



# Procurement and Social Housing

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This Research Paper looks at the proposed Procurement Strategy for social and affordable housing in Northern Ireland which will be central to the Social Development Minister's target to build 5,000 new social and affordable homes. The paper looks at the established procurement strategy in England and the proposed strategy for Scotland. It then looks at procurement practices in Wales and the Republic of Ireland, neither of which have strategies in place.

## SUMMARY OF KEY POINTS

The Social Development Minister plans to build 5,000 new social and affordable homes in the next three years. Central to this will be the Procurement Strategy<sup>1</sup> ('the Strategy') for social and affordable housing due to be published in April 2008. This will mean that Northern Ireland will join England as the only jurisdictions in the UK with a procurement strategy for social housing in place.

Objectives of the Strategy for Northern Ireland are to procure the Social Housing Development Programme on a value for money basis in accordance with best practice and to reduce transaction costs of construction procurement through establishing procurement groups<sup>2</sup>. Key to this will be partnerships between groups of Housing Associations to take advantage of economies of scale in levering in extra funding from the private sector.

Officials from the Department for Social Development ('the Department') briefed the Social Development Committee on 13 September 2007 on the Draft Procurement Strategy. The proposed Strategy for Northern Ireland reflects the key features of procurement elsewhere in the delivery of social and affordable housing; partnerships between Registered Social Landlords (RSLs) to increase efficiency and use their ability to lever in public finance and the procurement of services and supplies.

The Strategy will aim to concentrate social housing procurement around a small number of dedicated procurement groups with efficiency gains that allow the Department to provide more social housing for the same level of public expenditure. It is envisaged that expertise concentrated in groups will promote partnering, sustainability, improved design and the use of non-traditional methods of construction. Better value and performance is also expected from builders and suppliers. Suppliers will no longer be appointed on the basis of lowest price, but will become part of a series of projects with a managed supply chain. This is intended to provide builders and suppliers with a stake in delivering a successful project as part of an ongoing managed supply chain.

This Research Paper looks at the procurement strategy for social and affordable housing in England<sup>3</sup> and the recommendations for a proposed strategy for Scotland<sup>4</sup>. It goes on to look at innovation in social housing procurement and shows where the use of the 'traditional' procurement model might act as a possible barrier to innovation. Finally the paper looks at how the proposed procurement strategy for Northern Ireland relates to the key features of social housing established in England and proposed in Scotland.

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<sup>1</sup> Response to request for information from the Office of the Permanent Secretary 7 March 2008.

<sup>2</sup> 'Proposals for a Procurement Strategy for the Social Housing Development Programme', DSD.

<sup>3</sup> 'Procurement Strategy for the Supply of Affordable Homes' (August 2005) Housing Corporation:  
[http://www.housingcorp.gov.uk/upload/pdf/Procurement\\_Strategy\\_-\\_Aug05.pdf](http://www.housingcorp.gov.uk/upload/pdf/Procurement_Strategy_-_Aug05.pdf)

<sup>4</sup> 'Recommendations for a National Procurement Strategy for Social Housing in Scotland: A Report for Communities Scotland' January 2007; CWC the Collaborative Working Centre available at:  
[http://www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/otcs\\_017813.pdf](http://www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/otcs_017813.pdf)

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## 1.0 INTRODUCTION

This Research Paper looks at procurement procedures for social and affordable housing in the United Kingdom (UK) and the Republic of Ireland (RoI). A procurement strategy was published for England in 2005<sup>5</sup> by the Housing Corporation. In Scotland consultants were commissioned by Communities Scotland to make recommendations for a national procurement strategy for social housing, which was published in January 2007<sup>6</sup>. A procurement strategy for social and affordable housing in Northern Ireland is due to be published in April 2008. Wales and RoI have no published procurement strategy for social housing.

Social and affordable housing procurement has been heavily influenced by two reports published in the nineteen nineties: *'Constructing the Team'* (1994) ('the Latham Report');<sup>7</sup> and *'Rethinking Construction: The Report of the Construction Task Force'* (1998) ('the Egan Report')<sup>8</sup>. Both focused on relationships between Registered Social Landlords (RSLs)<sup>9</sup>, contractors and suppliers. Egan's recommendations were for a manufacturing approach to design, development and delivery with measurable targets. Egan believed the social housing sector, as major commissioners of building procurement, had an opportunity to work with the construction industry to improve processes and technologies and develop quality products with a partnering relationship a vital part of effective projects.

