

<b>Title:</b>	Single Housing Management System
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<b>Summary</b>	<p>Following the previous Joint Client Meeting it was agreed that EKH would provide a refreshed report to outline the business case. The report is based upon the latest available information it has for the procurement of a single housing management ICT system</p> <p>This report also sets out the joint decisions required by the formal Officer Panel to comply with the Owners Agreement</p>
<b>Recommendations</b>	<p>Client officers, acting as their respective formal council's nominated representative under the Officer Panel Terms of Reference set out in Schedule 4 of the Owners Committee, with the relevant delegated authority from their council as required by Clause 8 of the Officer Panel Terms of Reference take the following joint decisions:</p> <ol style="list-style-type: none"> <li>1. Enable a loan to be provided to East Kent Housing to procure a single housing management ICT system</li> <li>2. To confirm the baseline cost position for each council at the start of the project and ring-fence these costs to transfer to EKH when the single system is operational in each area to support the repayment of loans</li> <li>3. provide consent for EKH, under Clause 9 of Schedule 3 of the Owners Agreement, contract directly with a software supplier</li> <li>4. provide consent, under Clause 10 of Schedule 3 of the Owners Agreement, to borrow money</li> <li>5. provide written consent, under Clause 24.5 of the Management Agreement for East Kent Housing to use a new computer system interfacing with council computer systems</li> </ol>

## 1. Background

Since its creation, East Kent Housing (EKH) has set out to be as efficient as it can be, and is delivering increasing levels of economies of scale and efficiencies. However, its scope to deliver further efficiencies is restricted by the current IT arrangements EKH inherited. This issue was recognised from before EKH was formally created, and a single housing management system and actions set to explore the options to deliver a better ICT solution set out in delivery plans.

While not an exhaustive list, the following current issues provide some background into how using four separate systems limits EKH's productivity, and efficiency improvement:

- The additional resource costs for training employees on four different ICT systems where they work centrally
- Reduced productivity through employees having to maintain ICT skill levels on 4 systems after being trained
- Dealing with interface issues for all housing management activity between EKH, EK Services, 4 councils and Steria
- Increased resource demands for administering 4 different systems, with 4 differing levels of responsibilities and related training needs to provide cover
- Limits to significant improvement in maintenance planning and joint procurement without increasing resources because of dealing with four disparate asset management data recording systems and no connectivity that would
- Restricted economies of scale through restrictions to employees providing resilience between council areas without incurring costs of disturbance and downtime
- Limitations to the ability to generate accommodation savings and improve staff flexibility through home-working

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- Limitations to adopting common processes to improve consistency in the way EKH operates across all four areas
- Lost productive time through having to consolidate management information produced by the different systems to generate consistent reports from four systems
- Constraints and increased costs when offering consistent new facilities and business functionality, including channel shifting, that would require four systems to be updated and upgraded rather than one
- Increased long term costs for licencing and necessary upgrades to multiple systems
- Lack of exploration and maximisation of existing systems as employees have fewer colleagues who have shared expertise in the system that they use with which to pool ideas and suggestions for improvement

EKH commissioned independent IT consultants SOCITM, to review the options for EKH and the business case they originally presented to EKH and the councils, indicated that based on the lowest projected benefits and the highest projected costs, a single system alone, without all of the associated service and frontline efficiencies, would still have a **positive benefit of £60,000 over five years**.

Subsequent to the original business case being presented, the councils have suggested increasing the funding for the council resources needed to test interfaces, varying the discounted cash flow calculation and removing the value of 'avoided costs' from the calculation of benefits.

Savings included within the business case developed by SOCITM did not include those set out in EKH's Vision and Funding Plan. This was done purposefully to prevent any confusion within the councils about double counting savings. However, EKH has also created its long-term strategies and savings targets based on the implementation of a single housing management system.

## 2. Vision and Funding Plan Savings

The savings identified within EKH's vision and funding plan that have been accepted by the councils' client officers for EKH to progress and linked to the implementation of a single system are:

<b>Not Fully Achievable Without Single System</b>					
	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
<b><u>Direct Pay Reductions</u></b>					
Digital Service Delivery			£65,000	£65,000	£65,000
<b><u>Direct Non Pay Costs</u></b>					
Tenant Engagement	£4,000	£4,000	£4,000	£4,000	£4,000
<b><u>Office/Accommodation</u></b>					
HQ Accommodation		£40,000	£40,000	£40,000	£40,000
All Accommodation				£90,000	£100,000
<b><u>ICT</u></b>					
Staff Information & Tablets			£60,000	£60,000	£60,000
<b><u>Income</u></b>					
Managing for other Landlords			£5,000	£10,000	£20,000
<b>Totals</b>	<b>£4,000</b>	<b>£44,000</b>	<b>£174,000</b>	<b>£269,000</b>	<b>£289,000</b>
<b>Accumulated Savings</b>					<b>£780,000</b>
<b>Difficult to Maintain without Single System</b>					

