



Report to:

Northwards Housing Board –
14th June 2006

Item No:

9b

Title:	Investment Programme Procurement Update – Framework Agreement Establishment Costs and Future Commitments
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Date:	16 th May 2006
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Confidential:	No		
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For: (Please tick action required)	NOTING	DISCUSSION	APPROVAL √
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PURPOSE OF REPORT

To seek approval for the establishment costs incurred to date in respect of the Framework Agreement and seek approval for sharing first year operating costs

RECOMMENDATION

That the Board approves the Procurement & Property Sub Committee recommendation:

1. To approve the budget for and the reimbursement of the £216,597 costs on behalf of Northwards Housing for advanced procurement services, provided by Housing Technical Services and supporting agencies.
2. To approve the future expenditure on the development and implementation of the Framework.
3. To approve sharing the circa £30k cost of the first year

IMPLICATIONS

Equality & Diversity:	Planned maintenance and improvement affects all sections of the community.
Financial:	Provides market testing of the service and aspires to achieve best value through bulk buying and collaborative working including sharing costs.
Staffing:	Should relieve pressure on staff to deliver projects, but will involve additional staff training and resources during set up
Decency Target:	Contributes to achieving Decent Homes target.
Governance:	Key decision for the Board.

Equality & Diversity Implications (Please tick where relevant):

BME	<input checked="" type="checkbox"/>	Lesbian/Gay/Bisexual/Transgender	<input checked="" type="checkbox"/>
Elderly	<input checked="" type="checkbox"/>	Single Parents	<input checked="" type="checkbox"/>
Young	<input checked="" type="checkbox"/>	Domestic Violence	<input checked="" type="checkbox"/>
Disability	<input checked="" type="checkbox"/>	Alcohol / Drug Mis-users	<input checked="" type="checkbox"/>

Consultation/Consideration:

	Yes, No or N/A:	Name:	Date:
Sub-Committee:	YES	Procurement & Property Sub Committee	24.05.06
Area Panel:	N/A		
Ward Councillors:	N/A		

1. Introduction

In order to implement Northwards Housings' significant capital programme in accordance with commitments made to our residents and in keeping with current government timescales for delivery of Decent Homes Standard, Northwards Housing and also other new Local Housing Companies will need to be in position to mobilise development, technical and contracting resources as soon as possible after the creation of the new companies. Delivery of the programme at acceptable costs also requires that long-term partnerships be in place so that benefit can be taken of economies of scale in terms of purchasing power, efficiencies in the methods of carrying out work in occupied homes and securing local economic and social benefits.

This paper outlines steps that have been taken to establish partnerships which are capable of delivering the programme, identifies options within the arrangements and documents the cost of setting-up the necessary relationships on behalf of Northwards Housing.

This paper has already been to the Procurement & Property Sub Committee following this Boards request on 16th May 2006.

2. Background

The City Council, with the backing of the steering groups for Northward Housing and Parkway Green, took the step of commencing the procurement process on their behalf prior to establishment.

In July 2005, a paper outlining the options and giving recommendations was approved by the Northwards Housing Steering Group.

In general, the paper outlined the following criteria as key elements in informing the recommendations:

1. Rethinking Construction and the Egan
2. The timescales
3. EU legislation
4. Independent governance
5. Opportunity to contribute to the sustainable communities objectives
6. Need to reduce other risks such as price, quality and resources

The Options

The options considered were:

- a) A Citywide approach
- b) Tapered Citywide approach
- c) Two stage Citywide approach
- d) Individual Partnerships
- e) Do nothing option

Preferred Option

The Council considered all of the above options and recommended that the two-stage Citywide approach to procurement (Option c) be adopted. This option was considered to be the best available to Northwards Housing and Parkway Green Housing Trust in terms of timescale, value for money, Gershon efficiency and reduction of risk to the delivery of

the investment programme. The process could be commenced without delaying for the future transferred areas and these could be incorporated at a later date.

The ALMO Steering Group accepted the proposals at a meeting of July 2005 and it was later agreed that Northwards Housing would have two Shadow Board Members on the evaluation panel for the selection process.

