

GUIDANCE NOTE: MEASURING CAPITAL WORKS EFFICIENCY

The National Change Agent for Capital Works in Social Housing

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1 Objectives

This guidance describes a range of applications that are available to procurement consortia in order to measuring the capital works efficiencies realised through consortium procurement initiatives. The solutions which are described have been developed in direct consultation with NCA Housing and therefore represent suitable mechanisms for capturing and reporting efficiency gain improvements.

The effective measurement of benefits accrued from consortium procurement approaches to capital works is fundamental to the demonstration of efficiency gains. Measurement of the efficiencies will allow Consortia to demonstrate value to their members during implementation and also assist with the completion of Annual Efficiency Statements (AES).

2 Capital Works Efficiency Measurement

2.1 What are the NCA Housing efficiency measurement requirements?

NCA Housing award grants for producing business plans and for the implementation of those plans. It is a requirement of the grant award for consortia to report efficiency improvements to NCA Housing on an annual basis.

NCA Housing will capture the learning and results for each of the emerging consortia in relation to their consortium procurement model. In order to accurately reflect the impact of consortium procurement upon an individual organisation it is necessary to establish baselines for performance before the commencement of consortium procurement. In line with Government requirements, NCA Housing requires these benchmarks to be calculated for the financial year 04/05. All efficiency gains made are to be reported against those baselines.

2.2 What does capital works efficiency measurement involve?

The efficiency gains measured by a consortium should not just focus on the financial gains achieved through consortium procurement (cashable gains) but also the non-financial benefits accrued (non-cashable gains) for example the number of jobs/training places created by the consortium through the procurement of it's capital works.

In order to capture the benefits of consortium procurement it is essential that an effective measurement process is adopted, which establishes a set of baseline performance measures against which future improvements can be gauged. The information so captured can then be used as part of a process of continuous improvement.

2.3 What methods can be used to measure efficiency gains?

A range of alternative methods have been used by the Trailblazer consortia and the various systems that they have employed have been provided by

specialist service providers. NCA Housing has evaluated the benefits of those systems, taking an overview of their applicability in different consortium contexts. It is not the intention of NCA Housing to proscribe which system, methodology or metrics a consortium should use to measure efficiency gains.

In order to prepare the specialist service provider market for the needs of emergent consortia, NCA Housing has briefed a number of companies who currently offer benchmarking and performance measurement software solutions. This has enabled those companies to tailor their existing performance measurement systems to meet the requirements of consortium procurement.

3 Methods and Solution Providers

3.1 Overview

The process of gathering, interpreting and acting on performance information can take a number of forms. In the context of a procurement consortium, the range of data sources can be complex and an effective IT platform is critical to the successful operation of a performance management regime. The IT solution chosen may take a number of forms and in each case; the management of the consortium must adapt to complement the features of the chosen platform. The following section describes some of the IT platforms available to consortia and explains how they can be utilised so that they become part of an effective performance management regime.

3.2 Benchmarking clubs

Benchmarking clubs are already well established in social housing and provide members with a relative measure of their performance, when compared to other social landlords. In order to compare performance across a range of cost, time and quality factors, it is conventional to use a range of Key Performance Indicators (KPIs) focused on specific, unambiguous data fields. Examples might include the cost of a kitchen, the time taken to complete a whole house refurbishment etc. A drawback of benchmarking clubs is that very few social landlords account for their costs in the same way or share the same definitions of what constitutes a kitchen, bathroom etc. Hence comparing performance between social landlords has limited benefit in the context of NCA Housing. NCA Housing is primarily interested in the improvements made by consortia, not how they compare to each other. This is because performance is very context specific, being influenced by geography, stock profile and historical and social factors

In order to extract maximum benefit from benchmarking, a consortium (or any social landlord) will need use it in conjunction with a system of tracking, interpreting and managing its own performance over time.

This is something that an emergent consortium will need to consider during preparation of its Business Plan.

The HouseMark web based Capital Works Benchmarking System is an example of a benchmarking product that measures quality, satisfaction, timeliness and cost, using standard 'Constructing Excellence' Performance

Indicators (PIs) plus the HouseMark unique 'Cost Performance Indicators.' Data input is straightforward and can be completed at a programme level or broken down into single projects to provide internal benchmarking.

