

## **HOUSING MANAGEMENT – SOFT MARKET TESTING**

### **1 SUMMARY**

- 1.1 The purpose of this report is to seek Members' views in respect of the soft marketing exercise undertaken on behalf of the Council by K.P.M.G.

### **2 BACKGROUND**

- 2.1 As part of the Housing Management Best Value Review, the private sector were invited to give a view as to whether or not there could be savings to the Council by externalising the service. One organisation did suggest there could be significant savings but did not take into account the Transfer of Undertakings (Protection of Employment) Regulations Act (TUPE). These regulations ensure that when a function is externalised, the staff currently employed on the activity are transferred to the new employer on similar terms and conditions.
- 2.2 Notwithstanding the above, the review team considered that it was necessary to explore further the possibility of externalising the service.
- 2.3 To carry out a full contracting exercise to test the competitiveness of the market would be extremely costly, with no guarantee that savings could be achieved. The review team recommended that consultants be employed to carry out an assessment of the market and to advise the Council as to the likelihood of achieving savings, without any diminution in the level of the service delivery.
- 2.4 This action was agreed and included within the Housing Management Action Plan, which was approved by Community Services Committee on 5 February 2002 (min.38/02). K.P.M.G were appointed to carry out the exercise.

### **3 K.P.M.G. REPORT**

- 3.1 A copy of the K.P.M.G report is attached (Appendices A and B ). Part of it contains commercially sensitive information (Appendix C) and needs to be treated as private and confidential. The public and press will need to be excluded if there is any discussion at the meeting on

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this section of the report. The consultants will be attending the meeting in order to present their findings.

#### **4 MAIN FINDINGS**

- 4.1 The main issues emanating from the report are that staff levels are not in excess of private sector organisations. The level of overhead costs needs to be examined and the current method of providing warden services needs to be reviewed.
- 4.2 The level of overhead costs is difficult. It is not just a matter of re-allocating costs. All this would achieve is to transfer costs from the Housing Revenue Account to the General Fund, which would then have to be financed from Council Tax.
- 4.3 Current overhead allocation tends to follow an assessment of officer time. For example, Financial Services charges £17,700 to the Housing Revenue Account. Of this, only around £9,800 would relate to actual staff. This is less than one member of staff and equates to a very small amount of time from a number of staff within the division. The rest of the cost is made up of elements such as office accommodation, computer costs, reception, telephones etc.
- 4.4 In order to make significant reductions in overheads, there has to be real staff savings, together with a real saving in accommodation costs etc. These issues are part of the ongoing Best Value Review process.
- 4.5 With regard to warden services, a decision has now been made to install a trial scheme for one year, utilising a central control facility. At the end of the trial period, tenants will be able to make an informed choice on the level of service and cost.

#### **5 RESOURCE IMPLICATIONS**

- 5.1 Acceptance by tenants of a central call-out facility should lead to cost savings which would result in lower service charges to tenants in sheltered accommodation.

#### **6 RECOMMENDATION**

It is proposed that this Committee **RESOLVES**

- (1) That the report of K.P.M.G. be noted.
- (2) That the results of the central call-out facility trial be reported to a future meeting of this committee.

- (3) That overhead costs continue to be reviewed through the annual budget process and future best value reviews. (CD(F&ES))

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**Background Papers:**

None

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**APPENDIX A**

**Rochford District Council**

**Soft Market Test – Alternative  
Delivery of Housing Management  
Services**

**QUESTIONNAIRE**

**October 2002**

**Firms should not contact officers or members of Rochford District Council in response to this exercise. Any questions should be channelled through Bridghe Forde at KPMG (Telephone number 020 7311 1314).**

**Background information about the contractor**

1. Where are you based?
2. How many housing management contracts do you currently manage?
3. What is your annual turnover a) for housing management b) generally
4. Have you got a parent company? If so what is the name of your parent company?
5. How many staff do you employ working on housing management contracts?
6. With whom are your main contracts?
7. What is your split between general needs housing and sheltered schemes?

**Contract length and packaging**

1. In your opinion what is the minimum length for a contract for Rochford District Council's housing management to be viable for you?

Number of years	Please tick
>3	<input type="checkbox"/>
>4	<input type="checkbox"/>
>5	<input type="checkbox"/>
>6	<input type="checkbox"/>
>7	<input type="checkbox"/>

2. Should there be two contract one for sheltered housing and one for general needs housing? (Please answer yes or no)
3. Could the contract be split by geographic area? (If yes please state how the contract should be split?)
4. Would you prefer the contract offered on partnering lines?

