



Using a schedule of rates to underpin FPP contracts

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Using a schedule of rates to underpin FPP contracts

- Initial Consideration Pre-Procurement
- Defining Requirements at Tender Stage
- Reasons for requiring SOR Feedback – Client
- Benefits of PPP/PPV to Client
- Reasons for retaining SOR Involvement – Contractor
- Benefits of PPP/PPV to Contractor
- Annual Review of PPP/PPV Costs
- Initial Benefits seen by both Client and Contractor

INITIAL CONSIDERATIONS PRE- PROCUREMENT

Payment Mechanisms

Responsive

- Schedule of Rates
- Fixed Rate per Dwelling/Fixed Rate per Void

Gas

- Fixed rate per Dwelling for Servicing and CP12
- Fixed rate per Dwelling to Maintain

Schedules of Rates

PROS

- Provides cost certainty with no disproportionate allocation of risk.
- Tried and Tested
- Costs can be easily benchmarked to show value for money,
- Provides accurate data base of repairs carried out.
- Costs can be easily established for tenant recharges and leaseholder costs

CONS

- High variation levels if repairs ordering not managed properly.
- Administration costs for variations, invoices etc – mindset of users in looking for variations rather than “swings & roundabouts” approach..
- Auditing required by Derwent Living to ensure SOR items claimed are correct – contractors can code build & cherry pick to cover extra costs.

Fixed Rates (PPP and PPV)

PROS

- Simplified process for Derwent Living with, ideally, cost certainty.
- Contractor taking the risk on much of the work
- Office cost savings for Derwent Living
- SOR used for works excluded from fixed rates.

CONS

- Costs could be higher as a result of contractor risk.
- Excessive gain for contractor if work profile changes or decreases.
- Losses for contractor if work profile changes or increases with likely Contractor claims.
- Lack of detailed knowledge of work carried out to the stock.
- Administration of SOR required for works outside of fixed rates

DEFINING REQUIREMENTS AT TENDER STAGE

What Would Be In PPP

- All works up to a capped value
- Capped Value based on SOR after adjustment
- Alternative Capped Values tendered
- PPP for 3 Property Types:
 - Affordable Housing
 - Sheltered and Supported
 - Try Before you Buy

Exclusions to PPP

- Leaseholders
- Tenant Recharges
- High value works above cap
- Communal facilities eg related assets, garage blocks
- External structure and common parts of flats

What Would Be In PPV

- All works up to a capped value
- Capped Value based on SOR after adjustment
- Alternative Capped Values tendered
- PPV for 3 Property Types:
 - Affordable Housing
 - Sheltered and Supported
 - Try Before you Buy

Exclusions to PPV

- Mutual Exchanges
- High Value Works above cap
- High Value Tenant recharges

REASONS FOR REQUIRING SOR FEEDBACK - CLIENT

Record of Works Undertaken

- Assist post inspection on Quality
- Update stock condition database
- Inform future planned maintenance programme
- Identify failure of components
- Identify tenant abuse
- Identify failure of workmanship
- Check accuracy of repairs diagnosis
- Component Accounting

Benefits of SOR used with PPP/PPV

- Values exclusions
- VFM Ability to compare “out turn” SOR cost with PPP and PPV (total expenditure at SOR value will never exceed total payment of PPP/PPV)
- “Smart” analysis of data
- Value effects of proposed changes in maintenance strategy
- Separate decisions/innovation can be valued
- Identify trends/patterns of component failure or tenant behaviour

BENEFITS OF PPP/PPV TO CLIENT

Benefit of PPP/PPV to Client

- Simplified administration
- No need to authorise low value variations
- One payment per month for bulk of works
- Control of budget
- Ability to set more realistic budgets for affordable and sheltered and supported
- Monitor trends to renew rather than repair.
- Monitor trends to repair rather than renew.

REASONS FOR RETAINING SOR INVOLVEMENT - CONTRACTOR

Benefit of SOR Database to Contractor

- Job planning
- Time and resource allocation
- Subcontractor control
- Monitor tenant abuse/reasons for recalls
- Measurement/Evaluation of proposed changes in methodology – preventative maintenance rather than reactive, use of handymen teams etc

BENEFITS OF PPP/PPV TO CONTRACTOR

Benefit of PPP/PPV to Contractor

- Monthly payment of PPP – saving on financing costs
- Sensible view of balancing “good” (Financially) jobs against “bad” jobs.
- More involvement in budget setting and expenditure control
- Reduce need to agree variations on jobs below capped value – administration saving
- More empowerment to organise and carry out the Works “has the opportunity to do right thing”

ANNUAL REVIEW OF PPP/PPV COSTS

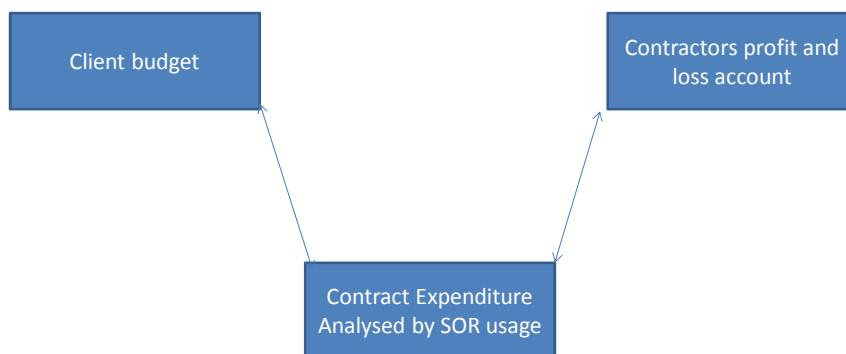
Annual Review of PPP/PPV Costs 1

- Costs not solely subject to inflation;
- Effects of changes in:
 - Stock numbers (acquisitions, development and disposals)
 - Redefinition of tenure (try before you buy either into shared ownership or back to affordable housing)
 - Effects of investment programme
 - Changes in tenants/landlords responsibilities

Annual Review of PPP/PPV Costs 2

- Effects of changes in:
 - Changes in void lettable standard
 - Callbacks on defects liability of other contractors (development and investment)
 - Volume of work in Voids to increase lettability and knock on effect on ratio of 7 and 14 day Voids
 - Ratio of Works Order priorities (E:U:R)
 - Ratio of Voids per 1,000 dwellings
 - Ratio of Out of Hours Callouts to total responsive Works Orders

Importance of SOR to Review



SOR and PPP/PPV Review

- Monitor annual expenditure for Value For Money
- Examine effects/benefits of “shared services”
- Evaluate changes in procedures and policies on both Client and Contractor.
- Client will never pay more for PPP/PPV than they would have under a SOR Contract.

**INITIAL BENEFITS SEEN BY BOTH
CLIENT AND CONTRACTOR**

Initial Benefits seen by Client

- Void turn-rounds reduced by 4 days;
- Customer satisfaction rates improvements;
- Reduced customer complaints/ quicker resolution;
- Warmer working relationships – same people;
- Cost certainty – capped by SOR items values;
- Reduced admin. of requests for approval;
- More intelligent decision making and forward planning ;
(repair or replace, planned maintenance impact, foreseeing increases/decreases in demand or trends e.g TBYB voids, PIRs in voids)
- Greater understanding of required standards – supervisors undertake void inspections;

Initial Benefits seen by Contractor

- Client confidence and behaviours;
- Saving on PPP, but additional cost on PPV;
- Cash flow ;
- Reduced “back-office” costs;
- Reduced need for self approvals;
- Empowered to carry out works;
- Longevity of contract ;
- Profit margin acceptable;
- Decisions made for the long term – replace or repair?;