

Housing

National report

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Better buys

Improving housing association procurement practice

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Summary

Housing associations could make further savings from procurement worth over £100 per home...

- A third of recent efficiency savings typically came from improved procurement.
- The contribution varies markedly across the sector; from £1.66 per housing unit to over £220 per unit.
- Potential savings through improved procurement could be more than double those currently being achieved.
- Associations often have a good grasp of product costs, but many miss the quick wins, for example on stationery.
- Perceived legal constraints and a lack of skilled staff can be barriers, and are often more acute for smaller housing associations.

...and achieve wider goals as well as meeting efficiency targets.

- Some associations are successfully using procurement to contribute to regeneration and diversity aims.
- The promotion of sustainable development through procurement practice is at an early stage.
- Involving residents in procurement is patchy, even though it can lead to process efficiencies, better customer service and improved relations between residents and contractors.

Well managed associations with appropriate skills and knowledge are most likely to improve...

- Successful housing associations create an internal culture committed to obtaining continued benefits.
- It is not enough simply to choose the right procurement methods.
- Collaboration between housing associations, including group structures and shared services, can lead to real benefits, but the merger process can deflect attention from excellence in procurement.
- No single organisational structure provides guaranteed improvement.

...and there are clear factors for successful procurement.

- Actively managing contracts and supplier performance.
- Understanding how internal processes can increase or decrease the benefits from procurement.
- Developing a performance culture that identifies procurement's contribution to wider objectives.
- Employing a senior procurement champion.
- Investing in procurement skills and expertise.
- Developing supply chain management.

Recommendations

Housing associations should:

- identify gaps in procurement skills and take steps to fill those gaps, either by building in-house capacity or seeking external expertise;
- identify and collect information on the market before considering procurement options and ensure that performance monitoring and benchmarking is undertaken as part of the procurement cycle;
- consider and evaluate all models of collaboration for achieving greater efficiency, including shared services in groups and consortia;
- explore and evaluate a greater role for e-procurement tools; and
- ensure that residents are involved in, and have appropriate opportunities to influence, relevant procurement processes.

Central government should:

- provide incentives to housing associations to make well-informed and effective choices in procurement, building on the existing work of the National Change Agent for Housing; and
- widen the scope of the National Change Agent for Housing to allow consortia to offer all types of materials and services for the full range of repairs and maintenance activities as well as for new build.

Housing Corporation and/or the Office of Tenants and Social Landlords should:

- draw on learning from this study to contribute to guidance and good practice notes and circulars on mergers, group structures, resident involvement, procurement and governance; and
- establish mechanisms to address gaps in procurement skills and capacity identified by housing associations working with the housing trade bodies, National Housing Federation and Chartered Institute of Housing.

The Audit Commission will ensure that learning from the study is built into the key line of enquiry on value for money and develop tools that will enable housing associations to make more effective use of procurement.

Introduction

- 1 The housing association sector is growing: it now provides more than two million homes in England (**Ref. 1**). It is under pressure to deliver services that represent good value for money for residents and for the public purse. And housing associations are subject to the government's objective to secure sustainable efficiency gains following the Spending Review in 2004 and the Comprehensive Spending Review 2007. This report focuses on the role of housing association procurement practice in helping to build a more efficient and effective sector. It aims to support associations and other social landlords to improve their approach to procurement, concentrating on non-development activity. This study also seeks to raise residents' awareness about the contribution of good procurement practice to service quality and to help them to make an effective contribution to procurement decisions.

- 2 The study was conducted as part of a Housing Corporation and Audit Commission joint programme designed to make recommendations for improving the economy, efficiency and effectiveness of housing associations. The research was undertaken in the summer of 2007 and the original aims of the study were to:
 - assess the benefits of the different methods of procurement open to housing associations;
 - help smaller housing associations to improve their approach to effective procurement; and
 - assess the contribution of residents in housing association procurement practice.

- 3 Details of the study methodology can be found at Appendix 1.

- 4 This report has seven chapters. Following this Introduction, Chapter 1 looks at housing associations' expenditure, and discusses the main influences which encourage associations to deliver efficiency gains. Chapter 2 considers the role of improved procurement practice in delivering efficiency gains. Chapter 3 examines the different methods of procurement available to associations and discusses the relative importance of these, against other, organisational factors. Chapter 4 looks at the increasing trend towards greater collaboration in purchasing and discusses the evidence on its effectiveness. Chapter 5 takes a wider view, examining the other key objectives that housing associations must meet in their procurement decisions, including: progress on diversity and equalities; regeneration; sustainability; and resident involvement. Chapter 6 starts to give some practical help to associations by identifying what makes good procurement before conclusions are presented in Chapter 7. Further practical advice will be provided in the supporting tools that have been developed to accompany this report:
- briefing papers for tenants and housing association board members;
 - interactive CD Rom;
 - positive practice in procurement guide; and
 - a model procurement strategy.
- 5 These resources will be available to download from the Audit Commission website: www.audit-commission.gov.uk/nationalstudies.

1

Housing association spending and efficiency

Housing association spending

- 6 The combined turnover of all housing associations in England in 2005/06 was over £9 billion. Their operating costs were £7.5 billion, of which over a third (£2.8 billion) was spent on repairs and maintenance of the housing stock (**Figure 1**). This aspect of housing association activity, along with management and service functions¹, can potentially be outsourced to external providers, suggesting that the value for money of more than two-thirds of all housing association spending could be tested through open competition. This option gives housing associations a viable alternative to the more traditional in-house delivery if a service or function is inefficient and/or underperforming, and 99 per cent of respondents to the study's e-survey indicated that they do outsource some activities. It also presents associations with an opportunity to make significant savings through better procurement.

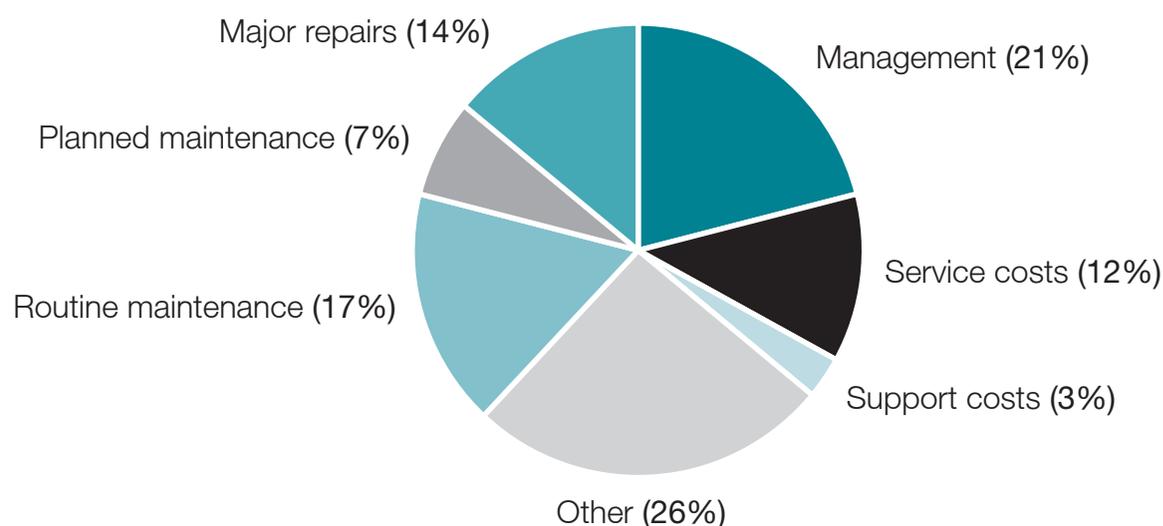
Housing association efficiency

- 7 Housing associations are under pressure to deliver efficiency gains. Following Sir Peter Gershon's (**Ref. 2**) review of public service efficiency, the Department for Communities and Local Government (CLG) set targets in 2005 for efficiency gains across key areas of associations' operations (**Table 1**). These targets, which related to both cashable and non-cashable gains (**Box A**), were aimed at maximising the resources reaching front-line housing services, and associations were expected to re-invest savings to improve such services.

¹ Including legal, IT support and payroll.

Figure 1**Housing association expenditure by category**

Repairs and maintenance costs account for over a third of expenditure.



Source: Housing Corporation Global Accounts 2006

Box A**Cashable and non-cashable gains**

Cashable: An efficiency gain that is available for another purpose. A housing association could save £100,000 by improved procurement of goods and services; that money could go to improve services to residents.

Non-Cashable: A gain that leads to higher quality, or better services to tenants, but no cash is released for another purpose. A housing association could make a non-cashable gain by negotiating better quality kitchen equipment for the same price as it previously paid for lower quality goods.

- 8 This focus on efficiency is reinforced by the regulatory and inspection regimes of the Housing Corporation and the Audit Commission. For the Housing Corporation, efficiency is an integral part of its annual Housing Corporation Assessment. This assesses associations with over 1,000 homes on their viability, governance, and management. The Housing Corporation has also developed an Operating Cost Index (OCI) that compares an association's actual unit cost of operation with a predicted unit cost. The OCI is a starting point for associations to compare their cost effectiveness with others.

- 9 The Audit Commission places a strong emphasis on value for money in its inspections of social landlords and has developed a specific key line of enquiry for value for money supported by a guidance note. Achieving and demonstrating value for money in service delivery is a key requirement in securing a favourable inspection score.
- 10 Residents are another important driver of associations' behaviour. They expect better quality services from their landlords and are increasingly holding their associations to account for performance. These increasing expectations are partly the consequence of the current emphasis on consumer choice and partly the result of explicit encouragement by the Housing Corporation and the Audit Commission for associations to involve their residents (**Ref. 3**). In addition, there is growing evidence of the business case for greater and more effective resident involvement. Previous Audit Commission research found a direct connection between effective resident involvement and improved services and value for money (**Ref. 4**). Residents are therefore becoming more involved in individual procurement decisions and, through their membership of housing association boards, are influencing corporate policies on purchasing.
- 11 This focus on efficiency is not new for housing associations, but it is clear that they now face significant external pressures from a number of different sources to deliver improved value for money.
- 12 The Housing Corporation tracks the progress of efficiency gains made by housing associations through the annual efficiency statements (AES). According to this information, housing associations are significantly out-performing the efficiency targets set by CLG (**Table 1**). Reported savings from a range of activities, including procurement, represent 3.5 per cent of aggregate turnover and 4 per cent of total expenditure of the sector in 2005/06.