	<i>Please tick one</i>
Would not bid if the contract wasn't partnered	<input type="checkbox"/>
Would prefer a partnered approach, but would bid even if it wasn't partnered	<input type="checkbox"/>
Have no preference for partnering	<input type="checkbox"/>

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Would prefer the contract not to be partnered	
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5. What is the minimum size contract (£) in which you would express an interest?

**Costs**

1. In global terms, how much should the management of Rochford's stock generally cost per year for the functions described?
2. How many staff would it generally take to manage this service?

**Payment mechanisms**

1. Would you be interested in operating a partnering approach to payments ie agreeing profit and overhead levels and being paid costs?
2. Would you agree to open book accounting and supply chain management?
3. Would you agree to linking performance to payments with incentives being paid for better performance?

**Performance information**

1. Which performance indicators would you be happy to include as a target in the contract?

<i>Performance Indicator</i>	<i>Target specified in the contract? (Yes or no)</i>
Void turnaround time	
The average weekly costs per local authority dwelling of management	
The proportion of rent collected	
Rent arrears of current tenants as a proportion of the authority's rent roll	
Rent written off as not collectable as a proportion of the authority's rent roll	
Average re-let times for local authority dwellings let in the financial year (days)	
Satisfaction of tenants of Council Housing with the overall service provided by their landlord	
Satisfaction of tenants of Council Housing with opportunities for participation in management and decision making in relation to housing services provided by their landlord	

2. Would you be prepared to link any of these performance indicators to the contract payment mechanism

<i>Performance Indicator</i>	<i>Link to payments? (Yes or no)</i>
Void turnaround time	
The average weekly costs per local authority dwelling of management	
The proportion of rent collected	



Rent arrears of current tenants as a proportion of the authority's rent roll	
Rent written off as not collectable as a proportion of the authority's rent roll	
Average re-let times for local authority dwellings let in the financial year (days)	
Satisfaction of tenants of Council Housing with the overall service provided by their landlord	
Satisfaction of tenants of Council Housing with opportunities for participation in management and decision making in relation to housing services provided by their landlord	

**Service provision**

1. Would you more/less interested in tendering for the contract if it included the following services?

	More	Less
The provision of the repairs and maintenance service		
The provision of the planning and investment service		
Revenues and benefits		
Wardens services		

2. Where you operate the service from if you had the choice:

	<i>Please rank 1 to 3, with 1 = First choice</i>
Your own offices	
Rochford's existing offices	
New offices elsewhere	

3. How important is it that you have flexibility as to where the service is provided from?

	<b>Please tick</b>
Very important	
Not important but you would have a preference	
Unimportant	

**Rochford District Council**

Soft Market Test  
Alternative Delivery of Housing  
Management Services  
Report  
1<sup>st</sup> November 2002

**VERSION FOR DISTRIBUTION**

KPMG

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## Appendices

Appendix 1 Documents provided by Rochford District Council

Appendix 2 Questionnaire

Appendix 3 Further Supplier Responses

### **1 Summary**

This report describes the findings of a soft market test of the potential, for and viability of, an alternative delivery mechanism for Housing Management Services at Rochford District Council (“RDC”).

We have developed a view of the viability of externalising the delivery of these services. We have also talked with some key suppliers in the market place to understand their views and preferences.

KPMG’s conclusions are that:

- the market is interested in providing Housing Management Services to Rochford District Council; however,
- significant savings can only be achieved through an internal reduction in recharges and by a significant change in the operation of warden services. This approach has the potential to incur substantial redundancy costs in addition to the client side costs incurred by RDC during any procurement exercise and the ongoing cost of managing a contract of this nature.

KPMG has suggested the following actions:

- RDC should implement a process to identify savings it can make internally on overheads, warden services and repairs and only seek to externalise Housing Management Services if RDC clearly does not have the ability or the culture to improve performance;
- if RDC finds that it cannot make the necessary changes internally, it should not externalise Housing Management services unless it is prepared to allow substantial restructuring of

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the warden service and if removing overheads from the Housing Revenue Account is a priority over removing them from across the Council;

- if RDC does choose to externalise Housing Management Services, they should also consider including the delivery of repairs to allow suppliers to optimise efficiency gains.

## **2 Introduction**

KPMG were appointed to undertake a soft market test of the potential for and viability of alternative means of delivering Housing Management Services which were being provided by an in-house team. The key characteristics of our work were:

- to identify the level of attractiveness of such services to external providers; and
- to provide an indication of the possible savings that could be made from externalisation with an assessment of how viable this would make an externalisation project.

