



Office of the
Deputy Prime Minister

Creating sustainable communities

Social Housing Efficiency

A Discussion Paper

housing



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February 2005

Office of the Deputy Prime Minister: London

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Preface

As you will be aware, the Government is committed to delivering efficiency gains worth over £20 billion over the next three years to feed into front-line delivery of public services. This includes a commitment to deliver efficiency gains worth at least £835 million a year by 2007-08 across the social housing sector through improved efficiency and effectiveness.

We know that many social landlords have already made significant improvements in efficiency. But this is a challenging commitment. Successful delivery will require all social landlords to take action now to further improve efficiency, and turn best practice into common practice.

The action social landlords take to improve efficiency will maximise the impact of the extra resources we have made available, helping to deliver decent, affordable homes for all in sustainable communities. Improving efficiency is not about cutting services, but about delivering better outcomes for our communities with the available resources. Social landlords will be able to use money saved by improving efficiency in social housing to feed directly into the provision of more housing and improved services for millions of people.

This paper introduces two documents for informal discussion:

- a draft Efficiency Technical Note, which sets out our proposals for light-touch measurement of the efficiency gains made in social housing; and
- draft bidding guidance for social landlords wishing to establish procurement consortia from our £33 million Efficiency Loan Fund.

More details are set out below. We would welcome your views on our proposals by **11 March**.

Draft Efficiency Technical Note

We recognise that every social landlord is operating in distinctive circumstances that need to be taken account when planning how to deliver improved efficiency. And we want to ensure ownership at local level. We believe that social landlords are best placed to set themselves stretching efficiency aims. That is why our proposed approach to measuring the delivery of efficiency gains is based on validated self-assessment. The measurement proposals set out in the draft Efficiency Technical Note have been informed by views from a wide range of stakeholders through a range of formal and informal events. We are grateful for all of the helpful contributions provided to date. We invite you to submit your views on our proposals.

Draft Bidding Guidance

Our role is to support social landlords to deliver further and faster, building on the successful approaches already developed by the sector. That is why we want to support social landlords in creating a network of local procurement consortia to deliver improved efficiency in housing capital works.

We have established a £33 million Efficiency Loan Fund to offer repayable financial assistance to help set up consortia. And we are appointing a national change agent to ensure their effective development and timely roll out, working closely with each of the nine Regional Centres of Excellence (developed from the Regional Centres of Procurement Excellence) as well as other national, regional, and sub-regional stakeholders. Close relationships with the Regional Centres of Excellence will help to ensure the right links are made between housing and other local authority procurement initiatives at regional level. The Housing Corporation will consider the options for establishing links with the local authority RCEs and for the establishment of an RSL Centre of Excellence.

Your views are sought on the draft bidding guidance for social landlord organisations wishing to set up a local procurement consortium with support from our Efficiency Loan Fund. The draft bidding guidance reflects the views of organisations which have expressed an interest in setting up consortia and those which aim to provide support to consortia.

Further guidance and support

We know that there is already a great deal of good practice and experience in improving efficiency and effectiveness in the sector. We are keen to disseminate this widely. That is why we have piloted ‘systems-thinking’ approaches to improving efficiency in housing management and maintenance. I am pleased to inform you that each of our pilots has identified very substantial efficiencies and that we will be rolling out lessons learnt at events in London and York in April 2005.

We have also commissioned the Audit Commission to identify further innovative approaches to efficiency in management and maintenance, to form part of ‘efficiency toolkits’ to be published later this year. We encourage you to visit the Audit Commission’s website portal¹ and submit your ideas and projects. We want you to tell us about approaches that have worked in your area so that we can share this expertise with others in the sector.

How to respond

Please send your views on both the draft Efficiency Technical Note and the draft bidding guidance to socialhousingefficiency@odpm.gsi.gov.uk **by 11 March**.

Questions relating to the documents, any additional examples of best practice, or any additional suggestions for future work should be sent to the same address. Alternatively, views can be sent by post to:

Social Housing Efficiency
Zone 2/F6
Eland House
Bressenden Place
London SW1E 5DU

¹ <http://www.audit-commission.gov.uk/housingefficiency/index.asp>

Draft Social Housing Efficiency Technical Note

Questions for discussion

Your views are sought on this draft social housing ETN. In particular, we would be interested in your views on the following questions:

PART 1

- Do you think the basic approach is right: if not how might it be improved?

PART 2

- Do you think the method for measuring efficiency gains in new supply is right: if not how might it be improved?
- Have we chosen the right comparator index, bearing in mind the need to have a robust easily accessible comparator?
- Do you agree the approach to encompassing quality for a high variable and diverse product: are there any other significant aspects of quality that we need to address?

PART 3

- Do you agree validated self-assessment is the right approach to measuring other social housing efficiency gains: if not what other approach might we take?
- Do you agree the approach to taking account of inflation: are the right inflation indices identified?
- Do you think the supplementary guidance covers the right issues in the right level of detail: if not what additional guidance would you find helpful?

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PART 1

Introduction

1.1 Purpose of this note

Improving efficiency in social housing is vital if we are to maximise the impact of the extra resources we have made available to deliver decent, affordable homes in sustainable communities. Social landlords will be able to use money saved by improving efficiency in social housing to feed directly into the provision of more housing and improved services for millions of people.

