

# Workshop 3e:

## Alternative maintenance models and price reductions

Speakers: Andrew Vickery (Towers & Hamlins)

David Lingeman (A2Dominion)

Chaired by: Paul Isherwood

Room: Oxford Room



- Repairs and maintenance services in the spotlight
- Rent – reduction pressures
- Increased tenant expectation
- More competitive market-place
- Service failures receiving greater publicity and scrutiny

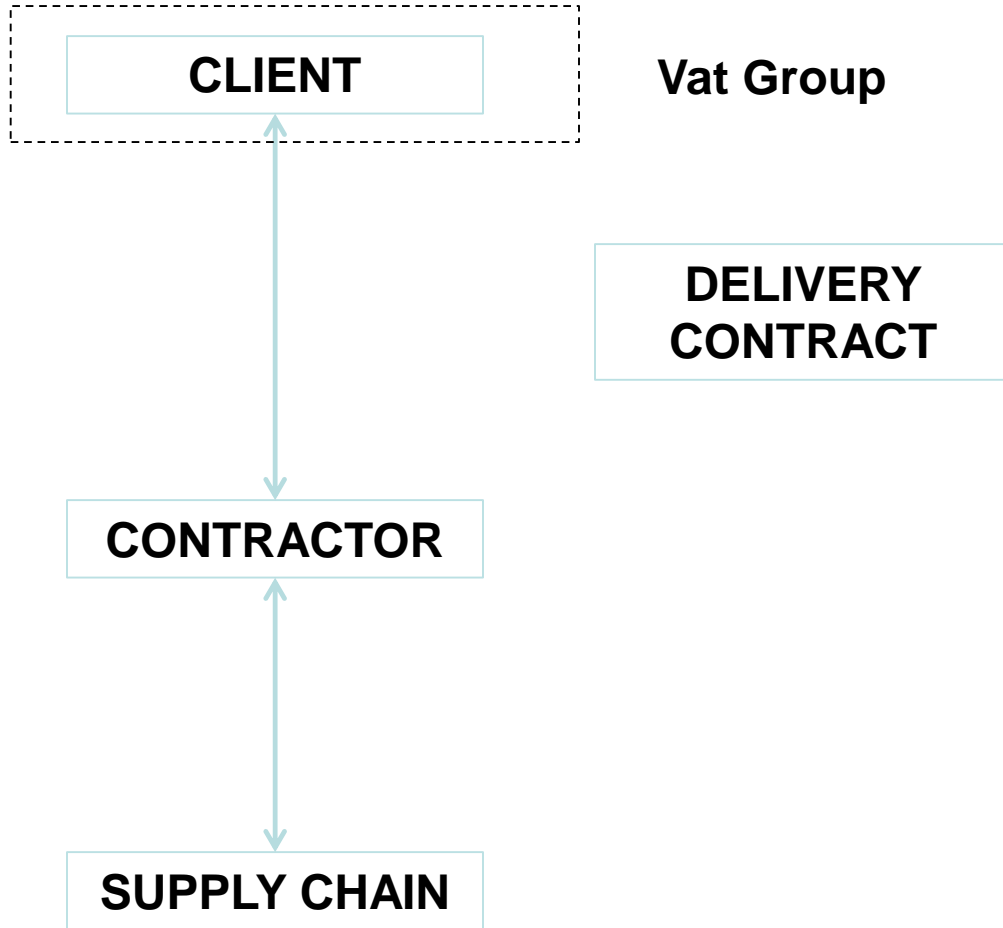
# Key models in the current market-place

- Complete outsourcing
- Direct provision
- Wholly-owned subsidiary
- Managed Services
- Joint venture
- Cost Sharing Group

# Complete Outsourcing

# Outsourcing

- Appointment of external contractors under arms length contracts
- Pre-agreed scope
- Likely to be subject to procurement and leaseholder consultation
- Need to carefully consider future-proofing requirements



# Advantages/disadvantages of outsourcing

- Contract management
  - highly dependent on cost model adopted/number of contractors
- Client controls over cost/time
- Tried and tested
- Benefits and savings: when/how secured?
- Flexibility subject to original procurement

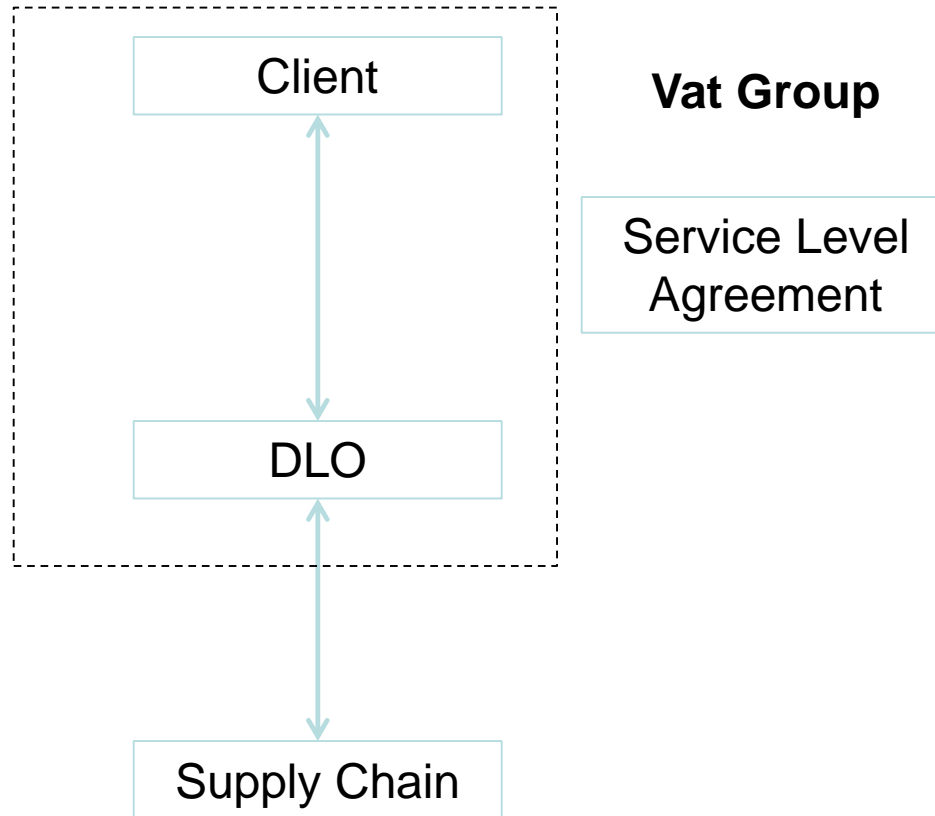
Direct provision (DLO)