Table 1**Reported efficiency gains – 2005/06**

AES information suggests that efficiency gains for the sector have significantly out-performed the targets.

£ million	Total achieved (£m)	CLG target (£m)	Target exceeded by (£m)
Capital works	£81m	£2m	£79m
Management and maintenance	£130m	£35m	£95m
Commodities	£27m	£10m	£17m
Other	£80m	N/A	£80m
Total	£318m	£47m	£271m

Source: Housing Corporation Thematic Review 2007

- 13 But these global cost savings do not reflect the whole picture and there is concern in the sector about the reliability of these figures and whether savings are replicable in the future as:
- Housing association staff had concerns about the reliability of the data provided in the AES and were sceptical about whether they reflected true efficiency savings in associations. Verification of a sample of AES was attempted, but it was not possible to track the efficiency savings reported in the statements into associations' management accounts.
 - Nearly a tenth of the savings that make up the £318 million saved over 2005/06 are the outcome of one-off changes housing associations have made to their treasury management, in particular renegotiating the terms and conditions of loans. These economies will be harder to replicate if the economic climate changes and interest rates rise.
 - Some staff were also sceptical about where any savings were re-invested, believing that the current emphasis on development and providing large numbers of new homes meant that any savings would be more likely to be directed to those activities, as opposed to improving services to current tenants which was the original aim of the AES.

- 14 However, the study did find value in the system. The existence of efficiency statements was found to be helpful in focusing minds. Some associations reported that the necessity of thinking about efficiency savings before filling in the AES had been a stimulus to making efficiency and value for money a more central consideration within their organisations.
- 15 The 2007 Comprehensive Spending Review sets tougher targets with a different focus. The new targets are for housing associations to achieve 3 per cent net cash-releasing value for money gains per annum over the next three years. And the focus has shifted away from the 2004 themes of management, capital works and commodities towards:
- business process re-engineering to include innovation, collaboration between public bodies, use of technology, and workforce planning;
 - enhancing competition and smarter procurement; and
 - asset management.¹
- 16 These tougher targets and new themes make the findings from this study even more relevant. Housing associations will be under greater pressure to be more efficient and to use improved procurement practices to achieve the aims. The next chapter discusses the role of procurement in delivering efficiency savings, and reports that the response from housing associations is varied.

¹ Themes informed by research and case studies from: the Audit Commission (*Seeing the Light*); CLG (*Local Government Efficiency – Case Studies and Literature Review, Long-term Evaluation of the Best Value Regime: Final Report. Developing the Local Government Services Market to Support the Long-term Strategy for Local Government*); and HM Treasury (*Prosperity for all in the Global Economy – World Class Skills*).

2

Procurement can play a key role

Procurement plays a key role

- 17 In the document, *Delivering Value for Money in Local Government: Meeting the Challenge of CSR07*, there is an explicit assertion that procurement can play a key role in securing efficiency savings. The findings in this study confirm this.
- 18 Housing associations procure a range of goods, works and services to support their roles as social landlords. For example, they will have to operate rent collection services and systems, provide cleaning for communal areas and fit new front doors. Any of these can be obtained from external suppliers, be provided in-house, or involve a mixture of external and in-house provision. In making procurement decisions, associations need to avoid seeking short-term savings at the expense of longer-term benefits. The government encourages the housing sector to be mindful of the full procurement cycle by defining procurement as:
- ‘the process of acquiring goods, works and services, covering acquisitions from third parties and from in-house providers. The process spans the whole cycle from identification of needs, through to the end of a services contract or the end of the useful life of an asset. It involves options appraisal and the critical “make or buy” decision which may result in the provision of services in-house in appropriate circumstances.’**
- 19 The term ‘procurement’ is often used interchangeably with purchasing, buying, contracting, and sometimes commissioning. But it relates to more than the point at which money is exchanged for goods. Done well, procurement is about adopting a strategic approach that covers every aspect of an associations’ work, decisions and the processes.
- 20 Procurement plays a significant role in associations’ efficiency savings. In the e-survey it was found that, on average, a third of associations’ efficiency savings were attributable to changes in their procurement processes.¹ There is also evidence, explored below, that housing associations are confident in making further efficiency savings through procurement in the future.

¹ Our e-survey asked: ‘what proportion of your association's efficiency gains for 2006-07 came from procurement of repairs and maintenance and housing management functions (not new build)?’

21 However, in order to realise any future benefits, associations will need to improve their understanding of the distinction between transaction costs (the costs of a procurement exercise) and product costs (the price paid for goods or services). There are different levels of sophistication in housing associations’ understanding of this distinction. Pressures to be economical in the short term can divert associations’ attention from investing properly in the process to protect them from later costs. On the other hand, associations can over-elaborate their procedures with unnecessary transaction costs, both before and after signing a contract. Often, an investment in costs before signing the contract can save an association from having to cover costs after signing the contract **(Box B)**.

Box B
Contract costs

Costs before signing the contract	Costs after signing the contract
Choosing the right design	Starting the contract
Finding out what is in the market	Managing the contract
Securing the right supplier	Dealing with risks
Awarding the contract	Negotiating variations
Mitigating risks	Evaluating the costs and benefits of the contract over the life of the service/product

22 The study focused on how those housing associations with over 250 units approach the procurement of repairs and maintenance and housing management services. New build procurement was specifically excluded from the study. It was found that, while there are many examples of improved procurement processes leading directly to significant savings in product costs **(Box C)**, relatively few associations, 7 per cent in the e-survey, are realising the benefits of reducing their transaction costs **(Box D)**. Those that have made inroads into their transaction costs have often done so by chance rather than by design. Most prefer to concentrate on realising the benefits through product price variation, although there is some progress on securing lower transaction costs through the use of new technology.

Box C

Product costs

Liverpool Housing Trust worked with partners in the supply chain to examine costs and re-engineer processes; they have held the cost of contracts to their original price instead of an annual percentage increase of the retail price index plus 2 percent.

Swaythling Housing Society expects to save £215,000 on installation and boiler purchase this year through consortia procurement.

Box D

Transaction costs

'Partnering has meant we have been able to reduce our administrative staff from 12 to 6 because of the different way we deliver the contract making use of electronic invoicing etc.'

CDS Housing, Director

'We have specifically re-tendered our payment methods, which will be implemented from April 2008 and will include direct debits. Once implemented this should release £60,000 a year.'

Head of Procurement, medium-sized housing association

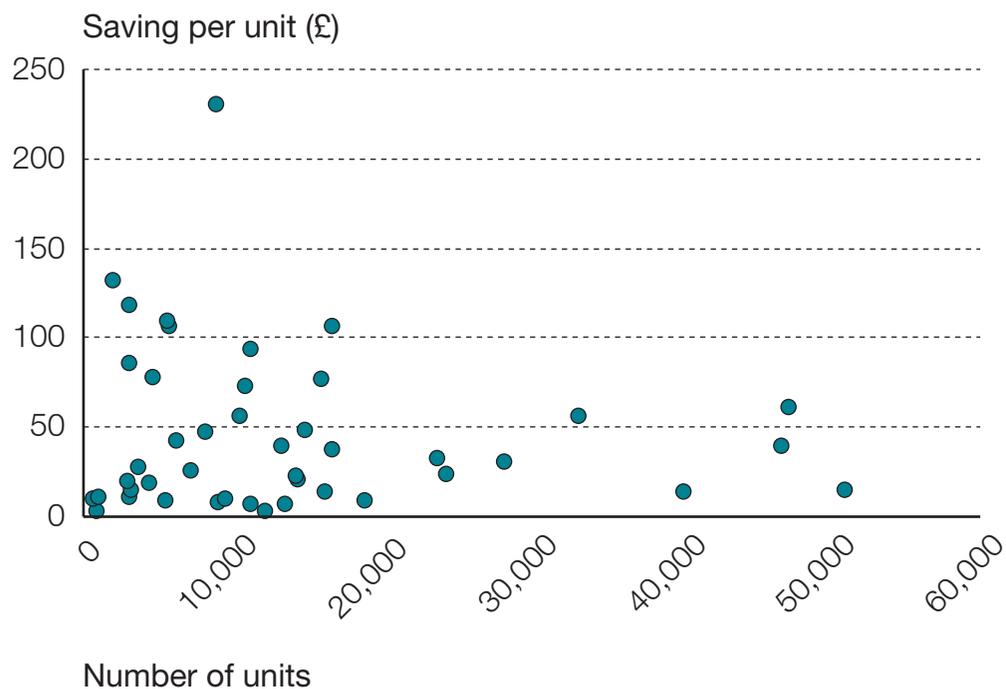
But its contribution varies widely across associations

- 23 While the overall contribution of procurement to efficiency gains is significant, it varies markedly across the sector. Within the sample of associations from the e-survey, efficiency savings attributable to better procurement varied between £1.66 per housing unit and £220 with an average of £40 per unit. There was no correlation between size of housing association and unit savings (**Figure 2, overleaf**). Few associations are consistently using better procurement to achieve significant gains.

Figure 2

Housing association savings from improved procurement per unit

Efficiency savings attributable to better procurement varied between £1.66 per housing unit and £220 per unit with an average of £40 per unit.