That is why the Government has set stretching efficiency targets as part of the Spending Review 2004. These include a specific commitment to deliver efficiency gains worth £835 million a year by 2007-08 across the whole of social housing, including:

- Procurement of new housing supply
- Procurement of housing capital works
- Delivery of housing management and maintenance services
- Procurement of commodity goods and services

We expect improvements in efficiency to maximise the outcomes achieved through our increased investment in housing, delivering at least 10,000 new social homes a year by 2008 to turn around the growth in homelessness.

We know that many local authorities (LAs) and registered social landlords (RSLs) have already made significant improvements in efficiency. But this is a challenging commitment. Successful delivery will require all social landlords to take action now to further improve efficiency, and turn best practice into common practice.

We are not seeking cuts in the quality of services. Improving efficiency is about continually developing more effective ways of delivering the same or better outcomes for customers: for tenants and communities. The measurement methods set out in this note recognise that improving efficiency is about doing more for the same, not about cuts. Social landlords will be able to use money saved by improving efficiency to feed directly into the provision of more housing and improved services for millions of people.

The focus of this note is on measuring and reporting progress in improving efficiency. It will be supplemented by guidance and best practice information on delivering efficiency gains in each of the four areas above, which will be disseminated by ODPM and the Housing Corporation, including through an Efficiency Innovations Project commissioned from the Audit Commission.

1.2 The efficiency targets

The Spending Review 2004 set a specific commitment to deliver efficiency gains worth £835 million a year by 2007-08 across the whole of social housing. Social housing efficiency gains made in the LA sector will contribute to the wider local government efficiency target to achieve efficiency gains worth at least £6.45 billion a year by 2007-08. Social housing efficiency gains made in the RSL sector will contribute to the wider ODPM efficiency target to achieve efficiency gains worth at least £620 million a year by 2007-08. Details of the expected efficiency gains are set out in table 1 below.

Table 1: Expected efficiency gains for social housing in aggregate, and broken down for the RSL and LA sectors

	Estimated <i>social housing total gains (£m)</i>			Estimated gains by <i>LAs (£m)</i>			Estimated gains by <i>RSLs (£m)</i>		
	05-06	06-07	07-08	05-06	06-07	07-08	05-06	06-07	07-08
New supply	130	140	160	0	0	0	130	140	160
Capital works	14	170	340	12	140	280	2	30	60
Management & maintenance	120	210	280	85	150	200	35	60	80
Commodity goods	10	30	55	0	0	0	10	30	55
Total	274	550	835	97	290	480	177	260	355

These targets are sector-wide. There are no individual targets for social landlords. We recognise that every social landlord is operating in distinctive circumstances that need to be taken into account in setting targets and in planning how to deliver improved efficiency; and we want to ensure ownership at local level. So we believe that social landlords are best placed to set themselves stretching efficiency aims, and to plan and monitor their own progress in delivering those aims, with a degree of external validation.

1.3 Guidance on what constitutes an efficiency gain

Efficiency is not about cuts, but about doing more for the same – raising productivity, increasing effectiveness and enhancing value for money. It is about developing more efficient and effective ways of delivering the same or better outcomes for tenants and for communities. That is why, in measuring progress against the targets set out above, efficiency gains will be scored where projects achieve one or more of the following:

- (E1) reducing inputs (money, people, assets etc) for the same outputs (e.g. fewer staff needed to provide the same quality housing services);
- (E2) reducing prices (procurement, labour costs etc) for the same outputs (e.g. less public subsidy needed for a new social home of the same size, quality and location);
- (E3) getting greater outputs or improved quality (extra service, productivity etc) for the same inputs (e.g. carrying out capital works to a higher standard with the same budget);

- (E4) getting more outputs or improved quality in return for an increase in resources that is proportionately less than the increase in outputs (e.g. if increased spend on partnership working leads to better outcomes than would have been achieved through increased spend on existing approach).

It is also why, where cost savings are made through the activities set out below, they will not contribute towards the targets set out above:

- re-labelling activity (e.g. reclassifying housing management overheads as corporate overheads);
- making cuts that result in poorer quality services and outcomes for customer (any change to services should result in a net improvement in outcomes for tenants);
- transferring costs from one area to another without a net reduction in costs and without an increase in the level or quality of outcomes;
- increasing income by charging customers higher rents and service charges.

Efficiency gains achieved in 2004-05 that continue through to the end of 2007-08 can be counted towards the targets.

1.4 Basic approach to measuring efficiency

We will use a light touch approach to measuring efficiency gains, which will sit as far as possible within existing reporting systems and avoid creating new burdens. Our approach for new supply will be different from our approach to other social housing efficiency gains, which will be based on self-assessment:

I) EFFICIENCY GAINS IN NEW SUPPLY

We will measure efficiency gains in the procurement of new supply through data collected by the Housing Corporation which will be used to assess whether and by how much the cost to the public sector of providing social homes of a particular size, type and location has fallen in real terms. Further details are set out in **Part Two**.

II) OTHER SOCIAL HOUSING EFFICIENCY GAINS

We will measure efficiency gains in housing capital works, management and maintenance and commodity procurement by requiring stock-owning LAs and the largest five hundred RSLs to provide a self-assessment of their efficiency gains in an Annual Efficiency Statement. The minimum requirements and process for reporting efficiency gains are set out in **Part Three**, together with supplementary guidance. There are no additional requirements for local authorities beyond those set out in the Local Government ETN².

