

# Home truths: Why public procurement must adapt to help tackle the housing crisis



By **Tony Williams**, Business Development Director, **EDAROTH UK**

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**In 2018 some 6,000 social homes were built – yet a reported 86,130 people were living in temporary accommodation in spring 2019 in England alone. Added to this are the huge numbers of people living in substandard, privately-rented accommodation – or being homeless altogether.**

The crisis of demand versus supply is stark: but greatly increasing the supply of social, and truly affordable, homes will entail change. Change in land use, in incentivisation, in innovation, and in new methods of construction, and in my view, a change or shift in procurement approach and mindset.

It is well-known across the construction industry that local authority procurement teams have long to-do lists, and scarce resources. Added to which, the procurement cycle is a treadmill: once it is underway it is hard to stop and get on or off. Of course, any process that buys goods and services with public money must be subject to scrutiny and impartiality, but issues of good governance and transparency do not need to be to a roadblock to innovation.

I do, of course, recognise that there are other factors at play; under-resourced and busy local planning departments, NIMBYism, mainstream developers' tendency to rely on traditional construction methods, and the scarcity of skilled labour which may become even more acute in a post-Brexit Britain. But many of us in the construction sector can find solutions to some of these issues – many are already thinking super-innovatively and investing – because it is the right thing to do.

## Back to basics

Faced with a challenge on this scale to build thousands of quality, truly affordable homes, it is time to acknowledge that current procurement processes need reform. We must start to look at ways to operate current procedures more efficiently, or redesign them. That means, first of all, going back to basics.

The procurement process as defined by the Government is “based on value for money, defined as ‘the best mix of quality and effectiveness for the least outlay over the period of use of the goods or services bought’... achieved through competition, unless there are compelling reasons to the contrary.” Procuring extra homes at pace and scale to solve the social housing crisis will not be solved by Section 106 agreements alone as the numbers demonstrate, with 86,130 people in temporary housing and only 6,000 social homes built in 2018.

## A lack of incentive to innovate

In many cases, despite best efforts by local authority housing teams and individuals to increase the supply of social and truly affordable homes by thinking outside the box, there often appears to be a lack of top-level support to adapt many of their processes to support such aspirations; and to embrace and leverage innovation.

In my view, innovation is exactly what is needed to get the UK building new affordable homes at scale – to start, we need to adopt modern construction techniques, unlock more land parcels and attract and train a workforce with new skills and capabilities. A lack of innovation is not down to a shortage of investment from industry, but it can in part be attributed to public sector procurement processes which do not lend themselves to speed, flexibility, or original and unique propositions. All this, if unchanged, could spell bad news for tackling the housing crisis, particularly in the social rented sector.

## Fixed framework lengths are a barrier

While single opportunities can be competed on an individual basis, many authorities favour setting up or using others' frameworks as a streamlined arrangement. These typically last four years with some "exceptional cases" of up to seven years, with suppliers in all but a very few cases remaining on the framework for its duration. Direct call-off appointments are usually an option, but often opportunities are the subject of a mini-bid which, for suppliers and clients alike, can be as onerous, costly and slow as a standalone procurement.

Long, fixed-term frameworks (such as the recently announced Crown Commercial Services Construction Frameworks expiring in 2026) can be barriers to innovation because they restrict the opportunity for new entrants to join midway through the framework term once their product or service is market ready.

Shorter frameworks reduce the time that new suppliers and innovations may be "locked-out" of the process. However, a shorter interval between procurement cycles significantly reduces the opportunity for procurement teams to capture and evaluate data from projects called-off from the framework, in order to inform changes and improvements – in a spirit of continuous improvement.

This results in a tendency to stick with what went before – a mindset that disadvantages new entrants and novel solutions as the scope of the framework is optimized for yesterday's solutions, and not tomorrow's solutions.

## Changing the procurement dynamic

The first question for any project that will increase the supply of social and truly affordable housing must be this: is it necessary to hold a competition at all? There is plenty of case law and precedent to show that, if structured correctly, a development agreement can fall outside the procurement regulations and that in effect, a direct award can be made.

