

CONSTRUCTION PROCUREMENT ARRANGEMENTS OF HOUSING ASSOCIATIONS IN LIVERPOOL

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Housing Associations (HAs) also known as Registered Social Landlords, provide homes for over one and a half million people in England – the successful completion of their projects depend on a variety of factors, one of which is the procurement method selected. The procurement methods used by a random sample of 6, mainly community based HAs, are analysed within this study. This research fulfils part of an on-going larger study into the suitability and effectiveness of current procurement arrangements in meeting HA objectives – a study that to date has investigated all the HAs in the Northwest of England through surveys and further interviews. The pilot study identified that the HAs used only the Traditional and Design and Build (D&B) procurement arrangements along with variations of these arrangements. The use of the traditional arrangements had increased over the last 5 years due partly to the increased use of external consultants providing procurement advice and the increased confidence this provided the HAs in the procurement advice obtained. Allocation of design and construction risk, early cost certainty and the allocation of responsibility were the main procurement decision-making criteria. The employer's agents role is mainly fulfilled by the quantity surveyor, along with further consultation and advice provided by the architect.

Keywords: design and build, housing association, procurement, traditional.

INTRODUCTION

Background of Housing Associations as construction clients

Housing Associations are non-profit making bodies, and are the major providers of new subsidized homes for those in housing need - catering for families, the elderly, disabled etc. The HAs are provided with public funding through the Approved Development Programme, (in-directly by the government) overlooked by the Housing Corporation (HC), who they are also registered with. The HC is a government agency that funds and regulates housing associations. A corporation board is appointed by the secretary of state for the Environment, Transport and Regions whose role it is to oversee the delivery of specific performance objectives and targets, also providing advice on policy matters to Ministers (Housing Corporation 1998).

HAs improve properties and build new homes, primarily for rent in inner cities, towns and rural areas. Some 'for sale' programmes also exist where low-income families can purchase low cost housing. The associations are run by a voluntary committee of management. The director and staff of the association are accountable to the committee, who approve budgets and scrutinize the association's performance in all areas. Finances will relate directly to the level subsidized by the HC and the income gained by their rent collections (obtained from their units). The English HA market consists of over 2,200 HA registered with the HC providing homes for over one and a

half million people in England. 15% of the HAs – the Northwest sector – are included within the overall research sample that this pilot is an aspect of (Housing Corporation 1997).

The funding system for HAs changed after the implementation of the 1988 Housing Act – requiring stricter monetary control and accountability on behalf of the associations. This change influenced the objectives of HAs in general and their choices of procurement arrangements. From 1988 until the mid-nineties design and build experienced a surge of popularity, generally overtaking traditional as the housing association procurement system of choice (Davis 1995). Indeed housing associations were the most significant users of design and build for many years (Stockdale 1994). At the same time many professionals highlighted the pitfalls of its poor quality levels, and specifically the dissatisfaction of many architects with its use (Blyth 1995).

This paper examines the current, changing circumstances that exist regarding HA procurement arrangements. Although occupying a major aspect of the industry HAs and their procurement methods have rarely been analysed - as opposed to procurement methods in general (Skitmore and Marsten 1988, Bennett and Grice 1990, Masterman 1992, Masterman and Duff 1994, Sharif and Morledge 1997, Bowen and Grice 1997). With changing client needs throughout the industry this paper will provide details of the current situation referring to HA procurement. Six of Liverpool's associations were questioned using semi-structured interviews for this pilot study. Development managers were the interviewees, their opinions concerning their overall procurement methods were investigated. Procurement arrangement selection was focused upon determining which arrangement, and variety of arrangements are used. Their initial decision-making objectives i.e. procurement assessment criteria, were identified - also providing an area that could be compared to past research (Fitzgerald 1995). The effectiveness of the different arrangements in meeting HA objectives were also analysed helping to identify why the specific arrangements are used.

PROCUREMENT ARRANGEMENTS ANALYSIS

Recent research (Fitzgerald 1995, Davis 1995, O'Doherty 1998) has found that the main procurement arrangements used by HAs have been the traditional arrangement, initially, and more recently the (specifically the last 11 years) design and build arrangement.

Developed to provide an alternative solution for construction clients of a single point of responsibility, the design and build arrangement has fluctuated greatly in popularity since its creation. In 1992 design and build represented only 14% (Davis, Langdon and Everest 1992) of the overall procurement arrangements in the UK, by 1994 it had greatly increased its share to 35% (Davis, Langdon and Everest 1994) and by 1996 (Davis, Langdon and Everest 1996) reduced to 30%. The arrangements peak in popularity occurred when housing associations were using design and build as their main procurement arrangements (Stockdale 1994).