3. Set up and Establishment Costs

The Framework Project has required a significant amount of technical support and this has been provided substantially by MCC Housing Technical Services (HTS), supported by other Council departments and external consultants.

This section of the report focuses on the costs associated with the Capital Investment procurement.

Northwards Housing's contribution to the set up and establishment costs up to the point of transfer are just under £217k. Details of the activities and apportionment to other organisations can be found in Appendix 1.

The costs associated with establishing the Framework are constant irrespective of the number of parties. On this basis, the costs are apportioned equally between organisations participating in the Framework. For Stage 1 there are two organisations, Northwards Housing and Parkway Green and for Stage 2 there are three yet to be established organisations who will share the costs.

In the event that any of the future organisations join Stage 1 Framework, then there will be a retrospective contribution to the establishment costs currently being shared equally between Northwards and Parkway Green

4. Value for Money

To put these costs in context, Stage 1 framework will deliver up to £220m of capital investment. As a fee, these establishment costs represent less than ¼%. It will carry out at least £68m worth of work for Northwards Housing still costing under half of 1%.

Making the comparison with traditionally procured projects for a typical modernisation scheme, the pre tender fees would fall in the range 4 to 7%. As a further comparator, the establishment cost for the Eastland's Homes programme was 3.3%

For further comparison, the technical consultancy costs using the City Council's Framework consultants, managed by Corporate Technical Services are estimated at £1,660,000, 42% higher than utilising in-house staff.

In summary, there is significant benefit to Northwards Housing in the selected method of procurement and by utilising HTS staff.

5. Work Activities

Housing Technical Services staff, Parkway Green transfer team staff and Northwards Housing employees, have been working on a variety of activities to deliver the procurement Framework as identified below:

- Lead management on the overall procurement strategy
- Preparation and procurement of Show Houses and Show trailer

- Support in contract preparation for PQQ (Pre-Qualification Questionnaire)
- Evaluation and selection of bidders
- Preparation of contract documents for the ITT (Invitation to Tender)
- Undertaking surveys and preparation of house type drawings
- Evaluation and selection of partnering contractors
- Training / workshops

6. Details and Costs

Detailed descriptions of each work activity are included in Appendix 2. Total projected costs are included in Appendix 1 (sheets 1 and 2). Sheet 1 identifies the costs by activity and by allocation to the new organisation. Sheet 3 identifies the costs by organisation and financial year. These allocations of cost have been based on separating the two stages of procurement and assignment of Show Homes costs to MCC.

The estimated total costs to be incurred by HTS and supporting agencies based on the current transfer programme is £1,162,450. Expenditure is forecast to spend in the following profile:

2004/05	29,350
2005/06	484,658
2006/07	580,442
2007/08	68,000
Total	£ 1,162,450

It should be noted that the costs included in this schedule relate to the costs for HTS and associated consultants up to the point of transfer for each of the new companies. Certain costs such as completion of House typing and CAD drawings may well continue after the transfer and will be borne by each Company. The costs incurred in 2004/05, have been absorbed into HTS trading accounts for that period.

7. Ongoing Management of Framework

The essence of the management and governance of the Framework is that it will be run by Northwards Housing and Parkway Green plus any other organisations who join the Framework.

The costs for resourcing the ongoing management of the Framework will be borne by each participating company and are not included in costs identified to date. In addition to the TUPE transferred technical delivery teams and development staff, in the first year of establishing the Framework, there will be external consultancy support to facilitate the development of the process, including a Framework leader role and training.

The estimated costs of the consultancy support is £60k of which, Northwards would be expected to pay for 50%. The appointment of the Framework leader role has yet to be made and this Board has already agreed that representatives from Northwards Housing participate on the appointment panel.

8. Conclusions

The Framework arrangement currently being developed aims to deliver creative thinking and world class processes to delivery supply chain value to Northwards Housing and other long term partners.

The Framework will generate efficiencies in the procurement and delivery process and provide a positive impact on the local labour market by working collaboratively to procure capital investment programmes.

