



Research Paper 80/09

13 January 2009

# PROCUREMENT PARTNERSHIPS AND SOCIAL HOUSING

A 'Procurement Strategy for the Social Housing Development Programme' was launched by the Minister for Social Development on 2 October 2008. The Strategy is centred around the consolidation of procurement activity and the establishment of four new procurement consortia groups for the Social Housing Development Programme in Northern Ireland. The purpose of this paper is to provide a broad analysis of procurement partnership and other collaborative arrangements for social housing in other jurisdictions.

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## **SUMMARY OF KEY POINTS**

The Procurement Strategy for the Social Housing Development Programme was launched by the Minister for Social Development in October 2008. The Strategy aims to streamline housing association procurement activity through the creation of four procurement groups together with the use of longer term contracts through framework agreements. To assist the Committee for Social Development in its deliberations this paper provides a broad overview of procurement partnership and other collaborative arrangements for social and affordable housing in England and Scotland.

It is important to note that a move towards procurement groups in the social housing sector is not happening in a policy vacuum rather it is the result of a number of reviews (e.g. Egan, Gershon) which called for efficiency savings in the social housing and construction sectors.

In England, the response to this has been the establishment of the 'Investment Partners' programme which was piloted in 2003. This programme brings together groups of housing associations, local authorities and Arms Length Management Organisations to build new social and affordable housing in their areas. From 2008-11 the Homes and Communities Agency in England planned to invest £8.4bn in social and affordable housing, the vast majority of which was to be delivered via the Investment Partners route.

Other forms of consortia have also emerged in England through the Efficiency Challenge Fund. These are groups of housing associations, local authorities and Arms Length Management Organisations which come together to jointly procure services such as gas and heating services, external and internal painting, lift servicing and repairs, grounds maintenance, supply of kitchen units etc.

In Scotland, a number of social housing procurement partnerships have also emerged in recent years. However, the Scottish Government have sought to roll such procurement groups out on a national basis. In December 2008 the Scottish Government launched a consultation on the matter with proposals for the creation of such groups with each led by a mandatory lead developer. Initial responses from stakeholders suggested that social landlords were not opposed in general to the establishment of procurement groups and welcomed the provision of a longer term funding programme. However, housing associations in particular expressed strong reservations about imposing a 'Lead Developer' role on the groups.

The last section of this paper touches upon a number of other issues such as the impact of procurement groups on the rationalisation of the housing association sector and the impact of such groups on small to medium size contractors and suppliers. It also explores briefly the social clauses aspects of procurement contracts whereby social and affordable housing contracts are awarded on the basis that apprenticeships and environmental improvement schemes are developed in order to benefit local communities.

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## INTRODUCTION

1. The '[Procurement Strategy for the Social Housing Development Programme](#)'<sup>1</sup> was launched by the Minister for Social Development in October 2008. The Strategy outlines plans for the formation and operation of four procurement consortia whose membership will comprise of those Housing Associations seeking to participate in the Social Housing Development Programme (SHDP). A Northern Ireland Assembly research paper previously produced for the Committee for Social Development (in March 2008) provided comparative examples of social housing procurement strategies throughout the UK and Republic of Ireland, including details on various consortia/partnership arrangements in each region<sup>2</sup>. The purpose of this paper is to provide additional background information on social housing procurement in England and Scotland where existing consortia arrangements are relatively more advanced.
2. For ease of reference this paper is divided into two sections. Section One examines social housing and procurement partnership practice in England. It provides an outline of the 'Investment Partners' programme and the Efficiency Challenge Fund initiative which provide strategic encouragement for the formation of consortia for both the affordable housing programme and for capital works procurement respectively. Section One also briefly explores some other key issues relevant to procurement partnerships including an overview of their perceived benefits and disadvantages; the apparent growth in housing association mergers; the impact of procurement consortia and other partnership arrangements on building and service contractors and suppliers; and the role of partnerships in local job creation, community regeneration and community enterprise.
3. Section Two provides an overview of procurement partnerships in Scotland where the Scottish Government has recently published (December 2008) a consultation on its proposals for housing association procurement groups for affordable housing. This section provides a broad overview of the proposals; presents examples of some of the existing consortia arrangements already operating in Scotland; and provides a brief account of some of the initial reactions by key stakeholders to the proposals.

