



Social Housing – The Procurement Challenge

A Discussion Paper prepared by
LHC Building Components and Services

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LHC, formed in 1967, is a public sector consortium of local authorities and housing associations providing a specialist procurement service.

LHC operates one of the largest public sector building component procurement programmes in the UK. In 2004, LHC services were used by 230 public sector bodies placing orders for building components and services in excess of £66 million.

LHC undertakes Europe-wide tenders for a range of building products and services, which are offered to public sector users in the form of “framework arrangements”. This service is free of charge to public sector users and ensures compliance with EU procurement legislation and the correct specification of Best Value products from vetted suppliers. It eliminates duplication of effort and accelerates the procurement process for public sector users, contributing to tangible efficiency gains.

Executive Summary

Social housing is challenged with the task of achieving £1.66 billion of accumulated efficiency gains in the three years 2005/6 to 2007/8.

These efficiency gains are to be achieved across four defined work streams including new supply, capital works, management and maintenance, and commodity goods.

Efficiency gains are not to be achieved by ‘cuts’. The outcome for the customer/tenant must be maintained or improved. This is recognised by the acknowledgement of both ‘cashable’ and ‘non-cashable’ gains, although it is expected that ‘cashable’ gains will be the priority for many organisations.

This agenda presents complex new challenges for procurement in social housing. It will involve a review of procurement roles at a strategic, structural and technical level.

The advocacy of purchasing consortium, stimulated by the ODPM and the National Change Agent, provide one possible route to procurement efficiency.

Yet many individual local authorities, ALMO’s and Registered Social Landlords are concerned about the issues of compatibility, choice and the risks of duplication.

This paper discusses the emerging issues in the light of LHC’s experience as a public sector body procuring in excess of £200m of building products and services since the launch of the Decent Homes initiative.

It also highlights the emerging tensions between cost reductive efficiency gains and the ability to achieve long term Best Value and the need to deliver savings in building products at a time when the Decent Homes Standard commits social landlords to the creation of genuinely sustainable communities.

The Efficiency Agenda is both an opportunity and a challenge and this paper is a contribution to the debate.

1.0 Introduction

This discussion paper has been prepared by LHC as a contribution to the debate on the best methodologies for achieving excellence and efficiency in the procurement of social housing construction and refurbishment and repair programmes.

The Gershon Review and the 'Delivering Efficiency' agenda has significant implications for Local Government and Registered Social Landlords, with new models of working and collaborative practice likely to emerge.

The roles of the National Procurement Champion, the National Change Agent, and the Regional Centres of Excellence will all have an impact on the development of this new agenda.

The task is clear: to achieve annual efficiency gains of 2.5% per annum, or a total of 7.5% of the 2004/05 baseline, by 2007/08.

Local Authorities, ALMO's and RSLs will respond positively and imaginatively to this challenge but, in generating new initiatives and models, it is also important that time and resources are not wasted in "re-inventing the wheel!"

As the ODPM states:

"There should be no avoidable duplication with other consortium activity, whether already operational or in development". (1)

It is also essential that the debate is not led by a reductive process of cuts and lowest cost purchasing. This is expressly stated by the ODPM.

"Efficiency is not about cuts, but about doing more for the same..." (2)

"Making cuts that result in poorer quality services and outcomes for customers... will not contribute towards the (efficiency gain) targets... any change to services should result in a net improvement in outcomes for tenants". (3)

"Making cuts that result in poorer quality services and outcomes for customers... will not contribute towards the (efficiency gain) targets"

"When claiming efficiencies of reduced inputs or lower prices for the same outputs, we recognise that a major challenge is to demonstrate that quality has been maintained. Social landlords should adopt a suitable set of quality crosschecks to demonstrate that this is the case... the involvement of residents is an important element in this process." (4)

In this sense, it is clear that the Efficiency drive is a continuation and refinement of the 'Best Value' approach to procurement in construction and the "Rethinking Construction" agenda

"Case studies illustrate the ways that efficiency gains can be made by utilising a proven template from the 'Rethinking Construction' initiative." (5)

Indeed the challenge is more complex than simple cost cutting: it is the challenge of achieving efficiency gains and, at the same time, improving customer outcomes within the context of creating a sustainable community.

2.0 The Procurement Agenda

In deciding on the best methods to achieve the required Annual Efficiency Gains, Local Authorities and RSLs will be re-thinking their purchasing approach and considering whether gains are best achieved through joining a Purchasing Consortium, by focussing on their own capabilities or by a combination, purchasing some elements through consortium and other elements through their own processes.

In deciding on the best approach, it may be helpful to consider the three interlocking elements of procurement: **strategy, structure and technical**.

2.1 Strategic Procurement

The starting point is to establish an organisation's procurement strategy or 'philosophy'.