# Direct Provision (DLO)

- Self-delivery of works engaging second tier supply chain members as required
- No procurement obligations at first tier/still exist at supply chain level
- Client responsible for service delivery, employees, etc
- Tried and tested

# Direct Provision (DLO)



# Advantages/disadvantages of DLO

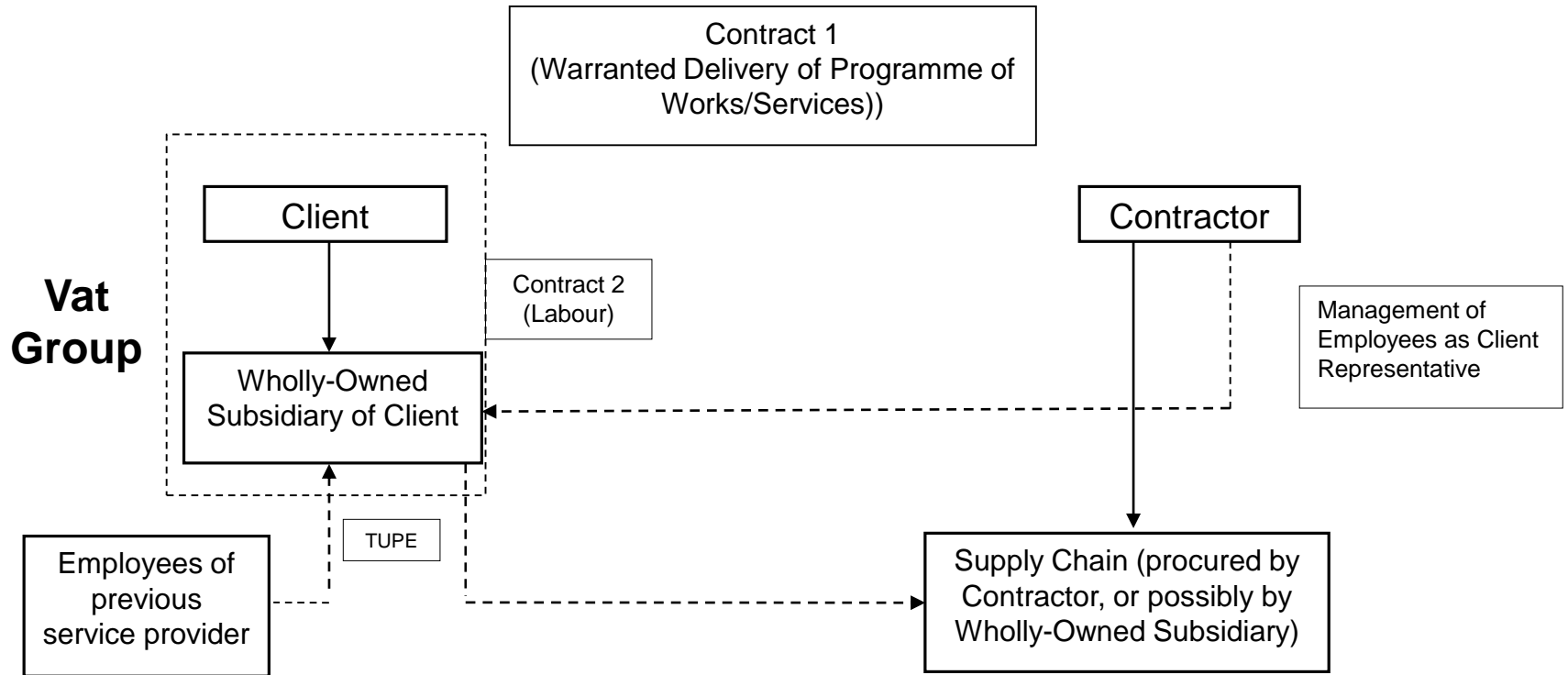
- Opportunities to simplify administration and other processes
- Efficient cost/time management is wholly dependent on DLO management
- Significant upfront and direct investment required: IT, fleet, depots, etc
- Potential to explore third party work
- Tax efficient: no VAT paid on costs of employees

# Wholly-owned Subsidiary

# Wholly-owned Subsidiary

- Creation of WOS of RP/LA/ALMO to provide workforce for works
- External contractor to undertake all works using subsidiary workforce
- Supply chain likely to be that of contractor
- Procure contractor through EU procurement process

# Wholly-owned Subsidiary



# Advantages/disadvantages of a WOS

- Maintains full contractor warranty of work
- Commercially incentivise contractor to improve performance
- Saves VAT on workforce costs
- Still need to align contractor values with those of client
- Management of workforce and need to incentivise employees
- Ability to undertake third party work limited
- Mitigates impact of contractor default/insolvency