## SECTION ONE: SOCIAL HOUSING AND PROCUREMENT PARTNERSHIP PRACTICE IN ENGLAND

### THE STRATEGIC DEVELOPMENT OF PROCUREMENT CONSORTIA IN ENGLAND

4. The Housing Corporation<sup>3</sup> produced its first [Procurement Strategy](#)<sup>4</sup> in August 2005. The strategy primarily focused on the supply of affordable new housing but outlined the Corporation's intention to produce further strategies in relation to

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<sup>1</sup> Department for Social Development (2008) Procurement Strategy for the Social Housing Development Programme. [www.dsdni.gov.uk/hsdiv-procurement-strategy.pdf](http://www.dsdni.gov.uk/hsdiv-procurement-strategy.pdf)

<sup>2</sup> Northern Ireland Assembly Research and Library (2008) Procurement and Social Housing. [www.niassembly.gov.uk/io/research/2008/13008.pdf](http://www.niassembly.gov.uk/io/research/2008/13008.pdf)

<sup>3</sup> The Housing Corporation was dissolved at the end of November 2008 and its remit was taken over by the new Homes and Communities Agency and Tenant Services Authority.

<sup>4</sup> Housing Corporation (2005) Procurement Strategy for the Supply of Affordable Homes. [www.housingcorp.gov.uk/upload/pdf/Procurement\\_Strategy\\_-\\_Aug05.pdf](http://www.housingcorp.gov.uk/upload/pdf/Procurement_Strategy_-_Aug05.pdf)

procurement and capital work; management and maintenance programmes; and commodity goods and services. The overarching aim of the strategy is to achieve improvements in the quality of new homes and neighbourhoods whilst increasing the supply of new affordable homes.

5. The strategy and the Government's drive towards efficiency savings in the social housing sector are set against a backdrop of a number of reviews and developments including:
  - The Latham Report 'Constructing the Team' (1994)<sup>5</sup> and the [Egan Report](#) 'Rethinking Construction' (1998)<sup>6</sup> which focused upon the delivery of efficiency targets in the construction industry. The Latham Report set out the advantages of partnerships and collaborative working in construction while the Egan Report recommended the benchmarking of performance against targets for the construction industry;
  - The [Gershon Review](#) <sup>7</sup> (2004) of public service efficiency which prompted the Department for Communities and Local Government to set targets for efficiency gains across key areas of housing associations' operations; and
  - Compliance with EU public sector procurement regulations.
6. The procurement strategy maintains that "good practice in construction procurement must include greater use of partnering throughout the construction supply chain". In recent years the Government has increasingly promoted the strategic development of partnership arrangements in social housing procurement. This paper examines the two main developments in formal partnership arrangements. These are (a) Investment Partners consortia (primarily operating in the construction of affordable housing) and Efficiency Challenge Fund Procurement Consortia (primarily operating in the procurement of capital works).

#### **'INVESTMENT PARTNERS': PARTNERSHIPS IN SOCIAL AND AFFORDABLE HOUSING**

7. Partnerships amongst housing associations in England are not a new phenomenon. For many years housing association consortia/partnerships have been created to deliver large scale housing schemes. Smaller scale associations with limited capacity have sought both construction and other services from larger associations. However, it is suggested that the development of the 'Investment Partners' initiative by the Housing Corporation in 2003 brought the creation of strategic partnerships into the mainstream<sup>8</sup>.

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<sup>5</sup> Latham, M. (1994) Constructing the Team: Final Report of the Government/Industry Review of Procurement and Contractual Arrangements in the UK Construction Industry.

