

Appendix C

Proposal for Market Testing Housing Services (including Housing Management and Estate Services)

1. Introduction

Housing Services currently provides housing management services across 17,500 properties, and additionally provides caretaking services to approximately 13,500 shared residency properties and concierge services to 1,700 properties through its directly employed staff. Housing Services also provides domestic cleaning services to 40 Sheltered Housing Schemes, consisting of approximately 1,000 properties. In addition it manages (and holds the budget for) external contracts for grounds maintenance, waste collection and recycling, H&S play site maintenance, and parking control on all Council owned estates.

The total expenditure on housing management and estate services is approximately £5.5 million and £5.7 million per annum respectively based on 2011/12 budget figures.

Following the re-integration of the ALMO (H&F Homes Ltd) back into the Hammersmith and Fulham Council (H&F) commissioned a high level review of these areas which revealed that there is potential to maintain and/or increase the level of service to residents whilst at the same time realising full year effect (FYE) revenue savings from Housing Services of approximately £1.44 million from 2014/2015 through the development of more efficient service delivery model (which may include contracting out some activities) and improved business processes. In order to achieve this, new approaches need to be considered in the way HRD provide their services to residents.

This level of saving is required from Housing Services as its contribution to HRD's overall Medium Term Financial Strategy which requires ongoing annual saving of approximately £4million per annum from 2014/15.

In line with this review the Housing and Regeneration Department (HRD) has embarked on a radical programme of transformational change to bring about a sustainable improvement in service while at the same time reducing costs.

Three areas in Housing & Regeneration Services are being reviewed:

- Repairs and Maintenance

Housing Services Market Testing Proposal

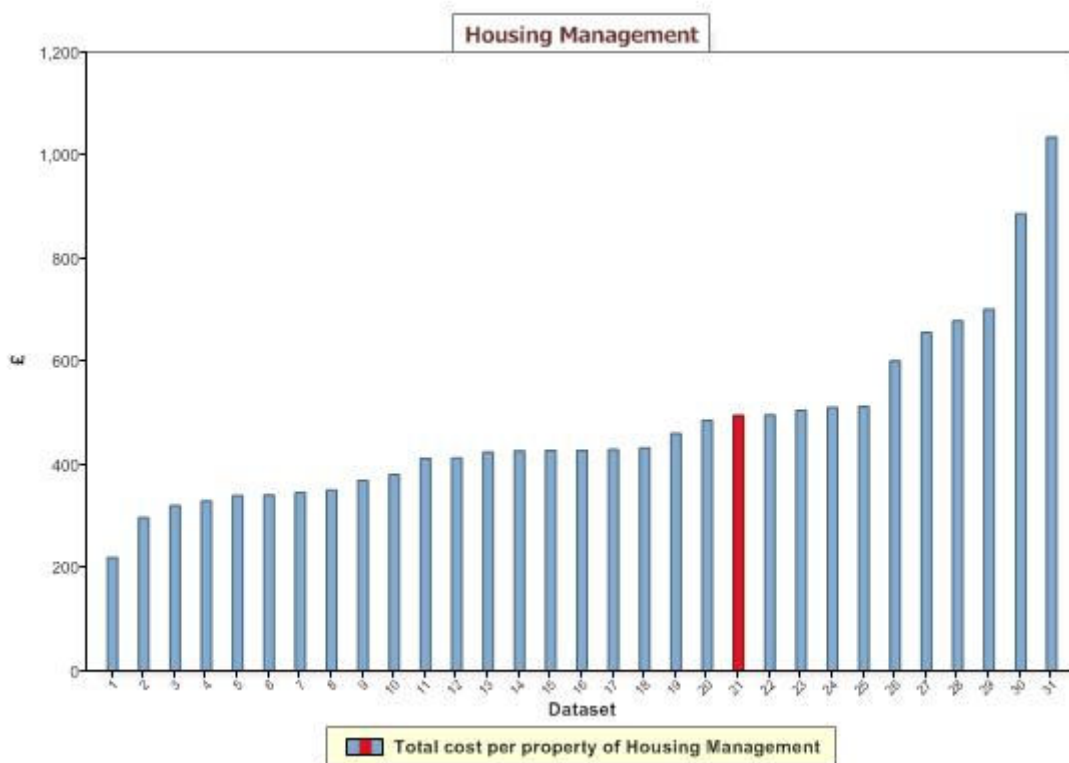


- Estate Services
- Housing Management (incorporating Tenancy Management)