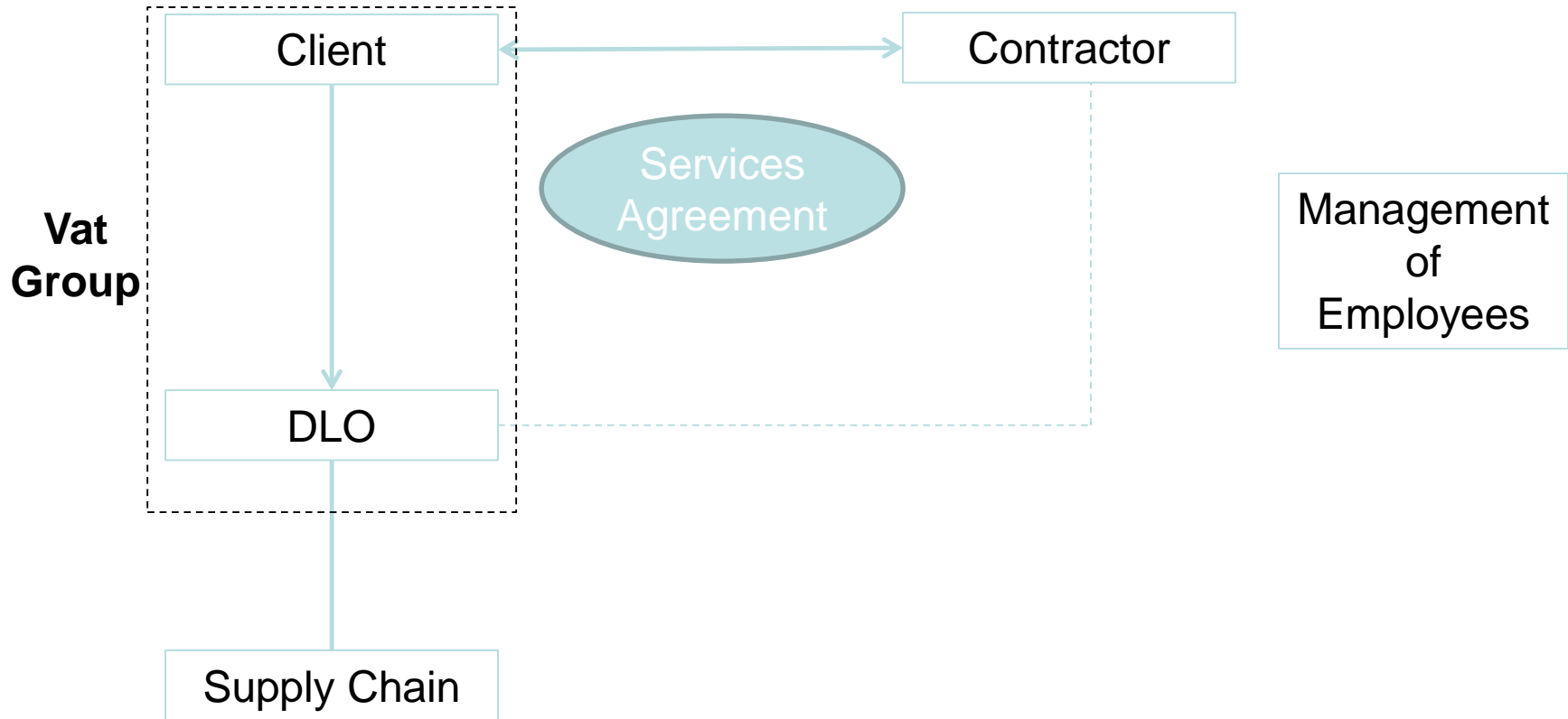
# Managed Service



# Managed Service

- Client delivers works through self delivery or WOS
- Managed by contractor on arms-length basis
- Procure contractor through EU procurement process

# Managed Service



# Advantages/disadvantages of a Managed Service

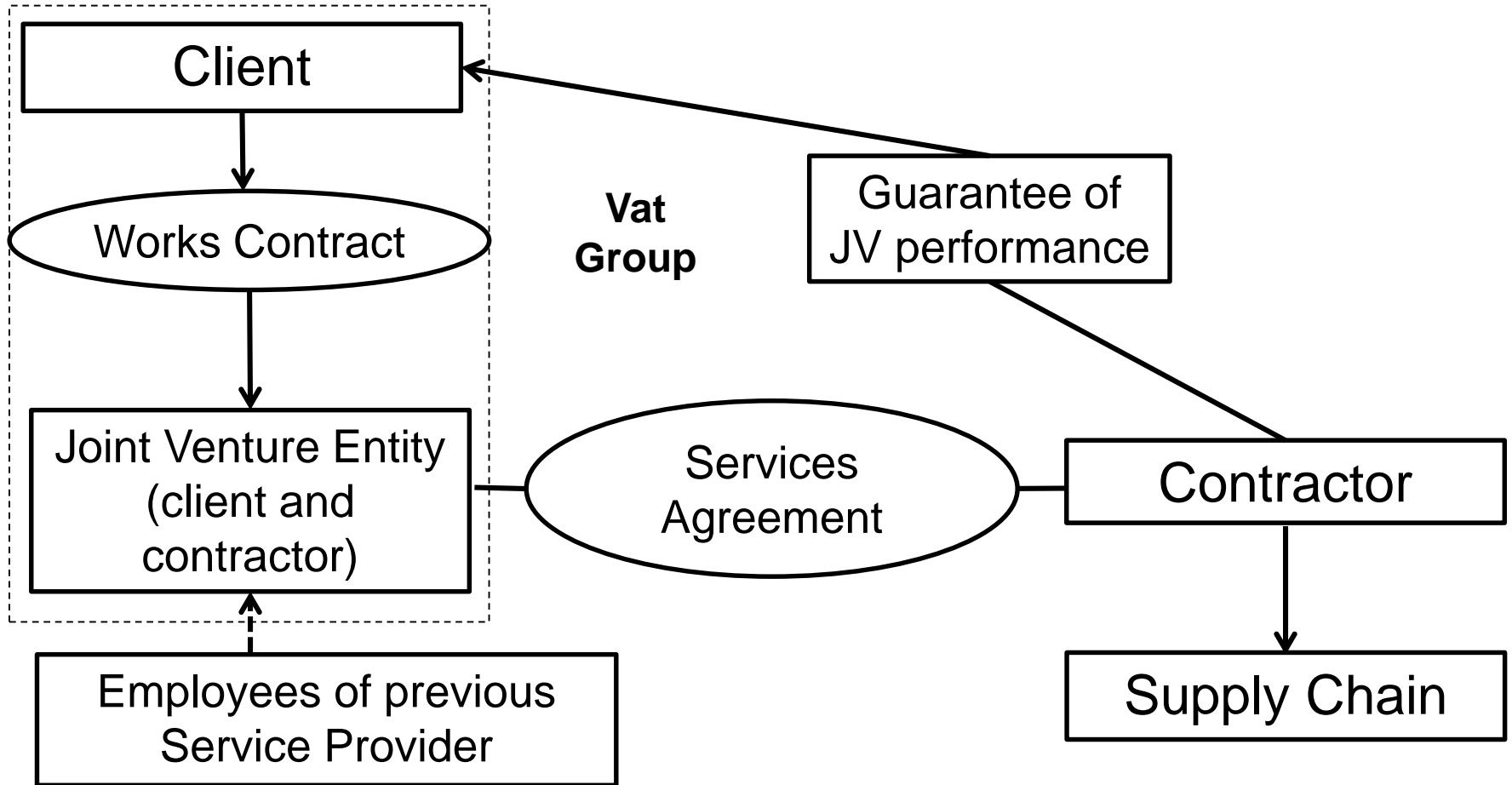
- Client responsibility for delivery of work
- Incentivisation system linked to PIs or pricing model
- Saves VAT on workforce costs
- Ability to undertake work for third parties limited