The procurement strategy for social and affordable housing for England<sup>10</sup> defines procurement as *'the overall process of acquiring a product or service and may include some or all of the following:*

- ❑ *Identifying a need.*
- ❑ *Specifying the requirements to fulfil the need.*
- ❑ *Identifying the potential suppliers.*
- ❑ *Soliciting and evaluating bids and proposals.*
- ❑ *Awarding contracts, tracking progress and ensuring compliance.*
- ❑ *Taking delivery, inspecting the deliverables, paying the supplier and receiving and giving feedback.'*

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<sup>5</sup> 'Procurement Strategy for the Supply of Affordable Homes' (August 2005) Housing Corporation: [http://www.housingcorp.gov.uk/upload/pdf/Procurement\\_Strategy\\_-\\_Aug05.pdf](http://www.housingcorp.gov.uk/upload/pdf/Procurement_Strategy_-_Aug05.pdf)

<sup>6</sup> 'Recommendations for a National Procurement Strategy for Social Housing in Scotland: A Report for Communities Scotland' January 2007; CWC the Collaborative Working Centre available at: [http://www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/otcs\\_017813.pdf](http://www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/otcs_017813.pdf)

<sup>7</sup> 'Constructing the Team' (the Latham Report) (1994) Final report of the Government/Industry review of procurement and contractual arrangements in the UK construction agency.

<sup>8</sup> 'Rethinking Construction' The Report of the Construction Task Force (1998)

<sup>9</sup> Generally Housing Associations and Local Authorities.

<sup>10</sup> 'Procurement Strategy for the Supply of Affordable Homes' (August 2005) Housing Corporation: [http://www.housingcorp.gov.uk/upload/pdf/Procurement\\_Strategy\\_-\\_Aug05.pdf](http://www.housingcorp.gov.uk/upload/pdf/Procurement_Strategy_-_Aug05.pdf)

The key objectives of the proposed procurement strategy for the Social Housing Development Programme for Northern Ireland are to:

- ❑ Procure the programme on a value for money basis and in accordance with best practice; and
- ❑ Reduce the transaction costs of construction procurement by establishing procurement groups<sup>11</sup>.

Key to delivering social and affordable housing is partnership between Housing Associations to manage the procurement process in order to deliver economies of scale.

## 2.0 PROCUREMENT STRATEGIES

This section of the Research Paper looks at the procurement strategy already in place in England and recommendations for a procurement strategy for Scotland.

### ENGLAND

The procurement strategy for social and affordable housing in England<sup>12</sup> ('the strategy') has been in place since 2005. It aimed to help save £430 million by 2008 and the Housing Corporation claim that they have hit and exceeded these targets<sup>13</sup>. In 2004 – 2006 an investment of £3.3 billion of public money leveraging in £2 billion of private investment was to deliver over 62,500 new homes<sup>14</sup>.

The strategy states that '*Good practice in construction procurement must include greater use of partnering throughout the construction supply chain.*'

The Office of the Deputy Prime Minister (ODPM)<sup>15</sup> wanted to achieve efficiencies in four key areas of social housing procurement:

- ❑ New supply;
- ❑ Capital works;
- ❑ Management and maintenance services; and
- ❑ Commodity goods and services.

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<sup>11</sup> 'Proposals for a Procurement Strategy for the Social Housing Development Programme' with deadline for responses to a questionnaire of 6 July 2007.

<sup>12</sup> 'Procurement Strategy for the Supply of Affordable Homes' (August 2005) Housing Corporation:

[http://www.housingcorp.gov.uk/upload/pdf/Procurement\\_Strategy\\_-\\_Aug05.pdf](http://www.housingcorp.gov.uk/upload/pdf/Procurement_Strategy_-_Aug05.pdf)

<sup>13</sup> Email correspondence with Housing Corporation 3 March 2008.

<sup>14</sup> 'Procurement Strategy for the Supply of Affordable Homes' (August 2005) Housing Corporation:

[http://www.housingcorp.gov.uk/upload/pdf/Procurement\\_Strategy\\_-\\_Aug05.pdf](http://www.housingcorp.gov.uk/upload/pdf/Procurement_Strategy_-_Aug05.pdf)

<sup>15</sup> The Office of the Deputy Prime Minister (ODPM) was replaced in a Cabinet reshuffle in May 2006 by the Department for Communities and Local Government – website at:

<http://www.communities.gov.uk/corporate/>

The strategy is principally intended to deal with 'new supply' social housing and reflects the centrality of partnership not only with and between social housing providers, but also with the construction industry. Partnership working is intended to produce 'economies of scale' through the sharing of costs in the production of business plans, designs and creating a supply chain for the bulk purchase of materials. The strategy states:

*Sound procurement is one of the key methods of obtaining these savings. It is through wise purchasing decisions that efficiency savings can be realised and rising building costs slowed<sup>16</sup>.*

The Housing Corporation's Strategy aims to address issues that had been raised by RSLs and makes the following commitments:

#### REDUCING FRAGMENTATION

- ❑ Use of investment and benchmarking tools to encourage greater uptake of supply chain efficiencies such as buying clubs;
- ❑ Work with ODPM to encourage adoption of procurement consortiums<sup>17</sup>; and
- ❑ Work with the Housing Forum to develop a diagnostic tool and set out examples of best practice.