The basis of developing alternative procurement systems was to offer alternative procurement solutions (Hamilton 1990), catering to general procurement needs within the industry. However because of this system of development no specific sector of the construction industry's clients were focused upon directly – and no project would be specific for any one type of arrangement or situation. HAs are therefore not provided for directly by the UK construction industry's procurement arrangements. This paper

focuses on this ‘gap’ within the procurement market and examines the factors relating to the effectiveness of current procurement arrangements in meeting HA objectives.

METHODOLOGY

When developing the methodology for this (pilot) study it was essential to adopt a route that would allow the respondent to clearly and subjectively express their opinions, while still following a general direction of questioning. Semi-structured interviews were viewed as the optimal solution in achieving this aim, and were adopted to investigate the six randomly selected HAs within the sample, who were located in Liverpool.

The interviews were recorded in order to produce transcripts of the information, and lasted between 45 and 60 minutes. The individuals interviewed were those members of staff perceived by their organization to be in the most appropriate position to comment on the current procurement procedures of the organization, which were the Development Manager or the Project Manager. At the request of the HAs their identities have been protected, they are now referred to as HA1 to HA6. This pilot study forms part of a larger on-going investigation into the HAs located in the Northwest of England, including Merseyside.

HOUSING ASSOCIATION GENERAL BACKGROUND DETAILS

All of the HAs interviewed were either medium or small, with reference to their development programme, located within Liverpool, and mainly operate within the city - all operate within Merseyside.

Housing Association 1

This housing association is a community-based organization. It carries out traditional types of construction, mainly new-build and refurbishment, from bungalows to flats to multi-storey dwellings of four bedrooms or more. Its current level of stock consists of 1,010 units, 797 of which are new build or rehabilitated for rent, 4 are staff units, 21 are hostel (bedspaces), 22 are in development and 166 are of a shared ownership basis.

The association employs 19 full-time staff with another 5 employed on a part time basis, and has a turnover approaching £2 million per annum.

Housing Association 2

This is a community-based organization solely within Liverpool, with approximately 65% of its construction work carried out in the form of flats for a range of occupiers. They construct different types of projects from new build to stock-reinvestment, however recently they have stopped all rehabilitation work as they believe it is too risky within the current economical climate.

Their stock comprises of 1,223 units, 4 are bedsits, 467 are one bedroom units, 467 are two bedroom units for rent and 285 are three or more bedroom units for rent (65% flats overall). All of the properties are tenanted - approximately 3,100. The organization has about 20 staff and a turnover approaching £3 million per annum.

Housing Association 3

This association is a regionally based organization, working within Merseyside (and currently has the second largest development program in the region). They construct a wide spectrum of house types, including new build and refurbishment, as well as

regeneration schemes. They have 1,500 units (flats and houses) as well as 170 units in development. By number of units they carry out more refurbishment work than new build, by a ratio of 60 to 40%, with 60% of the developments being flats. They currently have approximately 3,700 tenants.

Housing Association 4

This association is a regionally based organization, working throughout Merseyside. Their organization carries out a wide range of housing construction including new-build, usually family houses, as well as flats or bungalows. They also carry out rehabilitation work, usually of a two up two down nature or converting large properties.

Their stock comprises of approximately 5,000 units, that range from 10 sheltered (support) schemes for over 55s, to flats for rent - they have also been involved in two stock exchanges. They currently have approximately 12,500 tenants.

Housing Association 5

This association is community based with its main housing construction being family houses for rent, semi-detached or terraced for rent, bungalows (for the elderly) and flats for sale. Recently their main area of construction has been family housing for rent however they are currently moving into the student market.

They have approximately 2,050 units and another 150 acquisitions to carry out in the near future (student units). They are also developing another 100 family houses. 95% of their units are tenanted, approximately 6,000 overall, with 600 being students.

Housing Association 6

This is a community based Housing Association providing a service for a specific area within Liverpool. Their current development programme is very limited, only constructing a small number of units each year. They mainly purchase existing houses and carry out refurbishment work.

The current level of stock is 408 units. Of these units approximately 380 are flats, houses or bungalows and approximately 30 are bedspaces (in support housing). The units are all tenanted - by approximately 700 individuals.

HOUSING ASSOCIATION - PROCUREMENT ARRANGEMENTS

This section highlights the procurement arrangements used by the six housing associations in 1988 (prior to the implementation of the 1988 housing act), 1993 and in 1998 when carrying out their refurbishment and new build projects.