# Joint Venture

# Joint Venture

- Client and contractor deliver works through jointly owned entity
- Procure JV partner through EU procurement process
- Staff TUPE'd into joint venture entity
- Can be VAT-grouped with RP to reduce VAT liability
- Familiar to most but not all contractors

# Joint Venture



# Advantages/disadvantages of a JV

- JV should align contractor values with those of client
- Mitigates risk of contractor default/insolvency
- Investment/commitment of contractor to JV
- Opportunities to pursue third party business
- Resource/expense intensive
- Mixed (client/contractor) warranty of work
- EU procurement of supply chain

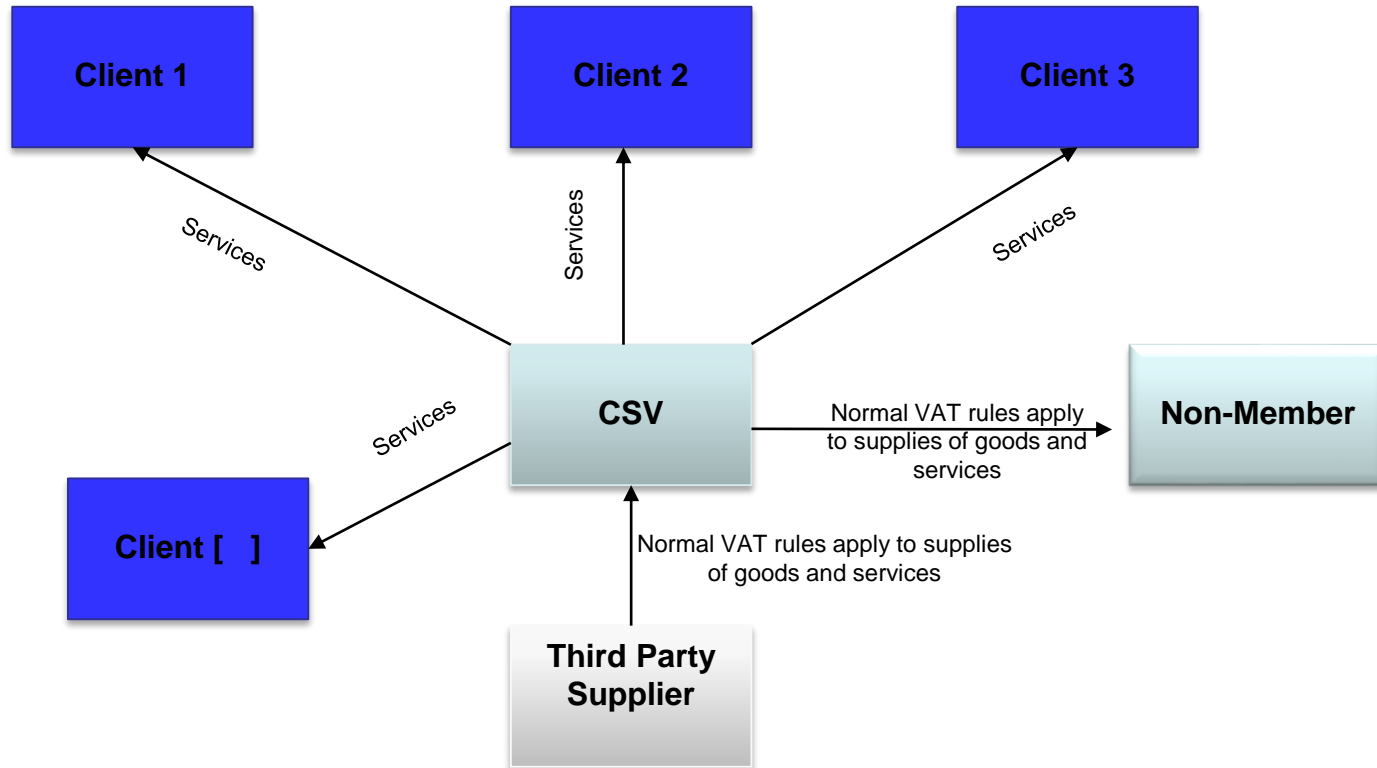
# Cost Sharing Group (CSG)



# Cost Sharing Group (CSG)

- Creation of cost sharing vehicle (CSV)
- CSV provides services to members of CSG
- CSV must be separate “taxable person” from its members
- All members of CSV must carry on VAT exempt or non-business activity
- Services must be “directly necessary” for carrying on exempt activities
- Services supplied at cost