² http://www.odpm.gov.uk/stellent/groups/odpm_localgov/documents/page/odpm_locgov_032805.pdf

PART 2

Measuring efficiency in new supply

2.1 Basic approach

This section sets out the detail of our proposed approach to measuring efficiency gains in the procurement of new social housing supply through the Housing Corporation's Approved Development Programme.

Our basic approach is to compare the grant approved³ in a particular financial year to secure future outputs with the grant that would have been required to achieve the same mix of different types, sizes, quality and locations of new social homes and quality of units in 2003-04 (adjusted to allow for changes in the general level of land and construction costs).⁴ We expect the efficiency gain made by the Housing Corporation in 2007-08 to be worth at least £160 million, which will enable the Corporation to fund the provision of more new homes than would otherwise have been the case.

The detailed method underpinning this basic approach strips out the impact on costs of changes in the mix of different types, sizes, quality and locations of new social homes procured. This means that reductions in cost based on procuring units that are small, poorer quality or located in areas where there is low demand will not count as an efficiency gain.

2.2 Detailed method for calculating efficiency

The Housing Corporation will perform the detailed calculations set out below for each financial year to 2007-08. Here, we use 2007-08 as an example.

The 2007-08 affordable housing programme will be split by a) region and b) type of housing.⁵ We will standardise each type of unit in a particular region to the size of 2003-04 units as follows:

- 3 The level of grant approved represents the most reliable cost assessment in year. There have been no recorded occurrences of variation of funding between approval and completion on any scheme approved and completed since April 2003.
- 4 The baseline year for measuring efficiency in new supply is 2003-04 rather than 2004-05. This is to enable a comparison between what has been achieved in the most recent bidding round of the Approved Development Programme, which allocated grant for 2004-05 and 2005-06, and what was achieved in the previous round, which allocated grant for 2003-04.
- 5 The following different types of housing are taken into account: social rented units (general and supported housing); intermediate rent units (all); units for sale (shared ownership, newbuild homebuy and market purchase homebuy).

Number of units standardised to 2003-04 sizes = number of units procured in 2007-08 x (average 2007-08 unit size) divided by (average 2003-04 unit size)

We will then calculate what it would have cost to provide these units in 2003-04 if no improvements in efficiency had been made, as follows:

2003-04 cost of provision = 2007-08 units standardised to 2003-04 sizes x (2003-04 total grant cost divided by 2003-04 number of units) x (2007-08 inflation index divided by 2003/04 inflation index)

To perform the calculation above we propose to use an inflation index of which 40% will be based on inflation in land costs and 60% on inflation in construction costs. This reflects the assumption that nationally land accounts for some 40% of the cost of building a home. The inflation index is defined as:

60% x (2007-08 BCIS 'all-in' Tender Price Index) divided by (2003-04 BCIS 'all-in' Tender Price Index)⁶ + 40% x (2007-08 valuation office index of land values 2006-07) divided by (2003-04 valuation office index of land values)⁷

The calculated 2003-04 costs of providing each type of unit in each region will then be summed across all regions and all types of unit to provide a total figure for what it would have cost to provide the same homes in 2003-04. This figure will then be compared with the actual grant approval for that year. The efficiency gain is the difference between the two figures.

2.3 Capturing additional efficiencies: better quality outputs

The detailed method set out above has dealt with the main aspect of quality – unit size – and ensures the drive for efficiency should not be at the expense of providing units of the size, type and location needed.

But it does not take account of the impact on cost of quality improvements arising from incremental improvements to the minimum standards for security, accessibility, flexibility, durability and environmental performance set in the Building Regulations and in the Housing Corporation's Scheme Development Standards, or those arising out of the pursuit of wider policy objectives that support the creation of well-designed sustainable communities. So we will correct the detailed method set out above to take account of improvements in quality. We think this should be done by estimating the equivalent grant cost of quality improvements and adding this to the efficiency gain. The Housing Corporation has commissioned the Building Cost Information Service to report upon the costs of a wide range of quality improvements by February 2005.

⁶ The 'All-in' Tender Price Index is one of a suite of construction cost related indices published by the Building Cost Information Service (BCIS).

⁷ The index of land values is calculated by the Valuation Office Agency based upon residential building land values published by the Valuation Office Agency in their publication 'Property Market Review'.

2.4 Capturing additional efficiencies: outputs provided without grant

We are facilitating the provision of new affordable units without public subsidy through improving the efficiency of provision through the planning system and innovative approaches. So we will correct the detailed method set out above to take account of increases in the provision of affordable homes without grant. We think this should be done by estimating the equivalent grant cost of additional units provided without grant and adding this to the efficiency gain. We will develop this methodology, working with the Housing Corporation.

2.5 Ensuring costs are not passed on to customers

Cost reductions that are achieved by passing costs on to customers in the form of increased rent, rather than by improving efficiency, will not qualify as an efficiency gain. Social rented housing is subject to a rent influencing regime which limits annual increases in rents to RPI+0.5% +/- £2. So there is extremely limited scope for social landlords to reduce their costs by charging customers more. We are working with the Housing Corporation to identify a mechanism for ensuring that costs are not passed on to tenants in the small number of units for intermediate rent.

PART 3

Measuring other social housing efficiency gains

3.1 Basic approach

The approach to measuring efficiency gains achieved in the areas of housing capital works, management and maintenance and commodity procurement is based on a validated self-assessment of progress by social landlords, against a baseline year of 2004-05. Details are set out below of the:

- Minimum reporting requirements.
- Method for calculating efficiency gains.
- Supplementary guidance.

