

A Strategic Approach to Procuring a Large Scale Investment Programme

Client – Glasgow Housing Association

Consultants - Savills

The Glasgow Housing Association was formed to receive the transfer of some 81,336 dwellings from Glasgow City Council that took place in spring 2003. As part of the transfer, the Offer Document stated that homes would be improved in accordance with the following criteria:

Warm Deal – a 4 year programme to upgrade and install full heating

Homes Plus - a 6 year programme to create warm damp free housing

Glasgow Standard Essential - a 10 year programme to refurbish kitchens and bathrooms

Glasgow Standard Non - Essential – a 10 year programme for environmental work

Investment programmes apply to long term sustainable stock and must all be complete within 10.5 years from transfer creating modern sustainable housing.

The Business Plan is also inclusive of a 2800 unit new build programme.

Although the stock is owned by the GHA, housing management is undertaken by 63 Local Housing Organisations at a local level. The LHO were independently registered as management RSL's by Community Scotland. Some of the LHOs are supported and managed by existing Community Based Housing Associations. The housing stock, staff and funding is all under the direct responsibility of the GHA.

The transfer was completed with a requirement of a second stage transfer of the stock over a 10 year period to the LHO's which, by implication would be a complex process and thus creating specific challenges when attempting to establish a series of long term construction contracts to deliver the programme.



GHA Stock Profile

Properties identified within the Business Plan for demolition	11,024
Houses (typically terraced, 4-in-a-block or semi detached)	17,749
Sheltered Housing	1,064
Deck Access Flats	2,984
Aged Person Flats	3,056
Pre 1919 Tenement Flats	1,220
Interwar Tenements Flats	9,811
Post 1946 Tenement Flats	18,404
Multi Storey Flats	16,054

Note the above stock figures are based on the point of transfer.

For information there are also a further 23,000 properties at the point of transfer that have been sold through right to buy. The sold properties are integrated within the overall stock creating mixed ownership within flatted or terraced housing. In a number of instances the owners are the majority within flatted/terraced accommodation and this adds complexity to the delivery of the investment programme. A means tested grant procedure is available to support work required to owner occupiers.

Determining Stock for Investment

Over the course of the last 3 years post transfer, the GHA has undertaken an options appraisal process called 'Housing Futures Assessment' of its stock to determine the core sustainable stock, i.e. stock safe for investment. This process is by its nature ongoing but has resulted in a core stock of some 49,000 dwellings with the remainder either subject to continuing Housing Futures Assessment or alternatively, identified for demolition. To date, some 3,500 dwellings have been demolished including 5 multi storey blocks. A total of 19,000 dwellings are now scheduled for demolition. The GHA has plans for the construction of some 2,800 new dwellings over a 10 year period.

A stock condition survey undertaken by Savills prior to transfer identified the need to spend in the region of £1.2 billion on the total stock in the first 10 years after transfer in order to bring the stock up to modern standards and meet the promises to tenants made in the Offer Document. A further £400m was identified as the owners share of cost to modernise the common elements of the properties should they participate in the programme. The estimated total investment at the point of transfer was £1.6billion.

The HFA process highlighted an investment need of some £750m of work required to the core stock and this formed the basis of the subsequent procurement exercise.

Developing an Investment Programme

The GHA's Asset Management Strategy is based on the HFA and the SCS. The sheer scale of the programme, the diversity of the stock and the localised nature of management through the LHO's meant that strong investment management was required to ensure that the right investment is directed towards the sustainable houses. The investment criteria are also influenced by the Offer Document promises to tenants. The overall programme of £1.6billion is a significant sum and the volumes of work are on an unprecedented scale such that the multiplier effect of minor cost increases could have serious impact on the overall delivery of the programme. Establishing affordability criteria was a critical part of the investment planning and procurement process

The Stock Condition Survey underpins the business plan and forms a key component of the asset management strategy. As such, it has been used as the foundation for all investment planning with the GHA providing each LHO with an extract of

the data applicable to their stock. LHO's were then responsible for consultation with tenants and confirming the scope of investment required in their areas. This process took place in parallel with the Housing Futures Assessment and therefore in the early years after transfer, investment could only be directed towards clearly sustainable stock.

Procurement Strategy

The stock investment need was analysed through the SCS and 15 work type packages were developed to reflect the work required, the stock profile, the need to maximise value for money and the complexities of working citywide. The second stage transfer process was a key factor for consideration as the LHO's had to have the option of either remaining in the GHA's contracting regime or alternatively opting out and making their own arrangements. As contractors continuity of work and volume are key components of maximising value for money, the potential consequences of SST are significant.