<sup>6</sup> Egan, J. (1998) Rethinking Construction: The Report of the Construction Taskforce. [www.constructingexcellence.org.uk/pdf/rethinking%20construction/rethinking\\_construction\\_report.pdf](http://www.constructingexcellence.org.uk/pdf/rethinking%20construction/rethinking_construction_report.pdf)

<sup>7</sup> Gershon, P. (2004) Releasing Resources to the Frontline: Independent Review of Public Sector Efficiency. [www.hm-treasury.gov.uk/d/efficiency\\_review120704.pdf](http://www.hm-treasury.gov.uk/d/efficiency_review120704.pdf)

<sup>8</sup> Housing Corporation and the National Housing Federation (2007) Good Practice in Partnering among Housing Associations involved in the Housing Corporation's Investment Programme.

8. In 2004 the Housing Corporation announced the launch of a pilot partnering programme, known as the 'Investment Partners' initiative. The aim of the initiative was to meet regional priorities for social and affordable housing. Under the programme the Government envisaged that housing associations and unregistered social housing providers (such as ALMOs<sup>9</sup> and Local Authorities) would form partnerships or consortia to build new affordable social housing. The Government has stated its preference for the management responsibility for the new homes to transfer to housing associations or others with a good record of social housing management.
9. The Investment Partner pilot programme began on 1 April 2004 with the 2004/06 allocations of Social Housing Grant (SHG). Of the total Approved Development Programme of £3.3 billion, 80% was awarded under Investment Partnering to 70 associations, to provide 55,000 homes. The threshold bid size for allocations under the IP Programme was £10 million. The remaining 20% was allocated to just under 200 associations to provide 12,700 homes via the traditional programme route<sup>10</sup>.
10. Under the Investment Partners programme each group must enter into a Partnering Programme Agreement (PPA) with the Housing Corporation (now the Homes and Communities Agency) to develop a programme of schemes for an agreed amount of the Social Housing Grant. There are currently 115 organisations which have achieved Accredited Investment Partners status under the National Affordable Housing Programme 2008-2011. The initiative has been extended to include a range of new partners for the 2008-2011 programme including 22 private developers (joining the eight developers already active in the programme), a private sector led Special Purpose Vehicle (SPV), 10 Arms Length Management Organisations or Local Authority SPVs, and five housing associations<sup>11</sup>. For illustrative purposes Table 1 provides two examples of Investment Partners.
11. It should be noted, however, that not all housing associations are members of an Investment Partnership. An evaluation of the pilot Investment Partners programme highlighted the need to ensure that small or specialist associations had a role in future development activity and the need for Government to work with associations who may in the future have a 'management-only' function in regards to social housing<sup>12</sup>.

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[www.housingcorp.gov.uk/upload/doc/G01\\_20218\\_good\\_practice\\_in\\_partnering\\_report\\_WEB.doc](http://www.housingcorp.gov.uk/upload/doc/G01_20218_good_practice_in_partnering_report_WEB.doc)

<sup>9</sup> An Arms Length Management Organisation (ALMO) is a company set up by a Local Authority to manage and improve all or part of its housing stock. The company is owned by the Local Authority and is managed by a board of directors which includes tenants, Local Authority nominees and independent members. The types of services ALMOs provide include the delivery of major repairs and improvements; rent collection (including dealing with arrears); general maintenance; and managing lettings. For further information see [www.communities.gov.uk/housing/decenthomes/deliveringdecenthomes/armslengthmanagement/](http://www.communities.gov.uk/housing/decenthomes/deliveringdecenthomes/armslengthmanagement/)

<sup>10</sup> Chartered Institute of Housing and Tribal HCH (2005) Investment Partnering: An Evaluation of the Pilot Programme. [www.cih.org/publications/pub444.pdf](http://www.cih.org/publications/pub444.pdf)