Naturally, the buyer needs to be confident that a developer's proposals offer value for money – and how this is measured could be changed to what is important to the authority – and here, I would suggest that a positive net present value (NPV) after factoring in grants for the development over a particular period could be a suitable measure. Furthermore, most small social housing developments on surplus brownfield sites would fall below the OJEU works threshold of £5m – but typically, authorities' local standing orders for procurement apply far lower thresholds – maybe tens of thousands – above which a competition must be held.

So, local authorities themselves have scope to relax their standing orders where social homes are concerned and reset the measures that determine when satisfactory value for money is deemed to have been achieved.

## Comparing apples with pears... and with carrots

Through conversations with local authority housing directors, we hear the frustrations that they know what they want, and they know that the solutions they want exist, but there is little chance, as things stand that they can procure them. Therefore, procurement is one of the central planks to doing things better. At present, procurement processes rely on the principle of comparing apples with apples. What is innovatively on offer is not even necessarily a fruit, making comparison for procurement officers challenging.

There are numerous additional means to standardise the way in which social housing developments are measured. One could be to devise a series of unambiguous metrics that lay bare what developers are offering within their price and set minimum standards. These could include, for example, particular densities of homes needed for an area of land, energy efficiency parameters, floor areas, a scheme net present value, adherence to quality standards (eg BOPAS) and speed of construction.

In this way local authorities could start to give new entrants to the market quantifiable targets to achieve, on a level playing field. Such an approach would help thin-out the field so that the players with truly innovative modern construction methods, and providing high quality homes, could be in the game to provide the most cost-effective housing.

## A dynamic purchasing system rather than a framework?

Another solution could lie in dynamic purchasing systems. These are, in effect, rolling frameworks that allow entry at any time, once a supplier has met certain quality and financial thresholds – and largely, they overcome the limitations of fixed term frameworks.

In its 2020-2025 procurement strategy published in 2019, the London Borough of Haringey says it aims to promote growth within the local economy through easier access for businesses to their dynamic purchasing system, of which, the Council now has the largest number in local Government. Realising that house builders and housing associations can't meet the need on their own, the council is leading the way with plans to start building houses again at a scale not seen for thirty years. In creating rolling frameworks that can absorb new entrants at any time, Haringey is delivering on its aim to: “build the Council's reputation as leaders in procurement, securing innovation, agility, value for money and quality of services from our supply base.”

Using the evaluation metrics that I have described above, a dynamic purchasing system could keep adding new suppliers as and when they meet criteria that are of value in providing social and truly affordable homes. This would increase capacity that is so desperately needed, and it could also strike-off suppliers who subsequently fall short. I think it would be fairly easy to put an annual uplift on the thresholds to ensure continuous improvement over the life of the dynamic purchasing system – which could be many years – and encourage existing suppliers to continuously improve. For example, by increasing environmental performance year-by-year as we head towards a zero-carbon future.

With the basics assured – by virtue of the supplier being accepted on to the dynamic purchasing system – the client teams could then turn their intellectual horsepower onto other matters. Such as, what else they are looking for from their scheme, and how they will attract interest in what should be, for the foreseeable future, a market where opportunity will continue to outstrip supply. All this, while still managing risk and incentivising suppliers to deliver high-quality housing, quickly.

This model could also include an incremental approach, whereby successful delivery of one site leads to automatic allocation of additional sites. It could become a solution that allows the authority to retain its land and the homes built on it, while minimising whole-life costs.

### **Local authorities need empowerment and support**

Whatever free advice suppliers give and however the procurement regulations might be adapted or interpreted to enable the increase in supply of social housing, it would be a brave local authority chief executive who breaks the procurement mould without some sort of nod of approval or endorsement from respected national and Governmental bodies. Clear, consistent and bold guidance from the Ministry of Housing, Communities and Local Government, Homes England, the Chartered Institute of Public Finance and Accountancy, and the Local Government Association, might help boost local authorities' confidence to do things differently.

As importantly, we should all be promoting and celebrating those early adopter local authorities who are prepared to experiment by shifting some aspects of their procurement processes to a more agile model – rather than letting them wonder if they will be vilified for doing the right thing. Surely, we, as a nation, owe it to thousands of adults and children living in temporary or totally unsuitable accommodation to take a bit of a risk – procurers included?

 **End of article**