Working in conjunction with consultants Savills, an evaluation of the procurement and contracting options was undertaken which recommended the adoption of long term partnering contracts as the most cost effective way of meeting the GHA's objectives which are:

- Consistent quality standards
- Continuous Improvement
- Market expertise
- Shared investment objectives
- Single approach to project management
- Clear roles and responsibilities
- Problem solving environment
- Annual award of works
- Business Case based cost control
- Partner approach to delivery
- Objective to create fixed cost per elemental replacement
- Philosophy to drive performance and efficiency into the investment planning and delivery
- Accountability within the delivery process
- Delivering high quality services to the tenants
- Consultation and tenant support during work process
- Capacity and sustainable outputs and spend within affordable parameters
- Local employment and training opportunities

Second Stage Transfer was an added complexity and hence contracting arrangements need to

create flexibility and recognise the fact that LHOs are not obliged to continue with the GHA's contract arrangements post second stage transfer.

Analysis of the long term investment programme and the construction industry in the west of Scotland, together with the supply chain and capacity of the industry to deliver the works generally, resulted in the following 15 separate works packages being identified

- Roofing and over-cladding low rise
- Roofing and over-cladding high rise (2 packages)
- Doors (2 packages)
- Kitchen and bathrooms
- M&E services (multi-storey blocks, 2 packages)
- Electrical wiring (Low rise)
- Environmental works.
- Common area improvements
- Lift replacement
- Demolition (2 packages)
- New House Construction

A separate heating contract had been let at transfer with a 4 year duration and therefore no additional heating work was tendered. Additionally, at the time of transfer a number of other contracts had been let for roofing and cladding (the majority of properties in Glasgow will be over clad with insulated render and roofing replaced accordingly). These initial contracts were for a one year period and were extended by a year to enable the new partnering contracts to be brought on stream without interrupting the delivery of the investment programme.

In addition, the sheer volume of new installations and elemental replacements meant that the GHA had an opportunity to test the market for large scale supply contracts and hence supply tenders for the following were invited:

- Roofing tiles and auxiliary components
- Kitchen units
- Sanitary fittings
- Insulation

Although the GHA has an extensive in-house professional resource, additional capacity was considered necessary to ensure delivery of the programme and to assist with meeting peaks and troughs. It was agreed that a consultant framework should be established covering all aspects of professional and specialist services ranging from options appraisal/engineering services/project management/cost control/site supervision.

The Procurement Process

Meeting the needs of such a diverse programme meant careful attention to the OJEU process was required particularly the evaluation criteria and contracting framework. Separate notices for all works, supplies and services were published in 2004 and over 1,100 expressions of interest received. Evaluation of the expressions of interest was carried out by the GHA and supported by consultants. Short listed companies were subsequently invited to tender during 2004 with over 150 contracting organisations alone submitting tenders for the building works.



The Contracting Arrangements

All building works were to be let on a design, manage and build basis using a Scottish version of PPC2000 to govern the annual work allocation to each construction partner. A 'simplified' PPC was also used to cover some of the simpler work programmes. The contracts are let under a 4 year framework agreement between GHA and each partner and all partnering constructors involved in each of the works type packages are parties to a strategic alliance agreement. Legal advice was provided by Trowers & Hamblins.

As the programme duration for some packages exceeds 4 years, it is acknowledged that a further tender round will be necessary after the current frameworks have expired.

Tendering Agreements

The unique pricing arrangements and approach gave tenderers the opportunity to submit their most economic bids.

The final price/evaluation and selection resulted in the appointment of 24 contractors across the 13 work types operating across the whole city supported by a framework of 27 consultants on a call off arrangement reflecting the needs of individual works programmes.

The supply tenders provide GHA with an opportunity to further maximise economies of scale if desired although the GHA have not yet adopted these.

The tendering exercise resulted in costs being approx 10% below the GHA's business plan following detailed assessment and development of an affordability model. The critical part of this case study is the affordability model. The tender returns were evaluated rigorously against the SCS and the objectives of the business plan to ensure the outputs and financial parameters of delivering the programme were met.

The Asset Management Circle

As the SCS forms the basis of the business plan and the procurement approach, specific project management processes were developed linked back to the SCS to enable GHA to retain control over the programme. The key to success revolves around the scoping of work. This is done in 2 stages – stage 1 is a planning stage where GHA identify a scheme and the work content from the SCS and stage 2 which is a work order stage when the properties have been inspected and fully scoped out by the GHA and contractor partners. The work order is subsequently confirmed and issued to partners for implementation. This process is designed to ensure that the work content is within stock condition (and hence business plan) parameters, or, where required, adjustments are made in a controlled fashion. These arrangements are now monitored through a bespoke IT project management system.

The contract outturn costs are ultimately fed back into the SCS database and hence the business plan is updated to reflect reality.

Achievement to Date

Headline results to end of 2006 include :

- The installation of more than 10,500 kitchens and bathrooms
- Overcladding and roofing to more than 11,000 dwellings
- Heating systems to 28,000 dwellings
- More than 32,000 new security doors
- Rewires to 11,000 dwellings

In business plan terms, the annual value of the investment programme started at a modest £80m pa rising to £150m per annum by year 3, in other words £3m per week.

The implementation of such a programme at a citywide scale is therefore highly complex and required a carefully structured approach to investment planning and an innovative solution to secure delivery within all the parameters, particularly the financial limitations imposed by the business plan.