	2014/15	2015/16	2016/17	2017/18	2018/19
<b><u>Direct Pay Reductions</u></b>					
Performance Management	£34,000	£34,000	£34,000	£34,000	£34,000
Improved Asset Procurement and Health & Safety Planning					£75,000
Reduction in establishment	£60,720	£60,720	£60,720	£60,720	£60,720
<b><u>Direct Non Pay Costs</u></b>					
Training budget reduction	£5,000	£5,000	£5,000	£5,000	£5,000
<b>Totals</b>	<b>£99,720</b>	<b>£99,720</b>	<b>£99,720</b>	<b>£99,720</b>	<b>£174,720</b>
<b>Accumulated Savings</b>					<b>£573,600</b>

### 3. Business Case Refresh

The original recommendation from the business case developed by SOCITM, identified a preferred option to specify a system based on EKH's business needs, go out to the market but weight the evaluation criteria to focus on minimising the risk to EKH and the councils. The original SOCITM business case has previously been presented to the councils (copies are available from the author).

Based on the in-principle agreement of the councils to continue to explore the procurement of a single system, EKH's Board confirmed funding to allow SOCITM to progress to Phase 2 of the original commission. EKH's Board had committed £50,000 from its retained reserves to fund the external consultancy to support the development of the business case through to procurement. A number of workshops have been held to finalise the requirements specification in line with the outline timetable.

The requirements specification will be drafted by SOCITM and informed by the councils and EKH to set out EKH's business needs. The specification of the system will focus on the required system and business outcomes and leave the way a system will deliver these outcomes to be explained by potential suppliers and then evaluated against the agreed criteria. System requirements will include all the issues raised within workshops, including the key issues identified by the councils around financial interfacing, leasehold requirements and data segregation.

### 4. Cost & Benefit Analysis

The original cost benefit analysis carried out by SOCITM showed a worst case **positive 5-year net benefit of £60,000 for the system**. Subsequently, some councils have indicated that the costs may have been understated for the resources they would need to apply to the project. An additional £50,000 has been estimated to be the cost of the councils' resources to support testing. Other council feedback indicated that the level of Discounted Cash Flow applied to the calculations was insufficient.

The original cost benefit analysis also did not separate costs into new costs, additional costs and re-diverted budgets within EKH. Work has now been done to update the cost benefit analysis to reflect the feedback from the councils, apart from the Discounted Cash Flow (DCF) element. DCF has not been adjusted because there are varying applications of this among the councils and, based on the margins of the revised costs, any differential would be contained within the overall budget and savings requirements.

It should be noted that the business case capital appraisal is based on the lowest of benefits realised and the highest of costs incurred. The difference between this projection and **the projection based on the highest benefit realisation and lowest cost is around £500,000** over five-years. EKH's Board has previously indicated it would commit to underwrite any cost-overruns on the project, which, together with the worst case position taken on the financial projections, should provide further re-assurance to the councils about the overall project cost.

Appendix 1 sets out the revised cost & benefit capital appraisal for the project, which shows that following the removal of avoided costs, the project now shows a small surplus based on the worst case projection after 6 years.

## **5. Financing**

To be able to finance the project, it is projected that EKH will require additional up-front funding of £892,000. Previous discussions with the councils have indicated that the councils are prepared, subject to agreeing the business case, to each loan EKH a quarter of the project cost.

EKH is requesting a loan from each council of £223,000. The loans are to be confirmed in advance of EKH formally contracting with a supplier as are the technical accounting requirements that will minimise the cost of the loans to EKH. EKH will deliver the project and underwrite any cost overruns for the project, where the cost overruns are not caused by decisions taken by the councils for issues outside of EKH's control of the project.

The councils have an expectation that EKH will continue to explore opportunities for service efficiencies and a reduction in the management fee. Our business plan analysis shows that the acquisition of a new, single IT system will deliver annual savings amounting to £173,761. The intention is to deliver some reduction in the management fee in line with other savings targets and to commence repayment of the loans as more significant levels of savings start to be realised from the project itself.

Based on the latest timetable, the system will be rolled out to all areas by February 2016. Re-structuring and embedding new systems will require some run-on from this date and a feasible start to repayments, based on annual re-payments in arrears, will be March 2017. The repayments will take EKH six years as a maximum, based on the fact that costs have been based on the lowest possible benefits and the highest possible costs.

To allow EKH to take a loan from the councils and to contract with a software supplier directly, joint decisions needs to be taken under the Owners Agreement.