3.2 Minimum reporting requirements

I) LOCAL AUTHORITIES

Local authority self-assessments of their progress in delivering efficiency gains in social housing will be included in their Annual Efficiency Statements (AES). The process and timetable for submitting the AES are set out in the Local Government ETN, available at: http://www.odpm.gov.uk/stellent/groups/odpm_localgov/documents/page/odpm_logov_032805.pdf

The minimum reporting requirements for LAs in relation to social housing are to report, as a cash sum, the efficiency gains delivered in the previous financial year in both housing capital spend (roughly equivalent to spend on housing capital works); and housing operating expenditure (roughly equivalent to spend on housing management and maintenance services). Section 3.3 sets out how efficiency gains should be calculated. Where the LA's housing is managed by an arms-length management organisation (ALMO), the LA will be responsible for ensuring that the ALMO provides a robust assessment of the efficiency gains it has made, and that this is included in the AES.

ODPM will aggregate the efficiency gains reported by LAs to provide the following figures on an annual basis:

- total efficiency gains in capital spend made by LAs;
- total social housing operating efficiencies made by LAs;
- total social housing efficiency gains made by LAs.

II) REGISTERED SOCIAL LANDLORDS

The Housing Corporation's regulation of RSLs is proportionate. The vast majority of efficiency gains in the RSL sector are likely to be made by the largest five hundred RSLs (lead regulated RSLs), which account for more than 85% of the sector's total operating costs and 96% of its social housing stock. Reporting arrangements for small RSLs owning fewer than 250 homes (RASA associations) and for the lead regulated RSLs will therefore differ.

Lead regulated RSLs

The Housing Corporation will require lead regulated RSLs to submit an Annual Efficiency Statement, similar to that required of LAs, signed by their governing body.

The RSL AES should set out plans to deliver efficiency gains over the coming year and a self-assessment of progress in delivering efficiency gains. As a minimum, this self-assessment should include a cash sum for efficiency gains achieved in the previous financial year in the areas of: capital works; management and maintenance; and commodity procurement.⁸ Section 3 sets out how efficiency gains should be calculated. The Housing Corporation will continue to expect lead regulated RSLs to evaluate their efficiency at the organisational level, as a demonstration of their commitment to continuous improvement. This will not count towards the Government's efficiency targets, but will provide a useful assessment of long-term sector-wide trends.

If a lead regulated RSL does not provide an AES that has been signed off by its governing body, or fails to effectively demonstrate how it plans to deliver efficiency gains, the Corporation will again review its level of regulatory engagement with that RSL.

The Housing Corporation will scrutinise and cross-check RSL AESs against the results for the published performance indicators and the operating cost indices. The Corporation's judgement on the AES will be reflected in the Housing Corporation Assessment (HCA) of that association. The Housing Corporation will agree the inspection programme annually with the Audit Commission and may direct inspection towards RSLs where poor performance has been highlighted through lead regulation.

The Housing Corporation will aggregate the efficiency gains reported by RSLs and will provide the following figures to the ODPM on an annual basis:

- total efficiency gains in procurement of capital works made by RSLs;
- total efficiency gains in management and maintenance made by RSLs;
- total efficiency gains in commodity procurement made by RSLs.

⁸ This covers the procurement of a range of goods and services typically related to running the back office functions of any organisation, not just organisations providing social housing. Examples of commodity goods include: voice and data communications; energy (gas, electricity) management; fleet management; IT hardware; photocopiers; print management.

Progress will be incentivised through the Housing Corporation's existing framework for measuring performance. Key features of this framework are:

- annual publication of the suite of best value performance indicators;
- a new operating cost index to measure the comparative performance of RSLs, launched in 2004; and
- external validation of RSLs' performance reporting systems, to ensure that data which feeds into the performance indicators and efficiency indices are produced on a consistent and accurate basis

This framework will be supplemented with further measures of financial efficiency which the Housing Corporation will develop during 2005.

RASA associations

The RASA associations will not be expected to provide an AES. They should instead report efficiency gains through the existing regulatory arrangements.

3.3 Method for calculating efficiency gains

The efficiency gain is the difference between the actual cost of providing a service and the equivalent cost of providing the same level and quality of outputs in the baseline year (2004-05). Efficiency gains in social housing should be calculated by social landlords using the following method:

1. Establish the actual cost of provision in the previous financial year.
2. Form an evidence-based assessment of what it would have cost to provide the same level and quality of outputs in 2004-05. This should include the cash value of any enhancements to the service.
3. Uplift the 2004-05 cost of provision using inflation indices which will be provided by the ODPM and the Housing Corporation each year.
4. Compare the actual cost of provision in the previous financial year with the cost of provision in 2004-05 cost of provision, uplifted for inflation. The difference between the two is the efficiency gain.

The inflation indices to be used in performing this calculation will be provided to social landlords each year by ODPM and the Housing Corporation. We envisage that the inflation indices provided will be based on:

Housing capital works: BCIS 'all-in' Tender Price Index (TPI)

Housing management and maintenance: a combination of the BCIS Building Maintenance Index, RPI, and regional pay indices

Commodity procurement: a combination of DTI's Quarterly Energy Prices Update and RPI.