<sup>11</sup> Housing Corporation (2007) Delivering Affordable Housing: Meeting the Challenges of Growth and Efficiency. [www.housingcorp.gov.uk/upload/pdf/Delivering\\_affordable\\_housing\\_20070730152950.pdf](http://www.housingcorp.gov.uk/upload/pdf/Delivering_affordable_housing_20070730152950.pdf)

<sup>12</sup> Chartered Institute of Housing and Tribal HCH (2005) Investment Partnering: An Evaluation of the Pilot Programme. [www.cih.org/publications/pub444.pdf](http://www.cih.org/publications/pub444.pdf)

**Table 1:  
Examples of Investment Partners**

**Great Places Housing Group<sup>13</sup>**

Great Places is a partnership of housing associations set up in 2006 when Manchester Methodist Housing Group joined forces with Ashiana Housing Association. Space New Living joined the group in January 2007. Together the group provides over 14,000 homes in 30 council areas throughout North West England. The group aims to increase its housing stock to 20,000 by 2013. It is reported to have a particular expertise in housing Black and Minority Ethnic Communities.

'Great Places' is the parent company of the partnership. It provides a range of services to Group members including Human Resources, Information and Communications Technology, Finance, Development, and Quality and Performance. Great Places also leads a bidding consortium with other housing associations (known as the Bloc Partnership) which strives to drive down costs through supply chain innovation and building long term partnerships with contractors and consultants. The Bloc Partnership receives one of the largest allocations of government grant funding in England (£46.3m in 2008). The Great Places development team are involved in a range of regeneration, new build and improvement initiatives, for example:

the completion of a £1.6m purpose built premises in Manchester consisting of 16 self-contained flats for teenage parents and their children with 24 hour support and staffing on the site; and

a £1m supported housing project in Oldham, developed by Manchester Methodist Housing Group for Oldham Council's adult and community services.

**Flagship Housing Group<sup>14</sup>**

Flagship Housing Group was created in 1998 as a result of a merger between Great Eastern Housing Group and Suffolk Heritage Housing Association to achieve greater benefits for tenants through economies of scale; procurement gains; and greater potential to provide new homes and more investment within existing homes. The group currently comprises of three housing associations (including Peddars Way Housing Association) and own and manage some 20,000 homes. The Group develops over 1,000 new homes each year for its Group Members and strategic development partners. New homes are developed and built by Flagship Housing Group and are then transferred to the group member housing associations who manage them. Recent developments include:

A £565,000 housing scheme (due for completion in June 2009) to regenerate areas of the Barnham Cross Estate in Thetford where 19 disused and run-down garages are to be replaced with much needed housing. The project has received £215,000 grant funding from the Housing Corporation. The homes will be managed by Peddars Way Housing Association; and

A £1.3m development built on behalf of Suffolk Heritage Housing Association (with a contribution of £493,000 from the Housing Corporation). The scheme comprises of a mixture of two two-bedroom bungalows, three two-bedroom houses and six three bedroom houses, eight of these for affordable rent and three for shared ownership

<sup>13</sup> Information extracted from the Great Places website - [www.greatplaces.org.uk](http://www.greatplaces.org.uk)

<sup>14</sup> Information extracted from the Flagship Housing Group website - [www.flagship-housing.co.uk/page.asp?pageCode=group\\_history](http://www.flagship-housing.co.uk/page.asp?pageCode=group_history)

**CONSORTIA & THE EFFICIENCY CHALLENGE FUND – CAPITAL WORKS PROGRAMME**

12. The development of procurement consortia for **capital work programmes** in social housing in England has been encouraged by the creation of an '[Efficiency Challenge Fund](#)'<sup>15</sup> administered by the National Change Agent<sup>16</sup> on behalf of the Department of Communities and Local Government (DCLG). The fund is designed to enable social landlords to achieve real efficiency gains in the procurement of capital works. The fund has two main aims which are to facilitate the formation of robust and effective procurement consortia; and to promote best practice in procurement, with a particular emphasis on collaborative working.