Necessarily this will be driven by the Decent Homes Standards and by the requirement for the provision of new affordable social housing, but this allows for a wide variety of purchasing strategies. For example, key questions include:

- The balance between cost saving and performance/quality improvement.
- The balance between short term savings and longer term "whole life" costings/value.
- The balance between working on a project/elemental base and creating supply chain partnerships, encouraging shared learning and continuous improvement.
- The balance between achieving the immediate task (a new build development completed on time, to budget) and the wider agenda of creating a truly sustainable community.
- The balance between specifying products, which simply meet the specification today and those which also provide a longer term environmental benefit (higher in-life energy efficiency; post-construction recycling).

This balance between immediate and medium to long term gain is at the heart of any procurement strategy and the correct approach will vary according to the local circumstances of each RSL and LA.

Indeed, many will use a combination of approaches according to the importance of the product/services being procured and the total budget/expenditure on that category.

This dichotomy is specifically recognised by the ODPM which has developed the concept of "cashable" and "non-cashable" efficiency gains.

Cashable gains represent the potential to release resources for reallocation elsewhere.

Non-cashable gains represent improvement such as increased quality or additional outputs in the service delivered with a given amount of resource.

(ODPM March 2005)

Local Authorities and ALMOS are targeted with achieving £480m of gains on social housing capital works programmes of which at least 50% must be "cashable" although it is expected most authorities will aim higher.

Conversely, Registered Social Landlords are targeted with achieving £435m gains which can all be "non-cashable". Once again this highlights the importance of setting a clear strategy.

2.2 Structural Procurement

With the purchasing strategy in place, the next issue to consider is the structure of the procurement operation.

In this area, attention will focus initially on the internal purchasing team and its areas of expertise, with an assessment of whether these skill sets are aligned with the priority areas for purchasing efficiencies, including the increasing role for e-procurement.

In the current climate, many social housing providers will also be considering whether to join an existing or new purchasing consortium.

There are clear opportunities to achieve efficiency gains through procurement consortium by leveraging the combined buying power, by sharing expertise and by improving the efficiency of the procurement process.

However, there are also potential obstacles to consider. If a purchasing consortium is simply overlaid on top of an existing purchasing team, then there is obvious duplication. The inevitable conclusion is that for consortium to be effective, they must, to a degree, replace the purchasing function in individual LAs, ALMOs and RSLs.

The staffing implications and associated costs in reducing staff levels may be an obstacle for some social housing organisations.

In addition, for consortium to work effectively, there has to be a commonality of purpose. If the majority of members of a consortium are focussed on one type of building or element, this may not fit the priorities of other potential members.

It is also inevitable that common purchasing leads to common or standardised products, with a reduction in choice. Choice is always inefficient in “cashable” terms but may be highly efficient in “non-cashable” benefits, for example tenant choice and consumer satisfaction.

This may have important implications for LAs and RSLs with individual and distinctive communities/architectural environments which they wish to preserve and develop.

It is important to remember, as the Odom’s own guidance notes state that joining or establishing a procurement consortium “remains an option, not an obligation...”

The Housing Corporation Guidance Notes also points out the issue of possible confusion over attributing savings made by consortium:

Efficiencies gained through partnerships or consortium

“Associations should isolate the efficiencies they accrue through partnerships or consortium and not double-count the efficiencies that accrue to other associations or partners. Cashable gains should be identified through audited accounts.” (7)



The Guidance also usefully points out a range of techniques Housing Associations (and Lass) can employ to increase efficiency:

A non-exhaustive list of potential efficiency techniques might include:

- Re-evaluating procurement strategies.
- outsourcing or otherwise streamlining back-office services.
- collective procurement of commodities, materials and back-office services.
- partnering with contractors, at all levels of the supply chain, for new build, refurbishment and maintenance contracts.
- systems thinking and other forms of business process re-engineering.
- reducing staff turnover, sickness and absenteeism.

“None of these techniques are mandatory, but lead regulators and the Housing Inspectorate will expect associations to demonstrate that they have considered the available range of efficiency techniques. Meeting the needs and aspirations of customers and their full involvement in an informed way throughout the whole process will also be a key consideration.” (8).

It is clear that there is no ‘one size fits all’ structure for effective procurement and each social landlord will need to establish a relevant structure to suit their local circumstances.

2.3 Operational Procurement

Once the strategy and structure are established, the third element in the procurement process is the “hands on” process of purchasing products and services.

This involves a complete understanding of the legal framework surrounding public sector procurement in the EU and the rapidly changing framework of contract law and best practice.

There is also the requirement to establish sustainable measurements and evaluation criteria, including benchmarking and key performance indicators. This ability to measure performance will be vital in “capturing” both cashable and non-cashable efficiency gains.

Within the building sector, there is also a complex array of technical and specification criteria to consider when purchasing construction products or services.

This includes, but it is not limited to:

- Assessing the need/requirement.
- Reviewing the available supplier “universe”.
- Establishing correct and relevant specification criteria.
- Ensuring compliance with BS and other technical standards.
- Assessing product/service performance and compliances.
- Vetting the potential supplier organisations’ structure and financial credentials.
- Reviewing the suppliers “supply chain” and versatility/scope.
- Negotiating prices.
- Negotiating non-price performance deliverables.
- Performance measurement and evaluation criteria.
- Assessing implications of on-site performance (e.g. CDM compliance, Health & Safety Method Statements etc).