3.4 Supplementary guidance

The supplementary guidance set out below identifies issues which social landlords may wish to consider both as part of their forward planning, and as part of their internal process for satisfying themselves that their reported efficiency gains are evidence based and capable of verification by internal or external audit. It also identifies links with relevant questions under the Housing Inspectorate’s key line of enquiry on value for money (VFM KLOE), an integral element of every service inspection and forms part of the CPA process. Social landlords may wish to satisfy themselves that their internal evidence base for their reported efficiency gains corresponds to their responses to the VFM KLOE.

Additional guidance on achieving and reporting efficiency gains in capital works will be available to social landlords who choose to participate in the network of local procurement consortia that will be established with the support of our £33 million Efficiency Loan Fund, managed by a National Change Agent (NCA). The NCA will evaluate progress in improving efficiency within the consortia using the method set out here. This will enable the NCA to provide support and guidance to consortia members in completing their self-assessment of the efficiency gains they have made in the delivery of capital works. The NCA will also promote the development of benchmarking, to allow comparisons between procurement consortia and other procurement models.

Demonstrating your efficiency: supplementary guidance

Use of this supplementary guidance is not compulsory and it does not add to minimum reporting requirements on social housing efficiency, which are designed to be light-touch and to minimise reporting burdens. However, we suggest that social landlords may wish to consider the following issues and questions as part of their efficiency forward planning and reporting processes:

INPUTS AND OUTPUTS

We believe that social landlords will need a proper understanding of their costs and of the quality of outputs before they can take focussed action to drive those costs down whilst maintaining quality. This relates to the Housing Inspectorate’s VFM KLOE question: *How do the organisation’s costs compare to others, allowing for local context, performance and policy choices?* Social landlords may find it helpful to:

- Establish robust information on the cost of each service area, including the component costs (e.g. what proportion of the total cost of capital works is spent on components such as labour, materials and project management costs).
- Establish how good performance is in each service area using agreed quality standards and performance indicators, including indicators of tenant satisfaction.
- Examine trends over time in the cost and quality of service provision, and identify reasons for areas of reducing or increasing costs, taking care to ensure that costs are not being reduced by reducing quality.
- Compare costs and performance in each service area with that of peers. Benchmarking is encouraged as one of a range of tools to help social landlords understand their costs and take action to reduce costs.

ROUTE TAKEN TO IMPROVE EFFICIENCY

We believe that social landlords that have clear strategies for improving value for money, and that learn from both their successes and any areas of weakness, will be best placed to contribute to the sector-wide efficiency targets. This relates to the Housing Inspectorate's VFM KLOE question: *How well does the organisation manage and improve value for money?* Social landlords may find it helpful to:

- Ensure staff are familiar with best practice in construction procurement, including supply chain partnering approaches, and that this is followed.
- Research the potential to procure goods and services collectively at a lower cost; and research whether providing in-house services or outsourcing services would result in better costs and standards.
- Establish mechanisms for capturing and learning from any particular successes and examples of good practice and innovation in improving efficiency

SELF-ASSESSMENT OF EFFICIENCY GAINS

We believe that social landlords are best placed to assess their efficiency gains, both because they have the necessary understanding of the local context and drivers of costs, and because local ownership is critical to success. This relates to the Housing Inspectorate's VFM KLOE question: *Is the organisation contributing to the sector wide efficiency targets in: new supply; capital works; management and maintenance; commodities?* Establishing a good understanding of costs and outputs, and routes to improving efficiency, will enable a robust self-assessment using the method for calculating efficiency gains set out in this note.

Establishment of local housing procurement consortia to secure efficiencies in the procurement of capital works by social housing landlords

Draft guidance for social housing landlord organisations wishing to apply for support towards start up costs of consortia

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INTRODUCTION

Local authorities and housing associations invested £3.4bn during 2003-04 on capital works programmes. This will rise further as funding is expanded on ALMO, stock transfer, and PFI programmes in order to allow social housing landlords to meet the Decent Homes Standard target by 2010.

A considerable amount of evidence indicates that these resources could be utilised more efficiently through the strategic management of capital works, and the more general application of procurement best practice, focused on partnering. For example, the Housing Forum reports that partnering has achieved between 2-12 per cent savings in project costs, while Fusion 21 on Merseyside reports net savings of up to 30 per cent in supply contract total project costs. The Gershon Review identified the scope for £340m of efficiency gains from the procurement of capital works by social housing landlords by 2008.

The achievement of these efficiencies would allow the Decent Homes Standard to be achieved sooner, with associated improvements in quality, tenant satisfaction, and local construction capacity and training. This is particularly important in the current context of rising costs, amid reports of construction skills-shortages, that in some areas are running at a rate of more than 15per cent per year.

Without developments in procurement practice, including greater use of consortia to deliver economies of scale and a strategic approach to demand and to the supply side, there is a significant risk that increased expenditure in capital works will be absorbed by (and in some cases contribute to) higher costs rather than increased and improved output.

Regional Centres of Excellence (RCEs), developed from the Regional Centres of Procurement Excellence, have the lead role in supporting local authorities to secure efficiencies in the procurement of goods and services, construction and facilities management, corporate services and transactional services. The RCEs will drive the promotion of collective procurement across all functions and service areas, and will also look for opportunities to link up different areas where goods and services can be bought to a common specification.