Three levels of detail are available for cost information: the total cost, the cost by work type i.e. bathrooms, kitchens etc or cost basis, such as preliminary, design, labour and materials. The selection of the number of PIs and the level of detail can be defined by the organisation inputting the data – allowing the user to balance the effort required to input the data with their need for detail in reported outputs. Housemark can provide historical data for the years 2004/2005, 2005/2006 and 2006/2007 (and any date thereafter) providing the timeline information required by NCA Housing.

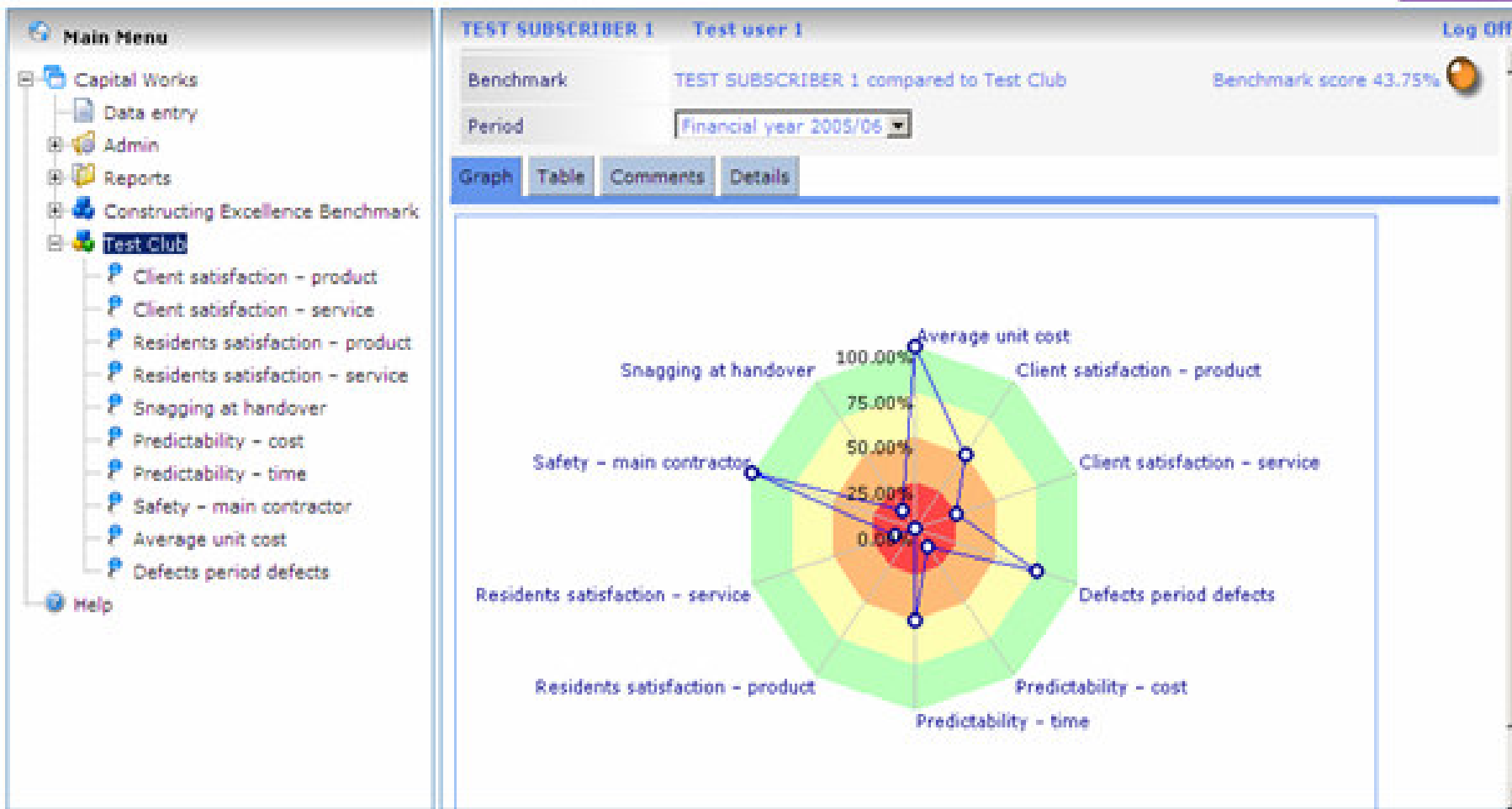
The level of detail in terms of data inputs and the frequency of data submission can be developed to reflect the objectives of individual consortia i.e. the inclusion of additional PIs, more frequent collection periods etc.