13. NCA state that,

“Within capital works procurement, we have a particular focus on encouraging and facilitating the establishment of sub-regional procurement consortia. The idea is relatively simple: if groups of social landlords can group together to aggregate their demand for capital works to the social housing stock, they should all be able to benefit from their collective buying power in the marketplace. But it is not all about bulking up demand. Certainly, suppliers can be prepared to improve their prices in turn for guaranteed higher volumes, especially if volume is certain and managed to coincide with suppliers' preferred production and delivery programmes. But social landlord clients can also develop their capacity to engage effectively with the supply-side, seeking process and product improvements all along the supply chain. Of course, by acting collectively as part of a consortium, the potential exists to share procurement costs and risk.”<sup>17</sup>

14. The Efficiency Challenge Fund is available in two phases<sup>18</sup>:

- An **initial Business Planning Grant** to assist aspiring consortia to undertake the necessary groundwork in establishing the group, including the costs of preparing a business plan. This grant will cover 75% of the cash cost of the preparatory work and members of the proposed consortia must pay the remaining 25%. The grant is payable in arrears upon approval of the business plan. To secure this grant, applicants must first prepare a **feasibility study** which demonstrates a realistic prospect of forming an appropriately constructed consortium capable of generating worthwhile efficiency gains; and

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<sup>15</sup> Information on the Efficiency Challenge Fund is available at [www.ncahousing.org.uk/efficiencychallengefund/](http://www.ncahousing.org.uk/efficiencychallengefund/)

<sup>16</sup> The National Change Agent for Social Housing Procurement is a specialist support team established to disseminate best practice and provide specialist advice and support to encourage the establishment of consortia for social housing procurement. NCA Housing is managed by Davis Langdon (construction consultancy firm) in association with Trowers Hamlins (law firm specialising in the housing and procurement sectors). [www.ncahousing.org.uk](http://www.ncahousing.org.uk)

<sup>17</sup> NCA article, 'The role of the National Change Agent' [www.ncahousing.org.uk/uploadedFiles/Public%20Service%20Article-JNCL.pdf](http://www.ncahousing.org.uk/uploadedFiles/Public%20Service%20Article-JNCL.pdf)

<sup>18</sup> Information extracted from NCA Housing (2007) NCA Housing Guidance: Bidding Guidance for Support from the Efficiency Challenge Fund. [www.ncahousing.org.uk/uploadedFiles/NCA%20Housing%20Guidance%20%20-%20Bidding%20Guidance%20Aug%2007\(4\).pdf](http://www.ncahousing.org.uk/uploadedFiles/NCA%20Housing%20Guidance%20%20-%20Bidding%20Guidance%20Aug%2007(4).pdf)

- An **Implementation Grant** to help cover the costs of setting up the consortium and implementing the business plan, and meeting some of the early costs of establishing a consortium before it begins to see returns from its activities.
15. The Efficiency Challenge Fund is administered by the National Change Agent (NCA), however, the Department for Communities and Local Government (DCLG) makes the final decision regarding the award of grants. NCA has stated that it aims for the creation of around 25 consortia primarily at sub-regional level across England. All social landlords in England including Registered Social Landlords (i.e. registered housing associations), Local Authorities (LAs) and Arms Length Management Organisations (ALMOs) can bid for grants under the Efficiency Challenge Fund. However, NCA states that it particularly welcome bids from aspiring consortia which will include a mix of social landlords.
16. According to the NCA website there are currently 12 existing consortia supported by the NCA Social Housing Capital Works programme – Buy4London (London); [Advantage South West](#) (Somerset, Devon and Cornwall); [GM Procure](#) (Greater Manchester); [Central England Procurement Partnership](#) (East and West Midlands); [Procurement for All](#) (West Yorkshire); Efficiency for North (South Yorkshire); [South East Consortium](#) (South East England); Eastern Procurement (Norfolk and Suffolk); [London Area Procurement Network](#) (London); North East Procurement (Hartlepool, Newcastle); [Impact Manchester](#) (Manchester); Supply Chain Management Consortium (London); Westworks (Bristol, North Somerset); Lancashire Housing Partnership (Lancashire); Cumbria Housing Partnership (Cumbria).
17. For illustrative purposes further information on a number of these consortia is outlined in Table 2.

