, they are then about 20% cheaper.

In 2001, absenteeism for the building industry as a whole in the Netherlands amounted to 5.6% (EIB 2002). Unfortunately, no data is available for absenteeism for the in-house maintenance contractors. The expectation is that the percentage for them lies substantially higher than 5.6, partly because of the older age of employees concerned.

WEIGHING UP WHETHER OR NOT TO HAVE IN-HOUSE MAINTENANCE CONTRACTOR

What are the reasons for housing associations wanting to have or to keep their own in-house maintenance contractor? This question was investigated by Aedes together with the NVOB at the end of the 1990s (OTB 2000). If we first consider the reasons the housing associations cite as being to the advantage of an in-house contractor, we find that they fall into two groups, namely: client-related reasons (service, image, and so forth.) and business-related reasons (flexibility, costs):

- service to tenants (66%);
- rapid intervention (65%);
- image/ awareness of name (47%);
- flexibility (38%);
- costs (15%);
- quality (11%);
- other (8%).

Client-related reasons were cited most frequently. This helps explain the substantial size of the market share of in-house contractors in day-to-day maintenance. Quite correctly, business reasons were cited somewhat less frequently. In addition to the reasons reported according to Adams, it is possible that the loss of professionalism also played a part (Adams 1998).

A closer look at the reasons cited by the housing associations for maintaining craftsmen of their own reveals that business reasons prevail in planned maintenance and major maintenance. The housing associations find that the number of productive hours and the efficiency with respect to the hourly rate is too low, so that labour costs are too high. Housing associations question whether carrying out maintenance should be considered part of their core business (not to be confused with preparation and supervision, which are less controversial). Franks (1998), Ebleton (1998) and Jashapara and Kisters (2000) also point out how organizations are retracting to their core business. The current merger wave among housing associations renders the use of scale advantages in the market via the outsourcing of maintenance work all the more attractive.

TASKS, ORGANIZATION AND LEGAL CONSTRUCTION

The housing associations and their in-house maintenance contractors are concerned at the present time with several crucial questions with respect to their package of tasks and responsibilities, and the organization, and the business assumptions of the facilities. The most important discussion points and dilemmas are (OTB 2002; Vijverberg et.al 2002):

- Maintenance types
  For which maintenance types do you wish to play an active part as in-house maintenance contractor? These include (as indicated) repairs maintenance, tenants’ maintenance under an annual service subscription, mutation maintenance, planned maintenance and major projects.
One-stop shop

In that context the important question is whether you also wish to play a part with your own in-house maintenance contractor in the coordination of the maintenance work carried out by external contractors. If the answer to this question is in the affirmative, then as a maintenance contractor you can arrange for a substantial share of for example the day-to-day maintenance to be passed on to your own in-house facility. The in-house maintenance contractor is responsible for the quality of all work carried out. As a result, the maintenance facility can decide for itself the tasks to outsource and the tasks to be carried out by their own workforce. The in-house contractor is legally responsible in all contacts and dealings with the housing associations. So, for example, on the final delivery of a mutation dwelling (change of tenant) the contractor first hands it over to the in-house maintenance contractor. Only when the delivery on completion has been approved is the dwelling passed on by the in-house facility to the district team of the housing association concerned.

Organizational structure and personnel administration

Maintenance services are arranged according to the manner in which the in-house maintenance contractor should be organized. For example, the workforce can either be divided over the various districts, or alternatively it can operate from one central facility. A further question is whether it is best to build up a workforce of specialists, all-rounders, or a mixture of both.

Organizational and administrative interlinking

The question to be addressed concerning the organizational interlinking is which services and activities should run via the mother organization, which via the maintenance contractor, and which should involve both together. A recent example is the call centre. Many housing associations are now transferring to a system in which requests for repairs are dealt with as far as possible by a call centre connected directly to the in-house maintenance contractor.

The administrative interlinking is also a point of attention. The benchmark of the Maintenance Contractors Platform reveals that the interlinking is still substantial. Two thirds of the in-house maintenance contractors have no financial administration of their own and as many as 80% are still completely dependent on the automation system and databases of the housing associations (Platform Onderhoudsbedrijven 2001).

Cost centre or profit centre

The issue in choosing between an at cost or a profit based centre is the question whether you would prefer the maintenance contractor to work on a non-profit basis or with a profit objective. This choice is often linked to the question whether the maintenance contractor may work for several client organizations, or only for its own housing association (for example other housing associations, associations of home owners, schools). It can be seen from the benchmark of the Maintenance Contractors Platform that 75% of maintenance contractors work exclusively for their own housing associations. The choice is also linked to the form of legal construction from which the maintenance contractor operates (Platform Onderhoudsbedrijven 2001).

Forms of cooperation and the legal construction

There are various possible forms of cooperation. Examples that can be considered are cooperation with contractors, with other maintenance contractors, franchise constructions with the self-employed members of ZZP [Zelfstandigen Zonder Personeel], and so forth. These cooperative forms can be set in a variety of legal constructions (for example, a foundation, civil law partnership, partnership, private contractor with limited liability, or a public limited contractor). These constructions have highly divergent consequences for fiscal and employment legislation. In addition, the power of control over the housing associations is regulated in the legal constructions in various ways.

DRIVE FOR PROFESSIONALIZATION OF MAINTENANCE CONTRACTORS

In the course of the next few years, in-house maintenance contractors will have to pay considerable attention to the further professionalization of their services. The following points are involved (OTB 2002):
- **Rise of productive hours**
  A further rise in the number of productive hours (reducing absenteeism, building up a younger team of employees, reducing travelling times). Target: 1,434 productive hours a year (preferably more, in the range of 1,450-1,475 hours).