Acting formally as the Officer Panel and with all necessary delegated authorities from their respective councils, council representatives are requested to unanimously agree the following joint decisions under Schedule 3 of the Owners Agreement:

- under Clause 9 allow EKH to contract directly with a software supplier
- under Clause 10 allow EKH to borrow money from the councils to fund a new software system

Acting formally as the Officer Panel, council representatives are also requested to provide written consent to East Kent Housing to use a new computer system interfacing with council computer systems under Clause 24.5 of the Management Agreement.

## **6. Outline Timeline**

The original business case set out a provisional timetable for the project. Delays in moving forward with initial phases means that the original timeline is out of date. Working with SOCITM, a revised timeline is being developed, an interim update is included at Appendix 2.

## Appendix 1 Capital Appraisal of System Only Costs and Benefits (Based on revised projections following feedback from councils)

<b>Cost</b>	<b>Total Project Costs</b>	<b>Costs Covered by Existing EKH Budgets</b>	<b>6-Year Outcome New Costs</b>
Specification and Procurement Phase	£553,300	£36,340	£516,960
Project Resources	£174,810	£69,520	£105,290
Data and Interface Costs	£223,750	£0	£223,750
Process Re-engineering Costs	£40,595	£3,455	£37,140
Testing, Training and Consultancy Costs	£34,350	£23,490	£10,860
Infrastructure Costs	£25,000	£0	£25,000
Disruption Costs	£143,220	£34,195	£109,025
	<b>£1,195,025</b>	<b>£167,000</b>	<b>£1,028,025</b>
<b>Benefit</b>			<b>6-Year Benefit Outcome</b>
Administration & System Efficiency Savings			£321,462
Maintenance & Support Savings			£711,858
Self-Service Savings			£9,246
			<b>£1,042,566</b>

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## Appendix 2 Project Headline Timeline\_V\_4

Action	Critical (Yes)	Days	Weeks	Start	End	Comment
Agree Headline Plan	Yes	0	0	30/01/2014	30/01/2014	Completed
Develop Best Estimate of Project Cost	Yes	18	3	31/01/2014	18/02/2014	Completed
Interviews & Workshops		47	7	27/01/2014	14/03/2014	Completed
Agree Direction of Travel for Project		0	0	24/02/2014	24/02/2014	Completed
Create Project Governance Structure		20	3	24/02/2014	14/03/2014	Completed
Councils confirm loans to EKH	Yes	157	22	24/02/2014	31/07/2014	Three councils have agreed, Thanet decision to go to its Executive on 31 July 2014
Draft Specification		70	10	18/03/2014	28/05/2014	Completed
Delegate Authority to Finance & Audit Sub-Committee	Yes	0	0	10/03/2014	10/03/2014	Completed
Agree Procurement Method		38	5	13/06/2014	21/07/2014	EKH Employment & Corporate Services Sub-Committee through to Board
Feedback on Specification		12	2	29/05/2014	11/06/2014	The timing for this feedback will need to be focused, based on a deadline and on outcome requirements from EKH & the councils
Amend Specification following Comments		9	1	13/06/2014	22/06/2014	
Specification Delivered to EKH	Yes	1	0	22/06/2014	23/06/2014	
Prepare Procurement Documentation		9	1	14/06/2014	23/06/2014	Need to gain agreement from the Project Board
Sign-Off Specification & Procurement Process for EKH	Yes	27	4	24/06/2014	21/07/2014	This is now programmed for the Board
Recruit Project Manager	Yes	27	4	24/06/2014	21/07/2014	This will need to include temporary backfilling of posts within EKH and for the councils' interface testing
Recruit Project Team	Yes	30	4	22/07/2014	22/08/2014	
Procurement Period		68	10	22/07/2014	30/09/2014	Procurement will be solely under EKH's control
Evaluate Tenders		9	1	01/10/2014	10/10/2014	
Contractual Negotiations		14	2	11/10/2014	25/10/2014	

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Action	Critical (Yes)	Days	Weeks	Start	End	Comment
Award Contract	Yes	1	0	26/10/2014	27/10/2014	
Implementation Planning		95	14	22/07/2014	27/10/2014	To enable the first phase implementation to conclude by 28 February 2015 and start a month later some concurrent implementation activity needs to commence earlier
First Implementation	Yes	120	17	28/10/2014	28/02/2015	Timing will allow one year end to be run on one system before starting a further implementation
Second Implementation	Yes	107	15	14/04/2015	31/07/2015	Lessons will be taken from the first implementation and some preliminary work can be concurrent with the first implementation
Third Implementation	Yes	90	13	01/08/2015	31/10/2015	Processes may speed up due to continued learning and concurrent processes for data-cleansing
Final Implementation	Yes	117	17	01/11/2015	28/02/2016	Processes may speed up from learning and concurrent processes for data-cleansing