#### SUPPLY CHAIN INTEGRATION

- ❑ Ask each grant applicant to provide a method statement which sets out the intended approach to future supply chain management; and
- ❑ Introduce arrangements to identify broad categories of supply chain integration and management activity, to enable uptake to be monitored over time.

#### WHOLE LIFE COSTS

- ❑ Work with the ODPM and representatives from the housing sector to identify the practicability of developing an improved whole life cost measure that is equally applicable to RSLs and unregistered bodies.

#### LAND COSTS

- ❑ Examine new models of procurement on large sites and take advantage of public sector land holdings;
- ❑ Encourage Local Authorities (LAs) to contribute land assets;
- ❑ Actively discourage gazumping practices;
- ❑ Encourage good developers to invest more strategically in land acquisitions;
- ❑ Take a tough line in section 106 negotiations to help ensure that our grant is not contributing to land price expectations; and
- ❑ Invest in locations that provide the public purse with best value for money.

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<sup>16</sup> 'Procurement Strategy for the Supply of Affordable Homes' (August 2005) Housing Corporation (p6):

[http://www.housingcorp.gov.uk/upload/pdf/Procurement\\_Strategy\\_-\\_Aug05.pdf](http://www.housingcorp.gov.uk/upload/pdf/Procurement_Strategy_-_Aug05.pdf)

<sup>17</sup> Housing Associations grouping together to deliver a housing project from planning, getting finance and the procurement process through to completion of construction.

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RENEWAL AND REGENERATION

- ❑ Encourage providers to base their decisions in respect of retention or replacement of dwellings based on evidence of whole life costing and wider community costs/benefits;
- ❑ Develop new tools for funding refurbishment;
- ❑ Ensure that refurbishment projects are designed to be fit for purpose;
- ❑ Only consider grant applications for acquisitions to demolish within the context of a regeneration plan including a masterplan that has undergone consultation; and
- ❑ Encourage affordable housing providers to pursue a balanced strategy of acquisitions and disposals within renewal areas to achieve better overall value for money.

QUALITY PROCESS

- ❑ Review the effectiveness of the client's charter within the affordable housing sector;
- ❑ Review the client's charter criteria and ensure they are equally applicable to unregistered bodies;
- ❑ Housing Quality Indicators allow housing schemes to be evaluated on the basis of quality rather than simply cost; they will be built into bid evaluation; and
- ❑ Leading procurement partners will be provided with additional training on cost effective design.

QUALITY STANDARDISATION

- ❑ Encourage greater use of standard plans through the 'Plan Compliance' arrangements; and
- ❑ Encourage greater use of standardised processes.

ENVIRONMENTAL PROCUREMENT

- ❑ Continue to encourage the development of bulk procurement vehicles for purchasing renewables at discounted prices; and
- ❑ Encourage partners to 'green' their supply chain.

The Procurement Strategy for affordable housing for England has never been evaluated. However, following the publication of the Gershon Review *'Efficiency Review: Releasing Resources to the Front Line'*<sup>18</sup> (2004) the ODPM made a commitment to deliver total annual efficiency gains worth £835 million by 2007-08. The Housing Corporation claim that they have hit and exceeded the targets set out in the table below<sup>19</sup>.

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<sup>18</sup> Sir Peter Gershon's Review of Public Sector Efficiency *'Releasing Resources to the Front Line'* (2004): OGC available at: <http://www.ogc.gov.uk/documents/cp0057.pdf>

<sup>19</sup> Email correspondence with Housing Corporation 3 March 2008.

**Table: Efficiency targets for social housing delivery set by ODPM (in £ millions)**<sup>20</sup>

	2005-06			2006-07			2007-08		
	LAs	RSLs	Total	LAs	RSLs	Total	LAs	RSLs	Total
New supply	-	130	130	-	140	140	-	160	160
Capital works	12	2	14	140	30	170	280	60	340
Mgt & maint	85	35	120	150	60	210	200	80	280
Commodities	-	10	10	-	30	30	-	55	55
<b>TOTAL</b>	<b>97</b>	<b>177</b>	<b>274</b>	<b>290</b>	<b>260</b>	<b>550</b>	<b>480</b>	<b>355</b>	<b>835</b>

Efficiency gains made in the Local Authority sector contribute to wider local government target, those made in the RSL sector contribute to wider ODPM (now Communities and Local Government) target.

#### EXAMPLES OF 'GOOD PRACTICE'

The English procurement strategy<sup>21</sup> gives two examples of good practice. The first, Fusion 21 is a buying club for RSLs which focuses on creating a 'virtual circle' of supply and demand to deliver large volume maintenance programmes while encouraging local labour and training. When the strategy was published in 2005 they had trained 200 unemployed people for work. The second example, Advantage South West partnership had designed a range of factory built standard house types for their own use and for other social housing providers.