Within social housing capital works procurement, we see value in complementing the work of the RCEs with the appointment of a National Change Agent (NCA) with a cross-sectoral remit. The NCA will provide specialist support and know-how in establishing social housing consortia – such as governance structures, different models of procurement, standard contracts and documentation, and supply-chain knowledge – working alongside the RCEs and their social housing activities. The NCA will have a remit to support change across the whole social housing sector, including local authorities, ALMOs and RSLs. It will also administer a national Efficiency Challenge Fund, to provide loan assistance towards the start-up costs of consortia, as well as limited grant support for the development of business plans. We expect to appoint the NCA very shortly.

The National Change Agent will work closely with the nine RCEs. We expect the NCA to have a seat on the national board of the RCEs, which comprises the Chief Executives of the nine local authorities who host the RCEs as well as the other key change agents for health, police, fire, etc. We also envisage that a Director of an RCE would join a body established to oversee the activities of the NCA, which would comprise other key sector stakeholders. In addition, the Housing Corporation is considering options for linking Registered Social Landlord activities to those of the Regional Centres for Excellence.

These links will ensure that the work of the national change agent for capital works in social housing and the regional change agent roles of the RCEs are complementary. For example, for local authority housing departments and ALMOs, we would expect the RCE to play a strong role in promoting the benefits of collective procurement and to host activities at which the NCA for capital works would describe the opportunities and support available at a national level. The RCE would also be able to ensure consortia were aware of and used the collective procurement arrangements for standard items within the region which did not require or benefit from the specialist procurement skills of the social housing consortia.

We expect that many social landlords will wish to take up the opportunities and support set out here to establish capital works procurement consortia which can deliver greater efficiency. This remains an option, not an obligation, but social landlords who do not choose to use this route should ensure that they work by other means to deliver Best Value and to promote the efficiency agenda.

Social housing landlords and other interested parties are invited to comment on the proposals set out in this discussion paper and on their links to achievement of the broader efficiency targets.

SECTION 1

What this consultation is about

Introduction

In response to the recommendations of the July 2004 Gershon Review⁹, the ODPM is committed to achieving total annual efficiency gains for social housing of £835m by 2007-08. This covers four areas of work:

- new supply;
- capital works;
- housing management and maintenance services;
- RSL procurement of commodity goods.

The capital works workstrand covers the procurement of capital repairs to the Local Authority (LA) and Registered Social Landlord (RSL) stock in England and is expected to account for £340m of this total.

Local housing procurement consortia have been identified as having the potential to secure much of this saving. The Office of the Deputy Prime Minister (ODPM) has therefore decided to establish a £33m Efficiency Challenge Fund (the Fund) to provide loan assistance towards the start up costs of local housing procurement consortia, as well as some limited grant support towards the costs of business plans.

This draft consultation paper proposes arrangements by which grants and loans from the Fund will be paid to consortia, and the criteria for determining which consortia would receive assistance.

Local housing procurement consortia

It is envisaged that local housing consortia of local authorities, ALMOs and RSLs could realise between £200m and £300m of the target efficiency gains through the development of long-term supply chain partnering contracts, generating efficiency benefits in reduced project costs, improved training, local job creation and customer satisfaction. The consortia are also likely to develop cross-sector synergies with the new supply and housing maintenance work strands. In particular, it is anticipated that many of the consortia will develop arrangements for the collective purchasing of materials not only for capital works (and possibly labour) but also for planned maintenance and responsive repair activities.

⁹ Releasing Resources for the Front-Line: Independent Review of Public-Sector Efficiency, *HM Treasury*, July 2004

They will allow social housing landlords to combine their demand for building materials and thus provide stability and predictability of demand for the material supply chain contractors and achieve cost reductions and improvements in reliability, quality control, and availability. They will also offer the opportunity for contract transaction costs to be reduced and for other economies of scale.

Role of the National Change Agent

We will appoint a National Change Agent (NCA) to support the rapid development of effective social housing procurement consortia, with five key functions:

- 1 To help establish and support a network of at least 30 local housing procurement consortia by March 2008, with at least two consortia fully operational and generating efficiency gains during financial year 2005-06.
- 2 To set up and manage a financial assistance scheme to facilitate the rapid roll-out of local procurement consortia, and to administer the related bidding process on behalf of the Department.
- 3 To support the development of other national and local partnering arrangements that will maximise supply chain and other procurement efficiencies, through best practice in the procurement of capital works by social housing landlords. And to provide information and advice on current and proposed consortia arrangements to social housing landlords to avoid duplication.
- 4 To support the development of a strong market in consultancy support for both consortia and social housing landlords and to set up arrangements which enable consortia and social landlords to identify and draw on appropriate consultancy support as needed.
- 5 In partnership with the Department, to measure and monitor the efficiency gains secured through consortia, helping participating social landlords to report these gains through their annual efficiency statements and to promote this methodology to other social landlords not engaged in consortia.

The Fund

The key purpose of the Fund will be to provide start up financial support to potential consortia where, without it, their establishment is likely to be retarded or not happen at all. Previous experience shows a lead-in time of up to two years between a decision to establish a consortium and the point at which it is able to let supply chain partnership contracts. During this period, staffing and other overhead costs need to be met, as do the transaction costs connected with the letting of the long-term supply chain contracts.