# Cost Sharing Group (CSG)



# Advantages/disadvantages of CSV

- CSV attracts in-house procurement exemption
- Tax efficient: no VAT paid on services
- Must not distort competition
- Ownership of CSV does not have to be equal
- Not tax efficient if supply to non-member or for supply of goods and services by third party
- **But** can charge profit to non-members
- Requirement for VAT grouping of CSV

# Conclusion

- One-size doesn't fit all
- All current models have advantages/disadvantages
- Do not let the tail wag the dog

# Legal issues to watch out for

- Procurement
- S20/leaseholders
- TUPE
- Pensions
- Tax

## Contact

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# NHMF Conference

## Wednesday 27<sup>th</sup> January 2016

### The A2Dominion Story...

David Lingeman

Group Director of Property Services



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# Things I'm Going to Cover...

- A2Dominion Context
- Why A2D Chose Joint Ventures to Deliver Repairs
- The Procurement Process
- How Things are Going – 2 Years in
- Lessons Learnt and Next Steps...

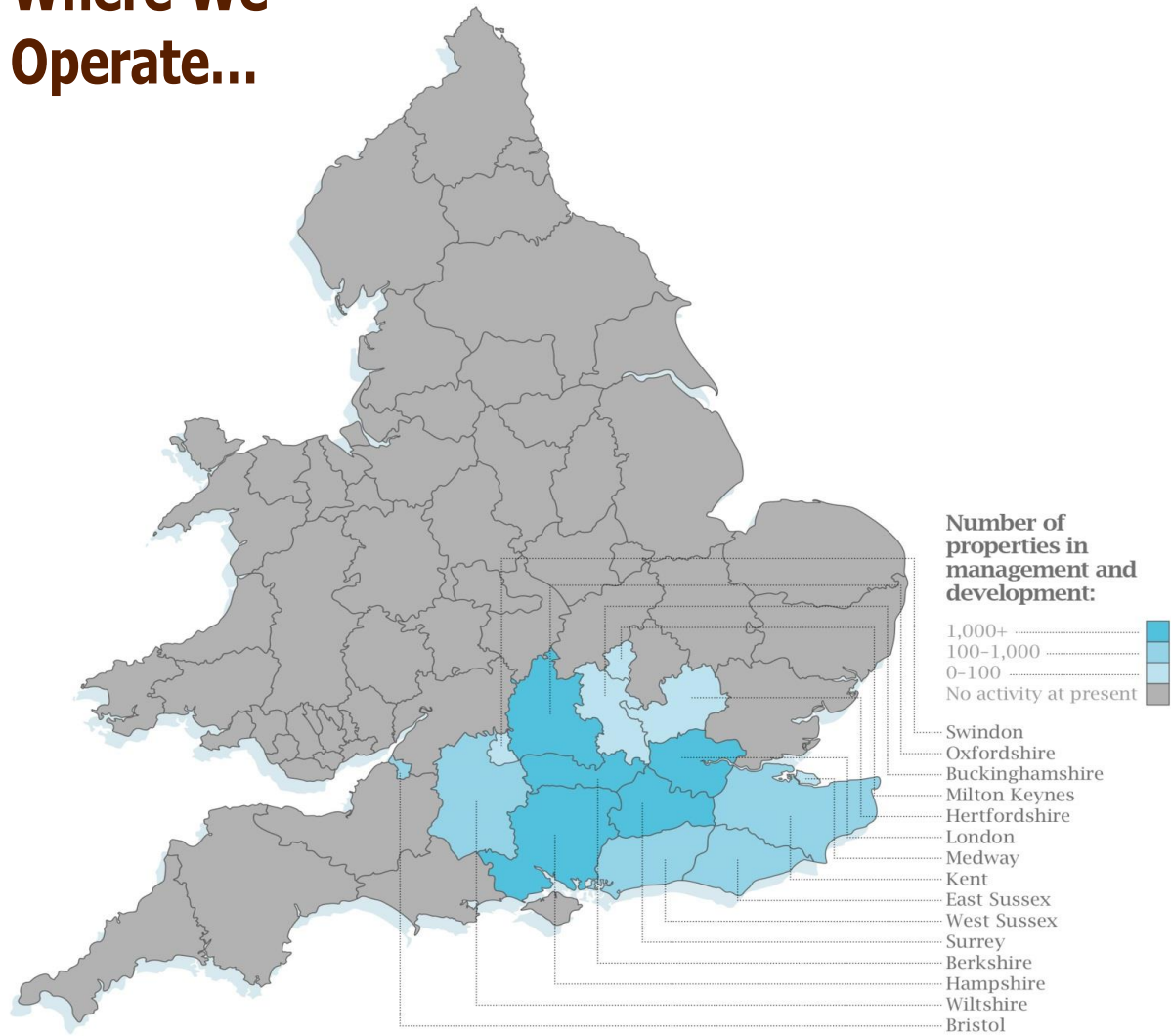




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# Where We Operate...