## **3 Key Drivers**

The key driver for this study, as shown in the Best Value Reviews of Housing Management and Housing Strategy, was the need to identify potential cost savings. The financial forecasts on the Housing Revenue Account show that the estimated surplus of £680,000 for 2002/03 but that this financial position will deteriorate leading to a potential deficit by 2005/06 of approximately £680,000.

The Community Services Committee has expressed (Minutes, 5<sup>th</sup> February 2002) their desire to ensure that tenant satisfaction is maintained. The quality of service delivery is therefore also an important issue for RDC.

## **4 Scope of services under consideration**

RDC wished to test the potential for and viability of introducing an alternative solution for the provision of Housing Management Services which were being provided in-house from offices in Rochford.

RDC wished to test the extent to which savings could be made whilst delivering the same, or an improved, level of service.

The Services to be considered were:

- Management of housing stock and garages;
- Housing register and allocations;
- Collection of rent (and water and sewage payments);
- Estate management; and
- Warden services.

The following services were excluded from the scope of the study:

- Housing strategy;
- Granting of rent rebates;
- Direct delivery of maintenance and repairs;

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- Grounds maintenance; and
  - Cleaning services.

## **5 Methodology**

KPMG is a leading provider of options appraisal and procurement support to local government and specifically has experience of undertaking a substantial number of soft market test exercises for local authorities. Using this experience, we sought to undertake the market consultation in such a way as to maximise the likelihood that it would result in an open and realistic discussion of their views.

In order to undertake this study KPMG:

- prepared an information pack and questionnaire, based on a range of documentation provided by RDC (see Appendix 1), to provide structure for our discussions with the market. These were given to suppliers in advance;
- identified a number of potential market suppliers to partake in this exercise;
- held face-to-face, or telephone, interviews with these suppliers;
- took a view of the viability of externalising RDC's Housing Management Services; and
- identified the key actions that we believe RDC needs to take.

KPMG made it clear to consultees that:

- RDC had not decided how to address the future of the relevant services and that there was no guarantee that this market consultation would lead to an opportunity to tender for services;
- Discussions as part of the market consultation were not part of the process of selecting a provider;
- KPMG's report to RDC on the outcome of the market consultation would not evaluate potential suppliers and would seek to present RDC with an aggregated, anonymous, view of this opportunity rather than views of individual providers;
- There would be an opportunity for suppliers to broaden the scope of the discussion to include any other matters not in the questionnaire which would influence whether or not they were likely to be interested in the opportunity; and
- Suppliers participating in this consultation did so at their own risk.

KPMG undertook a review of the potential market place and selected a number suppliers who could provide a range of views. Discussions were held with six organisations which included a private sector provider, and medium and large housing associations with a mix of local and national perspectives.

Only one private sector provider was interviewed. This is a reflection of the extent to which Housing Associations dominate the housing management market.

## **6 The views of the market**

Below is a summary of the views and opinions of the potential suppliers. The questionnaire at Appendix 2 provided the basis of discussions with the suppliers. This covered a range of issues some of which were aimed at providing RDC with helpful information should they decide to externalise. The responses to these wider questions are shown at Appendix 3.

## **7 Level of interest**

All suppliers expressed a strong interest in providing general and sheltered housing management services for RDC. Although suppliers felt that there would be an advantage in adding elements such as repairs and maintenance (see Packaging the Services below), suppliers would be content to provide Housing Management Services alone.

Supplier comments suggest that Rochford is well placed to attract the attention of suppliers with bases in Anglia, London and locally.

## **8 Packaging the Services**

There was a clear preference for the inclusion of a fuller range of services in the contract package for example including the delivery of repairs and maintenance as well as the management of general and sheltered housing. It was believed that synergies between these elements provided a greater potential for efficiency savings.

Control over the delivery of repairs was of particular interest because of the impact repairs have on the satisfaction of tenants. Some suppliers had their own repairs contracts which suppliers suggested could provide benefits to RDC through economies of scale and potentially more attractive terms of contract. All suppliers would be willing to manage RDC's existing suppliers if that was preferred by the client.

Two suppliers pointed out that the synergy between general housing management and sheltered housing management is not so great that these have to be provided in the same package.

## **9 Stock transfer or reduction**

On the whole suppliers would favour a project offering stock transfer. This was for a number of reasons, most notably that there might be increased opportunity for suppliers to implement innovative efficiency savings.

Suppliers did however stress that a preference for stock transfer was not an indication of low interest in Housing Management Services.

Suppliers took the view that any risk to the supplier through reductions in stock numbers as a result of, for example, the Right to Buy could be easily dealt within the terms of their contract with RDC. Similarly, the potential risk of large-scale stock transfer could be addressed in the contract terms.