Source: E-survey, Audit Commission 2007

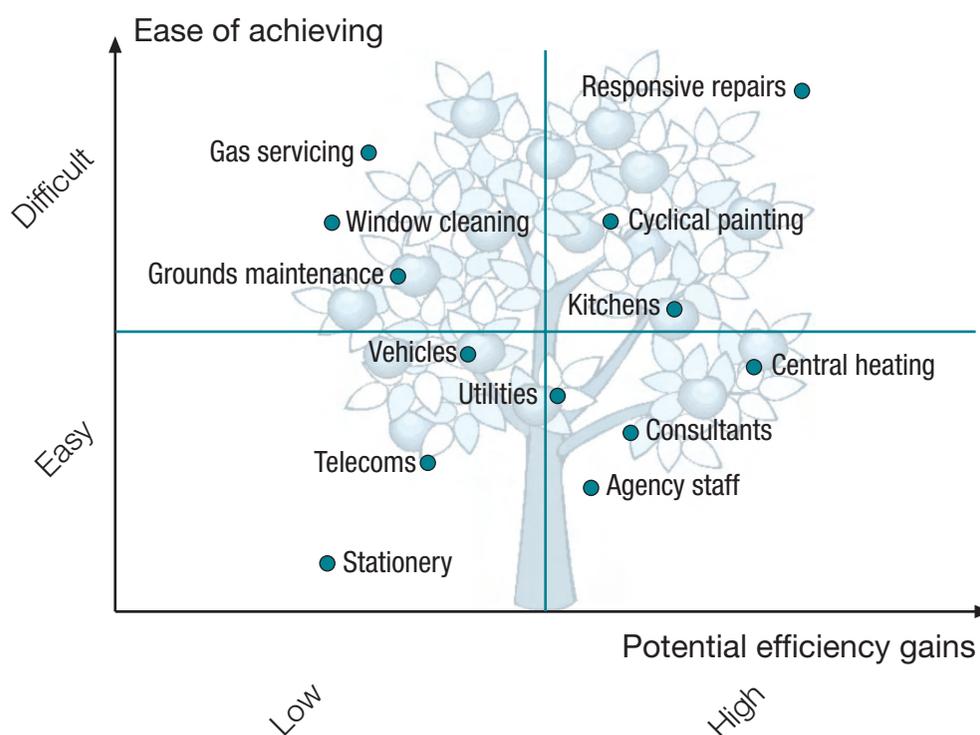
24 The spread in savings made from improved procurement is a result of significant variations in awareness of, and willingness to realise, efficiencies through that route. It was anticipated that all associations would have accessed the quick wins, such as renegotiating stationery or telecoms contracts. Achieving savings here is usually relatively straightforward and since these types of contracts have minimal direct impact on residents, they require little consultation. But the study found that many associations had not even made progress on these contracts; they had not picked the low hanging fruit or windfalls (**Figure 3**).

25 At the other end of the scale are the services that have a high impact on customers and require a great deal of consultation. Services such as responsive repairs and cyclical painting fall into this category. Commissioning these services is more complex, and sustainable efficiencies may appear more difficult to achieve because of the need for continuing contract and performance management. But, as the study found, the levels of efficiency gains and other benefits to be secured by effective procurement in these higher effort/higher risk categories can be substantial. For example, in addition to the £490,000 predicted saving over five years for their cyclical painting contract, Chester and District Housing Trust achieved a non-cashable benefit of an increase in customer satisfaction with the service from 76 per cent to 90 per cent.

Figure 3

Procurement tree

Some activities have greater potential for efficiency savings than others and some are easier to achieve, but it was found that many associations have not even picked the low hanging or fallen fruit.



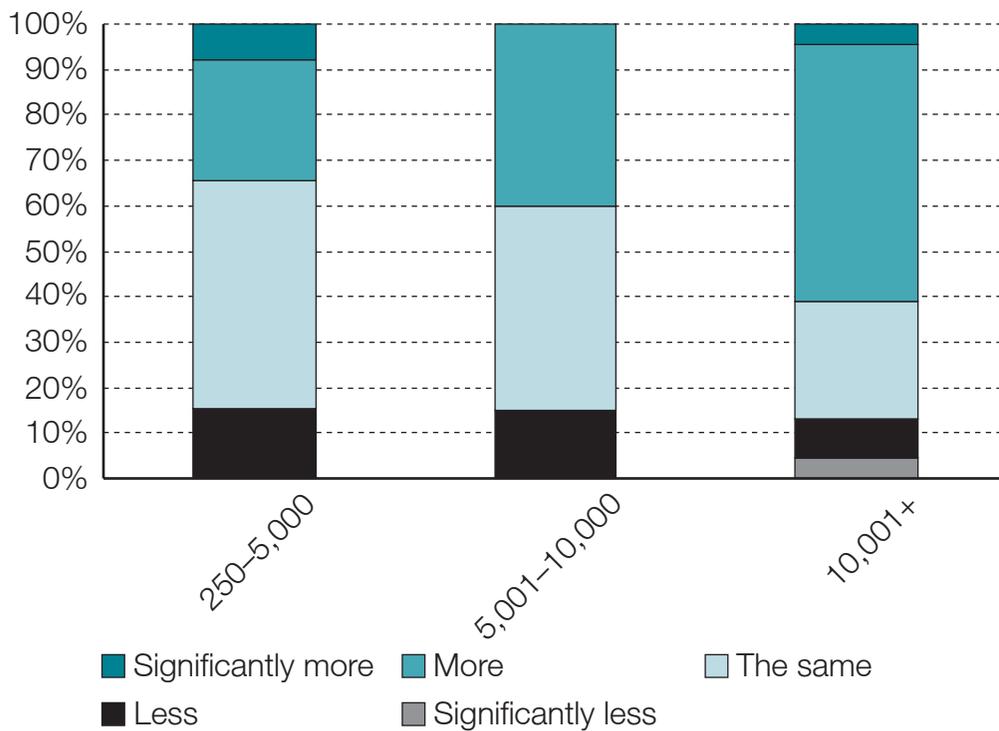
Source: Audit Commission 2007

26 One concern often raised in relation to efficiency savings is whether they are sustainable or simply likely to be one-offs. The findings on this are positive: in general those associations making savings were more likely to have mechanisms in place that meant they would continue to do so. Housing association staff anticipate making the same level of savings or more in the immediate future, although this is clearly more difficult for smaller housing associations (**Figure 4**). The telephone survey of housing association chief executives confirmed this; 80 per cent of the chief executives interviewed were confident that they could obtain the same or greater savings from procurement in the future, regardless of their baseline position.

Figure 4

Predicted proportion of housing association efficiency gains for 2007/08 compared to 2006/07

Housing associations anticipate making the same level of savings or more in 2007/08 than they did in 2006/07.



Source: E-survey, Audit Commission 2007

27 But the extent of variation in the sector suggests that there is significant scope for housing associations to gain greater benefits from an improved approach to procurement. If all associations did as well as the top quartile performers in the e-survey,¹ it is estimated that the savings through improved procurement for the sector would be more than double those currently being achieved, some £229 million (**Table 2**). These additional savings equate to some £100 per housing unit; savings which could be re-invested in the fabric of residents' homes or the landlord services they receive.

Table 2

Efficiency savings and potential savings in the housing association sector

The e-survey shows that many housing associations can make more efficiency savings through better procurement, and if they all did as well as the high performers, more than double the current savings would be achieved.

Stock size	Annual efficiency gains through procurement achieved by top performer (£,000)	Number of housing associations in this stock range	Potential annual savings if all achieved top quartile performance (£m)
250 - 2,499	£237,000	254	£60m
2,500 - 4,999	£337,000	150	£51m
5,000 - 7,499	£597,000	65	£39m
7,500 - 9,999	£371,000	24	£9m
10,000 - 19,999	£1,734,000	32	£55m
20,000+	£1,819,000	8	£15m
		Total	£229m

Source: E-survey, Audit Commission 2007

28 The next chapter investigates the key factors that determine a successful approach to procurement.

¹ Extrapolation of top quartile performers savings per housing unit in e-survey to all associations by stock size, e-survey, Audit Commission 2007.

3

It is the organisational environment that matters

29 In considering how to carry out repairs and maintenance or housing management procurement, housing associations have a menu of options open to them, ranging from a traditional in-house service to a sophisticated partnering model (**Box E**).

Box E

Procurement options open to housing associations

Repairs and maintenance provision	Description	Advantages	Disadvantages
In-house	Service is provided and managed internally. Internal processes are tested against quality standards, benchmarks, and/or the market.	Long-term relationship Integrated systems VAT exempt.	May not be competitive with the market.
External	Service is provided by one or more contractors and managed under traditional contract arrangements. Performance is measured against targets set in the contract.	Competitive market. Easy to find expertise. Responsibilities are clearly defined in the contract.	Disputes can be difficult and disruptive. Us and them mentality can develop. Using a number of contractors can create high numbers of invoices. Liable for VAT.
Mix of in-house/external	A combination of internal and external provision (see above).	Best of both worlds approach. Reacting to the market.	List of preferred contractors can be unwieldy. Difficult to develop long-term relationships.

Repairs and maintenance provision	Description	Advantages	Disadvantages
Partnership through groups/ consortia	Housing associations group together to create economies of scale, share services and/or expertise.	Bigger influence in the market. Shared experiences. Utilising skills of others.	Time intensive. Difficulties in agreeing spec. One member may dominate.
Partnership with private sector	A development on traditional contracts where a relationship is built between the client and contractor. Partnerships may include open-book accounting, co-location and shared risk.	Encourages an honest, open relationship. Innovation in delivery. Additional community and environmental targets can be achieved through partnership.	Management can be resource intensive. Benefits can take time to materialise. Long-term partnerships could be uncompetitive with the market.