# A2Dominion – Context...

- 35,400 Homes in Management
- £2.9BN Asset Base
- £297.2M Annual Turnover
- £43.8M Annual Surplus
- £88.2M in Annual Sales Income
- Net Rental Income of £165M Across Social Tenures in 2014/15
- ‘Profit for Purpose’ – 579 New Homes Built in 2014/15
- PPS Contributed £1.5M ‘Profit’ to A2D in 2014/15

# A2D Property Services – Context...

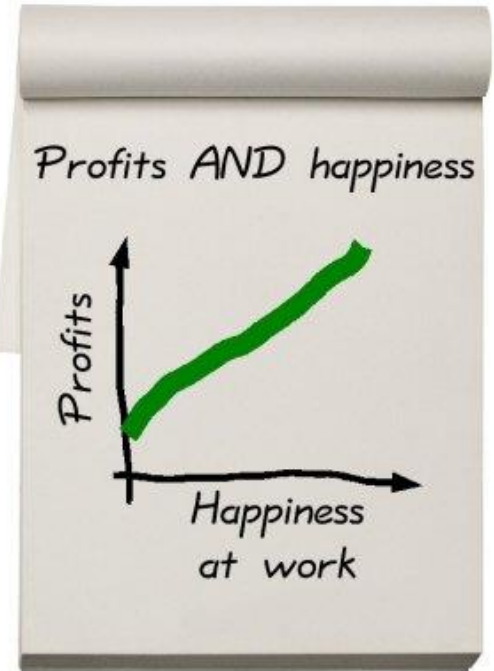
- Maintenance Budget Annually Circa £71M
- Planned Maintenance – £13M
- Cyclical Repairs & Redecoration Programmes – £10M
- Statutory Compliance and M & E Functions - £20M
- Asset Management/Reinvestment - £3.5M
- Responsive Repairs & Voids - £21M
- Overheads - £3.5M
- Capitalisation and Leasehold Recovery - £20M

**So Why Did A2Dominion Look at  
Procuring a JV Model to Deliver its  
Repair and Maintenance Services?**



# Why the JV approach for A2D?

- Shared Objectives
- **Service Quality = Profitability**
- Future Procurement for a Specialist
- Protection From Contractor Insolvency
- Opportunities for New Business
- A Model A2D Familiar With



# What Was Happening in 2010/11...

- Risk of Service Collapse
- Worsening Economic Environment
- Business Failure Across the UK
- Increasing Costs:
  - Inflation
  - Increase in VAT
- Reduction in Grants for New Build



# Business Case for the JV Model...

- A2D Used to the Governance Structures
- A2D Holds Majority Share (70/30)
- Part of the A2D Group
- Labour Cost not Subject to VAT (Subject to Benefit Test)
- Contractually JV Partner Still Responsible for Quality
- JV Partners Paid a Management Fee
- Profits Distributed as per the Shares in the JV
- Skill set of A2D Client Team

# What is the JV Model?

## Partnering Forms of Contract:

- TPC Between A2D AND JV LLP's - Maximum Agreed Price
- STPC Between JV LLP's and the Specialist - Management Fee
- Members Agreement Between A2D and Specialist
- 5 Board Members – 3 & 2
- Suite of Fundamental and Non-Fundamental KPM's
- Annual Business Plan Process
- Risk/Profit 70% A2D and 30% MITIE

# The A2Dominion Procurement Approach...



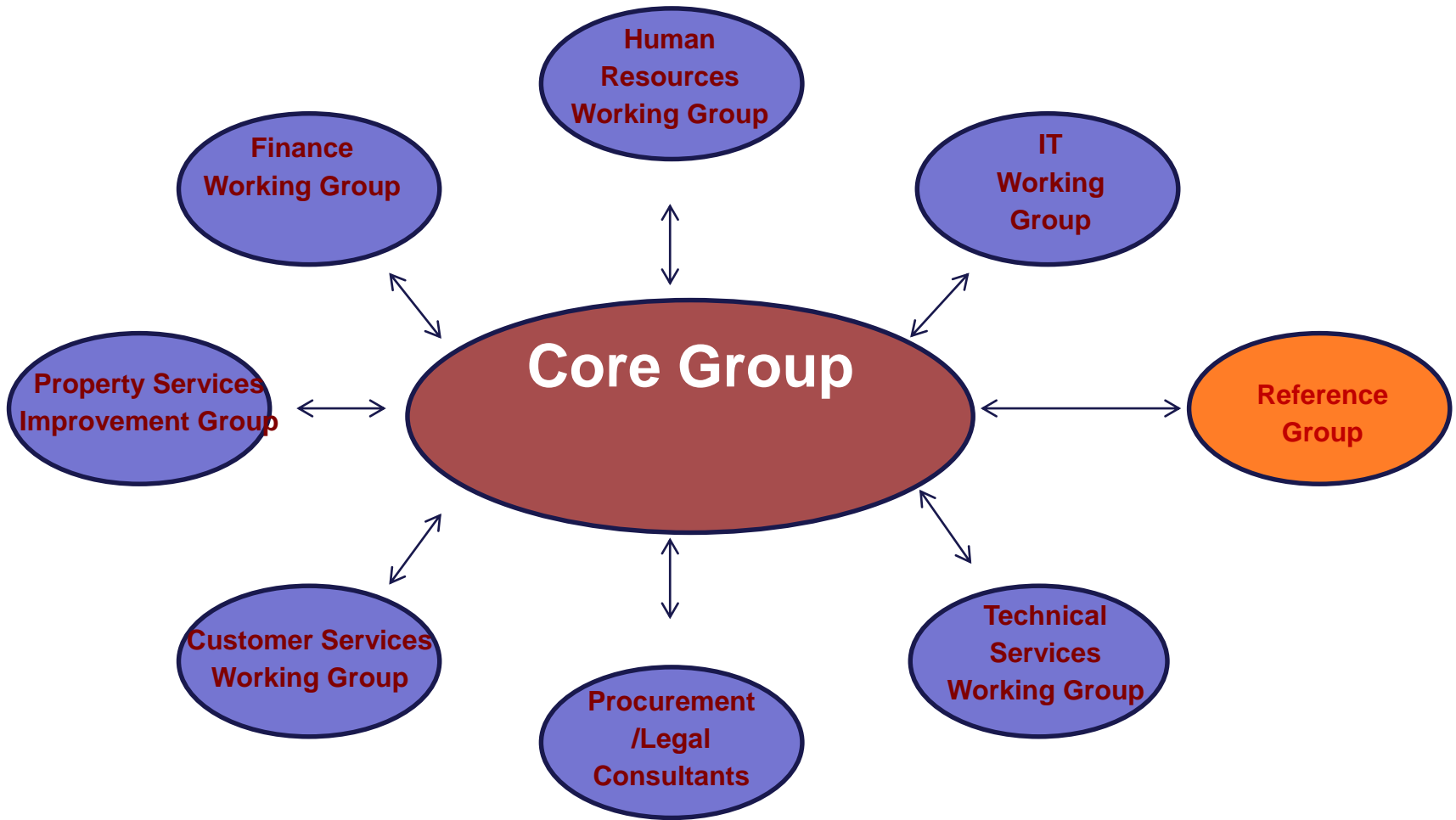
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# Procurement Timetable