- **Productivity improvement**
  An increase in either the efficiency or the productivity within the productive hours. This increase can be achieved by well automated work planning and guidance of the workforce, good means of transport, qualitatively well motivated and well trained professional personnel.

- **Administrative overhead reduction**
  Currently, there are frequent double registrations, enormous piles of paper (receipts) and thus a great deal of administrative work. The stock administration is frequently inefficient. Stockrooms are located in several places within the area of work. The structuring of work processes and adequate automation can lead to substantial improvements.

- **Introduction of a pricing system**
  At present, accounts are often settled retrospectively. Realistic rates should be introduced, possibly with a differentiation according to maintenance type (applying a different rate for repairs maintenance than for mutation or planned maintenance); introduce a handling fee for activities coordinated for the maintenance contractors; introduce administrative compensation for the intake of requests for repairs, inspections which have to be carried out before work can be undertaken; work much more with unit prices, develop relevant management registers.

- **Identification of a capacity optimum**
  A share of the necessary capacity is seasonal. Efforts should be made as far as possible to work from the lowest level of the necessary capacity. Peaks and troughs can be absorbed through horizontal and vertical flexibility. Horizontal flexibility refers to the interchange of the various disciplines in the workforce within the own maintenance contractor. Vertical flexibility refers to sound agreements drawn up with contractors concerning the hiring of external capacity. Another possibility is to work more with the self-employed (ZZP). ZZP members are usually professional carpenters, bricklayers, plasterers, housepainters and all-round building trade workers. The number of ZZP members is growing enormously; it doubled to 35,000 in 2001 in just eight years. The most important reasons for this rise are the relaxation of the Establishment Legislation in the Netherlands (at this moment only an Entrepreneur’s Examination in the Building Sector is needed for companies which carry out non constructive activities). Another reason is the flourishing economy of the last seven or eight years. Recently, the Dutch economy has clearly stagnated. Economic growth has fallen to just below zero in 2003. For 2004, a slight recovery is anticipated.

- **The establishment of quality standards and performance agreements**
  Consideration can be given to the KWH hallmark Quality Assurance in Housing Construction in the Rental Sector, the Dutch Safety Checklist Contractors VCA, ISO, and the Dutch Quality Assurance Institute INK. Many housing associations aspire to the KWH hallmark. In 2004, about 165 housing associations (that is, 32% of the total number of housing associations in the Netherlands) embarked on the path towards acquisition of the seal of approval. To date, it has been acquired by more than 100 housing associations (KWH 2004). Some of the requirements relate directly to the service provided for residents. These requirements include telephone accessibility, setting the period of time within which maintenance activities contracted with residents must be completed, and so forth. Meeting these requirements is made obligatory for external contractors as well as, self evidently, for the in-house maintenance contractors. In addition to the KWH hallmark, a housing association may also choose the NEN-ISO 9001 path (translation of an International Standard into a Dutch norm). A third, far more comprehensive possibility is through the INK, the Dutch Quality Assurance Institute. The INK trajectory ought not to be chosen by an in-house maintenance contractor operating independently (see also KWH). Initiating this path in a broader context from the housing association as a whole would be more advisable. A phased approach with part modules can be followed. Finally, the Dutch Safety Checklist Contractors VCA can be mentioned. It concerns person or company certification from the...
perspective of safety and the environment. Currently, external contractors are involved; in-  
house maintenance services should also explore the opportunities.

- Improvement of the provision of information and automation

At present, many in-house maintenance contractors find it difficult to generate relevant  
registers, gain insight into profit and loss accounts, acquire information on the cost price of  
services and products that are offered (and thus the rates of charges to be applied).  
Currently, in-house maintenance contractors work in an extremely traditional manner. Most  
companies make use of the primary systems of the housing association. There is a need for  
custom-made work that can connect to and communicate with the primary systems.  
Alternatively as a maintenance contractor you may wish to have software developed for you.  
Self-development of software is however expensive and carries a high risk of failure.  
Fortunately there is now a reasonable supply of software created through the initiatives of  
software companies and housing associations in the Netherlands.

OUTLINE OF THE FUTURE FOR MAINTENANCE CONTRACTORS

Our expectation is that there will always be a market for in-house maintenance contractors. For  
the next few years that market share is likely to remain reasonably stable at 9% of the volume of  
maintenance business in the Netherlands.

Housing associations will have to deal with their in-house maintenance craftsmen and  
contractors in a more businesslike manner. As a result, the market share in the planned  
maintenance and major maintenance will come under pressure. In these types of maintenance  
activity, business considerations weigh more heavily. In-house maintenance divisions will have  
to compete with external contractors in open-competition.

However, in the day-to-day maintenance there is market share for in-house maintenance  
contractors to win. In addition to business arguments, client arguments play a particularly  
important part. Successful expansion of market share in day-to-day maintenance work would  
require the implementation of the drive for professionalization referred to above.

The expectation is that automation will take off in the next few years. One can think of reporting  
requests for repairs via the internet, coupling with work planning, all company cars fitted with  
board computers, employees travelling directly from home to the first job, following company  
cars in the city via GIS applications, delivery vans by suppliers, large quantities of supplies  
discontinuation no longer held in central and decentralized warehouses, reconsideration of  
workshops, and so forth.

In 2004 OTB Research Institute will organise an inquiry of the approximately 523 housing  
associations in the Netherlands. The inquiry is going to deal with a wide range of subjects  
concerning strategic housing policies and technical housing management. In that inquiry we will  
also pay attention to in-house maintenance contractors and procurement trends. The results will  
be presented in a separate paper on the CIB W70 symposium in Hong Kong.

This paper generally deals with maintenance contracting in the Netherlands. It’s would be  
interesting to undertake an international comparison in the future on procurement trends in  
different European countries.

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