All the housing associations interviewed use the traditional or the design and build procurement arrangements - in both 1993 and 1998, after only using the traditional prior to 1988, as Table 1 displays in terms of stock constructed. Variations of the procurement arrangements are used, such as novated or package deal design and build. The schemes themselves consist of a variety of project types that include new-build or the refurbishment of different types of bedsits, flats, single and multi-storey houses.

Table 1: Procurement arrangements used by the Housing Associations

Housing Association	1988 (%)		1993 (%)		1998 (%)	
	T	D&B	T	D&B	T	D&B
HA1	100	0	5	95	5	95
HA2	100	0	20	80	20	80
HA3	100	0	40	60	60	40
HA4	100	0	20	80	50	50
HA5	100	0	15	85	50	50
HA6	100	0	95	5	95	5

Over the past eleven years since the 1988 housing act, when the funding/grant system changed, trends have existed in the popularity of specific procurement systems. Previous to the 1988 housing act the six housing associations questioned used the traditional procurement arrangement only, since then design and build has been used to a much higher degree. Changes in the procurement arrangements level of use constantly occur, with HA5 reducing its use of design and build from 85% in 1997 to 50% in 1998.

All the housing associations interviewed when using the design and build arrangement - specifically HA1 and HA2 who use it as their main arrangement, mainly use the novation option. This option allows an architect to be appointed by their development manager, along with a firm of quantity surveyors as their employer's agents. The design can then be developed to tendering stage, and the architect's services novated to the successful tender, thus providing a level of control for the HA throughout the construction process that they are satisfied with, which from their past experience is unattainable through pure design and build.

HA1 and HA2 are also suspicious of architect's advice in general, when recommending the traditional procurement arrangement because of bad experiences on past projects. When the traditional procurement arrangement is employed the architect is likely to gain a higher fee due to greater work requirements (Sharif and Morlage 1997). Both HAs believe that architects have in the past advised them to use the traditional arrangement even though it was not the best option for their requirements – however providing the architect with higher fees than when using the D&B arrangement.

A distrust of contractors in general due to bad past experiences influenced HA3's reduction in using D&B in 1998. They view the early cost certainty as a possible danger from the contractor, who may be unable to achieve costs. Thus leading to attempts by the contractor to 'amend the design to achieve lower unit costs'. With limited quality assurance procedures used, the HA feel 'apprehensive' about using D&B with any un-proven contractors.

HA6's experience with design and build is for two large projects only, this is due to the small-scale development programme of the association, and the tight control required by the development management during any project, which they feel is best catered for by the traditional arrangement of procurement.

Table 2: Housing association procurement assessment criteria

PAC	HA1	HA2	HA3	HA4	HA5	HA6
Cost Certainty	*	*			*	
Final Cost			*	*		*
Programme				*		
Allocation of Risk	*			*	*	
Responsibility/Control	*			*	*	*
Quality			*			*

PROCUREMENT DECISIONS

This section reports the reasons for the procurement arrangement choices made by the housing associations within this investigation.

Table 2 identifies the procurement decision-making factors of the HAs - the six main procurement decision-making criteria that were identified as having the most influence.

HA1 and HA2, in their selection of the design and build procurement arrangement stress that this is mainly because of the financial arrangements obtained through its use - HA1 includes both the allocation (avoidance) of risk and responsibility to the contractor as contributing factors in its selection. It is the early cost certainty perceived to exist by both housing associations – which is achieved through design and build, that provides an accurate estimated final cost at tender stage that is attributed as being most influential because of the 1988 housing act funding system requirements. Early certainty of cost is perceived as being more important than the final cost of a project by both HAs as it is acknowledged that through their experience, gained on past projects, the traditional method of procurement provided a lower final cost in general – however the design and build arrangement is looked upon as the overall best procurement arrangement option for their needs. Traditional is perceived as being ‘to risky’, concerning their required cost guarantee, by both associations. HA1 and HA2 both feel that the possible variations that could occur during construction may alter the final cost (negatively), causing the traditional arrangement to be discarded on many projects.

The allocation of risk and responsibilities (level of control within a project) are identified as the two main procurement decision-making criteria for HA4 and HA5. Both use design and build and traditional on a 50 - 50% basis for their projects. Perceived as a solution by both associations for high-risk projects, design and build allows the risk to be transferred to the contractor (Masterman 1992). Typically for more complex projects the system of choice is the traditional option, because of the high level of control/responsibility gained by the associations over the work that is carried out (Masterman 1992).