- September 2010 – Connaught go Down
- January 2011 – Lean Work; Twin Track
- April 2011 – Project Groups Established
- February 2012 – PQQ
- April 2012 – IPID/ISOS
- June 2012 - CD
- September 2012 - BAFO
- April 2013 – Contracts Go-Live

# Project Groups



# Why CD for A2D?

- Established What We Wanted
- Procuring JV's Hadn't Been Done Before!
- Soft Market Testing Told us That Approaches Were Varied & Innovative
- Mature Attitude to Risk and Reward
- Wanted to Explore Legal and Financial Solutions
- Wanted to Explore IT and HR Solutions
- Commitment From the Project Team to the Process

# PQQ/ISOS – To Market

- Outline Model – Based on Detailed Cost Models
- Outline Model – 70/30 Risk/Reward Split
- Outline Model – 80/20 Quality/Price split
  
- Set Out to Procure 2 Regional Models
- 17 Applicants for lot 1; 15 for lot 2
- 6 Applicants Taken Forward to Submit Solutions
- 11 Solutions – 6 for lot 1; 5 for lot 2
- Evaluation to Select no More Than 3 Per Lot

# ISOS/IPID Evaluations

- Outline Solutions Subjected to a Qualitative Assessment (80% of the Total Marks Available):
  - JV Solution
  - Delivery Model
  - Health & Safety
  - IT Solution
  - Sustainability
  - Residents (Customer Experience)
  - HR Solution
  - Legal (Pass/Fail)



# ISOS/IPID Evaluations

- Outline Solutions Subjected to a Price Assessment (20% of the Total Marks Available):
  - Pass/Fail Requirement (Format of Data)
  - Weight According to Data/Price Quality
- Scores for the Qualitative and Price Elements Were Adjusted So the Participant With the Highest Score Was Awarded Full Marks for Their Submission; Other Participants' Scores Were Adjusted Pro-Rata

# Competitive Dialogue

- a3 Structured Sessions Over 6 Weeks With Participants
- Client Team Sat Through all Sessions
- Participants Were at Liberty to Change Their Representatives
- Explored Scenarios
- Minutes and Clarifications Were Agreed and Issued Following Each Session
- Site Visits (Notably Around IT Systems) Shaped Subsequent Dialogue
- Dialogue in Itself Was NOT Marked; but Helped Each Participant Refine Their Offer and Shape Their BAFO

# Best & Final Offers

- Same Headline Evaluation Criteria and Scoring Matrix as IPID/ISOS Stage
- Same Client Team Evaluating
- Residents Evaluated Only the Resident Section
- Legal Pass/Fail
- Went With Original 70/30 Risk/Reward Split

# So How Are Things Going...



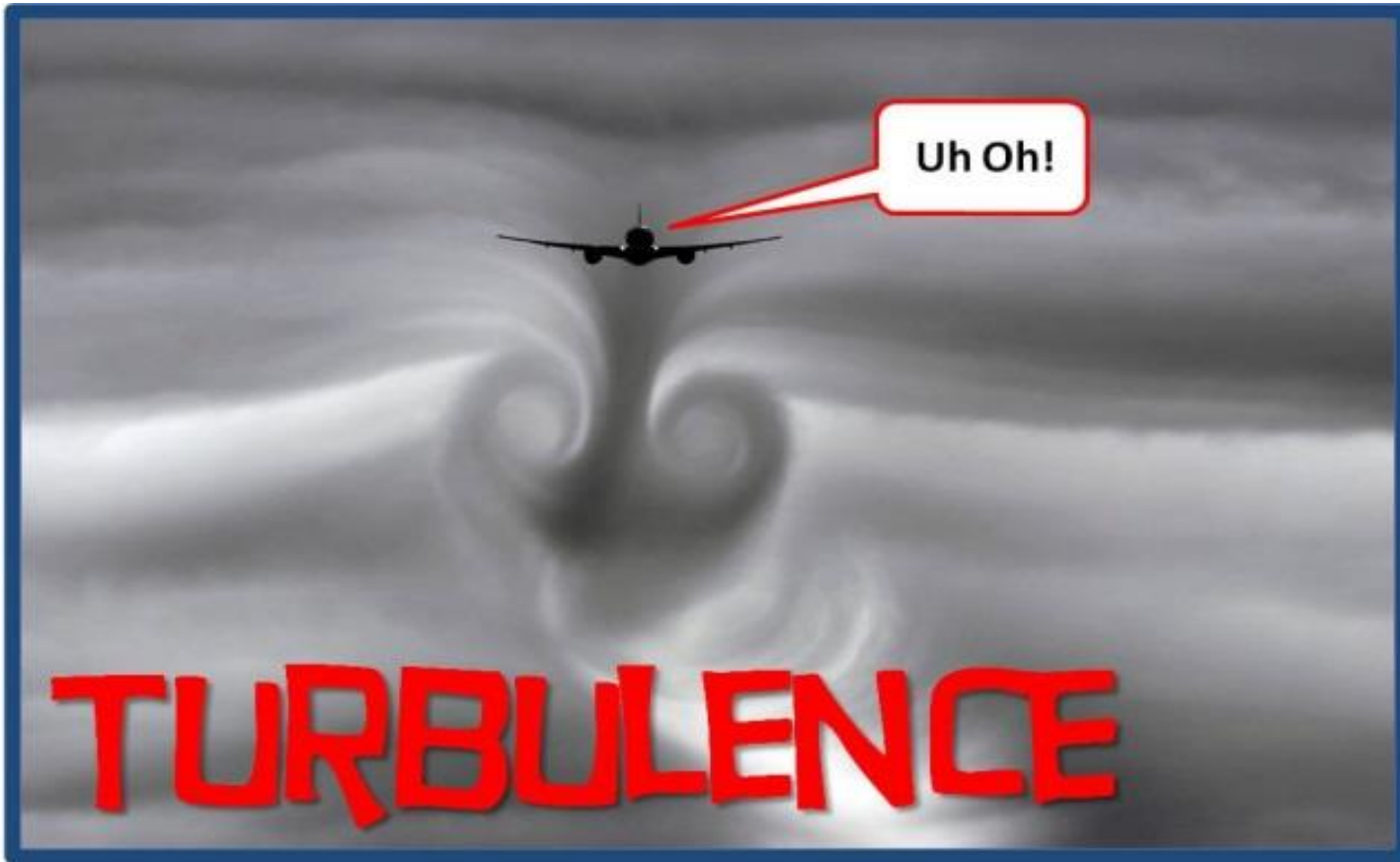
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# Blue Skies