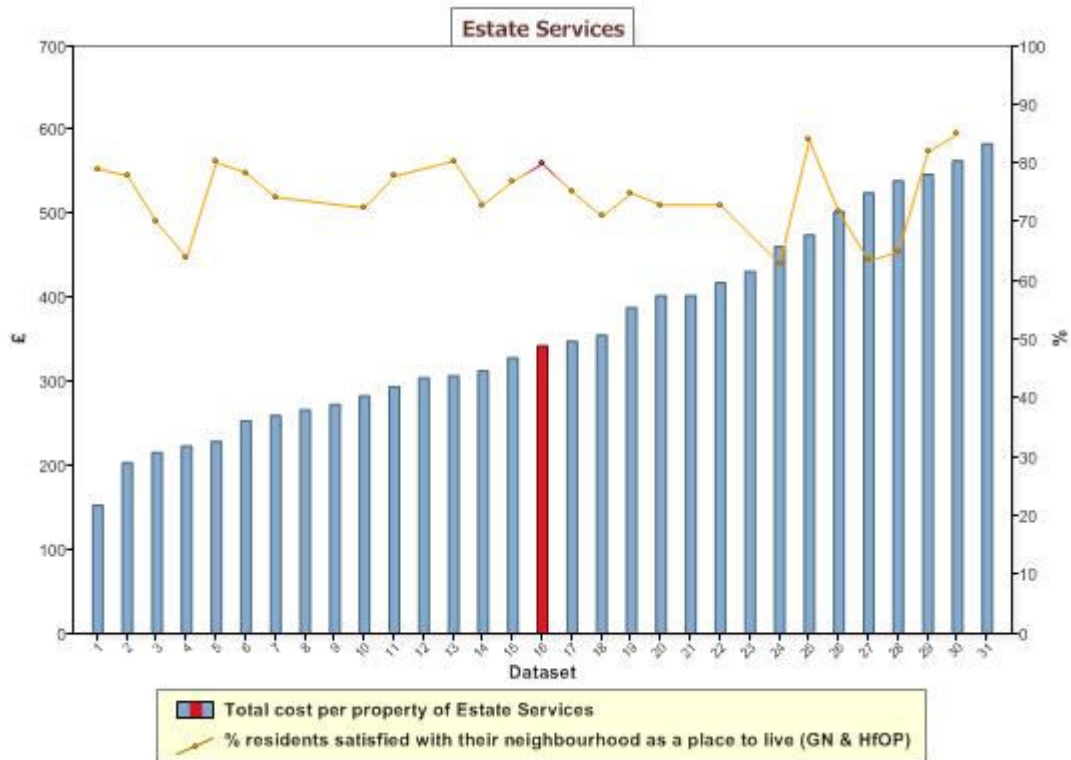
This Option Review excludes Repairs and Maintenance which have been covered in a separate paper.

Housing management and estate services activities are significant drivers of customer satisfaction and therefore the opportunity of market testing the service will be used to drive greater scale economies and efficiencies whilst improving service outcomes through better KPIs. We will also get closer to our customers through our new Resident Involvement Strategy, for which members of the Resident Involvement Panel are represented on this project group.

The chart below shows the total cost per property of the housing management function. The housing management function includes rent arrears and collection (which currently sits within HRD Finance), resident involvement and consultation, anti-social behaviour, tenancy management and lettings.



The following chart shows the total cost per property of estate services alongside satisfaction with the neighbourhood. The costs included in estate services are caretaking, grounds maintenance, concierge services, estate cleaning, estate lighting, CCTV monitoring and communal cleaning.



The following table shows comparative costs across the HouseMark benchmarking group of which H&F is a member. Although validated by HouseMark there is still likely to be some discrepancy in this information due to different measuring and recording of the base data across the group. The table is however indicative of current inconsistent performance.

Cost KPIs	Upper Quartile	Median	Lower Quartile	H&F Result	Ranking
Total Cost Per Property of Housing Management	£355.43	£428.01	£509.89	£495.83	21 /31
Total Cost Per Property of Estate Services	£268.44	£338.75	£453.91	£342.83	16 /31
Direct Cost per Property of Housing Management	£234.32	£292.93	£358.97	£349	22 /30
Direct Cost per Property of Rent Arrears & Collection	£76.67	£85.49	£106.43	£142.94	28 /30
Direct Cost per Property of Anti-Social Behaviour	£29.57	£44.74	£59.46	£102.94	29 /30
Direct Cost per Property of Tenancy Management	£56.91	£80.64	£114.54	£63.05	11 /30
Direct Cost per Property of Lettings Management	£14.12	£26.61	£34.17	£25.86	14 /30

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H&F collect a number of key performance indicators for housing services and our results compared with our HouseMark peer group are shown in the table below.

Quality KPIs	Upper Quartile	Median	Lower Quartile	H&F Result	Ranking
% of tenants satisfied with overall services provided (GN & HfOP ¹)	78.21	74.50	71.00	73.00	17 /25
Current rent arrears net of unpaid Housing Benefit as % of rent due	2.1	2.9	3.9	3.4	21 /29
% of tenants satisfied with their neighbourhood as a place to live (GN & HfOP)	78.62	74.65	71.60	80.00	6 /31
Direct number of housing management employees per 1,000 properties	5.08	6.20	8.18	7.57	22 /31

Key themes of the MTFs transformation programme are service improvement and increased efficiency, following successful implementation of the programme we expect to see:

- significant improvement in all of the Cost KPI's together with marked improvements in the Quality KPI's benchmark figures;
- a leaner department that is more effective and focused on meeting key objectives, through monitoring, planning and contract management, rather than handling day to day operational issues;
- several large partnering contracts in place that are aligned to deliver service improvement and increased value for money with appropriate risk/reward mechanisms in place;
- a fully integrated department that has access to good quality data in which to shape joined up strategies for asset management and meeting the housing needs of residents;
- re-organised departments with the right skills and experience to manage and deliver against SMART² objectives that link in with the HRD vision;
- a flexibility in service to continuously evolve to meet the needs of the Residents' Involvement Strategy circumstances; and

¹ General Needs and Homes for Older People

² SMART objectives: Specific, measurable, achievable, realistic, timely

- to drive continuous improvement and seek opportunities to promote ongoing integration with other teams within the wider Council.

2 Summary

The Housing and Regeneration Department (HRD) face very challenging times ahead, we must continue to strive to provide cost effective and efficient services for our residents. As a result the Executive Director for Housing & Regeneration and the Assistant Director team have developed departmental objectives under the “*H&F Housing Revenue Account – Medium Term Financial Strategy (HRA MTFS) Transformation Programme*”. The three primary objectives are as follows;

- To deliver improved services to residents
- To enable our people to deliver cost effective & efficient services
- To deliver full year effect savings of approximately £4m

It is generally considered that there is no ‘one size fits all’ solution to delivering the cost savings and desired service improvements across Housing Services. As part of the transformation programme designed to deliver these objectives the department has identified ways to improve the service by looking at different ways of delivering the service, these include;

- Moving services back into the wider H&F
- Restructuring existing in-house services to generate greater efficiencies
- Market testing of services; comparing internally provided services with the private sector

Following the formation of the HRA MTFS Transformation Programme a review was conducted of the services provided within Housing Services.

As a result of this review of Housing Services, proposals have been considered covering all three service delivery options detailed above.

- It is currently being considered to move Income Management, including Former Tenant Arrears, to H&F Direct. Discussions have taken place between HRD and H&F Direct and the proposal document is in the process of being formulated.
- Sheltered Housing which is currently going through a full asset review exercise will be considered for ‘mini’ restructure to bring

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Sheltered Housing Management more in line with the wider Housing Management structures

- Housing Management and Reception Services will undergo a combination of internal review and full market testing
- Concierge will be subject to an in-house proposal which is designed to improve the efficiency of the service and widen its scope to cover a greater number of residents.

This approach allows the internal proposals to be developed in parallel with procurement activities. All internal proposals will be competitively evaluated against tenders submitted by external service providers. We understand that the Council will endorse the most financially advantageous solution that also offers ongoing service improvement, greater resident involvement and minimises the level of ongoing delivery risk.

Initial review has confirmed the scope of the project and identified areas where it is thought that contracting out could present a strong challenge to the existing in house service provision model.

Areas in scope for full market testing include:

- Caretaking
- Sheltered housing cleaning
- Specialist cleaning services
- Housing management
- Reception services
- Anti-social behaviour management (inclusion is likely to be as an additional option)

Areas not in scope include:

- Concierge
- Income management
- Rent accounting
- Sheltered housing

Further details for the reasoning behind this split are given in section 5.

The precise details of the scope of works, the service delivery levels and method for risk and reward will form part of the market testing project currently being delivered as part of the department's MTFS Transformation Programme.

The department is also redefining its approach to resident involvement, and the project team will consult at all suitable junctures, with the new Resident Involvement Panel, established on 26th January 2012.

It is envisaged that any contract(s) will be established upon a true partnering basis. This means working together to improve performance through agreeing mutual objectives, devising a way for resolving any disputes and committing to continuous improvement, measuring progress and sharing the gains.

*'An essential aspect of partnering is the opportunity for participants to share in the rewards of improved performance.'*³

The precise details of the form of contract and contract payment mechanism will be agreed after discussion with key stakeholders and on finalisation of the ongoing benchmarking activities.

Once the decision to market test housing management was made, it was felt that offering a combined package could deliver a more financially advantageous contract, and there are a number of service providers who would be interested in tendering for both housing management and estate services work. Given that this number is limited it is proposed to publish an Invitation to Tender (ITT) in three lots:

- Estate Services
- Housing Management
- Estate Services & Housing Management combined.

3 Background

All of the work in Housing Services has traditionally been delivered 'in house'. Benchmarking has shown that this is still the preferred model in the majority of London Boroughs, however the trend towards contracting out is gathering momentum.

³ Egan Report – Rethinking Construction

Caretaking was partially market tested in 2007/08. The conclusion from the service review, put to the H&F Homes Board in February 2008 stated that –

‘The Market Testing & Service Review of Caretaking commenced on the 18th April 2007. The Service Review is complete, the outcome of which is the service as benchmarked does not clearly demonstrate competitiveness; there is an active marketplace in terms of quality and reliability of suppliers. These factors along with the result of the completion of a Strategic Options Analysis clearly support a decision to market-test the service’.