The experience of Fusion 21, a Housing Forum-supported demonstration consortium project, comprising RSLs and a Merseyside local authority, for example, was that to achieve a contract turnover of £40m by year 2/3 required start-up expenditure of up to c.£1.5m,

It is envisaged, however, that the future size of these initial costs incurred by prospective consortia, and the time lag between establishment and activity which generates efficiency gains, will progressively reduce as a result of the dissemination of the lessons learnt by early starter consortia, replication of start-up processes, and the development and use of standardised documentation. The role of the appointed NCA in providing support and assistance to consortia will be pivotal in this regard.

SECTION 2

The operation of the fund

Proposed role of the National Change Agent (NCA)

The Office expects to appoint the National Change Agent very shortly. A core remit of the NCA will be to ensure the effective development and roll-out of these consortia through proper and effective administration of the Fund on behalf of the Department.

It is proposed that the NCA will exercise the following functions with respect to the Fund:

- promotion of the scheme;
- provision of advice to prospective consortia with respect to applications for financial assistance;
- review of applications for financial assistance and the provision of advice to the Department as to which organisations should receive financial assistance, as well as the timing and value of such financial assistance;
- administration of the financial assistance scheme;
- monitoring and validation of the records of consortia to ensure that financial assistance paid is applied for the purposes for which it was given;
- continuous review of the operation of the scheme with particular respect to its efficacy in achieving overall efficiency in social housing landlord procurement and the related set of targets;
- ensuring that recycling of financial assistance occurs consistent with the fund being able to provide continuing support to consortia after March 2008 and/or the case for further allocation of funds in SR06 is demonstrated; and,
- administering the recycling of financial assistance.

The NCA will **not** directly disburse grant monies to consortia. This will remain an ODPM function, as will be the final determination of grant applications.

Mechanism of payment

This financial assistance will be paid under the authority of section 429A(1) of the Housing Act 1985. This empowers the Secretary of State to give financial assistance to persons managing public sector or former public sector housing and to persons seeking to facilitate or encourage improvements in, or providing services in connection with, the management of such housing.

Section 429A(1)(b) goes on to provide that financial assistance given under section 429A(1) may be given in any form, and may in particular be given by way of grants, loans or guarantees, or by the Secretary of State incurring expenditure for the benefit of the person assisted. In this case, the financial assistance will be a loan paid to consortia (most likely to a lead member of each consortium) to further its set up costs and early contract costs. The process of applications for financial assistance will be continuous throughout the financial year.

The financial assistance will be loaned on terms that equate to the terms of loans made from the National Loans Fund. The repayment of the financial assistance will be monitored and managed by the NCA.

It is envisaged that there will be a facility for consortia to defer repayments of principal and interest on loans made to them under the Fund during their start-period. The possible terms for repayment are set out later in this paper for views. This process will again be managed by the NCA.

SECTION 3

The operation of the proposed interim business plan support scheme (the scheme)

Purpose of the scheme

It is important that consortia are established quickly that are capable of generating early and substantial efficiency gains, to make a significant contribution to the achievement of the 2008 Gershon capital works efficiency gain target of £340m. The Office therefore wishes to offer particular targeted support to social housing landlord organisations that possess the capacity and commitment to work together in robust consortia models that can begin to generate significant efficiency gains by the autumn of 2006.

It is proposed that this support take the form of financial assistance towards the cost of producing robust Business Plans for the prospective consortia. These must address fully the criteria for substantive loan support towards consortia start-up costs described in Chapter 4 (criteria 1-8).

It is proposed that this financial assistance would meet around 75% of the total preparation costs of the Business Plan, with the members of the proposed consortium meeting the other 25%. It will be made in the form of a grant and the Office is considering whether and in what circumstances it might be repaid. The cost of preparing a business plan would be likely to vary depending on circumstances – we do not propose at this stage to set a maximum figure, but would take advice from the NCA in considering applications. The business plan is the document through which the application for loan funding is made.

What is involved

A prospective consortium wishing to apply for this interim assistance must:

- have undertaken a feasibility study that demonstrates the commitment of its partner organisations to produce a Business Plan which meets the requirements set out in this paper;
- identify the procurement models that they might apply;
- estimate the value and timing profile of expected efficiency gains
- confirm the funding contribution of each partner;
- confirm that it will adopt an open book approach and be prepared to participate in activities to share and transfer lessons learnt, including (subject to reasonable conditions of commercial confidentiality) costing details, benchmarking data, framework agreements, business plans and arrangements with other parties such as consultants and the Regional Centres of Excellence;

- identify an Accountable Body for receipt and use of the funds;
- set out how the grant will be used listing activities to be undertaken in the production of the Business Plan.

There is limited funding available for this interim support and the scheme may be withdrawn at any time; its operation will be reviewed in any case in September 2005.

SECTION 4

The operation of the fund and bidding criteria

Purpose of the fund

The purpose of the Fund is to provide financial assistance to housing procurement consortia to set up collective purchasing arrangements designed to procure capital works more efficiently on behalf of their social landlord members (RSLs, ALMOs, and LAs).

Expected outcomes include:

- gains in volume of work produced from available resources, or reductions in the unit cost of work from available unit resources
- improved quality of work to the social housing stock, including reduced maintenance demands;
- improved delivery of services to tenants of refurbished dwellings, such as reduced disruption and ‘snagging’, and better customer care services, including communications with tenants
- clear demonstration that monetary gains have been used to improve service delivery and customer care.