Having established this process, the procurement body also needs to remain both legally and technically up-to-date and compliant, recognising that both the legal and technical framework evolves continuously for building products (e.g. new revisions to Building Regulations, CE marking, etc.)

The importance of the operational elements of procurement are frequently overlooked in reviewing procurement strategies and structures, yet, in reality, **it is in the procurement operations that the efficiency gains will actually be achieved by effective specification, tendering and contractual arrangements.**

3.0 Support for Procurement Function

As the above indicates, to achieve real efficiency gains requires a re-assessment of the procurement function at all levels.

To help social landlords in this process, a number of support agents are available through the National Change Agent and the forthcoming appointed consultants, as well as the Regional Centres of Excellence and private sector organisations.

These support organisations will offer a variety of skill sets including strategic management consultancy, audit/accountancy led value measurement services; cost reduction led and the IT/system led consultancy. In addition, professional building services practices will also be offering a range of services.

However, it is unlikely that any one organisation will provide all elements of the strategic/structural/operational mix and therefore social landlords may be best advised to review their own skill sets and then utilise a “partner network” of several consultants/suppliers to provide the necessary support.

Alternatively, there are many highly competent procurement functions within social landlords who may be confident in their own skill sets and their ability to achieve the efficiency gains within their own remit.

4.0 LHC Role

LHC has three core competencies at the root of its service to public sector users:

- Generating technical specifications for the public sector procurement of building products and services and maintaining the accuracy of technical data.
- Technically evaluating building products and services and the evaluation of suppliers and their supply chains.
- Tendering and providing framework arrangements for public sector use in a legally compliant method.

LHC has also developed a range of additional support skills and services including project monitoring and evaluation.

These skills lie essentially in the operational area of procurement and, as such, are relevant to any of the new emerging models of procurement from ‘stand alone’ purchasing to national/regional procurement consortium.

With nearly 40 years experience of procuring building products and with an existing user base of 230 RSLs, ALMOs and LAs, LHC can also provide a “fast track” for procurement bodies seeking to achieve efficiency gains as quickly as possible.

By definition, as a public sector organisation, LHC is also conversant with and bound by public sector protocols. Yet through its arrangements with framework suppliers, LHC is also very familiar with private sector custom and practice and commercial criteria.

LHC operates in a flexible way. There is no set operating method and LHC services are tailored to meet the purchasing requirements of its public sector users, whether operating individually or with other bodies.

LHC also has a proven track record in helping public sector users achieve both cashable and non-cashable efficiency gains in the procurement of building products and services.

Indeed, the LHC and its appointed companies are already demonstrating tangible “cashable” efficiency gains equal to or in excess of the 2.5% per annum target.

In addition LHC has a proven track record in delivering “non-cashable” gains in terms of quality improvement.



5.0 Summary

Social landlords face a continually evolving agenda. The “Delivering Efficiency” drive is, in effect, a further refinement of the “Best Value” agenda.

With the high volumes of building work within the social housing spectrum there are clear opportunities to improve procurement processes and achieve efficiency gains.

Yet, at the same time, the importance of achieving sustainable communities, tenant satisfaction and Best Value over a whole life costing remains essential.

There are opportunities for new forms of procurement but also a risk of duplication and ‘re-inventing the wheel’, ignoring the hard won lessons of recent procurement practices.

There are overlapping agendas: the need to make efficiency savings balanced with the need to make the economic, social and sustainability improvements required for vibrant local communities.

In the area of building services, the real test comes when the procurement strategy and structure have to deliver highly technical building products and services in a compliant manner, with demonstrable value and efficiency.

Building products and service suppliers are commercially aware and the construction industry is known for its litigious nature and contractual dispute, which can all undermine procurement processes, which are not adapted to this environment.

LHC has a positive role in assisting public sector users purchase building products and services effectively.

The organisation seeks to contribute to the services of purchasing consortium and non-consortium providers alike, and has a unique skill set and experience to bring to the debate.

LHC trusts this discussion paper is constructive and informative and will open up opportunities for wider dialogue and debate.

We welcome feedback and your contribution to this important issue and we hope you will invite us to engage and participate in your own debate on the changing role of procurement in social housing.

6.0 Appendix

- 1) Bidding Guidance for support towards costs of housing procurement consortium. Section 34(v) Para2. Pge 11. ODPM. March 2005.
- 2) Social Housing Efficiency: A Discussion Paper. Section 1.3 para 1 Pge 8: ODPM. February 2005
- 3) Social Housing Efficiency: A Discussion Paper Section 1.3 para 8 Pge 9: ODPM. February 2005
- 4) Social Housing Efficiency: Efficiency Technical Note Section 3.4 para 1 Pge 15: ODPM. March 2005
- 5) Delivering Efficiency: Local Services: Detailed Guidance for Local Authorities. Section 3.3.2 Pge 37. ODPM 2004
- 6) Housing Association: Annual Efficiency Statements (see Note 9 above) Pge 9
- 7) Housing Association: Annual Efficiency Statement (see Note 9 above) Pge 11