The Board decision, at that time however, was to retain the service in house, and to carry out an internal restructuring.

In 2009 a transformation project was implemented in estate services which realised saving of the order of £1.5m and is generally acknowledged to have delivered improvements in the quality of service to Residents.

In the first quarter of FY 2011/12, the department’s MTFs savings were formalised, and a tender competition was undertaken through Buying Solutions to procure a consultant to work with HRD on its wider MTFs Transformation Programme. One element of the programme is to market test a range of Housing Services activities.

The tender for project management of the HRD MTFs Transformation Programme was won by Amtec, with the work to be undertaken by Northgate Public Services (NPS). The NPS approach identified three principle overarching drivers to be achieved:

- Reduce the annual Housing Services Budget by £1,440,000 p.a.
- Maintain or improve the service delivery levels
- Improve Resident Involvement

4 Current Position

The broad scope of works to be included in market testing has been determined and early informal procurement activities are underway. Formal procurement activities are included in the detailed Project Plan but will not commence until appropriate sign off by Cabinet is obtained.

Soft market testing and benchmarking with other London Boroughs is ongoing and is giving rise to other options which are being reviewed but

are not yet being supported as proposals for inclusion in the project. These emerging options do not fundamentally alter the scope of the project.

Options currently under review include:

- Splitting the existing caretaking service into an external caretaking service, and an internal cleaning service. Benchmarking suggest that this approach would deliver additional benefits (ref. London Boroughs of Wandsworth, Hounslow and Camden).
- Attaching the external caretaking services to the existing contract for Waste Collection, Recycling and Street Cleansing Services currently out to Serco.
- Combining the Council's Anti Social Behaviour (ASB) activities into a single team and considering market testing. ASB activities are currently undertaken by two teams – one in HRD and one in Environment, Leisure and Resident Services Department (ELRSD).

All developing options are being reviewed in terms of their ability to deliver the most financially advantageous solution, ongoing service improvements and minimised risk to the Council.

5 Proposal

The key proposal is to market test the provision of:

- Caretaking
- Sheltered housing cleaning
- Specialist cleaning services
- Housing management
- Reception services
- Anti-social behaviour management.

'In house' solutions will be developed in parallel with the procurement activities to ensure a final in-house restructuring proposal is delivered in the same time frame.

Following the market testing process the solution which delivers the best value in terms of service quality to residents and the greatest value for money will be implemented. Solutions could see services contracted out or retained in house. The current time frame proposes that all housing services solutions are fully implemented by March 2013. All appropriate

H&F procedures will be meticulously followed during the implementation phase with significant focus on staff consultation procedures.

Services excluded from market testing will have 'in house' solutions agreed and implemented as soon as possible. The changes will be implemented in full accordance with H&F restructuring procedures. Excluded services include:

- Concierge Service – in house proposal being implemented
- Income Management – move to H&F Direct being progressed
- Rent Accounting – move to H&F Direct being progressed
- Sheltered Housing – subject to separate asset review

These services may be put into the market testing programme if, after further investigation, it seems that an external solution may be more competitive both in terms of value for money and service standards. This could take place up until issue of the Pre-Qualification Questionnaire which is proposed to take place in July 2012.

The options appraisals undertaken by NPS has been wide ranging, and has been undertaken without pre-conceived ideas, and has considered all available options. The risks associated with the various options have been considered.

Soft market testing has been undertaken on an informal basis to ascertain whether the proposed solutions are likely to be seen by the market as a workable arrangement. Any undue risk perceived by the market would result in higher levels of pricing.

The service delivery of any contracts ultimately let will be managed by a series of risk and reward measures. The KPIs which feed these measures will be determined during the preparation of the full specification, based on best practice and in consultation with all stakeholders, including the new Resident Involvement Panel.

6 Options Appraisal

This section covers the journey from the initial high level review conducted by Northgate Public Service in June 2011, through review challenge to the current proposals that have been committed to by the H&F Departmental Management Team.

6.1 Estate Services

Estate Services and Housing Management were initially appraised separately and the initial review (June 2011) considered a number of options for Estate Services, these are detailed below;

<p>Keep the current model</p>	<p>Maintaining the current service as is was discounted due to the constraints on public sector terms and conditions which preclude further step change in terms of any reduction of the cost base.</p> <p>Given that the recent estate caretaking value for money programme (in 2009) delivered significant improvements in terms of quality and cost reduction, the next steps could be to take the service beyond the constraints of being an in-house caretaking service to deliver greater value and choice.</p>
<p>Expand the service through providing services to others</p>	<p>The specialist team carries out tasks which are marketable and the service could therefore be grown. However, this is not felt to be a viable option at present because; returns would be minimal and administration costs high, the potential scale of operation would not represent competition in real terms for some of the bigger providers and this option is likely to prove a distraction from providing high quality services to the residents of H&F.</p>
<p>Collaboration with another ALMO, Council etc.</p>	<p>Collaboration is one option of leveraging savings by achieving economies of scale, through for example, joint management structures, letting of joint procurement contracts delivering aggregation of spend etc. This has been an option for most authorities for over a decade, however most attempts have failed. For collaboration to be a success it requires the will, commitment and application of any proposed vision. The key challenges for Estate Services to overcome would be:</p> <ul style="list-style-type: none"> • Equality – All Authorities must have an equal say; • Sovereignty – The organisational identity and front line delivery must remain. Stakeholders including members and senior officers of