## **10 Quality of service**

All suppliers were happy to accept Best Value Performance Indicators with targets for improvement as part of any payment mechanism. There is no reason to believe that the quality of Housing Management Services should fall as a result of externalisation.

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**11 Costs and savings**

*12 Current costs*

The estimated gross expenditure for the Housing Management Services is:

	(£)
General management	656,100 (Incl. support services of £232,400)
Special services	39,100
Warden services	688,000 (Incl. support services of £97,200)
Repairs administration	288,314
Repairs/maint	1,108,900

It should be noted that the “Repairs Administration” figure includes costs of a number of staff who contribute a proportion, or all, of their time to Housing Management Services.

*13 Costs to RDC of externalisation*

**Contract Management**

All suppliers, except one, felt that no more than one full-time-equivalent member of staff would be required to manage an externalised housing management contract. The general view was that self-monitoring should be part of the contract terms thereby reducing client input. RDC would need to consider carefully its approach to performance and contract management. KPMG suggest that a minimum of £45,000 (including on-costs) per annum should therefore be allowed for the client-side function.

The other supplier suggested that 2 members of staff would be required.

**Procurement Exercise**

RDC would also incur the cost of undertaking a procurement exercise. As well as in-house resources, RDC has identified a requirement for £60,000 consultancy assistance. This may be significantly higher if legal advice is also required.

*14 Staff*

All suppliers believed TUPE would apply. Where the suppliers intention was to reduce staff numbers other than through natural wastage or redeployment, a potential redundancy liability would be incurred and that would need to be funded within the overall financial envelope of the contract.

The majority of suppliers could **not** identify significant savings to be made in levels of general housing management staff.

Suppliers did however suggest that significant savings could be achieved if the role of wardens was restructured. All suppliers questioned the resources currently applied to warden services and assumed that a very high level of service is being provided. The level of savings



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that could be achieved in this area would be dependent on the service specification defined by RDC taking into account the impact of the Supporting People initiative.

Suppliers recognised that the unpopularity with tenants of reducing sheltered housing services would make this a difficult area to reduce early in a contract

#### *15 Savings to RDC – services*

Only two suppliers provided detailed figures of the savings they would expect to make. These figures suggested that substantial savings could be made. The others all indicated that in their experience significant savings should be possible but mainly through the restructuring of warden services and a reduction in overheads.

(The figures have been removed from this document to protect commercial advantage).

It was noted that if the services were tendered, suppliers may reassess their figures and these potential savings might be reduced.

#### **16 Conclusion**

On first impressions, suppliers' proposals suggested that RDC can make substantial savings through an externalisation project. However on closer inspection these savings are not as definitive as they might appear.

The two areas offering the most substantial savings, as identified by suppliers, are limited in practical application:

##### ■ **A reduction in overheads**

The significant reductions in overheads identified by suppliers would reduce HRA expenditure figures but would **not** significantly reduce RDC-wide rechargeable overhead costs. The savings proposed by all suppliers, and particularly suppliers "e" and "f" (see Table 1), are largely dependent on making tangible overheads savings.

##### ■ **A restructured warden service**

It is not currently clear to what extent it is possible to restructure warden services within RDC (although the Supporting People initiative may require RDC to undertake changes). Given that tenant satisfaction has been of high importance to Members, the potential for a significant change may be limited. Additionally if RDC does permit suppliers to significantly restructure warden services, suppliers would be reluctant potentially to undermine relations with tenants early in the contract. A more rushed approach is also more likely to incur redundancy costs as there will be limited scope for natural wastage and redeployment.

In addition to these limitations, account must also be taken of the costs to RDC of undertaking an externalisation, managing it and, in some scenarios, potentially paying for redundancy costs.

(RDC may wish to note that another area mentioned as potentially a source of savings was repairs and maintenance. Suppliers were unable to provide detailed figures but they did suggest that it should be possible to find reductions because of the high expenditure on "Repairs Administration" in relation to expenditure on repairs and maintenance. They also suggested that it was more likely that significant savings could be made through better contracts for the delivery of repairs and maintenance. Suppliers could offer RDC the use of

their own existing contracts with benefits from economies of scale and partnering relationships).

In conclusion, our findings indicate that the market is interested in providing Housing Management Services to Rochford District Council. However the evidence suggests that significant savings can only be achieved through an internal reduction in recharges and by a significant change in the operation of warden services. This approach has the potential to incur substantial redundancy costs in addition to the client's preparation and management costs.