- 30 If associations do decide to contract with an external organisation to provide these services, there are a range of contract types they can consider:
- **One-off contracts** are usually short-term contracts for a specific piece of work. Consultancy work and legal advice usually fall into this category.
 - **Framework agreements** allow a client to form an arrangement with a supplier to purchase goods at a predefined price over a set period of time. This agreement will then establish the terms of any contract awarded to the supplier within that period. Framework agreements may be used for example, for printing or the supply of boilers. One advantage of procurement consortia is their ability to negotiate framework agreements for their members.
 - **Renewable or period contracts** are used for goods that are continually required. These contracts are periodically reviewed and the client will either renew the contract or go back to the market to re-tender. These contracts, for example, may be used for the supply of doors or for insurance.
 - **Partnering contracts** are different from the traditional client/contractor relationship. Partners will establish shared objectives, and share risks and benefits. Open-book accounting and co-location are two possible features of partnering contracts. Partnering contracts are often used for the responsive repairs service or gas servicing.

- 31 But the choice of method or contract is not the most significant factor in successful procurement. A comparison was made between the performance of housing associations on three repairs performance targets^I with the method of delivery of their repairs and maintenance contract.^{II} There was no clear correlation between performance and delivery method, and no clear correlation between efficiency savings and method of delivery.
- 32 These findings suggest that the choice of procurement method is only one factor in determining the extent of savings. Other equally important factors include:
- clarity of leadership;
 - the appointment of a senior procurement champion;
 - skills;
 - active contract and performance management; and
 - supply chain management.

Leadership

- 33 Clarity about who is leading on procurement issues can help associations in organising themselves and can contribute to improving outcomes. According to the e-survey, housing association staff perceive that procurement policy is owned by managerial leaders and implemented by members of specialist or dedicated staff. Furthermore, e-survey respondents were of the view that board members had a high level of understanding of, and commitment to, procurement. This is an important first step: it was found that procurement strategies are most likely to be delivered when owned by the senior management team and the board.

I i) emergency repairs completed in target; ii) urgent repairs completed in target; and iii) routine repairs completed in target.

II In-house contractor/s, external contractor/s, mix of internal/external contractors.

Procurement champion

- 34 The existence of a senior procurement champion, wherever they sit in the management structure, is crucial. The study found associations that have someone who is passionate about good procurement, open to new ideas, and seeks to enthuse others, were making more progress. This need not necessarily be a dedicated post; some housing associations had chosen that route while others had unofficial champions. In both cases there were strong links between the presence of a champion and more effective use of procurement to achieve value for money for the association and for residents.

‘We are a large dispersed business so we have procurement champions within the company. The champions are people close to procurement on a day to day basis but act as evangelists within their establishment. We hold a conference every other year when we get all the champions together but we also send a quarterly email to them. They then cascade the information down.’

A large private sector company

‘We have procurement champions in each department. We are called the Value for Money Group now and we ensure that everyone is working to our strategy and share good practice across the organisation.’

North Western housing association

- 35 Dedicated procurement managers were more common in the larger associations, where the benefit of having such a post is judged to be significant.

‘We established a procurement team in April 2006, initially with one member. They were charged with creating and delivering a procurement strategy and had a target of £90,000 savings for the year. £300,000 of savings were achieved against this target and the team has been increased to two members with a target of £500,000 savings in 2007/08. In addition the service procurement manuals have been developed and guidance and training are being rolled out in 2007/08.’

Traditional housing association

‘We have employed a procurement and partnership manager who is working across the association identifying efficiencies. One example is saving £40,000 on procurement of vehicles by suggesting an alternative to the one we were pursuing, while another was renegotiating utilities bills saving £200,000.’

Stock transfer housing association

- 36 Smaller housing associations may struggle to find the resources to appoint a dedicated procurement manager, but some are beginning to work together and create joint posts, mirroring the shared services agenda developing in local authorities.

‘The Advantage South West Limited Liability Partnership (LLP) was originally set up in 2004 by four South West housing associations to procure timber frames for new developments. A further six South West housing associations have joined the group to procure collectively capital works. The LLP now has a collective stock of approximately 44,000 units and with funding from the National Change Agent for Housing a procurement manager has been jointly appointed. The procurement manager will work alongside technical staff from the housing associations and oversee the procurement of items such as kitchens, bathrooms and windows and if the relationship proves successful the procurement of goods for new build.’

- 37 These factors, strong board and managerial leadership and the existence of an effective procurement champion, can overcome one of the key barriers to effective procurement practice. This is the silo mentality that can develop within associations, preventing links being made between the procurement practices of different activities; in particular repairs and maintenance, development, and support services. In many housing associations these functions are dealt with separately without any overarching procurement strategy or single focal point of expertise. This results in a fragmented approach to procurement, which was found to be a common problem within the sector.

‘Our development team are part of a consortium for development but the boilers for our new build are different to those we are looking to procure through our capital works consortia.’

Technical Director, medium-sized housing association

- 38 A group of newly appointed procurement managers reported that they were finding considerable scope for making efficiency savings, but referred to the need to change the culture of their organisations, as they were finding deeply embedded prejudices over procurement choices. They said that staff often preferred to retain their existing suppliers because they had an established relationship, rather than agreeing a specification for the goods or service to be provided and then tendering for the best supplier in terms of an agreed matrix of cost and quality.

‘I am only a recent appointment but am finding things difficult because particularly the technical staff think they know best and want to stay with the same suppliers they have always had, but I want to look at what we need and then get the right product in terms of cost and quality.’

Procurement Manager, Southern housing association

‘I have 425 staff who all think they are procurement experts in my organisation.’

Head of Procurement, national housing association

- 39 Comparator work undertaken with the private sector found that all those spoken to had procurement champions, either specified as an additional role for a director in a small company, or as head of a small team of procurement. These individuals had the responsibility for maintaining a contract register, and in the case of one larger company, also had the responsibility for monitoring contract compliance.
- 40 Those interviewed from the private sector reported that it was common in their sector for managers to face reduced performance bonuses if they bought goods and services off-contract. The aim is to ensure that the effectiveness of the procurement process in achieving value for money is not undermined by individuals purchasing their own preference at a quality and price that is unpredictable. Similar approaches were not found in housing associations. What the research did highlight, however, was the impact of uncoordinated procurement decisions:

‘At one housing association a decision was made in the stores to change the supply of toilets to what appeared to be an identical product at a cheaper price. When operatives began installing these toilets they found they had a tendency to crack when being fitted. This led to operatives spending more time on installation and a consequent reduction in tenant satisfaction.’

Medium-sized housing association

‘Similarly when a housing association changed their supplier of push button toilets an analysis of whole life costing was not considered. This became apparent when operatives realised the plastic ring that surrounds the flusher could not be replaced individually and a new system needed to be installed whenever one failed. The saving on the system was outweighed by the extra time and cost of replacing the whole toilet when only a small part needed replacing.’

Medium-sized housing association

Procurement skills

- 41 The research suggests that the skill set for procurement staff is broad. It requires staff to understand:
- costs, price and lifetime costing;
 - specification writing, quotations and tendering;
 - contract law;
 - negotiation;
 - contract and performance management;
 - benchmarking;
 - risk management;
 - supplier development and supplier relationship management; and
 - the role of IT.
- 42 Effective procurement depends on staff having sufficient level of skills to improve procurement outcomes. However, results from the e-survey showed very few housing associations had staff with formal procurement qualifications and that those that did tended to be the larger associations (**Figure 5**). This suggests that small to medium-sized associations are under-investing in the skills and capacity for dealing with increasingly complex procurement processes and decisions. Associations need to recognise that the cost of a training course or recruiting a specialist can be minimal compared to benefits they can secure:

‘Procurement is a profession, in the council they have a procurement team, as a separate company we wanted our own expert. I felt they would deliver and pay their wages in weeks rather than years. And it’s about professionalising it, we have a lot of good housing managers but they are not procurement experts.’

Finance Director, arm’s length management organisation

Figure 5
Percentage of housing associations with staff that hold procurement qualifications

Larger housing associations are more likely to have skilled procurement staff.



Source: E-survey, Audit Commission 2007

43 Admittedly, it may not be either feasible or cost effective for associations to have all of these skills available in-house. Many associations make use of consultants, balancing increased transaction costs with savings in management and staff time and better procurement. This is particularly the case where specialist skills are required: associations reported the use of consultants to be particularly valuable in navigating through the issues of complying with the European Union rules governing procurement.¹ Some associations made sure that such consultancy support was also used to build capacity and skills within the association. One association, having worked alongside consultants on one large contract, felt confident to repeat the EU procurement process for subsequent contracts itself.