Broader outcomes are also envisaged:

- effective management of the local construction market to manage demand and reduce upward pressure on prices
- increasing the pool of skilled labour in the construction industry

Which organisations can make applications and to which body will the assistance be paid?

Consortia seeking financial assistance will need to nominate a social landlord member to act as the Accountable Body for its receipt and management.

It may be possible for this assistance to be paid direct to a consortium that is successful in its application for support from the Fund. It will need, however, to demonstrate legal and financial capacity to enter into a loan agreement with the Office . In any case, the Office will reserve the right to seek and obtain guarantees from the parent organisations of the consortium’s members with respect to the repayment of the assistance.

When can applications be made?

Applications can be made from April 2005 based on the submission of a Business Plan. The scheme will operate until March 2008, though the operation of the scheme will be reviewed before that date and its terms may be changed.

The application process will be continuous during the operation of the scheme and eligible organisations can make applications throughout the financial year.

What amount of assistance will be offered?

It is envisaged that most offers of financial assistance will fall in the £500K to £1,200K range. This will depend, however, on the size of consortium and its need for assistance. Consortium members will be expected to contribute match funding of at least 25 per cent. Assistance from the Fund will be capped.

Draw down and repayment of the loan fund

Payments from the fund will be linked to key milestones within the Business Plan. We propose that timing for repayment could either be linked to efficiencies secured or to a fixed repayment schedule set out in the Business Plan. The loan would be repayable under any circumstances, so a link to efficiency would also need to include some maximum period by which the whole loan must be repaid.

Proposed bidding criteria

Each application will need to be supported by a detailed and costed Business Plan signed-off by the Chief Executive of each consortium member. The quality and robustness of this Business Plan will be the key reference document for the assessment. Applications will be assessed against the following criteria:

1. CONSORTIA SIZE AND DWELLING COVERAGE

The Department expects consortia to vary in scale and size, but that the overall coverage by consortia in aggregate will be appropriate to generate efficiency gains that are consistent with the achievement of the Gershon £340m efficiency gain target for capital works. Relevant factors include:

- number of dwellings owned by consortia members and included in the proposed collective purchasing arrangements;
- opportunities for smaller prospective consortia to expand membership once established;
- total capital works turnover of the consortia members and the value to be included in consortia arrangements;
- likely coverage of consortia activities viz. materials, building elements, labour employed, contract value and plans to expand contract turnover;

- the value of specialised benefits from consortia which do not expect a large volume of turnover.

2. ABILITY OF CONSORTIA TO GENERATE SIGNIFICANT EFFICIENCY GAINS BY MARCH 2008

Capacity to generate early and significant efficiency gains. Factors relevant to this will include:

- their capacity and readiness to be operational quickly;
- the period before gains begin to be generated;
- identification of the sources and size of expected gains within the Business Plan; and
- the robustness of those estimates.

3. GEOGRAPHICAL SPREAD OF CONSORTIA

The Department envisages that most consortia will operate within sub-regional material and labour markets, but does not wish to discourage applications from consortia with a greater local, regional or national coverage focus, if individually they can justify a business case for such coverage.

4. SUSTAINABILITY OF CONSORTIA

Commitment of partners to work together collectively and to ensure sustainability of the consortia collective purchasing arrangements. Relevant factors include:

- willingness of all members to provide a contribution to consortia start-up costs;
- other evidence of joint ownership of consortia;
- depth and range of management support, which should not be overly-dependent on the input of one or two key individuals or bodies.

5. ENGAGEMENT AND INVOLVEMENT OF OTHER KEY STAKEHOLDERS

Engagement with other stakeholders, most particularly the NCA, Regional Development Agencies (RDAs), Government and Housing Corporation Regional Offices, and the Regional Centres of Excellence.

There should be no avoidable duplication with other consortia activity whether already operational or in development. The Department will in addition be looking to applicant consortia to demonstrate a willingness to engage and work with other procurement bodies where appropriate, including through those arrangements set up within regions and supported by the Regional Centres of Excellence.

6. COMMITMENT TO MEASUREMENT OF EFFICIENCY GAINS

Systems and processes to allow them and the NCA to measure the efficiency gains that they achieve, in accordance with the Government's Efficiency Technical Note. These gains will need to be allocated to individual members to report through their Annual Efficiency Statements.

7. TACKLING LABOUR MARKET DISADVANTAGE AND ACHIEVING A BALANCED PORTFOLIO OF EFFICIENCY GAINS

An understanding of the local and sub-regional labour markets in which they plan to operate. Based on this, the Department will look for proposals which address skill shortages, offer pathways into sustainable construction employment for young people, ethnic minority groups and other disadvantaged groups through training, improved outreach and employer workforce practice and which deliver greater diversity in construction labour force composition.

Such proposals will need to identify linkages with other stakeholders that can assist with funding and other means of support, such as local Skills and Training Councils, and link to action by contractors and suppliers to support these outcomes.

All applications should demonstrate a balanced portfolio of savings, improvements in quality of delivery and customer outcomes, and labour market operation.

8. WILLINGNESS TO TRANSFER LESSONS AND MODELS TO OTHERS

Willingness to share models and Business Plans with others and to support good practice across the sector. The transfer of learning from the consortia will be supported by the National Change Agent and the Regional Centres of Excellence. We expect individual consortia to contribute to this. We expect this to include sharing (subject to reasonable conditions of commercial confidentiality) costing details, benchmarking data, framework agreements, business plans and arrangements with other parties such as consultants.