	<p>organisations may feel a sense of a loss of control;</p> <ul style="list-style-type: none"> • Standardisation – Move to standardisation of working practices and policies would be required; • Exclusivity – Once arrangements are put in place, Authorities should not have the option to opt out or buy services elsewhere for a specified period; • Leadership – The change and transformation must be lead from the top of the organisations and this will include addressing cultural issues which may arise; and • Control – Any programme has to be within the direct sphere of influence of the Authorities. This then enables any challenges to be managed solely by those who understand and are accountable for the service. <p>Therefore we believe collaboration at this time is not a realistic option as it is felt that this would delay potential savings due to the complexity of setting up such agreements. However, this may become more attractive depending on what happens with regard to the ongoing tri-borough work between H&F, Kensington & Chelsea and Westminster Authorities.</p>
<p>Outsource the service</p>	<p>There is mature market for the provision of cleaning services and we feel that outsourcing of the cleaning aspects of caretaking, sheltered housing cleaning and the concierge service is the option that would deliver greatest cost savings for H&F at this time.</p>

6.1.1 Initial Review Recommendations (June 2011)

The recommendation reporting the original proposal was to outsource the caretaking and concierge services that currently operate within estate services at H&F, this includes the following service provision:

- General estates cleaning;
- Sheltered Housing (Domestic) cleaning; and

- The Concierge Service.

It was proposed that the existing specialist cleaning service would be split from the general caretaker function and retained in house. It was also proposed that a second specialist team be created to support the high quality work that the current SCS team provides, this would be particularly popular with tenants and leaseholders.

These proposals would require the development of an in-house contract management capability, smart contract specification and highly effective contract monitoring and management function.

6.1.2 Option Appraisal Challenge (November 2011)

The initial work has been subject to significant challenge and review. The initial option appraisal has been supplemented by information gained through soft market testing, benchmarking of other London Boroughs and a change in senior officers within HRD.

New intelligence has challenged:

- The proposition that the retention of an 'in house' service could not be a viable option.
- The need to retain Specialist Cleaning Services 'in house' as a residual service
- The value of outsourcing the Concierge service.

6.1.3 Current Recommendations (March 2012)

Whilst it remains likely that outsourcing could deliver the most advantageous price to the council, the opportunity to deliver a competitive 'in house' bid has not been excluded. It is now proposed that a full market testing exercise is undertaken to leave both options on the table.

In addition it is now proposed to include Specialist Cleaning Services in the market testing process. It is considered that this will be seen as a vital component of the service by the market place, and its inclusion will mitigate any service overlap.

It is also now proposed to retain the Concierge Service in house. A detailed proposal has already been submitted which could make a very significant contribution to the savings target and increase coverage provided to residents. The Concierge service is seen as a key part of the Council's efforts to reduce ASB on its estates.

6.2 Housing Management

The high level review carried out in June 2011 considered a number of options for Housing Management, these are detailed below:

<p>Continued incremental improvement</p>	<p>It is felt by H&F that the current structure and resource within Housing Services may offer the potential for further improvements that would generate costs savings. It would be beneficial to work together with NPS to continue the transformation process that has delivered substantial savings for the service so far, while at the same time working on the next cost saving opportunity.</p> <p>For the purposes of this report an estimate of 10% saving has been included in the absence of a full evaluation being conducted, this full evaluation should be conducted at the start of any future improvement process.</p>
<p>Collaboration with other Authorities</p>	<p>Collaboration is one option of leveraging savings by achieving economies of scale, through for example, joint management structures, letting of joint procurement contracts delivering aggregation of spend etc.</p> <p>This has been an option for most authorities for over a decade, however most attempts have failed. For collaboration to be a success it requires the will, commitment and application of any proposed vision. The key challenges for Housing Services to overcome would be:</p> <ul style="list-style-type: none"> • Equality – All Authorities must have an equal say; • Sovereignty – The organisational identity and front line delivery must remain. Stakeholders including members and senior officers of organisations may feel a sense of a loss of control; • Standardisation – Move to standardisation of working practices and policies would be required; • Exclusivity – Once arrangements are put in place, Authorities should not have the option to

Market making -
full outsourcing

opt out or buy services elsewhere for a specified period.

- **Leadership** – The change and transformation must be lead from the top of the organisations, this will include addressing cultural issues which may arise; and
- **Control** – Any programme has to be within the direct sphere of influence of the Authorities. This then enables any challenges to be managed solely by those who understand and are accountable for the service.