Benchmarking results can be compared within consortia and against other HouseMark customers and the Constructing Excellence National data set. Results can be reported in a variety of formats – including spider graph views of all PIs (see below), graphical and tabular views of each PI, comparative costs per work type etc.

This is a subscription service, typically costing £850 a year for existing HouseMark subscribers and £1000 for non HouseMark Subscribers. Further information and a video demonstration can be found at www.housemark.co.uk

See Example Spider Graph View on following page.

Screen shot of HouseMark System



3.3 Multi-layered Performance Management Tools

A more interactive approach is to have a range of KPIs that are configured to measure the performance of a range of work types, schemes or contractors in a way which is embedded into the operating processes of the consortium. The user can effectively configure a range of interactive KPIs that link together in a fashion similar to a website.

Although such systems are sometimes perceived as 'data hungry' and do require more management input than benchmarking clubs, they have the advantage that they are more fully equipped to manage and drive performance, since they effectively include the 'feedback loop' that prompts intervention in instances of poor or changing performance. They are focused on the performance of the consortium over time, rather than its performance compared to a national dataset. There is therefore an opportunity to use data from a benchmark club to rate the KPIs generated by the performance management tools and give them an external frame of reference.

One such system is Panagraph, a system that allows a consortium to decide which indicators are to be included in the benchmarking exercise. These are generally well-established indicators, which are common within the industry considering cost, quality, time, customer satisfaction etc. The members of the consortium agree a clear definition for each. Once agreed a 'basket' of measures is created allowing the consortium members to drill down into the 'basket' to see how they are performing over time. The Panagraph system is used by the 4 South Yorkshire consortium, one of the NCA Housing Trailblazers.

The benchmarks can be established by considering the data range across the partners within the consortium or by using reliable external data if suitable and available. Within the benchmark model, Panagraph allows the range of outputs across the consortium members to be viewed on one Panagraph model with suitable benchmark targets, averages or quartiles being superimposed if required (see diagram on page 6).

Data can then be viewed in each time period to gauge how well a consortium member is performing over time.

Data is collected from the consortium members in a spreadsheet. Each of the members input data relevant to their organisation this data is then uploaded onto the Panagraph benchmarking model. As Panagraph is a web-based solution, this can be carried out by an individual, on behalf of the consortium or by each consortium organisation independently.

