

**NCA HOUSING GUIDANCE:
BIDDING GUIDANCE FOR SUPPORT
FROM THE EFFICIENCY CHALLENGE
FUND**

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1 Introduction

1.1 Purpose of this guidance

This document provides guidance for social housing landlords (SLs) who are considering forming a consortium for the purposes of procuring capital works of refurbishment and renewal, with a primary focus on the efficient delivery of the ‘decent homes’ programme. In particular it explains how to bid for grant support from the Efficiency Challenge Fund.

This guidance replaces the *Bidding guidance for support towards costs of housing procurement consortia* published by the then Office of the Deputy Prime Minister (ODPM) in March 2005 and latterly available from the website Communities and Local Government (CLG).

1.2 The need for efficiency gains

Local authorities and housing associations invested £3.4bn during 2003-04 on capital works programmes. By 2010 Government estimates that around £42bn will have been spent on work to meet the Decent Homes Target. Considerable 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.

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 15 per cent per year. Major construction projects, such as the Olympic Games, are only likely to increase the pressure.

Without improvements 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.

1.3 The Gershon target

In response to the recommendations of the July 2004 Gershon Review, the ODPM 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 element covers the procurement of capital repairs to the Local Authority and Registered Social Landlord stock in England and is expected to account for £340m of this total.

1.4 The potential for consortia to improve efficiency

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 and other means, generating efficiency benefits in reduced project costs, better outcomes, improved training, local job creation and customer satisfaction. The consortia could also develop cross-sector synergies with new supply and housing maintenance.

While the primary focus of this activity is to secure efficiencies in capital works, there are no artificial barriers to delivering other services in a better way. In particular, it is anticipated that many of the consortia will develop arrangements for the collective purchasing of materials (and possibly labour) not only for capital works but also for planned maintenance and responsive repairs.

This should allow SLs to combine their demand for building materials and provide stability and predictability of demand for the material supply chain contractors, leading to cost reductions and improvements in reliability, quality control and availability. It should also offer the opportunity for transaction costs to be reduced and for other economies of scale.

1.5 Other NCA Housing documents

This guidance refers to a number of guidance and other documents available from NCA Housing. Many of these are issued to consortia as a matter of course but additionally the latest versions of each are available on the NCA Housing website for reference or download.

2 Operation of the Efficiency Challenge Fund

2.1 Purpose of the fund

In view of the potential for housing procurement consortia to achieve efficiency gains, the ODPM established an Efficiency Challenge Fund (ECF) to provide financial assistance towards start-up costs. This continues to be offered by the CLG in two parts:

- **‘Business Planning Grant’**, towards preparatory work in establishing the consortium, including the costs of preparing a business plan
- **‘Implementation Grant’**, to meet some of the costs in implementing the business plan and beginning operations.

This financial assistance is 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.

The key purpose of the ECF is to provide start up financial support to potential consortia where, without it, their establishment is likely to be retarded or not happen at all. Existing consortia formed for other purposes can also apply provided that they demonstrate the need for support in extending their current sphere of operation

2.2 Roles and responsibilities

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 drive the promotion of collective procurement across all functions and service areas, and 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, the Government has complemented the work of the RCEs with the appointment of Davis Langdon with Trowers & Hamlins as National Change Agent for Social Housing (NCA Housing) with a cross-sectoral remit to:

- 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 others
- Support change across the whole social housing sector, including local authorities, ALMOs and RSLs
- Administer the ECF.

NCA Housing does **not** directly disburse financial assistance to consortia. This remains a CLG function, as is the final determination of applications. More details of the role of NCA Housing are set out in Annex 1.

The Government expects 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.

2.3 The application process

The essential first step is to consult with NCA Housing; initial contact should be made with:

John Connaughton
Davis Langdon LLP
MidCity Place
71 High Holborn
London WC1V 6QS

john.connaughton@davislangdon.com ; 020 7061 7824

The two key stages in the application process are:

- Submission to NCA Housing of an application for Business Planning Grant, supported by a feasibility study – section 3 below refers
- Submission of an application for Implementation Grant supported by a robust business plan – section 4 below refers.

The scheme will operate until March 2008, although the operation of the scheme may be reviewed at any time before that date and its conditions 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. NCA Housing is available for consultation and advice at any stage.

2.4 An 'Accountable Body'

Consortia seeking grant funding must nominate a social landlord member to act as the Accountable Body for its receipt and management (that is, as the 'Grant Recipient'). In some cases it may be possible for a consortium itself to fulfil this role and for the grant to be paid direct to the consortium. In such cases, the Department reserves the right to seek and obtain guarantees from the parent organisations of the consortium's members.

3 Business Planning Grant

3.1 Scope of the grant

It is important that consortia are established quickly which are capable of generating early and substantial efficiency gains if they are to make a significant contribution to the achievement of the 2008 Gershon capital works efficiency target of £340m. The Department therefore offers grant support to social housing landlord organisations that can demonstrate the capacity and commitment to work together in robust consortium models that can begin to generate significant early efficiency gains.