A procurement group in England that was less successful was the 'Amphion Consortium'. This was a partnership of over 20 Housing Associations using timber frame housing to produce houses in a factory setting. The consortium partnered with the supplier and contractor and then down the supply chain. Over the four year period of the project they procured approximately 800 new houses across 33 development projects.

In 2007 The 'Amphion Consortium' was the subject of a research project that concluded that a number of takeover bids in a relatively short time had marred the success of the project when failures to manage expectations within and between partners had undermined confidence and trust in the partnering process. The findings showed that mutual trust, communication and commitment from key stakeholders were key factors contributing to a successful strategic partnering process<sup>22</sup>.

#### GRANTS TO NON-REGISTERED SOCIAL LANDLORDS

Under new powers in the Housing Act 2004, the Housing Corporation in England was able to make grants available to non-registered bodies as well as RSLs. To test this new competitive process a pilot programme worth £200m was established with New Partnerships in Affordable Housing (NPiAF) in addition to the usual National Affordable

<sup>20</sup> Targets for social housing set by ODPM following Gershon Review (2004).

<sup>21</sup> 'Procurement Strategy for the Supply of Affordable Homes' (August 2005) Housing Corporation [http://www.housingcorp.gov.uk/upload/pdf/Procurement\\_Strategy\\_-\\_Aug05.pdf](http://www.housingcorp.gov.uk/upload/pdf/Procurement_Strategy_-_Aug05.pdf)

<sup>22</sup> 'Monitoring of a strategic partnering process: the Amphion experience' Kaluarachchi, Y. D. and Jones, K. in 'Construction Management and Economics', Volume 25, Issue 10 October 2007, Pages 1053 – 1061 abstract available at:

<http://www.informaworld.com/smpp/content~content=a782994145~db=all~jumptype=rss>  
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Housing Programme (NAHP)<sup>23</sup>. Both grant programmes were open to RSLs and non-RSLs for the first time from 2006-2008. An early evaluation of the pilot was carried out at the end of 2006<sup>24</sup>.

Prior to the NPiAH the Housing Corporation had no experience of working in direct partnership with the private sector in terms of evaluating and funding bids. Despite this by the end of the first year across both programmes they had:

- Over 150 expressions of interest from unregistered bodies;
- 16 unregistered bodies invited to submit detailed bids;
- Bids from unregistered bodies totalling £339 million to produce 9,288 new homes; and
- Allocations to nine non-RSLs worth £91.15 million to produce 3,048 new homes.

In a survey to determine how non-RSLs viewed the process the evaluation found that:

*Non-RSLs found the systems, particularly the Investment Management System (IMS), challenging. They have been critical of the complexity of the decision-making process, and the amount of information required at an early stage in the bidding process. They have also been critical of a perceived inadequacy of feedback on successful bids. Nonetheless, a mixed economy of providers of affordable housing is now beginning to develop.*<sup>25</sup>

## SCOTLAND

The recommendations for a national procurement strategy for Scotland assume the existence of consortia as a key to social housing procurement. The recommendations are more financially focused than the procurement strategy for England and emphasise the need for Government funding regimes that reflect the relationships between RSLs and the construction industry in procurement. The report, commissioned by Communities Scotland<sup>26</sup>, recommends strategic imperatives that Community Scotland need to put in place. These include:

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<sup>23</sup> Programme run by the Housing Corporation which is responsible for investing grant in affordable housing.

<sup>24</sup> 'The developing new approach to investment: An evaluation' (December 2006) Campbell Tickell available on Housing Corporation website at:

[http://www.housingcorp.gov.uk/upload/pdf/Evaluation\\_of\\_new\\_approach\\_to\\_investment\\_final.pdf](http://www.housingcorp.gov.uk/upload/pdf/Evaluation_of_new_approach_to_investment_final.pdf)

<sup>25</sup> 'The developing new approach to investment: An evaluation' (December 2006) Campbell Tickell available on Housing Corporation website at:

[http://www.housingcorp.gov.uk/upload/pdf/Evaluation\\_of\\_new\\_approach\\_to\\_investment\\_final.pdf](http://www.housingcorp.gov.uk/upload/pdf/Evaluation_of_new_approach_to_investment_final.pdf)

<sup>26</sup> 'Recommendations for a National Procurement Strategy for Social Housing in Scotland: A Report for Communities Scotland' January 2007; CWC the Collaborative Working Centre available at:

[http://www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/otcs\\_017813.pdf](http://www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/otcs_017813.pdf)

- ❑ Ensuring that a predictable and continuous stream of funding is available in each region over a longer period (three years extendable to five) in order that RSLs will be able to work more effectively with the construction industry;
- ❑ Housing Association grant procedures must support the need for predictable and long-term (4-5 years) levels of expenditure by the regional consortia of RSLs;
- ❑ RSLs must be enabled to collaborate with the various key players in the construction industry;
- ❑ Encouraging the establishment of regional groupings of RSLs for their joint spend to enable the construction industry in any region to make the necessary investment in proper collaborative procedures;
- ❑ Ensuring that RSLs, or regional consortia of RSLs, are convinced of the benefits of appointing a small number of contractors, consultants and maintenance providers to work within long-term arrangements, say four year frameworks – and how to select and appoint them in compliance with the provisions of the EU's Consolidated Procurement Directive; and
- ❑ The need to consult and advise with consultants, contractors and specialist sub-contractors on the implications of the new procurement process for them and ensure that they are aware what selection criteria will be applied for the appointment of framework partners and what will be expected of them if they are to retain their place in the framework.