In the Framework we are developing an integrated sourcing procurement and strategic cost management solution.

9. Recommendations

That the Board approve the Procurement & Property Sub Committee recommendation:

1. To approve the budget for and the reimbursement of the £216,597 costs for advanced procurement services, provided by Housing Technical Services and supporting agencies on behalf of Northwards Housing.
2. To approve the future expenditure on the development and implementation of the Framework.
3. To approve sharing the circa £30k cost of the first year.

Capital Investment Programme – HTS Costs for Establishing Citywide Procurement Framework

Management Tasks	Estimated Total Cost	%	Cost to 31 March 2006	Future Cost	Cost allocated to specific Organisations					
					City Council	Northwards	Parkway Green	South	Inner South	East
Procurement Strategy	£40,000	3.36	£23,061	£16,939		£8,000	£8,000	£8,000	£8,000	£8,000
Framework Development	£125,000	10.51	£42,970	£82,030		£25,000	£25,000	£25,000	£25,000	£25,000
Transfer Project Teams	£100,000	8.41	£23,000	77,000		£20,000	£20,000	£20,000	£20,000	£20,000
Show Houses Stage 1	£50,000	4.21	£51,585	-	£51,585	-	-	-	-	-
Show Houses Stage 2	£60,000	5.05	23,000	37,000	£60,000	-	-	-	-	-
EU Notice Stage 1	£3,000	0.25	£2,110	-		£1,055	£1,055	-	-	-
EU Notice Stage 2	£3,000	0.25	-	£3,000		-	-	£1,000	£1,000	£1,000
PQQ Stage 1	£40,000	3.36	32,970	-		£16,485	£16,485	-	-	-
PQQ Stage 2	£30,000	2.52		£30,000				£10,000	£10,000	£10,000
Preparation of ITT Stage 1	£100,000	8.41	£85,000	-		£42,500	£42,500	-	-	-
Preparation of ITT Stage 2	£75,000	6.31	-	£75,000		-	-	£25,000	£25,000	£25,000
Survey & House Type drawing	£250,000	21.03	£108,000	£142,000		£50,000	£50,000	£50,000	£50,000	£50,000
Evaluation and selection of partners Stage 1	£30,000	2.52	£4,082	£25,918		£15,000	£15,000	-	-	-
Evaluation and selection of partners Stage 2	£30,000	2.52		£30,000		-	-	£10,000	£10,000	£10,000
Training / workshops	£80,000	6.73	£32,780	£47,220		£16,000	£16,000	£16,000	£16,000	£16,000
Consultants (NBS)	£35,000	2.95	£29,785	-		£5,957	£5,957	£5,957	£5,957	£5,957
City Solicitors & Legal Advisors	£75,000	6.31	£7,036	£67,964		£15,000	£15,000	£15,000	£15,000	£15,000
Totals c/f	£1,126,000	94.70	£465,379	£634,071	£111,585	£214,997	£214,997	£185,957	£185,957	£185,957

Capital Investment Programme – HTS Costs for Establishing Citywide Procurement Framework

Management Tasks	Estimated Total Cost	%	Cost to 31 March 2006	Future Cost	Cost allocated to specific Organisations					
					City Council	Northwards	Parkway Green	South	Inner South	East
Totals b/f	£1,126,000	94.70	£465,379	£634,071	£111,585	£214,997	£214,997	£185,957	£185,957	£185,957
Consultants (PSPC)	£8,000	0.67	£5,629	£2,371		£1,600	£1,600	£1,600	£1,600	£1,600
JVC Workstream	£55,000	4.63	£35,000	£20,000	£55,000					
Total	£1,189,000	100.00	£506,008	£656,442	£166,585	£216,597	£216,597	£187,557	£187,557	£187,557
%			42.39	57.60	14.33	18.64	18.64	16.13	16.13	16.13