Active contract and supply chain management

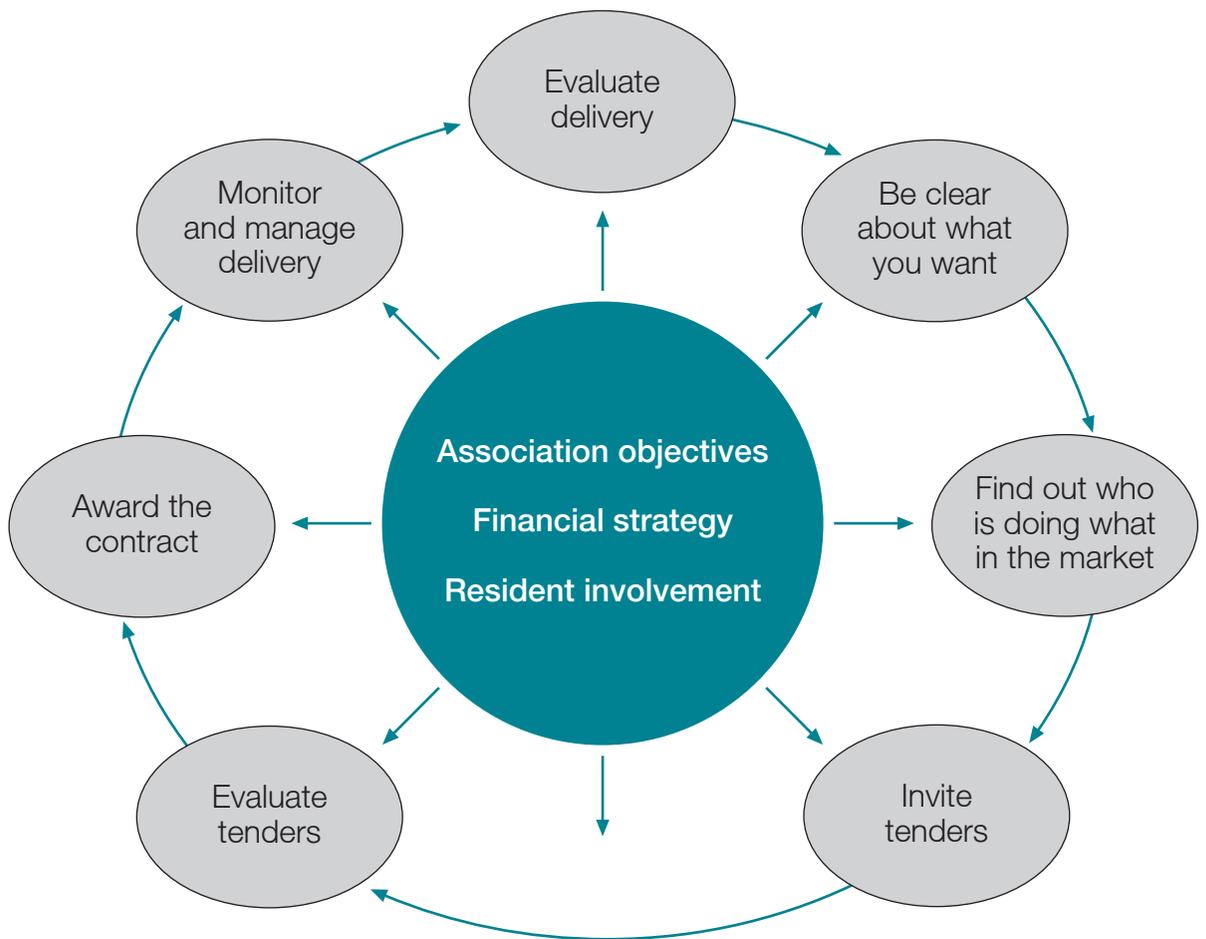
- 44 Associations need to employ the principles of good procurement at all stages in the procurement cycle (**Figure 6**). While a change in procurement method may realise initial savings, they are unlikely to be sustainable without ongoing and active management of the contract. This is particularly important to avoid some of the well known pitfalls of contractual relationships and to capture the additional benefits available through different forms of contracts.
- 45 Good contract management involves actively monitoring and controlling all aspects of the relationship between the service provider/contractor and the customer to ensure the contract is delivered at the agreed price and quality standard. It requires good communication between both parties. And it is very important for the client to be clear about what they want to achieve from the procurement exercise.

¹ Social landlord contracts exceeding the following thresholds, as set on 1 January 2008, are subject to Public Contracts Regulations 2006 and are required to be advertised in the Official Journal of the European Union (OJEU.) Works: €5,150,000 = £3,497,313; supplies: €206,000 = £139,893; services: €206,000 = £139,893. These thresholds are 3 per cent less than in 2007.

Figure 6

The procurement cycle

Principles of good procurement should be integral with the organisation’s objectives, financial strategy and resident involvement strategy.



Source: Audit commission 2007

‘The first year of our maintenance partnership was tough; costs escalated and what we saved on rates we lost on extra materials. The pricing mechanism put in place in the contract was not fully understood and after four months, we were paying 30 per cent above what we normally paid. We called the contractors in, renegotiated the contract and cut profit on the preliminaries. Part of the extra increase was about understanding how things worked. Now we undertake an annual external cost validation process, assessed against the National Housing Federation schedule of rates. Last year, 2006/07, we made a 24 per cent saving, around 10 per cent below market level.’

Partnership manager, medium-sized housing association

- 46 Some associations take contract management a step further into supply chain management. Supply chain management is the involvement of the client in the chain of businesses/suppliers that are providing a product or service. The aim is to improve the performance of both the individual organisations and the supply chain as a whole. This approach is applicable to traditional arm’s length contracting, but is more suited where there is a longer-term relationship between the client and supplier, such as in partnering contracts. Effective supply chain management was found to be another important factor in securing better procurement.
- 47 Supply chain management has been common practice in parts of the private sector for many years. One company interviewed, which operates in a global market, uses supply chain management to guarantee it receives a continuous stream of supplies at competitive prices and to ensure that its suppliers are focused on sustaining quality.
- 48 The social housing sector is only just starting to explore the role that supply chain management can play in achieving better outcomes from procurement. Some housing associations refer to the concept as second generation partnering where a partnership arrangement is linked to supply chain management with strong financial incentives, as well as the sharing of risks and rewards.
- 49 Liverpool Housing Trust (LHT) has adopted this second generation approach. It actively supports its contractors in programmes to improve their performance. By helping these companies understand their own businesses better, LHT has achieved efficiency improvements throughout the supply chain. Total savings to the Trust over the last three years from their partnering contract for heating systems have been in the region of £1.1 million. The improved boilers supplied through this arrangement have saved tenants £80 per home in their annual fuel bills.

‘LHT first employed a consultant in 2004 to carry out a detailed business analysis of their heating installation and maintenance partners. Under several partnering framework agreements, LHT had access to much cost information but they wanted better intelligence on what was driving cost increases in their partners. In common with other housing associations, LHT had previously accepted cost increases from their partners, providing a rationale had been provided.

‘The process of the review was important. It involved data analysis, interviews with directors and operational staff and on-site investigation of processes. The key was for the contractors to be open and honest. Contractors moved from initial suspicion to understanding the value of the exercise. One contractor told us: “I would now recommend this to anyone. It really changed the way we thought about our business and it has been really helpful in reducing our costs and making us more successful.”

‘One of the issues highlighted was that many of the companies were small businesses started up by skilled craftspeople but had grown and now needed different skills to manage them. One company director told us: “All our directors are heating engineers first and foremost, not business people. When we saw the consultant’s report it was really enlightening and has helped us to save money and become more efficient. Everything used to be in the head of one of the directors, which worked when we were smaller, but now we have computerised and we can all share the information. We saved £1,000 a month on our phone costs by making the changes suggested.”

‘LHT has had no price increases on its work for the last year and are paying far less than many other organisations to install their heating systems. There is also a focus on quality throughout the partnering team, demonstrating how low costs can be associated with high quality.

‘Another aspect of supply chain management undertaken by LHT was to tackle a problem they had with boilers failing and needing to be replaced within 3 years of installation as opposed to the manufacturer’s recommendation of 15 years. The boiler manufacturers identified the issue as one of water quality. LHT worked with the manufacturer, its installers and the company supplying the inhibitor that improved water quality and has improved the life cycle of its boilers. LHT told us it would save £90,000 this year (2007/08) in reduced boiler replacements.

‘LHT believe that it would not have been able to make managing its supply chain as effective if partnering approaches had not been in place. It believes that the partnering approach of open and honest communication and accountability throughout the supply chain has enabled them to discuss and drive real change which has benefited both the association and their supply chain. It has led to savings of £1,013,400 during the life of the heating installation contract and the more efficient running of the boilers has saved tenants an estimated £112,000, the equivalent of £80 per tenant home. The cost of boiler installation has also decreased by £500 per boiler.’

Director, LHT

- 50 There are a number of elements that associations need to consider when putting in place the right conditions for effective procurement practice. Choice of procurement method and contract is only part of the picture. Associations also need to ensure that they establish the right leadership, organisational structures and skills, and that they properly engage with their supply chain. Collaboration with other associations may also have a role to play and this is examined in the next chapter.

4

Collaboration can deliver

- 51** Housing associations can benefit from combining buying power or sharing services, including procurement functions. Pooling resources and aggregating requirements can lead to significant discounts on goods and utilities. Local authorities and other public services have used collaborative arrangements, for example, purchasing consortia, joint procurement arrangements, and shared services, to their advantage in reaching their efficiency targets. For a range of reasons, collaboration on procurement, at least for non-development expenditure, is less common in the housing association sector. But there are still many different ways in which housing associations can collaborate with each other: groups; mergers; strategic partnerships; consortia; or other joint procurement projects. The sector uses these models to varying degrees, the most recent development, setting up of purchasing consortia, emerging in the last three years or so.
- 52** These new collaborative models do not automatically generate the anticipated benefits in procurement. To realise the advantages of collaboration, associations have to ensure that the building blocks, described in the last chapter, are in place.

Groups and mergers

- 53** A group usually involves a parent housing association and a number of subsidiaries. In previous research (**Ref. 5**) it was found that there are a variety of motives for setting up groups, including tax and borrowing savings, ring fencing diverse activities and providing local subsidiaries that can act locally. The previous research also found that while many of these aims had been achieved, especially around tax savings, there was much less evidence that groups were more efficient or that economies of scale were delivered quickly. Current research, as part of this study, confirmed there is still a mixed picture, with some group structures leading relatively quickly to more efficient procurement and others proving to be more resistant:

‘We think we have a really strong partnering approach to procurement but this hasn’t been taken up across the group as yet.’

North Western housing association

‘We are part of a group but it is early days and we are keeping our own identities.’

Southern housing association

‘It was a requirement of joining the group that we bought in to payroll and HR.’

South Eastern housing association

‘We formed a group and now we can recycle our profits from our trading arm into our charitable arm.’