The report argued that there would be immediate savings. Under existing processes, if each RSL in a regional consortium were to run EU compliant procurement programmes, then each would incur direct and often indirect costs through managing the process. Each contractor submitting a tender would also incur a range of potentially abortive costs. However, through combining programmes and running a single, joint procurement process, RSLs could make immediate savings by:

- ❑ Combining programmes to be procured and called off from multiple client frameworks;
- ❑ Running a single procurement exercise for a number of RSLs simultaneously;
- ❑ Standardisation of processes, procedures and documentation; and
- ❑ Sub-contractor and supply chain partner tendering costs – (frameworks include supply chain procurement).

### **3.0 PROCUREMENT PRACTICE**

This section of the paper looks at procurement practice in Wales and the Republic of Ireland (RoI) where there are no published procurement strategies in place.

#### **WALES**

A national housing strategy has been in place in Wales since 2001<sup>27</sup> with the most recent Action Plan<sup>28</sup> published in 2006. It contains targets for 2006-2008 for co-operation

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<sup>27</sup> 'Better Homes for People in Wales: A National Housing Strategy for Wales' available at: <http://new.wales.gov.uk/topics/housingandcommunity/housing/publications/betterhomes?lang=en>  
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with partners in the construction industry to deliver awareness raising and training in the principles of the Egan Report. Subordinate Legislation was passed by the National Assembly for Wales 'The Regulatory Code for Housing Associations Registered in Wales' in March 2006<sup>29</sup>.

A research report<sup>30</sup> on Housing Association Consortia procurement in Wales published in October 2007 found that:

- ❑ Framework contracts for maintenance and development programmes were in place for most consortia;
- ❑ Some consortia members were reducing the cost of materials by buying into UK wide deals;
- ❑ The need to change the culture of procurement is a barrier to embedding consortium working;
- ❑ Consortia were keen to work with Welsh suppliers to support the local economy; and
- ❑ Evidence of efficiency gains is limited by the absence of a common monitoring framework for consortia.

The report goes on to make recommendations for both the consortia and the Welsh Assembly Government.

Recommendations for the consortia include:

- ❑ Adopting systems that ensure consortia members maximise the use of collective procurement agreements and deals;
- ❑ The appointment of a dedicated resource to manage their collaborative procurement process on an ongoing basis;
- ❑ Separating the procurement of labour and materials in order to maximise value for money in procurement terms; and
- ❑ Standardisation of specifications, in respect of building materials and other supplies.

Recommendations for the Welsh Assembly include:

- ❑ Introducing a three-year bidding process for allocating Social Housing Grant. The current 12 month horizon is too short to allow effective procurement planning and the implementation of strategic supply contracts;
- ❑ Streamlining and prioritising the criteria by which it assesses the performance of consortia – many of its current objectives are difficult to measure and no priority is accorded to the 13 criteria;

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<sup>28</sup> [www.new.wales.gov.uk/desh/publications/housing/1389812/plan?lang=eng](http://www.new.wales.gov.uk/desh/publications/housing/1389812/plan?lang=eng)

<sup>29</sup> 'Regulatory Code for Housing Associations Registered in Wales' available at: <http://new.wales.gov.uk/topics/housingandcommunity/housing/publications/regulatorycodehas?lang=en>

<sup>30</sup> 'Welsh Housing Association Consortia: Overcoming the barriers' (October 2007) Housemark at: [www.housemark.co.uk/hmkb2.nsf/2/E935EBCEF52F95E180257376002B39B3?opendocument](http://www.housemark.co.uk/hmkb2.nsf/2/E935EBCEF52F95E180257376002B39B3?opendocument)  
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- Clarifying what consortia need to do to achieve full accredited status; and
- Funding a consortia good practice forum to disseminate information on what initiatives have worked well and what have been less successful.

Both Welsh Assembly and consortia should consider:

- The adoption of a mutually-agreed performance measurement framework that consortium can use to underpin their efficiency improvement plans.

The research<sup>31</sup> found that, in consortium procurement, progress had been made in the development of framework contracts. However, take up was still in its early stages among most of the consortia and only limited progress had been made in moving to standard specifications and the collective procurement of materials.

The implementation of collaborative working and collective purchasing involves time to tender for contracts and up front planning, waiting for old contracts to elapse, a period of six to twelve months before benefits can be assessed and cultural changes for people to buy-in to the new purchasing arrangements. For these reasons it can take between three and five years to implement fully and at the time the research was conducted it was reported that it was not possible to estimate consortia spend on collaborative procurement.