Responsibility, or control over the project is by far the most important assessment criteria for HA6 when selecting a procurement arrangement. The association has a very limited development programme and were ‘very hands on’ in their approach, a trait recognized by the development manager as being ‘to involved for their own good’ in some instances. Looked upon as being the most suitable option, HA6 use the traditional model on 95% of the organization’s projects, as they perceive it to provide the quality, and the control over a project that they require.

Table 3: Source of procurement advice

Source		HA1	HA2	HA3	HA4	HA5	HA6
In house	Past projects		*				*
	Clerks at work						
	Development Manager	*					
	Quantity Surveyors	*	*	*	*	*	
External	Architect	*	*		*		*
	Solicitors			*			
	Building Surveyors					*	

Quality of construction is the main criteria for HA3's decision-making process. The association aim to provide quality houses and reduce long-term maintenance costs for tenants. Through these main aims they tend to use the traditional system most often - offering the quality they required, and design and build when risk needs to be transferred to the contractor.

PROCUREMENT ADVICE

Looked upon as an important aspect, fundamentally important by some housing associations, the procurement advice gained and the source of that advice influence greatly the decisions taken by a housing association. Table 3 highlights where the procurement advice is obtained.

Although HA1, HA2 and HA6 have some form of in-house checking system (with reference to the procurement advice obtained by external sources) in the form of a clerk of works or the development manager i.e. individuals with the required technical background, none had the ability to fully produce an employers requirements document to the level required for use within a project.

HA3, HA4 and HA5 have within the past two to three years discarded their specific in-house procurement advice sources in favour of external specialists. The commonly used consultants were the architects, and the quantity surveyors as the employer's agents. With the divers experience possessed by the external consultants due to the variety of projects that they have worked upon the HAs believed that a more effective service could be provided by increasing their use. The HAs have increased their use of the traditional arrangement which they perceive to carry higher levels of risk for the client, partly due to the increase in confidence that the procurement advice provides and the advantages gained through its use. HA3 however – although confident in external consultants advice – would strongly prefer the role of employers agent be shared between the QS and architect in order to cover all aspects of the role more effectively, separate cost and design advice, through their knowledge and experience especially on large complex projects.

EFFECTIVENESS OF THE PROCUREMENT ARRANGEMENTS IN MEETING THE HOUSING ASSOCIATIONS OBJECTIVES

HAs 1 and 2 who mainly use the D&B procurement arrangements stated that they received an adequate service only, through its use – and its ability in meeting their objectives. The employers requirements document was stressed as being an essential aspect of an effective project outcome by HA2, as the clarification of their requirements helped the early cost certainty advantage of D&B to become a reality.

HAs 3, 4, 5 and 6 stated that the traditional procurement arrangement, from their experience, produced generally an effective, high quality project – accompanied by a lower final cost than they would generally expect when using D&B. It was however the lack of early cost certainty that mainly influenced the HAs decision not to use the traditional procurement arrangement.

CONCLUSIONS

The traditional and D&B procurement arrangements were the only options used by the HAs. The traditional procurement arrangement was favoured for high quality developments, however it also provides higher levels of risk for the clients than the D&B option. D&B was commonly used where an early cost certainty was required along with low risk levels for the client. The main issues when deciding upon a procurement arrangement were the allocation of design and construction risk, design and construction quality, cost certainty and the allocation of responsibility.

Increased confidence in the procurement advice obtained by external consultants was a major factor for the increased use of the traditional arrangement by the specific HAs between 1993 and 1998. The HAs although perceiving the traditional procurement arrangement to have higher levels of risk than D&B they also perceive advantages in its use – and with the added experience obtained when only using external consultants for procurement advice purposes - felt confident in its use for meeting their objectives. Alternatively a suspicion of the advice obtained from architects in general, recommending the use of the traditional arrangement, is a factor in the high use of D&B by specific HA. The HAs are unsure of the motives behind the architects advice.

All the HAs interviewed clearly stated that guidance and advice was required before major changes would be made to their procurement methods, as they are ‘followers not leaders’. They are open to improvements however, as partnering and other Latham report recommendations have been considered as well as the Egan report recommendations.

The ongoing research that this pilot study fulfilled an aspect of consists of investigating a sample of all HAs in the Northwest of England through questionnaires and interviews concerning their overall procurement methods, objectives and the strategies implemented in fulfilling those objectives.

Future research into procurement methods of housing associations will be able to further identify and explore the issues raised within this pilot study. Allowing a greater body of knowledge and understanding to develop (concerning the area of housing association procurement), along with guidance for the associations, of how to procure their projects most effectively.

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