The above indicates a wide variation in the way each of these three organisations are managed and operated. In this context it is difficult to understand how such key building blocks such as common working practises will be achieved in a timescale which will meet current expectation. Furthermore given the different states of evolution of the three authorities there are varying immediate needs and priorities. Therefore we believe collaboration at this time is not a realistic option.

The existing service as a whole could be offered out to tender in a traditional way i.e. City West Homes. However, the market is not mature, with a limited number of providers active in the market and the size of housing stock they manage being varied.

We have conducted soft market testing with a range of suppliers who are currently providing services into the social housing market but not housing management services from an operational perspective. There was an appetite to develop the market and a desire to work in partnership with the public sector on innovative solutions. These discussions included what a potential service delivery model may contain based on the need for a step change in cost base.

However, given the current market and the level of risk that full outsourcing would bring we would not recommend this course of action at this time (June 2011).

**Partial
outsourcing –
transactional
services**

Transactional activities such as rent collection could be resourced outside of the borough but would require some presence in the borough. Salaries which are paid within the service are competitive for the local market place, however, compared to national rates they are significantly higher i.e. up to 30-40% higher. This does provide a viable option for H&F to deliver cost savings with no discernible changes to service provision to residents.

6.2.1 Initial Review Recommendations (June 2011)

In June 2011 it was felt by H&F that restructuring within Housing Services would offer the potential for further improvements to generate costs savings. It was felt to be beneficial for H&F to work together with NPS to continue the transformation process that had delivered substantial savings for the service in the past.

The recommendation of the initial report was therefore to continue to drive improvements within Housing Services whilst also performing a full review to identify the next efficiency opportunities that would deliver a step change in reduced costs.

At the same time as driving improved efficiencies the process of partial outsourcing of transactional activity would be progressed, this was due to include;

- Former tenant arrears; and
- Rent arrears and collections.
- All activity would be based outside of London to enable the establishment of an operational centre with a lower cost base. The provider would establish an operational “Hub” looking to leverage economies of scale.
- Housing Management would remain in house and home based working should be investigated as an option although not implemented at this time.
- Synergies would be sought between Housing Option and Allocations. Reception Services would remain in house and further location rationalisation investigated. The next change could see the existing locations rationalised to one permanent physical front desk located in King Street Hammersmith. Other services could be available by a scheduled appointment/open access days held at the

local community centres; no cost savings have been included for location rationalisation at this time.

- These proposals will require the development of an in-house contract management capability, smart contract specification and highly effective.

6.2.2 Option Appraisal Challenge (November 2011)

The initial work has been subject to significant challenge and review. The initial option appraisal has been supplemented by information gained through soft market testing, benchmarking of other London Boroughs and a change in senior officers within HRD. The transformation programme has been refined to recognise the need to;

- Introduce an element of competitive tension through a split borough approach to service provision;
- Embrace localism and bring services closer to people; and
- Take advantage of synergies available across Council departments.

6.2.3 Current Recommendations (March 2011)

Given the need to review a number of different approaches in a tight timescale (driven by the savings targets), it was decided to take a 'market testing' approach in many areas. This approach allows the internal proposals to be developed in parallel with procurement activities.

Following the formation of the HRA MTFS Transformation Programme a review was conducted of the services provided within Housing Services.

As a result of this review of Housing Services, proposals have been considered covering all three service delivery options detailed above.

- It is currently being considered to move Income Management, including Former Tenant Arrears, to H&F Direct. Discussions have taken place between HRD and H&F Direct and the proposal document is in the process of being formulated.
- Sheltered Housing which is currently going through a full asset review exercise will be considered for 'mini' restructure to bring Sheltered Housing Management more in line with the wider Housing Management structures
- Housing Management and Reception Services will undergo a combination of internal review and full market testing

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All internal restructuring proposals will be competitively evaluated against tenders submitted by external service providers. We understand that the Council will endorse the most financially advantageous solution that also offers ongoing service improvement, greater resident involvement and minimises the level of ongoing delivery risk.

The scope of the project and identified areas where it is thought that contracting out could present a strong challenge to the existing in house service provision model.

Areas in scope for full market testing include:

- Housing management
- Reception services
- Anti-social behaviour management

Currently the subject of a further options appraisal is to combine the Council's Anti Social Behaviour (ASB) activities into a single team and conduct market testing. ASB activities are currently undertaken by two teams – one in HRD and one in Environment, Leisure and Resident Services Department (ELRSD).

There are two options being considered as part of the analysis, these are as follows:

- Leave the two ASB teams as is, split across HRD & ELRSD; or
- Merge the ASB service into one team, subject to appropriate line management arrangements and accountability to tenants and leaseholders.

As a result of the work being conducted around the MTFS the ASB options appraisal will be conducted to evaluate the benefits and impacts associated with the options available.

All developing options are being reviewed in terms of their ability to deliver the most financially advantageous solution, ongoing service improvements and minimised risk to the Council.