On the issue of requiring trained staff to co-ordinate partnership contracts, some Housing Associations had appointed a Programme Director, but most had not and were relying on the largest Housing Association in the consortia to use existing staff to co-ordinate the programme. None of the consortia had Key Performance Indicators in place and most had not set any specific targets for collaborative procurement outcomes and efficiency gains. Most consortia representatives blamed the lack of efficiency targets and Key Performance Indicators on the Welsh Assembly Government because guidance was unclear and criteria hard to measure.

It was found that there was rivalry between different Housing Associations which influenced what consortia they were willing to join depending on existing membership. Some felt that the consortia were still not large enough to make significant savings on procurement. It was thought by some Housing Associations that there were still too many of them and that mergers and closer collaboration would be needed to make significant procurement savings.

#### RESPONSE OF CONTRACTORS/SUPPLIERS

Consortia had found that the concept of collaborative procurement had met with a mixed response from suppliers and contractors. Small to medium sized businesses were very supportive with large businesses much less so. Some welcomed it as a way of obtaining more business, but some consortia members felt threatened and the concept of collaborative working had never been part of their culture. Where private sector

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<sup>31</sup> 'Welsh Housing Association Consortia: Overcoming the barriers' (October 2007) commissioned by Housemark Cymru:  
[http://www.housemark.co.uk/hmresour.nsf/lookup/WelshHAConsortiaReport.pdf/\\$File/WelshHAConsortiaReport.pdf](http://www.housemark.co.uk/hmresour.nsf/lookup/WelshHAConsortiaReport.pdf/$File/WelshHAConsortiaReport.pdf)

scepticism existed, it seemed to be based around a concern with open book costing, the requirement for collaborative working and a challenge to the efficiency of their current working practices. This was unexpected as it had been anticipated that their concerns might have centered on consortia attempting to lever price cuts from collective purchasing power.

INDEPENDENT REVIEW OF THE REGULATION OF HOUSING ASSOCIATIONS IN WALES

In October 2007, the Deputy Minister for Housing in the Welsh Assembly announced an independent review of the regulation of registered social landlords. A newspaper article<sup>32</sup> claimed that this could lead to a potential additional investment of £112m over the next four years in affordable housing. The review has been given the objectives of:

Removing the constraints on the ability of registered social landlords to deliver broader social products necessary for sustainable communities including tackling homelessness; identifying the opportunities for releasing more investment or funding in the sector to meet the One Wales goals; as well as incentivising higher environmental standards, identifying further opportunities for using the Making the Connections agenda to good effect in the housing area.

**REPUBLIC OF IRELAND**

A report by the Timber Frame Housing Consortium which was published by the Department of the Environment in 2002 stated that:<sup>33</sup>

*Social housing in the Republic of Ireland is provided by both local authorities and voluntary housing associations with funding by the Department of the Environment, Heritage and Local Government. The method by which these organisations procure their housing stock greatly influences the form of construction used in the building of social housing stock...*

*Social housing providers tend to use the 'traditional procurement route'. This route involves the substantial completion of design by the housing providers' designers prior to the issue of tender documentation. The tender documents, consisting of drawings and specification (with or without bills of quantities), are issued to the tendering building contractors and competitive tenders<sup>34</sup>*

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<sup>32</sup> 'Affordable housing Key to Regeneration' Western Mail 13 February 2008.

<sup>33</sup> Report by the Timber Frame Housing Consortium (2002) for the Department of the Environment, Section 8 at:

<http://www.environ.ie/en/DevelopmentandHousing/BuildingStandards/TimberFrameHousing/>

<sup>34</sup> As above paras 8.3.1 and 8.3.2

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The 'traditional route' is described in the report as having the following principles at its core:

- Design and construction responsibilities split;
- Design completed prior to starting on site;
- Client afforded maximum ability to effect change at any stage of the process;
- Client attains relative cost certainty at the outset of the construct stage of the project;
- Client attains relative programme certainty at the outset of the construct stage of the project;
- Approach allows maximum competition at all levels of the supply chain at tender stage;
- Risk allocation is well established, known and understood by all participants;
- Client retains maximum control on the process, which allows the client an input into all aspects of the design process in particular;
- Tendering costs for contractors are low based on the provision of completed design by others; and
- A suite of standardised and recognised contract documents supported by substantial case precedent is in place<sup>35</sup>.

The report went on to suggest that:

*The continued dominance of this procurement method has coincided with the continued use of conventional design and construction methods to the probable exclusion of innovative or alternative designs and/or technology<sup>36</sup>.*

The RoI report dates back to 2002 and mentions that Egan, in identifying ways that the construction industry's performance could be improved, gives as an example the use of pre-fabrication in construction. This is not perhaps surprising since the RoI report was produced by the Timber Frame Housing Consortium.