South Western housing association

- 54 Mergers are different and involve the integration of two or more landlords into a single new structure, which potentially needs fewer board members and less complex structures. Many mergers in the sector have taken place to address weaknesses in the constituent associations, although more recently associations have merged for different reasons: to address operating efficiencies, to rationalise stock and to streamline their processes.
- 55 The study found some examples of mergers resulting in procurement savings, but most of the associations spoken to reported that the efficiency savings anticipated as a consequence of a merger were not always realised and were sometimes overtaken by the transition costs involved in restructuring.
- 56 There is a wide range of views and experience on the merits of groups and mergers and whether they lead to significant procurement savings. But some commentators have found that process streamlining can be costly. And recent work by KPMG and the National Housing Federation found that the main reasons for mergers cited by housing associations were expansion and growth of the organisation, and the opportunity that brings for reducing risk and increasing development opportunities, rather than achievement of efficiency gains (**Ref. 6**). There is also evidence from research within the private sector (**Ref. 7**) that a certain cut-off point may be reached, at which point economies of scale such as increased buying power, are countered by diseconomies of scale, such as an increase in bureaucracy (**Ref. 8**).
- 57 Available evidence suggests that caution is needed when associations consider merging or setting up groups. Associations need to look carefully at set-up costs, how they will positively act to realise efficiencies and the likely pay-back period when considering a merger. Concerns were raised by people spoken to as part of the study that for some

housing associations a merger becomes an end in itself, rather than the means to achieving better value for money for the association and their residents. This is despite guidance from the Housing Corporation (**Ref. 9**), which sets out its expectations on the outcomes of such activity and in particular the effect on organisational efficiency, capacity and services to current and future residents.

Strategic alliances, partnerships, buying clubs and consortia

- 58** Other forms of collaboration requiring less radical change or investment include strategic alliances, partnerships, buying clubs and consortia. Around 80 per cent of the housing associations responding to the e-survey had used a consortium, but their use was limited to only a very small proportion of the association's purchases. Many housing associations thought membership of a consortium was necessary for regulatory or inspection reasons but, once they had joined, often did not use them. Office supplies is the most popular item to be bought from one large, national, housing buying club, but this is only taken up by 50 per cent of its members. There were similar results from the telephone survey; most housing association chief executives said that they felt they should be using consortia and partnering, but were not sure what this would mean in practice, or what the benefits would be.
- 59** The use of consortia in procuring supplies for capital works is promoted by the National Change Agent¹. It has been tasked by CLG to administer the Efficiency Challenge Fund, which encourages the formation of consortia to allow social landlords access to cheaper supplies for refurbishment and renewal, particularly in relation to the Decent Homes Programme. The study found some housing associations had made significant savings through such purchasing consortia, but also that some were using their membership of consortia simply to benchmark their costs. They were sceptical about whether they would make any real savings through using the consortia. One of the issues may be that many of the consortia are in their infancy and have not yet reached arrangements for a full range of materials. Restricting consortia to capital works is uneconomic, and widening the purchasing power of consortia to all types of materials and services would be advantageous in delivering efficiencies to the social housing sector.

1 The National Change Agent for social housing procurement is managed by Davis Langdon in association with Trowers and Hamblins on behalf of CLG and provides specialist support, including standard documentation and advice on structures and models for setting up consortia.

Partnering

- 60 Partnering is another example of collaboration; this time between a customer and their supplier. It is not suitable for every type of contract, but is often applicable where there is a longer-term relationship which allows for recovery of initial investment costs, for example responsive repairs or gas servicing contracts. There are various types of partnering contracts but the key difference to traditional contracting is the greater degree of openness, communication, mutual trust and sharing of information and risk that is required. Partnering can lead to better value for money and the study found successful partnering arrangements resulting in clear benefits for residents.

‘The key things we found when we moved into a partnering arrangement were that performance of our key objectives for customer satisfaction increased from 65 per cent to 90 per cent over 18 months. Analysis showed there was no immediate cost saving on an average job value, however improvements in the time taken to do the job and the customer satisfaction were all delivered for the same price.’

Sovereign Housing Association

- 61 However, building and maintaining a partnering arrangement can take much more effort and time than a traditional approach and partnering contracts need active management.

‘We were one of the first housing associations to enter into a partnership agreement with a large national company to operate a materials management service. The company manages the materials stores at both our depots, providing materials to our operatives. We have made £60,000 savings per year and we receive a rental income for the depot space. The contract is coming to an end and we are going back out to the market. We thought a partnering arrangement meant that it would be easier to manage and would automatically give us savings, but we realise now that it needed active management and we think this time round we can make even more savings and proactively keep prices competitive over the full length of the contract.’

Midlands housing association

‘We are half way through a ten-year partnership to deliver our asset management services. It takes time to build an effective relationship. In our first year we wanted to improve performance but did not know what that would cost so we bore the brunt of the increases, but in the second year the costs were capped and the contractor took the risk and 7 per cent increase in cost. By the third year we had enough information to move to unit pricing which we benchmark annually and we have a shared risk/reward framework. The partnership has improved the performance of our repairs service and tenant satisfaction but it does need active management.’

Richmond Housing Partnership

E-procurement

- 62 While not directly an example of collaboration, e-procurement does lend itself to collaborative arrangements. E-procurement is a term that covers a range of technologies that can be used to automate the internal and external processes associated with sourcing and buying materials and services. There are four common elements to e-procurement (**Box F**).

Box F

E-procurement methods

E-tendering	Where the tendering process is undertaken on the internet.
E-auctions	Carried out on the internet and are usually reserve auctions where the buyer initiates an auction in order to purchase goods or services from the lowest bidder who meets the specified requirements.
E-purchasing	The automation of the buying processes, from the creation of the requisition through to payment of suppliers and is often integrated with e-catalogue purchasing or an e-marketplace. E-marketplace is a web-based application facilitating electronic trade between one or more buying organisations and several supplier organisations. The supplier organisations often have websites with searchable electronic product catalogues from which products can be selected to create an electronic order.
Procurement cards	Charge cards that work in a similar way to credit cards and can be used to purchase goods or services, and where transactions are low value but high volume.

63 E-procurement can realise considerable cost benefits. One of the private sector firms interviewed for the study set up the first e-marketplace for the hospitality industry in collaboration with a competitor.

‘We enjoy significant purchasing power and access to quality suppliers. We have reduced cost, time and paperwork by moving our business relationships to the web. The real key to success lies in how well the marketplace integrates with our business’s enterprise resource management and inventory systems so we can properly monitor contract compliance.’

Regional Director of Procurement, international hotel chain

- 64** Councils are also benefiting. The National E-procurement Project carried out research in 2004 into the benefits of e-procurement for local authorities (**Ref. 10**). It found that:
- e-tendering can deliver average savings of 21 per cent for a non-Official Journal of the European Union (OJEU) tender and 25 per cent for an OJEU tender;
 - e-auctions can deliver savings in process time and costs;
 - e-purchasing can deliver average savings of £26 per transaction; and
 - procurement cards can deliver average savings of £33 per transaction.
- 65** But while use of e-procurement is common in the private sector and in local government, it is not used so extensively by housing associations. When comparing data from the e-survey with a survey undertaken with councils in 2004, it is clear that housing associations have been slower to embrace e-solutions in procurement (**Table 3**). This is an area where housing associations need to be more aware of the benefits. For relatively little investment they could make more use of e-procurement tools.

Table 3**Housing association and local authority use of e-procurement tools**

	Housing associations 2007	Local authorities 2004
On-line catalogues	49%	59%
E-ordering systems	49%	59%
E-payments	42%	52%
Procurement cards	34%	45%
E-tendering	18%	24%
E-auctions	5%	19%
E-marketplace	4%	13%

Source: Audit Commission e-survey 2007 and 2004 Inlogov/Office of the Deputy Prime Minister survey of local government procurement practice

- 66 While there are benefits to be had from greater collaboration and e-procurement, such mechanisms need to be used intelligently to maximise potential benefits. In the next chapter the balance between efficiency gains from effective procurement and the wider contextual issues of diversity and equalities; regeneration and local economic development; sustainable development; and resident involvement are examined.

5

Procurement can go beyond efficiency gains

67 Associations are faced with a challenging agenda. As well as a focus on efficiency and improving the value for money of their services, many are also responding to a set of wider objectives, including promoting sustainable development, regenerating their local areas, promoting diversity and involving residents. Associations are focused on these objectives to varying degrees, depending on whether they see themselves as agents for social change or as businesses. Wherever they are on this spectrum will determine how much priority they give to these other agendas.

Sustainable development

68 The housing association sector has a strong record in relation to many of these wider objectives, notably regeneration, but sustainability and particularly environmental sustainability is a newly emerging policy priority for the sector. Many aspirational comments about addressing sustainable development through procurement were voiced during the study, but limited practical examples were found. These included one association sourcing supplies locally; it also had strict recycling and salvage targets to reduce waste going to landfill. And a supplier of doors for one arm's length management organisation (ALMO) had opened a factory locally, creating jobs and having the added environmental benefit of a reduced distance from source to destination.

69 But for most housing associations, the green agenda seems to be relatively low on their list of strategic priorities. From the e-survey it was found that only 4 per cent of respondents had set specific targets within their procurement strategies relating to environmental sustainability, while 16 per cent had specific examples set out in their strategies. This is in stark contrast to the results from a similar question within the evaluation of the National Procurement Strategy for Local Government where 46 per cent of local authorities had specific examples or targets for achievement.

70 One of the barriers for associations is the inconclusive and confusing debate within the housing sector and the building industry more generally about green procurement. For example, there are numerous claims and counterclaims as to which is the most environmentally friendly window frame. This lack of clarity can be unhelpful for

associations trying to align their procurement strategies with green objectives. There are difficulties around making choices and also a need to take into account whole life costing of products and their sustainability. But as socially responsible landlords there is an expectation that environmental sustainability should be a consideration in procurement decisions.

Regeneration

- 71 Many housing associations see themselves as important agents in the regeneration of the physical, economic and social capital of their areas. This reflects the shift away from a bricks and mortar approach to housing provision to one that recognises the need to create sustainable communities. The lines between social landlord responsibilities and wider regeneration activities have become blurred. There is some good practice where associations have explicitly used procurement activities to promote the employment of residents and local people and to support local businesses. For example, a housing association in an area of deprivation worked with its existing small medium enterprise (SME) contractors to enable them to compete for a partnering contract.