Projected Spend Across Financial Years

Team / Transfer Area	Approximate Stock Numbers	Financial Year				Totals	%
		2004/5	2005/6	2006/7	2007/8		
Northwards * (up to 12 December 2005)	13,500	£5,870	£210,727			£216,597	18.63
Parkway Green (Projected till July 2006)	6,200	£5,870	£82,346	£128,381		£216,597	18.63
South (Projected till December 2006)	6,500	£5,870	£35,000	£146,687		£187,557	16.74
Inner South (Projected till March 2007)	4,900	£5,870	£35,000	£146,687		£187,557	16.14
East (Projected till August 2007)	7,500	£5,870	£35,000	£78,687	£68,000	£187,557	16.14
City Council	-	-	£86,585	£80,000		£166,585	14.32
		#£29,350	£484,658	£580,442	£68,000	£1,162,450	100.00
	%	2.42	39.97	51.13	6.48	100.00	

Note: Expenditure incurred in 2004/05 has been absorbed into HTS trading for that period.

HIO Procurement Project

Definition of the main tasks undertaken in support of HIO Procurement Project:

Procurement Strategies	Relates to the time spent on developing overall procurement strategy, bringing together the ideas and options to provide a comprehensive procurement package that will bring greater economic advantages to all parties involved i.e. ALMO/LHC's and City Council and satisfy all relevant registration and inspection agencies.
Framework Development	Relates to the time spent on developing the framework process at a strategic level. It includes the collaborative working with the Corporate Procurement team, CTS, Contracting Services and Consultants.
Show Houses and Show Trailer	Providing technical support for the planning, specification, procurement and delivery of the show houses and trailer. This activity is repeated for each of the transfer areas.
EU Notice & PQQ	<p>Major works that exceed the £3.8m threshold are subject to the European Unions procurement rules and statutory notifications.</p> <p>This item includes for time taken to prepare, and place notice and deal with enquires. The preparation of the Pre-qualification questionnaire (PQQ), evaluation and short-listing of bidders, organising and staging bidders open day and bidders briefing sessions.</p>
Transfer Project Teams	Participating in the transfer project teams and sub groups.
Preparation of ITT	Using a Framework arrangement, set stages of partner selection have to be undertaken. This starts with the PQQ, (pre-qualification questionnaire) and then is followed by the ITT, (invitation to tender) document. The ITT sets out all the Client's requirements including specifications for sample work packages, together with information that is required to be submitted by the contractor for us to evaluate their suitability for selection as a partner to go onto the Framework.

Survey and House Type Drawing	In order to prepare for the final tender documentation and procurement of actual work programmes, pre- commencement surveys and preparation of house type drawings need to be undertaken. This activity enables measurement, valuation and cost comparisons to be prepared to evaluate against business plans and to obtain actual pricing of work packages from the contractors at tender stage.
Evaluations and selection Of Partners	Involves time spent undertaking a review of all submitted documentation by the contractors, interviewing contractors and attending site visits. Briefing of tenant representatives who participate in the evaluation process and collating the scores awarded for short-listing the contractors and report stage. This process is carried out at both the selection of approved tenderers and once the final tenders have been submitted in order to draw up the final list of contractors to move on to the framework partnering agreement.
Training Workshops	This process has commenced with senior managers involved on the procurement of the framework agreement. As the new arrangement moves forward to a formal partnering relationship the roles of all Technical staff, Client representatives and Development staff will change and will be attending appropriate training sessions, to bring all relevant staff on board to the new methodology of working.
Consultants NBS	Due to the lack of available resources within HTS at the time of production, and the need to maintain the HIO programme, external consultants were engaged to prepare the general specification using the National Building Specification (NBS) system. This is a national recognised building specification model, already in use within HTS and can be distributed to the new Housing organisations once they become live.
City Solicitors & Legal Advisors	The City Solicitors are working with HTS to support the procurement process and provide advice on all legal issues, together with the preparation of the new Public Sector Partnering Contract (PSPC). Their role is to ensure the framework arrangements meet all Manchester City Council legal requirements ahead of the new organisations being formed.

Appendix 2

Consultants PSPC	City Solicitors have engaged the services of external consultants to support them on the writing
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of the new PSPC. This is due to workload and the need to meet the set timescales. The proposed contract is new to the industry and the City Council and as such requires a full review of the clauses to be included.