The report's authors believe that public sector bodies will continue to use traditional procurement partly because contract documents and procurement procedures are familiar and understood by key players and it accommodates the more recent EU Procurement Directives<sup>37</sup>. The report argues that to make the existing social housing market more accessible to non-conventional construction methods, such as timber frame

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<sup>35</sup> Report by the Timber Frame Housing Consortium (2002) for the Department of the Environment, Section 8: 8.4.11

<http://www.environ.ie/en/DevelopmentandHousing/BuildingStandards/TimberFrameHousing/>

<sup>36</sup> Report by the Timber Frame Housing Consortium (2002) for the Department of the Environment, Section 8: 8.3.11 at:

<http://www.environ.ie/en/DevelopmentandHousing/BuildingStandards/TimberFrameHousing/>

<sup>37</sup> Revised regulations covering England, Wales and Northern Ireland took effect on 31 January 2006 and are available on the website of Office of Government Commerce (OGC) at:

[http://www.ogc.gov.uk/procurement\\_policy\\_and\\_practice/procurement\\_policy\\_and\\_application\\_of\\_eu\\_rules.asp](http://www.ogc.gov.uk/procurement_policy_and_practice/procurement_policy_and_application_of_eu_rules.asp)

houses, there would need to be changes in key aspects of procurement where the traditional procurement model means that:

- ❑ The allocation of responsibility and liability for design is with the client rather than the contractor;
- ❑ The timing of the tender in the overall process means that the full design is decided at tender stage with no flexibility in the method of construction; and
- ❑ The form of contract for procurement used by the public sector has largely remained unaltered since its inception, whereas contracts familiar to the private sector have undergone amendments. Principal in these amendments has been the issue of design responsibility and the role of specialist sub-contractors.

#### **4.0 NORTHERN IRELAND**

A Draft Procurement Strategy consultation document<sup>38</sup> that included a questionnaire was sent to consultees by the Department with a closing date for responses of 6 July 2007.

The aim of the new procurement strategy<sup>39</sup> is to concentrate social housing procurement around a small number of dedicated procurement groups with efficiency gains allowing the Department to provide more social housing for the same level of public expenditure. It is envisaged that expertise concentrated in groups will promote partnering, sustainability, improved design and the use of non-traditional methods of construction. Better value and performance is also expected from builders and suppliers.

Suppliers will no longer be appointed on the basis of lowest price, but will become part of a series of projects with a managed supply chain. This should provide builders and suppliers with a stake in delivering a successful project and becoming part of a managed supply chain. The creation of procurement groups involved in supply chain management should benefit smaller contractors and suppliers and benefit the local economy.

Key objectives of the proposed procurement strategy<sup>40</sup> for the Social housing Development Programme are to:

- ❑ Procure the programme on a value for money basis and in accordance with best practice; and
- ❑ Reduce the transaction costs of construction procurement by establishing procurement groups<sup>41</sup>.

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<sup>38</sup> 'Proposals for a Procurement Strategy for the Social Housing Development Programme' available on CIH website at: <http://www.cih.org/northernireland/policy/housing-development-procurement-strategy-consultation.pdf>

<sup>39</sup> Response to request for information from the Office of the Permanent Secretary 7 March 2008.

<sup>40</sup> Procurement Strategy for the Social Housing Development Programme due for publication by DSD in April 2008.

<sup>41</sup> 'Proposals for a Procurement Strategy for the Social Housing Development Programme' consultation document from DSD available on the Chartered Institute of Housing website at:

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Included within the draft strategy is the proposal to establish a Programme Board for the delivery of the Programme.

The draft strategy envisages that Housing Associations will continue to be the main delivery vehicle for social housing to ensure the continued input of private finance. They will be required to organise themselves into no more than three procurement groups, although the Department say they will consider arguments for a higher number. The final number of groups will have to encompass the 36 registered Housing Associations currently operating in Northern Ireland. Housing Associations will be able to retain their corporate identity for the provision of specialist housing services<sup>42</sup>.

A grant will be available from the Department to assist in the setting up of procurement groups. This will be payable in two parts; the first for a potential procurement group to produce a business plan and the second part for its implementation once agreed.

- The Department will engage the National Change Agent (Housing) which operates in England to assist Housing Associations, Local Authorities and Arms Length Management Organisations to improve procurement and delivery efficiencies.
- The Northern Ireland Housing Executive (NIHE) will play a key role in the draft strategy and will become a Centre of Procurement Expertise (COPE) to provide procurement advice to Housing Association groups. It will also undertake overall programme management and agree an overall five year programme with the Department. The Department will set the annual budget and long term programme size.

A Housing Forum to deal with construction related issues regarding private and public housing will be created by the Constructing Excellence Centre for Northern Ireland in the University of Ulster.