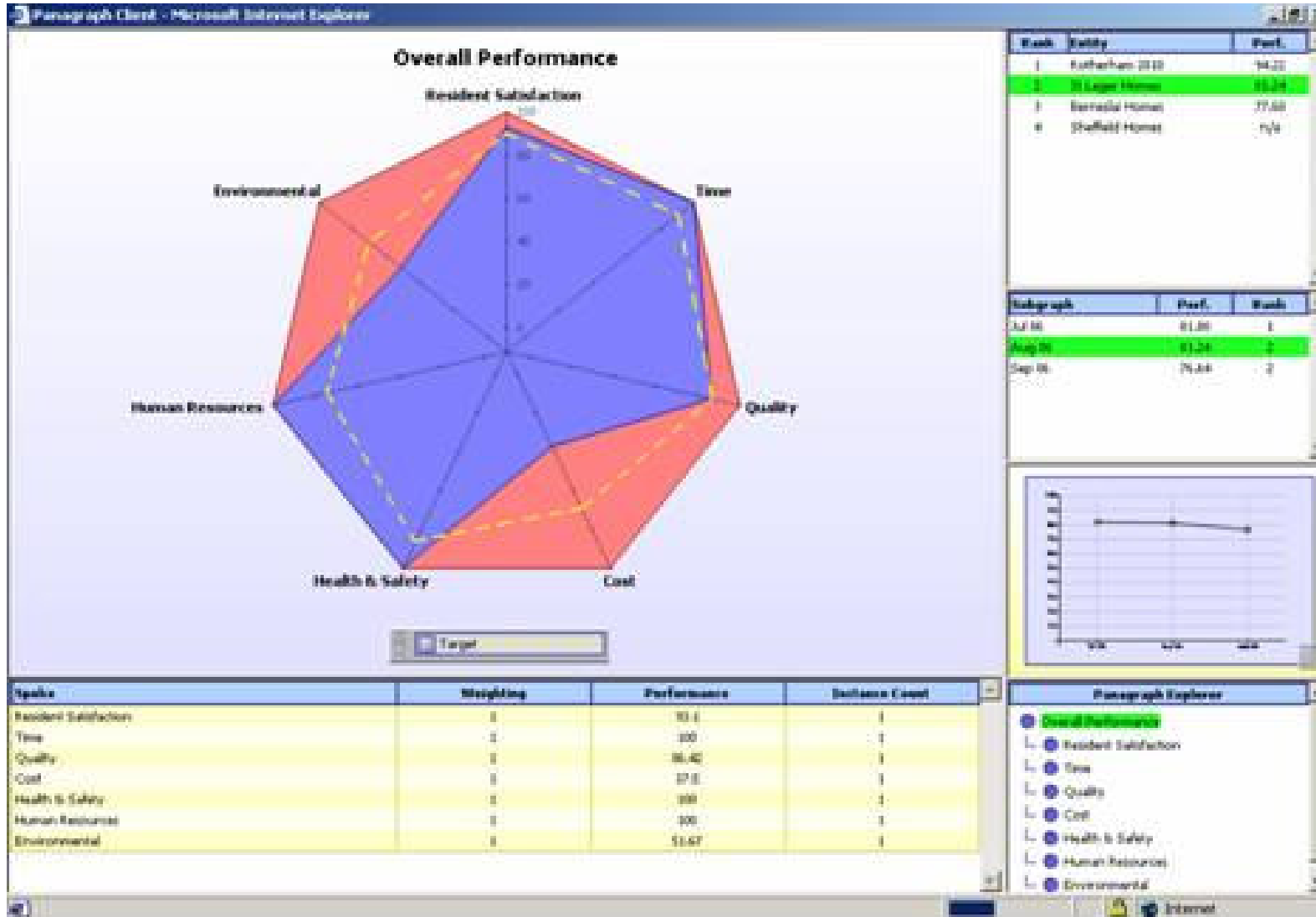
The outputs can be reported at time intervals to suit the consortium. The timing should be at intervals allowing changes in output to be reported. A typical consortium may measure quality indicators on a monthly basis and cost indicators on a more ad hoc basis as and when the costs change. Panagraph will store and display the information over any set time period that the consortium chooses.

Once the raw data has been provided, the management of the data in terms of uploading to Panagraph is dependent upon the number of indicators and

the number of partners within the consortium. One person can upload a typical consortium with four members and 15 KPIs in under an hour. Once uploaded the data is then immediately available for consortium members to view online.

Typical costs for Panagraph for measuring efficiencies run at around £100 per consortium member per month. Additional services such as model building or data integration can be undertaken on a bespoke basis.

Screen Shot of Panagraph System



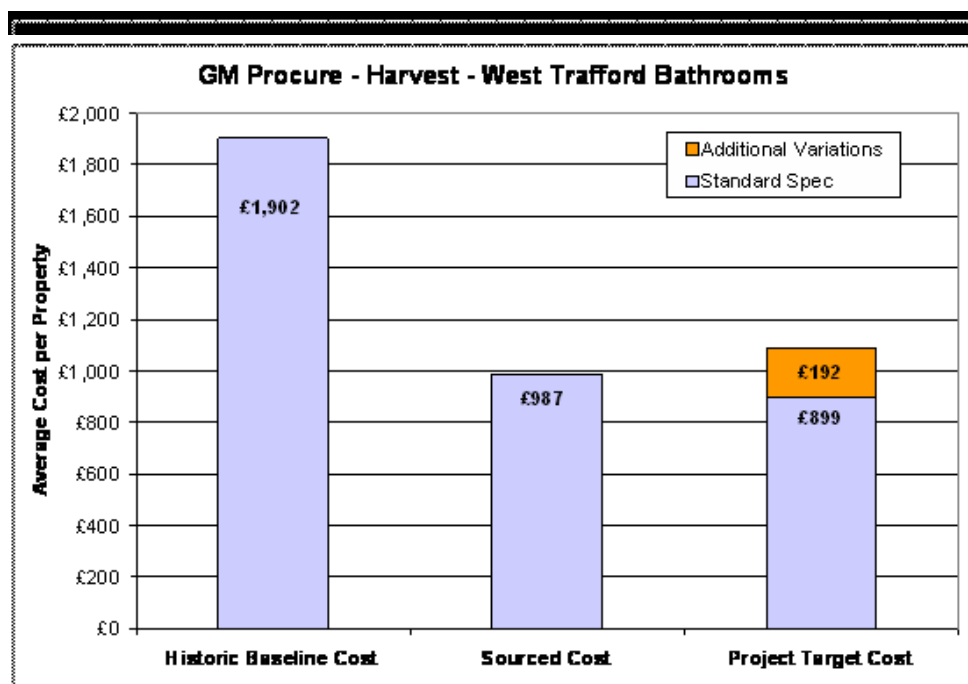
3.4 Data capture through Transaction Management