This grant support will meet some of the cost of preparatory work in establishing a consortium, specifically the production of a robust business plan, covering up to 75% of these costs, with the members of the proposed consortium meeting the remainder.

The grant is payable in arrears, upon approval of the business plan. It is not repayable, so long as it is used for the purposes for which it was awarded. As the cost of the work will vary depending on circumstances, there is no fixed figure or limit for the grant.

The business plan will subsequently be the key document against which applications for implementation grant will be assessed, but payment of business planning grant will not guarantee approval of any subsequent application or of Government assistance in meeting any commitments entered into by the parties to the consortium in preparing the business plan or doing any other preparatory work.

3.2 Application process

A prospective consortium wishing to apply for Business Planning Grant must submit to NCA Housing a feasibility study that demonstrates the commitment of its partner organisations to produce a business plan meeting the requirements set out in this guidance. It must indicate a reasonable prospect of an operational consortium that will achieve significant efficiency gains. The application for grant forms part of the feasibility study.

Specifically the feasibility study should:

- Identify the governance and procurement models that the partners might adopt
- Estimate the origin, value and timing profile of expected efficiency gains
- Confirm the funding contribution of each partner to further work
- Confirm that the organisation will 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 the amount of grant required and how it would be used, listing activities to be undertaken in the preparatory work and the production of the business plan.

NCA Housing makes available to prospective consortia a *Feasibility Study Pro-forma* in excel format to assist with its compilation, together with explanatory notes in NCA Housing guidance: *Scope and content of feasibility studies*. It is important to refer to these to avoid possible abortive work in drafting the feasibility study. NCA Housing is further available to

offer advice and guidance on specific issues and in particular is glad to comment on successive drafts.

3.3 Terms and conditions of the grant

The terms and conditions of the grant are formally set out in the Funding Agreement Letter for Business Planning Grant that is signed by the Department and the consortium, a reference copy of which is made available to consortia by NCA Housing. The issues covered include:

- Expenditure eligible for grant funding
- Payment arrangements
- Requirements for monitoring progress
- Value for money and procurement requirements, including use of accredited consultants
- Requirement to share good practice

In summary, expenditure eligible for support from the ECF comprises:

- Payments to a consultant accredited for business planning (see NCA Housing guidance: *Use of accredited consultant framework*)
- The cost of staff recruited for and employed solely on production of a business plan; this includes the secondment to the consortium of a designated employee of a member organisation to work on the business plan for a defined period
- The cost of agency personnel employed on the production of the business plan or covering for consortium members' staff seconded to produce the business plan (unless the cost of the seconded staff member is being claimed directly, as above).

4 Implementation Grant

4.1 Purpose of the grant

Implementation Grant is available to support the implementation of business plans, meeting some of the early costs of establishing a consortium before it begins to see returns from its activities. In particular, it is intended to enable a consortium to overcome critical obstacles to implementation by equipping itself with key capability ‘products’ that it could not otherwise fund. Such products will generally fall into the following categories:

- Business process change within the workings of the consortium
- Supply chain integration
- Performance measurement
- Training

These categories are described in detail in the NCA Housing guidance: *Implementation grant – Capability products*. Consortia may propose other products for support, subject to meeting all the requirements for eligibility for funding (ref 4.2 below). These will be assessed by NCA Housing on a case by case basis.

An example of a product might be installation of and/or training on specialised software specific to the procurement of goods and services or for the capture, measurement and analysis of efficiency gains.

4.2 Eligibility for funding

To be eligible for Implementation Grant funding, any proposed product must:

- Meet the stated purposes of the grant (ref 4.1 above)
- Be clearly defined in terms of its form, function and success criteria, together with its means of measurement, programme and cost.

The types of expenditure incurred in developing a product that are eligible for funding are comparable to those for Business Planning Grant:

- Payments to an appropriately accredited consultant for the purpose of buying specific expertise to enable the implementation of the business plan (ref NCA Housing Guidance: *Use of accredited consultant framework*)
- Staff costs incurred by a consortium where those staff have been recruited solely for the purpose of enabling business plan implementation; this includes the secondment to the consortium of designated employees of a member organisation to work specifically on the development of capability products
- Payments made to third parties providing personnel who are carrying out functions which would otherwise be carried out by consortium personnel who are seconded to business plan implementation duties (unless the cost of such is being reclaimed directly, as above).

In addition, the consortium’s business plan must satisfy all the requirements set out in NCA Housing guidance: *Preparation of a consortium business plan*, with particular reference to a robust consortium model. For ease of reference these are summarised in Annex 2.

4.3 Application and payment

An application for Implementation Grant may be made upon approval of the consortium's business plan by NCA Housing and CLG (ref 4.2 above). Consortia may apply for grant to cover part or the full costs of developing one or more products. NCA Housing will assess all applications and make recommendations to CLG.

Payment of grant will be made in a maximum of three stages, each stage defined by the completion of one or more products against criteria agreed at application stage and recorded in the grant award documents.