## **5.0 CONSULTATION RESPONSES TO PROPOSED PROCUREMENT STRATEGY**

Responses to the questionnaire (attached at Annex A) on the proposed Strategy remain confidential with a summary made available by the Department<sup>43</sup>. The Chartered Institute for Housing (CIH) has its response on its website<sup>44</sup> and the opinion of the Construction Employers Federation was also obtained<sup>45</sup>.

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<http://www.cih.org/northernireland/policy/housing-development-procurement-strategy-consultation.pdf>

<sup>42</sup> Procurement Strategy Consultation Document p4.

<sup>43</sup> The summary did not attribute comments to any respondent.

<sup>44</sup> <http://www.cih.org/northernireland/policy/housing-development-procurement-strategy-consultation.pdf>

<sup>45</sup> Telephone conversation with CEF CEO 19.2.2008.

The summary of responses to the procurement strategy proposals show that respondents were mainly in favour of Housing Associations remaining the delivery vehicle for social housing. Respondents thought that the proposed Procurement Board should be made up of representatives of key stakeholders such as the Department, NIHE, the Construction Industry, the Strategic Investment Board, Construction Employers Federation and representatives of the Housing Association sector.

It was thought that the formation of procurement groups in 2008 was too challenging and proposed that the deadline be postponed until 2009. A grant for the setting up of the groups was unanimously welcomed and some respondents felt there also needed to be a grant to conduct feasibility studies. One respondent expressed a concern that the funding may diminish the social housing budget.

Response to proposals for NIHE to offer advice as a Centre of Procurement Excellence got a mixed response. Some who had received advice in the past had found NIHE knowledgeable and helpful, while others felt unable to comment as they had limited experience of NIHE.

Most respondents felt that the Department should not lay down criteria for the formation of procurement groups, but that Housing Associations should be given autonomy to choose the membership of the groups themselves.

CIH in Northern Ireland believes that collaborative working will be essential for efficiency and economies of scale and that these groups should be balanced in areas of expertise. It recognises, however, that time should be allowed for Housing Association consortia to form on a voluntary basis before any coercion is applied. CIH believes that some Housing Associations may require more time and support to adjust to the new system than others.

Improving value for money and quality in construction should be agreed between the Housing Associations and the contractor and quality standards monitored throughout the building process. CIH recommends the introduction of an evidence based bidding process with measuring success to include reductions in construction costs and lower maintenance and operational costs.

CIH believes that, if implemented effectively the procurement strategy could produce added value in terms of creating local jobs, training and SME development and regeneration. However, the CIH response notes that clear guidelines will have to be in place to ensure that key player's collaborative working can be achieved and will remain sustainable.

The Construction Employers Federation (CEF) has welcomed the key objectives of the procurement strategy, and while accepting the industry has a role to play in part of the solution to the social and affordable housing crisis, believes the process must be agreed with developers rather than imposed<sup>46</sup>. CEF has a concern that a rush to involve the private sector in the delivery of social and affordable housing without carefully thought

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<sup>46</sup> Construction Employers' Federation Submission to the Expert Panel on Housing Affordability 12 December 2007.

out policies could lead to a reduction in housing output as was the case in the RoI. This would not only exacerbate the housing crisis, but also place jobs at risk in the construction industry<sup>47</sup>.

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<sup>47</sup> Telephone conversation with CEF 19.2.2008.

## **ANNEX A**

### **QUESTIONS FOR CONSULTEES CONTAINED IN DRAFT PROPOSED PROCUREMENT STRATEGY CONSULTATION DOCUMENT.**

1. Housing Associations will, for the foreseeable future, be the main delivery vehicle for social housing provision. Have you suggestions for other delivery vehicles?
2. Housing Associations will be expected to provide a substantial private finance contribution towards the provision of social housing. Do you consider it reasonable to assume that associations will want to retain control and be responsible for any associated procurement activities given the association's financial commitment?
3. The Procurement Strategy recommends the formation of a number of procurement groups to deliver the social housing development programme. What is your view on the minimum number of procurement groups that should be established?
4. The Procurement Strategy recommends a Procurement Board to overview the delivery of the procurement strategy. What is your view on the make up and role of this board?
5. The Procurement Strategy has set a timetable for delivery of the procurement groups. Is the timetable sensible and achievable?
6. In addition to the areas mentioned in the consultation paper, are there any other areas or activities that the procurement groups could contribute to effect efficiencies?
7. Is the proposal to make grants available to help establish procurement groups reasonable?
8. The Procurement Strategy recommends long term contracts such as frameworks or strategic partnering contracts as the preferred route for the Social Housing Development Programme. What is your view on groups setting up long term contracts before 31 December 2008?
9. Do you believe that the proposal for general procurement advice to be provided by the NIHE as a Centre of Procurement Excellence will be sufficient for the procurement groups to meet the procurement requirements set by the Housing Association Guide in future?
10. Do you consider that DSD should lay down criteria for the formation of groups on the basis of maximum/minimum stock size or previous development activity?