‘We were a small family business employing subcontractors. We did not really understand about partnering and all this European Union procurement legislation. The housing association has really helped us to understand and given us the confidence to find out more about working in a different way. It was a big leap for a small business like us. We feel we are a real part of the organisation. It was strange at first to really drill down into our business and talk about the difference between price and cost and examine our own inefficiencies. We’ve changed and are more selective with whom we work. In partnering you need to have similar values. We employ our own staff now we are assured of work over a longer period; satisfaction of our staff is high and turnover low. We needed to change culturally and understand partnering. We are glad we did; we have a projected turnover of £5 million this year and employ 80 staff, whereas before the partnership we had a turnover of £450,000. The association was 80 per cent of our business but now it is just under 30 per cent. The whole experience has been so good for us in growing our business and that is important round here to be able to provide jobs.’

Director of small medium enterprise building contractor delivering emergency repairs, void repairs to housing association working in a deprived area.

- 72 And many associations require their contractors to earmark a certain proportion of jobs for local people. For example, Fusion 21, a consortium active in the North West has a skills training programme that helps unemployed people gain training and jobs in the construction industry. Over 400 people have been helped into permanent employment since its inception in 2002.

Equality and diversity

- 73 Housing associations should underpin all their activities with a commitment to promoting equality and diversity and to engaging residents. The Housing Corporation's regulatory code specifically requires associations, when carrying out all their functions, to demonstrate their commitment to equal opportunity. More specifically, the former Commission for Racial Equality code of practice on housing covers all housing tenures and sets out guidance in relation to procurement processes and monitoring contracts. Central to selecting contractors should be the requirement that the contractor's workforce is capable of providing the service to the standards specified in the contract, including, where appropriate, meeting any racial equality requirements. There is an expectation that housing associations will have built relevant equality considerations into their procurement process and have in place effective monitoring processes that demonstrate contractors' compliance.
- 74 Many associations do link their regeneration and equality and diversity objectives together, as at Old Ford Housing Association:

'Old Ford is traditionally a very tenant-focused housing association, and in partnership with its contractors, it offered its residents the chance to apply for an apprenticeship and to gain recognised qualifications in a given trade. Through placements with the various contractors a high number of apprentices have achieved NVQ level 2 while some have gone on to achieve NVQ level 3 and permanent employment with the contractors. Old Ford has also embedded its equality and diversity objectives in the scheme and a recent success story has been the first female plumber to have completed the apprenticeship and move into a permanent position with a contractor.'

Old Ford Housing Association, Director

‘The partnership is committed to implementing the Respect for People Toolbox – Rethinking Construction. We have devised our own workforce equality and diversity strategy. We have women apprentices and one has gone on to secure permanent employment.’

CDS Housing, Director

- 75 However, the study found that equality and diversity issues are not consistently being built into procurement processes. This is a missed opportunity. The telephone survey found equalities and diversity ranked below efficiency savings, service improvement, environmental and community sustainability in order of priority for procurement objectives. This lower priority was also borne out in the e-survey where it was found that while around half of the associations have targets for delivering equality and diversity objectives through their procurement practice, only a third integrate equality and diversity objectives into their contracts. It is important that equality and diversity issues are considered as part of procurement so as to not preclude, for example, small and/or ethnic minority businesses from competing for contracts.

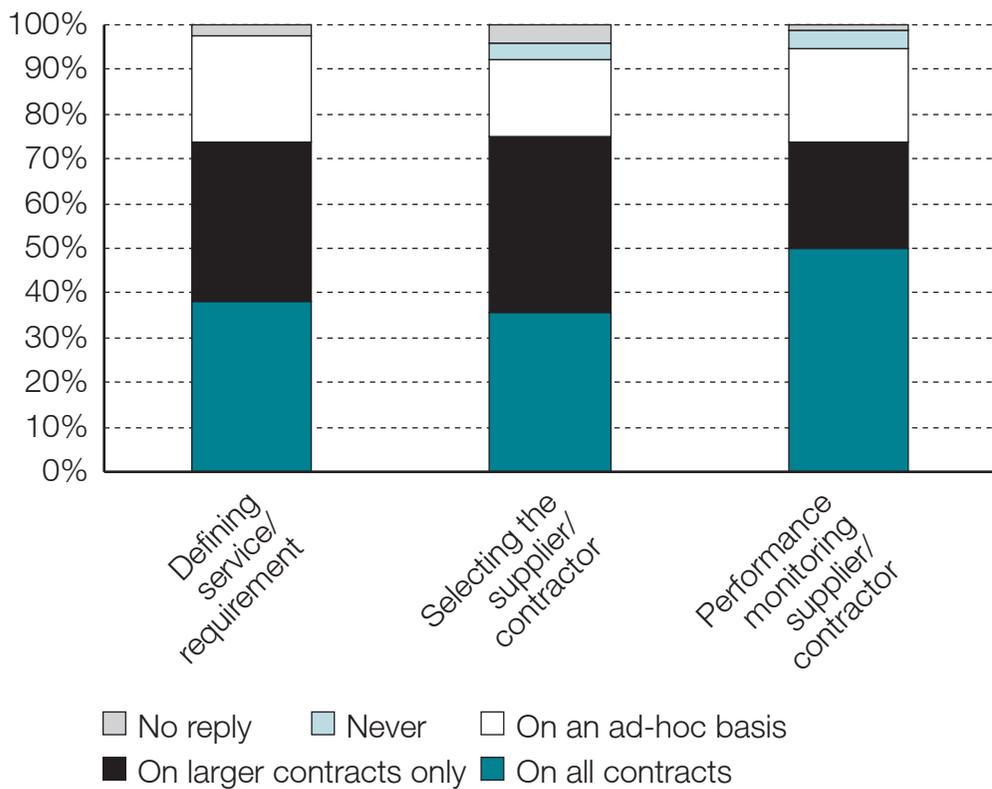
Resident involvement

- 76 Resident involvement is a key priority for the government and regulators in the development of an organisation’s approach to the delivery of housing services. Yet residents are not consistently consulted on matters of procurement that affect them. The approach across the sector seems rather haphazard: 65 per cent of housing associations responding to the e-survey did not always consult residents/tenants when selecting the supplier/contractor for repairs and maintenance or housing management services; 51 per cent of housing associations did not consult residents when preparing their procurement strategy; and only 26 per cent of housing associations measured performance for resident satisfaction as part of the procurement process (**Figure 7, overleaf**).

Figure 7

Resident consultation

Residents are not consistently consulted on procurement decisions for repairs and maintenance and housing management services.



Source: E-survey, Audit Commission 2007

77 This inconsistent approach to resident involvement in the sector is not acceptable. The business case for involving residents in procurement is clear as evidenced in the Audit Commission 2004 study, *Housing: Improving Services through Resident Involvement*. Then it was demonstrated that, for example, there were very clear benefits in involving residents in the implementation of partnering contracts. This can cost very little, but can yield substantial benefits such as improvements in the process, continued inclusion of local contractors in the partnering arrangement and improved relations between residents and contractors.

78 Housing associations need to make informed choices as to when it is appropriate to involve residents in procurement processes and decision making. Residents will clearly be affected more directly by some procurement decisions than others. It can be helpful to consider the spectrum of possible levels of involvement, ranging from simply informing residents of procurement decisions to devolving the whole process to them to run **(Table 4, overleaf)**. Successful landlords understand which contracts and what part of the procurement cycle residents will be most interested in and which can be legitimately dealt with by staff only, such as the procurement of stationery.

‘The window cleaning contractor for Sheffield City Council housing department had been underperforming for years and tenants were unhappy with the service they were receiving. Before management of the stock transferred to the ALMO, gaming had gone on and contractors had been awarded the contract at a price they were unable to deliver with the result that the windows were cleaned sporadically. The tenants encouraged the ALMO to re-tender and were key throughout the procurement process and in the monitoring of the contract. The residents now have a contractor that is delivering the service to a high standard. This was a relatively small contract for Sheffield Homes but had a big impact on tenants.’

Director, Sheffield Homes

79 Sometimes there are tensions between the current focus on efficiency and other considerations, such as sustainable development or diversity and equalities. Rather than seeing these other objectives as complementary, the study found that some associations saw them as potential adversaries or irrelevant to achieving efficiency. Associations need to move away from seeing their priorities as trade-offs to implementing procurement approaches, but rather that their priorities need to balance the pressures for economy and efficiency with those for effective services and wider considerations **(Ref. 11)**.

80 In the next chapter the key criteria in effective procurement are explored.

Table 4
Residents and procurement matrix

Housing associations demonstrated in the study a wide variation in their activities with residents as part of the procurement cycle.

Procurement stage	Residents' role			
	Informed	Consulted	Involved	Devolved
Identify the requirement		Residents asked about future service and product requirements and their perceptions of impacts on association services	Residents' representatives discuss and negotiate future standards and requirements with the association	Residents identify service need and draw up specifications for delivery
Research the market	Information supplied to residents about current procurement activity	Residents asked for any information they have on potential suppliers	Residents/residents' representatives are involved in searches, 'meet the buyer' activities and visits to see suppliers' work (alongside association staff)	Residents use their own contacts and networks to research the market
Seek tenders		Residents asked to recommend suppliers		Residents organise invitation to tender
Evaluate tenders			Residents' representatives sit on the evaluation panel and are involved in the choice of supplier	
Award contract	Award notice(s) included in newsletter and other communications to residents	Resident observers present on evaluation panel		Residents evaluate tender and choose supplier
Measure and manage performance	Performance scores communicated to residents	Residents consulted on their perceptions of supplier performance	Residents score the suppliers performance for the association	Residents measure suppliers' performance and negotiate re-work, compensation and other action as appropriate
Evaluate contract	Contract evaluation included in regular communications to residents	Residents asked to give end of contract feedback on service design and supplier performance	Residents' representatives discuss and identify lessons from service design and supplier performance with the association	Residents evaluate service design and deliver and make recommendations to the association's board

The association provides technical assistance to the residents/residents' representatives

Source: Audit Commission 2007

6

Key criteria for effective procurement

- 81** There is no straightforward recipe for successful procurement. Not only do associations have complex decisions to make about individual procurement projects, they also, in determining their corporate approach, need to balance economy, efficiency, and effectiveness in achieving wider objectives. This can present a challenging and confusing environment. But there are a set of principles which the study has shown are important.
- 82** The study set out to test the importance of the following key criteria essential in achieving effective procurement:
- a procurement strategy, owned by the board and with an organisational champion, with an action plan;
 - training for all staff about the principles of good procurement;
 - explicit involvement of procurement in achieving social, economic, and environmental policy objectives;
 - systems to measure procurement performance;
 - involvement of residents in commissioning and procurement;
 - due diligence given to addressing issues of equalities and diversity;
 - competitive neutrality or a mixed economy of provision;
 - critical appraisal of the costs and benefits over time of different procurement arrangements;
 - procurement methods and approaches that are proportionate and appropriate to the housing associations' requirements; and
 - a strong driver; for example, a board decision, a gap in business plan, challenging inspection report.
- 83** Fieldwork confirmed that, where housing associations have most or all of these factors in place, they are more likely to undertake efficient procurement and deliver improved services. All nine associations where we found good procurement practices had implemented at least nine out of ten of these criteria.