Or...

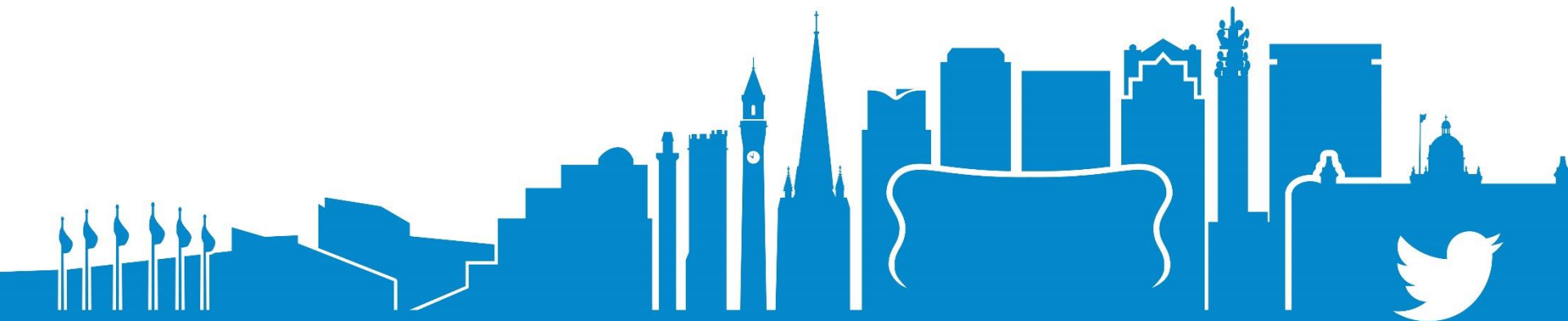


# Outcomes Achieved...?

- Procurement Cost c £300k in Legal and Professional Fees
- Considerable Staff Time in Procurement Process
- But Worth it?
- Profit Achieved Year 1 - £1.7M A2D Share
- Profit Achieved Year 2 - £2.3M A2D Share



# Lessons Learnt and Next Steps...



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# Lessons Learned – 2 Years in...

**Leadership**



**Clarity of Vision**



**Capacity**



# Lessons Learned – 2 Years in...

- Its only R & M (but we like it)...
- Technology is Not Standing Still
- Customer Expectations Ever More Challenging
- Communication, Communication, Communication!
- We're too Self-Critical!
- People are Changing – but the Model is Sound
- Still Sound Financially and Opportunities Operationally
- Cost Effective & Operationally Effective – but Need to Review Operational Models

# Lessons Learned – 2 Years in...

- Worked Externally – Have Obtained Good References
- Looking to Exploit Internal A2D Markets
- Both JV's Doing Pilot K & B programmes
- ...With a View to Applying for the A2D Frameworks
- Governance Review to 'Refresh & Refocus'
- Review of the AMP & Scope of Works
- Delivery of Energy Efficiency? Asset Management Solutions?

# In Summary...

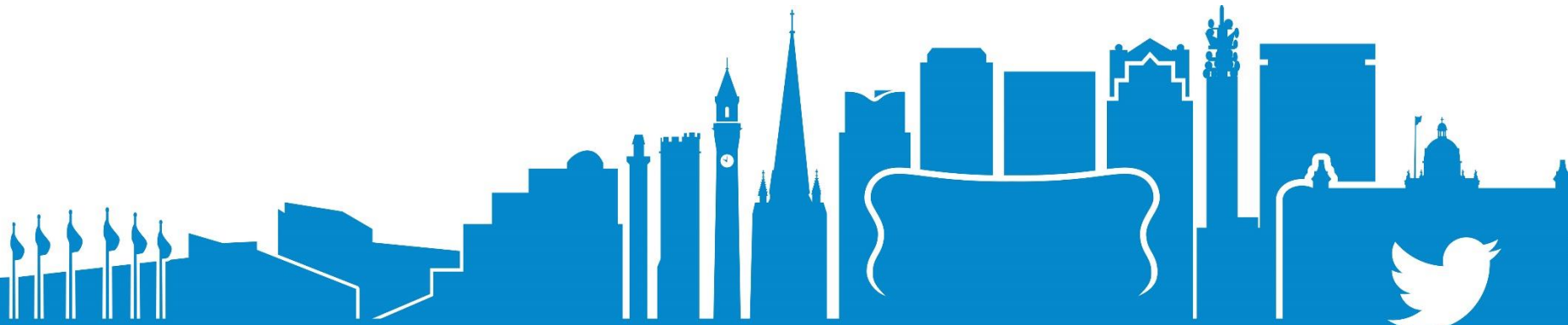


- Its Okay to be Different.....
- ....Because it is Efficient!

# ANY QUESTIONS.....?

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