### **17 Actions for Rochford District Council**

Based on the evidence described in this report KPMG suggests the following:

- RDC should implement a process to identify savings it can make internally on overheads, warden services and repairs.
- RDC should only seek to externalise Housing Services if:
  - RDC is of the view that it does not have the ability or the culture to improve performance or reduce costs; and;
  - is prepared to allow substantial restructuring of the warden service.
- If RDC does choose to externalise Housing Management services, the Council should also consider including the delivery of repairs to allow suppliers to optimise efficiency gains.

#### **Reliance by third parties**

**KPMG wish you to be aware that the work we carried out for RDC was performed to meet specific terms of reference agreed with them and that there were particular features determined for the purposes of the engagement and the needs of RDC at the time. The report should not therefore be regarded as suitable for use by any other person for any other purpose. KPMG will accordingly accept no responsibility or liability in respect of it to persons other than the Authority.**

#### **Disclosure**

**This report is provided on the basis that it is for the information of RDC only and that it will not be copied or disclosed to any third party, or otherwise quoted or referred to in whole or in part, without our prior written consent.**

#### **Scope of work undertaken**

**KPMG wish the Authority to be aware that:**

- **insofar as this report refers to the business of RDC, our findings are based on the information supplied to us by market representatives during the course of the soft market test. We have not validated this information. KPMG cannot therefore accept responsibility either for inaccuracies in the data supplied or for any conclusions wrongly drawn because of inaccuracies in the underlying data; and**
- **market consultation is by nature relatively high level and commits neither RDC nor the firms contacted. Expressions of opinion during market consultation are by definition constrained by the scope and nature of the information provided. They also represent the view of the firms contacted at the time the discussions were held. Specifically, any**

expression of interest in particular services made during market consultation is not a guarantee by the firms or by KPMG that any particular firm would actually express an interest in any opportunity that RDC might offer to the market.

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*APPENDIX 1*

**DOCUMENTS PROVIDED BY ROCHFORD DISTRICT COUNCIL**

KPMG received the following documents from Rochford District Council which provided useful background information for the market test:

- Structural and Procedural review Sub-Committee Minutes (15<sup>th</sup> November 2001)
- Draft Procurement Strategy (October 2001)
- Asset Management Plan (2002)
- Housing Strategy and Housing Management Sections of Community Services Committee Minutes (5<sup>th</sup> February 2002)
- Housing Management Best Value Review – Appendix 2
- Housing Revenue Account (Pages 107 to 112)
- Rochford Housing Strategy (2001 – 2004)
- Draft Housing Business Plan (Start date April 2002)
- Best Value Asset Management Service Profile – Property Maintenance
- Revenue and Housing Management Housing Division - Work Plan

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*APPENDIX 3*

**FURTHER SUPPLIER RESPONSES**

The following information was gathered from suppliers and should be helpful to RDC if they wish to continue with an externalisation of the housing management services.

**Location**

Where the supplier had local offices on the whole they would prefer to use these for the delivery of services.

The majority of other suppliers expressed a desire to work in the Council's offices if this was an option.

**Contractual relationship**

Partnering was identified as the preferred relationship with RDC should RDC decide to externalise Housing Management Services.

**Length of contract**

Five years was considered the minimum length for the majority of suppliers. Suppliers suggested that less than five years would make it difficult to justify set-up costs and would be impractical where staff have transferred under TUPE. Also efficiencies would not be expected to fully materialise for 18 months to two years.

**Qualities of the Client**

Suppliers were asked what they looked for in a contract in order to choose which to apply for and which to reject. They indicated that as well as the contract being in synergy with their growth strategy and the financial risks of the project, the attitude of the client towards change, their focus on excellent services and continuous improvement, and their willingness to adopt a partnering relationship with the supplier would be very important. Clarity of focus and expectations were also important.

**Employees terms and conditions**

A proposal for the supplier to retain staff for a definite period of time on their existing terms and conditions would be acceptable and most suppliers provided a "mirror image" pension scheme.

**Forms of contract**

Only one supplier was able to suggest a standard set of contract terms and conditions for a housing management contract. The contract suggested was the National Housing Federation Modular Management Agreement. All other suppliers used terms and conditions specific to the client and project in hand.

**Monitoring of contract**

All suppliers would aim to minimise the amount of client checking required. They proposed self-monitoring based on e.g. internal auditing and satisfaction surveys. Mystery shoppers were also suggested. Some suppliers appeared to be more stringent with self-assessment and this could form an important part of an evaluation exercise. In addition there would be meetings with the client, perhaps monthly and biannual, and regular management reports.