- 84 The comparative work undertaken with the private sector also found an emphasis on these factors. All the organisations spoken to had: procurement strategies and action plans; skilled procurement staff/champions; robust contract management, including skilled negotiating skills; effective benchmarking; good use of e-procurement; centralised core functions; and a balanced and mature approach to outsourcing.

But smaller housing associations are losing out

- 85 These key criteria are challenging for any housing association to put into operation, but smaller housing associations may struggle even more. While some smaller housing associations are performing well, the barriers to good procurement are more difficult for smaller housing associations to overcome.
- 86 The results of the telephone survey suggest that size of housing association affects the level of procurement policy development and that this in turn affects the approach to procurement. Those with more advanced policies had more advanced procurement practices. The barriers relating to lack of skills, lack of capacity and the need for a cultural shift around procurement are more significant for smaller housing associations, as well as the lack of volume and continuity of work. This means they can exert less influence in the market:

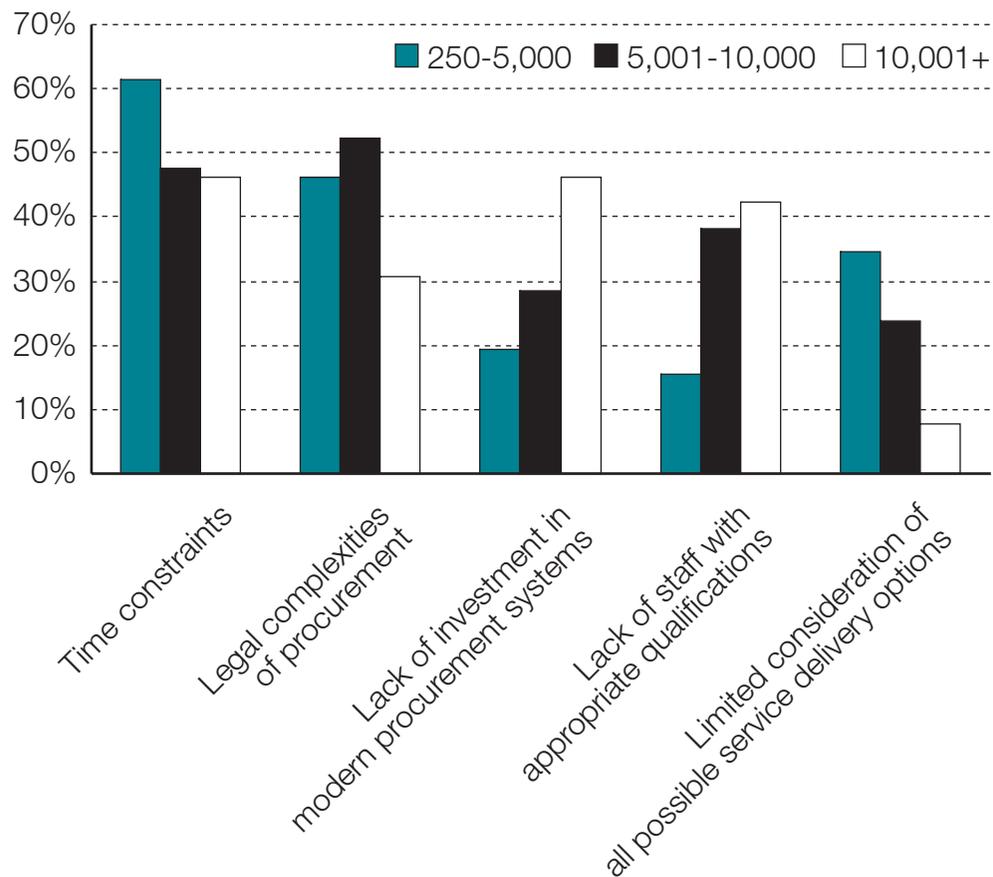
‘For a partnering contract, large contractors will usually prefer a minimum contract value of £1 million per annum in order to justify the investment in IT integration to their large corporate systems, but may look at smaller sizes if there was a strategic, geographic or operational fit to their business. A smaller contractor might well be happy with a contract lot that is worth less than £100,000 per annum.’

External Advisory Group contractor members

- 87 A consistent message in the telephone survey from chief executives of smaller housing associations (under 5,000 units) was that many struggle to put the basics of procurement in place, such as a procurement strategy with an action plan, or accurate cost data. They do not have the time or capacity to consider more sophisticated options, such as partnering.
- 88 An analysis of the e-survey supports this: smaller housing associations’ primary barrier to better procurement is time. Other factors such as skills do not appear to have even been entertained and so do not rank as highly (**Figure 8**).

Figure 8**Barriers to better procurement**

Perceived barriers to better procurement which vary according to the size of an association.



Source: E-survey, Audit Commission 2007

- 89** For smaller housing associations, the most effective solutions may involve the use of consortia and the sharing of a procurement specialist. However, while they have the potential to deliver greater efficiency, these solutions are sometimes seen as challenges to organisations' autonomy. Other associations are more positive, and believe they can access efficiency savings while maintaining distinctiveness.

‘We are proud to be a small independent association close to our tenants. We wanted to get together with some other small associations to employ a specialist. We could not afford to do this on our own but no one would agree as to where the post holder would be located, thinking there may be favouritism to the association in whose office they were located. It is very frustrating.’

South West housing association

7

Conclusions

- 90** Housing associations face a range of internal and external pressures to improve the efficiency of their operations. Over the next three years the government has set the target of realising 3 per cent net cash-releasing value for money gains per annum. Associations have several options for achieving these savings, including improving the way they procure goods and services.
- 91** The procurement of some activities, for example, cyclical painting or installing central heating, present associations with significant potential to realise efficiency savings. But these types of contracts can also be complex and time-consuming. More straightforward procurement decisions, such as renegotiating stationery or telecoms contracts, can give faster results. However, many associations had not even made progress on these quick wins.
- 92** As a result, the contribution of procurement to efficiency gains varies markedly across the sector. Efficiency savings attributable to better procurement ranged from £1.66 to £220 per housing unit with an average of £40 per unit.
- 93** The key factors determining a successful approach to procurement relate primarily to internal organisational capacity and culture. The choice of method or type of contract is less important. Similarly, while collaboration between housing associations, including the use of buying consortia and the forming of mergers, can give them more purchasing power, it does not automatically lead to benefits. Instead it was found that well managed associations, with the appropriate skills and knowledge, are more likely to improve services and release efficiencies regardless of their structures or methods.
- 94** Procurement can be a powerful tool to secure greater value for money but it is also used, to varying degrees, to achieve wider objectives such as regeneration, environmental sustainability and the promotion of diversity and equality. In addition, procurement activities lend themselves to the involvement of residents. But while there are clear benefits to be had from involving residents in procurement decisions, associations' approach to involving them seems rather haphazard.
- 95** Housing associations have an opportunity to improve their performance in procurement. There is the potential for them to make further savings from procurement of over £100 per home. In order to do this, associations need to adopt a more strategic approach to procurement which goes beyond looking just at unit costs. They need to make linkages between their strategic objectives and the procurement cycle and they need to learn from elsewhere. The private sector's approach to supply chain management is particularly applicable and associations have found it can lead to improved processes and cost control.

Appendix 1 – Methodology

- 96** This study was conducted under section 55 and schedule 3 of the Housing Act 1996, and section 40 of the Audit Commission Act 1998, whereby the Housing Corporation and the Audit Commission may agree programmes of comparative studies. These studies allow the Commission to make recommendations for improving the economy, efficiency and effectiveness of housing associations.
- 97** Discussions with stakeholders and a review of relevant literature informed the selection of ten fieldwork sites. The sites were selected to showcase varied approaches to procurement across different sizes and types of association. Interviews with procurement staff, senior managers, tenants and contractors were carried out during fieldwork visits. In addition, document reviews were undertaken for all fieldwork sites.
- 98** Two surveys were conducted to gain a broad picture of procurement in the housing association sector. An anonymous telephone survey of a stratified selection of 50 housing associations was commissioned from GfK NOP. The Audit Commission also conducted an e-survey of all housing associations with more than 250 housing units, with 80 housing associations responding.
- 99** Interviews with comparative organisations in the private sector were also carried out. Further interviews with stakeholders and working groups took place throughout the fieldwork.
- 100** Janet Williams, Katie Smith and Stuart Atkins undertook the research for this study. Michael Hughes was the project director. GfK NOP and Simon Reed, Cirrus Purchasing Ltd provided consultancy support. An external advisory group assisted with developing the research framework and the findings (see below). The Commission thanks all those who were involved. However, the views expressed in this report are those of the Commission alone.

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