The process of capturing accurate cost and performance data can be treated as an additional management exercise, or an intrinsic part of the process of procurement. A fully electronic system of transaction management has the advantage of capturing real cost data without any need to translate it into another system. In other words, the ordering system is the same as the recording and analysis system. This means that there is no need to intervene in the process in order to 'see' the current price performance; it is available in real time. In its basic form, a transaction management system is limited to the analysis of cost-based performance indicators. Other performance indicators, such as time to complete works or level of resident satisfaction would need to be tracked separately or be built-in as an enhancement to the core financial functionality.

One transaction management system in use by NCA Housing consortia is the ValueWorks system. This is an e-procurement system which automatically generates measures for managing performance, rather than a system designed to purely measure and benchmark efficiency gains. It is used by the GM Procure consortium and is also used by Fusion21.

In order to implement the system, ValueWorks identify categories of spend and negotiate competitive deals based upon the collective demand levels for goods and services generated by consortium buying. These categories form a number of online catalogues tailored to suit individual consortium members.

Consortia then call off the items specific to their requirements via a web based system, which in turn enables the generation of performance management data.



Because the system is populated with the negotiated price data it allows an accurate project budget to be built up. It is against this budget that performance management data can be analysed and utilized to identify any non-compliance issues.

Features & Benefits

- Web based procurement hub requires no specific hardware or software.
- Setup of detailed item level electronic catalogues for both materials and labour for the consortium.
- Creation of accurate annual or project procurement budgets for each social housing provider.
- Real-time efficiency measurement reporting with data benchmarking against historical costs by property, project, work stream and landlord for any time-frame on an automated basis without the need for significant human resources.

Setup costs are dependent on a consortium's requirements and are based upon implementing existing technology with no hardware or software investment required. The cost is generally less than £10k per landlord. Ongoing service costs are charged as a transaction fee dependent on the technology service modules used and discounted as volume increases. The fees chargeable to a consortium are in the region of 2% with a money-back guarantee if cost savings are not achieved.

4 Functionality

4.1 Providers Functionality Comparison

The table below highlights the various functionality aspects provided by each of the solutions developed. While each of the solutions developed by these providers has been completed in consultation with NCA Housing each of them differ slightly in operation, cost and functionality.

It is therefore recommended that interested parties speak directly to each of the organisations directly to gain a more full understanding of each of the service provision and perhaps to arrange a demonstration.

Contact details for each of the service providers are included at Section 5 of this guidance.

Functionality	HouseMark	Panagraph	Valueworks
Web enabled input	✓	✓	✓
Web enabled output	✓	✓	✓
Report generator (Word, Excel, PowerPoint, HTML)	✓	✓	✓
Graphical outputs	✓	✓	✓
User Defined Measures	x	✓	✓
Allows supplier direct input	x	✓	x
Internal Consortium Benchmarking	✓	✓	✓
External Consortium Benchmarking	✓	x	x

4.2 Summary

The systems developed by each of the providers outlined above all offer valid approaches to performance measurement. Some offer the ability to go beyond purely performance measurement and include the ability to actually manage performance too. Some offer the ability to benchmark outside the consortium and actually compare against industry benchmarks.

There is no one size fits all single solution to Performance management, however the starting point is the same for all consortia and that is performance measurement. Each of the providers offer suitable measurement systems which when implemented with the appropriate performance management regime will enable efficiency measurement, management and the sustained improvement mechanism of change required to achieve the Gershon targets.

All consortia need to assess their individual requirements for performance management and discuss these requirements with appropriate solution providers. Some may find that the solutions presented here offer an off the shelf answer which facilitates, compliments or drives their performance management. Others may find that a combination of more than one solution will provide the appropriate answer. No consortia can manage performance well without good performance measurement systems and the above represent suitable systems which are applicable for implementation grant funding.

5 Further information

For further information on any of the above solution provisions please contact the following individuals who will be happy to provide more details of their measurement solution:

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