4.4 Terms and conditions of the grant

The terms and conditions of the grant are formally set out in the Funding Agreement Letter for Implementation Grant that is signed by the Department and the consortium, a reference copy of which is made available to consortia by NCA Housing. As in the case of Business Planning Grant, the issues covered include:

- Expenditure eligible for grant funding
- Payment arrangements
- Requirements for monitoring progress
- Value for money and procurement requirements, including use of accredited consultants
- Requirement to share good practice.

Annex 1: The role of NCA Housing

NCA Housing is the National Change Agent for capital works in social housing. As such, it supports the rapid development of effective social housing procurement consortia, with five key objectives:

- To help establish and support a network of local housing procurement consortia which are generating efficiencies for their members
- To set up and manage the Efficiency Challenge Fund to facilitate the rapid roll-out of local procurement consortia, and to administer the related bidding process on behalf of CLG
- To support the development of other national and local partnering arrangements that will maximise supply chain and other procurement efficiencies in the procurement of capital works by social housing landlords
- To support the development of a strong market in consultancy support for 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
- In partnership with CLG and social landlords, to measure and monitor the efficiency gains secured through consortia, helping participating social landlords to report these gains through their annual efficiency statements.

NCA Housing exercises the following functions with respect to the Efficiency Challenge 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 provision of advice to CLG on the merits of the applications
- Administration of the financial assistance scheme
- Monitoring and validation of the records of consortia to ensure that financial assistance is applied to the purposes for which it was granted
- Continuous review of the operation of the scheme with particular respect to its efficacy in raising efficiency in social housing landlord procurement and the related targets.

NCA Housing does not directly disburse financial assistance to consortia. This remains a CLG function, as does the final determination of applications.

Annex 2 Issues addressed in a robust consortium model

1 Consortium size and dwelling coverage

CLG expects consortia to vary in size, but the overall coverage by consortia in aggregate should be sufficient to generate efficiency gains that are consistent with the achievement of the Gershon £340m efficiency target for capital works. An individual consortium should be of a size and nature that affords a reasonable prospect of the grant support required yielding a good return in efficiency gains. Relevant considerations include:

- The number of dwellings owned or managed by consortium members and included in the proposed collective purchasing arrangements
- Opportunities for smaller consortia to expand membership once established
- Turnover of the consortium members and the value to be included in consortium arrangements
- Likely coverage of consortium activities, e.g. 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 turnover in capital works.

2 Ability to generate significant efficiency gains by March 2008 or earlier

Factors relevant to this include:

- Capacity and readiness to be operational quickly
- The period before gains are expected to be generated
- Identification of the sources and size of expected gains within the business plan
- Robustness of those estimates.

3 Geographical spread

CLG envisages that most consortia will operate within sub-regional material and labour markets but does not wish to discourage applications from consortia with wider regional or national coverage, if there is a sound business case for such coverage.

4 Sustainability of the consortium

Commitment of consortium partners to work together and ensure sustainability of the collective purchasing arrangements is a prime requirement. Indicative factors include:

- Willingness of all members to provide a contribution to consortium start-up costs
- Other evidence of joint ownership of the consortium
- Depth and range of management support (which should not be overly-dependent on the input of one or two key individuals or bodies)
- Proposals to secure continuous improvement over the longer term, including driving out waste.

5 Engagement and involvement of other key stakeholders

Relevant indicators include:

- Engagement with other stakeholders, such as Regional Development Agencies (RDAs), Government and Housing Corporation Regional Offices, and the Regional Centres of Excellence.
- No avoidable duplication with other consortium activity whether already operational or in development
- Demonstrable willingness to engage and work with other procurement bodies where appropriate, including arrangements set up within regions or supported by the Regional Centres of Excellence.

6 Commitment to measurement of efficiency gains

Systems and processes must be robust and in place to allow consortium members and NCA Housing to measure the efficiency gains that are achieved, in accordance with the Government's Efficiency Technical Note. These gains will also need to be apportioned to individual members to report through their Annual Efficiency Statements.

7 A balanced portfolio of efficiency gains, including labour and skills

Proposals should demonstrate a balanced portfolio of savings, improvements in quality of delivery and customer outcomes, and labour market operation. In particular, proposals should address skills shortages and offer pathways into sustainable construction employment for young people, minority ethnic groups and other under-represented groups through training, improved outreach and employer workforce practice, and which deliver greater diversity in construction labour force composition. This should include, where appropriate, support for small and medium-sized enterprises (SMEs).

Proposals should also identify linkages with other stakeholders that can assist with funding and other support, such as local Skills and Training Councils, and link to action by contractors and suppliers to support these outcomes.

8 Willingness to transfer lessons and models to others

Transfer of learning between consortia will be supported by NCA Housing. Consortia should demonstrate willingness to contribute to this, including sharing costing details, benchmarking data, framework agreements, business plans and arrangements with other parties such as consultants (subject to reasonable conditions of commercial confidentiality).