Areas not in scope include:

- Concierge
- Income management
- Rent accounting
- Sheltered housing

Whilst it remains feasible that transforming an in-house housing management function could deliver significant service improvements and costs savings, the opportunity to market test the service should not be overlooked.

6.2.3.1 Rationale for a north/south split within Housing Services

The rationale for offering Housing Management on a half borough basis with the north half being retained in house is detailed below.

For the purpose of housing management we are proposing splitting the borough into north and south

- **The north** will have an internal review and remain within the council for the time being.
- **The south** will be fully market tested with the potential of appointing an external contractor to provide the service.

The reasons for dividing the service and market testing the south are;

- The split will create competition, encouraging services to improve
- The split will allow us to compare in-house versus external provider
- The size of the housing stock in the South is more likely stay about the same over the next 10 years making it possible to market test more accurately
- The north includes White City where the council is leading on an extensive redevelopment of the area over the next 10 years. By co-ordinating the full range of its services, including housing management, the council can ensure a comprehensive approach to the development of the area and assist residents to take advantage of the opportunities that ought to arise from it.

7 Housing Services Procurement Route

Caretaking/Cleaning is a well developed, competitive and mature market with a range of contracting organisations ranging from local organisations to major national players. It was felt that a significant number of organisations would be interested in bidding for the Estate Services contract.

Housing Services Market Testing Proposal



Conversely Housing Management is a less mature market, although one that was developing quite quickly. It was felt that a limited number of players might pursue the H&F contract.

Soft market testing has identified organisations that would be interested in bidding for a combined package. The larger value of a combined contract could deliver larger economies of scale. A SWOT analysis was conducted and it was agreed by the Programme Board that the two separate market testing exercises should be combined into one.

Given the decision to:

- Market test the South of the Borough only for Housing Services
- Combine the market testing exercise for Estate Services and Housing Management
- Offer Estate Services as a borough wide contract

It is proposed to offer three Lots as to the market:

- LOT 1 - Estate Services as a single Borough wide contract
- LOT 2 – Housing Management – south of Borough only
- LOT 3 – Combined package

Given the number of potential bidders for the Estate Services work it has been recommended that a 'Restricted Procurement' procedure is used. Further details are given in **Annex B – Procurement Route**

Annex A

Risk Management

There are two distinct elements of risk to be managed. There are those risks associated with the ‘market testing’ project (Project Risks), and those risks associated with the chosen outcome. The ongoing risks will be dependant on whether an outsourcing solution (Contract Risks) or an ‘in house’ restructuring solution (Performance Risks) is selected.

NPS have compiled a risk register, which is routinely updated, and any highlighted issues are brought to the Project Team. The Project Team manages project Risks; Programme Risks are managed by the Programme Board.

The contract risks have been the subject of consideration within the Options Appraisal, and the specific risks identified with the recommended Options are detailed below, with their principal mitigations. The optimal model of a sole supplier requires an appropriate review of the risks involved, and proposals for mitigating those risks. The second highest scoring model of a split borough approach contains largely similar risks.

Risk		Mitigation
Supplier becomes insolvent	1	An appropriate degree of scrutiny of potential tenderers’ financial standing at PQQ stage.
	2	A carefully developed process to ascertain that the price submitted as part of any bid is sustainable in terms of overhead and profit allowances. This will include cost benchmarking by a QS company (to be appointed), and involving the QS in the price evaluation.
	3	Parent Company Guarantee.
	4	Performance Bond.
	5	Step in clauses
Supplier does not meet performance standards	1	Carefully drafted technical questions in the quality section of the PQQ to ensure that contractor can demonstrate satisfactory past performance.

	2	Carefully drafted technical questions in the quality section of the ITT to ensure that the tender offer is technically adequate and directly related to the specific levels and types of service desired.
	3	A contractual mechanism of risk and reward linked to headline KPI performance.
	4	A contractual mechanism for escalation procedures which would allow for determination of the contract with award of costs.
	5	Consultation with Resident Working Group will clarify intended levels of performance
Management difficulties with supplier	1	Gap analysis of skills within the HRD staff to ascertain training needs before contract mobilisation.
	2	Implement a partnering approach that identifies common objectives, linked to the risk and reward model.
	3	A pricing model that leads towards the contractor being incentivised to reduce costs where appropriate (consider such things as ring-fenced overhead contribution).
	4	Involvement of Resident Working Group will bring added stakeholder emphasis to performance achievements.
Statutory Requirements are not being followed <i>1. Site Activities</i>	1	Ensure that PQQ and ITT procedures are adequate, and that Strategic review meetings routinely include Statutory compliance.
Statutory Requirements are not being followed <i>2. Landlord's Responsibilities</i>	1	Retain Landlord's statutory duties so that they are not included as part of the contract – only include consequential works within the contract.
	2	Include appropriate KPIs to reflect the importance of any statutory activities.
	3	Continue with compliance audit to monitor activities with statutory implications.

Annex B

Procurement Route

These contracts fall within the Public Procurement Regulations. The complexity of the sole supply contract initially suggested that the Competitive Dialogue route might be an effective way to ascertain the full benefits of efficiency that could be derived from technological advancement that tenderers could offer. Procurement advice arising from consultation with the Council's procurement team identified that this route would, in all likelihood, require more time than was allowed within the Medium Term Financial Strategy target, also that there would be no guarantee of better outcomes being achieved in the long term over and above those achieved through the Restricted Procedure.

It was therefore proposed to use the Restricted Procedure to tender the works. The requirement for improved service delivery will be carefully articulated within the tender documents, without outcome requirements, best practice and KPIs all co-ordinated to drive the improvement.

Use of the restricted procedure is in line with normal practice for a contract of this type. Use of the Open Procedure has been ruled out as it is anticipated that a large number of contractors will respond (particularly for the Estate Services Lot); using the restricted procedure will be more efficient for both the Council and contractors.

Officers have elected to issue a Prior Information Notice (PIN), to allow an element of formal dialogue with the market before issue of the OJEU Notice. It is intended to provide some written questions with the PIN as a means of eliciting information from interested contractors about the current technology and consequent efficiencies that are in current use.

The OJEU Contract Notice will be issued following Cabinet approval of the Procurement proposal.

The PQQ will be drafted in consultation with stakeholders including the Residents Involvement Panel. The PQQ will be evaluated by the Tender Appraisal Panel as detailed below. Shortlisting will be submitted to the Lead Member for Housing for approval.

Service delivery, and other appropriate matters relating to the ITT will be drafted in consultation with stakeholders including the Residents' Working Group. ITT evaluation will be undertaken by the Tender Appraisal Panel.

Evaluation

A Tender Appraisal Panel will be established in accordance with the Council's Standing Orders and the guidelines issued by the central procurement team.

The Panel will include Council officers, consultants and resident representatives. The process for identifying resident representatives is currently under review and the Panel will take note of any changes in this process. Current proposals for the TAP are:

AD Housing Services
AD Finance & Resources (HRD)
Commercial & Contracts Manager
H&F Central Procurement Team representative
H&F Legal Services representative
Northgate Project Manager

PQQ and Tender marking will be undertaken by:

Head of Estate Services
Head of Neighbourhood Services
Head of Housing Management
Head of IT
Commercial & Contracts Manager
Northgate Project Manager - Procurement
Resident – Tenant
Resident – Tenant
Resident - Leaseholder

PQQ Evaluation

PQQ Evaluation will be undertaken on the following basis:

1. Financial – 30%
2. Technical –70%
 - a. Health & Safety
 - b. Quality Systems
 - c. Environmental Systems
 - d. Sub-contractor management
 - e. References
 - f. Case studies
 - i. Similar projects
 - ii. Innovations
 - iii. Service delivery improvements
 - iv. Community Engagement

ITT Evaluation

ITT Evaluation will be undertaken on the following basis:

1. Cost – 60%
2. Technical – 20%
 - a. Health & Safety
 - b. Service Delivery
 - i. Quality
 - ii. KPI performance
 - c. IT
 - d. Invoicing
 - i. Timeliness
 - ii. Accuracy
 - e. Record keeping
3. Community Engagement – 20%
 - a. Benefits for Business
 - b. Local skills opportunities
 - c. Resident/Estate support schemes

Subject to
final detail

Annex C

Procurement Programme

The main procurement milestones have been extracted and are shown below including an extract of the project's programme from issue of the OJEU Contract Notice, through to the appointment of the new contractor.

Activity	Date
Report on Housing Revenue Account Medium Term Financial Strategy (HRA MTFS) signed off by Executive Director for Housing and Regeneration Services	July 2011
Cabinet Member Key Decision to appoint additional capacity to HRA MTFS Programme	August 2011
Preparation and Development of client-side Requirements	September 2011 – April 2012
Leaseholder Notice of Intention (NOIs) issued and consultation period	December 2011 (Estate Services) April 2012 (Housing Services)
Official Journal of European Union (OJEU Prior Information Notice) published via e-sourcing portal	March 2012
Full Cabinet Key Decision to consider recommendation to commence market testing and issue delegated authority for programme decisions to Cabinet Member for Housing up to award	May 2012
Contractors' Briefing Day	April 2012
Official Journal of European Union (OJEU Contract Notice) & Pre-Qualification Questionnaire (PQQ) published via e-sourcing portal	June 2012
Deadline for PQQ return and evaluation begins	July 2012
Cabinet Member Decision to consider PQQ short-list	August 2012

Housing Services Market Testing Proposal



Invitations to Tender published via e-sourcing portal	September 2012
Tenders return	October 2012
Evaluation period	October to November 2012
Preferred contractor identified	November 2012
Leaseholder Notice of Proposals (NOPs) issued and consultation period	November 2012
Full Cabinet Key Decision to consider recommendation of award	January/February 2013
'Alcatel' cooling-off period	February 2013
Contract award	February 2013
Mobilisation period & Start of TUPE transfers	February to March 2013
Contract go-live	March 2013