**Table 2: Examples of Consortia established under the Efficiency Challenge Fund**

**London Area Procurement Network (LAPN)**<sup>19</sup>

Established in 2006, LAPN consists of 10 founding member Arms Length Management Organisations (ALMOs) from across London. The primary aim of the consortium is to make savings for its members and for residents by buying building maintenance works and services in bulk. After two years in operation to consortium maintains that their agreed forward programme of works has reached £280m and that they have achieved real savings of £12m. In 2007, the consortium signed four year framework agreements with over 25 contractors across different types of contract works. LAPN also work in co-operation with framework contractors to provide apprenticeship schemes for residents.

**South East Consortium (South East England)**<sup>20</sup>

South East Consortium (SEC) was established at the beginning of February 2007 and comprises 15 members (housing associations and local district councils) covering around 70,000 properties. The Consortium seeks efficiencies through a combination of new collaborative procurement and enhancing existing relationships

<sup>19</sup> Information extracted from the London Area Procurement Network (LAPN) website - [www.lapn.org.uk](http://www.lapn.org.uk)

<sup>20</sup> Information extracted from South East Consortium website – [www.southeastconsortium.org.uk](http://www.southeastconsortium.org.uk)

with suppliers. The consortium proposes its efficiency targets will be met through the application of two specific processes; tendering new supply and installation frameworks and value engineering the members existing contractual arrangements. SEC has procured, or is currently procuring, contracts/frameworks for external and communal painting; internal and external buildings works; lift servicing and repairs; grounds maintenance; gas and heating servicing; supply of boiler and heating products; and the supply of kitchen units.

18. On commenting on the benefits of procurement consortia, NCA maintain that,

“Procurement by consortia provides the opportunity for social landlords to redress some supply side problems. By promising significant volumes of demand in sub-regional markets, consortia can help contractors and installers develop and support a well trained workforce, for example, and provide local employment opportunities that would not be taken up if demand remained disaggregated. Further, local suppliers (many of which will be SMEs) can gain the confidence from a steady workflow to consolidate and invest in future service improvements and product quality. There is also the potential for non-cash benefits – an efficient supply chain supporting a well trained workforce should generate improvements in work quality and resident satisfaction, with fewer defects, returns and disruption.”<sup>21</sup>

#### EVALUATION OF PROCUREMENT CONSORTIA AND OTHER PARTNERSHIP ARRANGEMENTS

19. In terms of the effectiveness of partnership arrangements, such as the ‘Investment Partnerships’ Programme, a 2007 study conducted by the Housing Corporation and the National Housing Federation highlights that<sup>22</sup>,

“there appears to be a general belief amongst most partnership members that strategic partnerships have the potential to achieve the economies of scale viewed by the Housing Corporation as necessary in future investment programmes. However, there is a strong belief that the process of achieving economies in procurement costs through partnering has only just begun”.

20. Both ‘Investment Partners’ Programme and the Efficiency Challenge Fund procurement consortia for capital works are still relatively new developments and as such only a few evaluative studies of the programmes are available. In 2005, the Chartered Institute of Housing published an evaluation of the pilot ‘Investment Partners’ Programme<sup>23</sup> and more recently the Audit Commission (2008) published an evaluation of housing association procurement which provides some brief commentary on the impact of the Efficiency Challenge Fund consortia<sup>24</sup>.

<sup>21</sup> NCA article, ‘The role of the National Change Agent’

[www.ncahousing.org.uk/uploadedFiles/Public%20Service%20Article-JNCL.pdf](http://www.ncahousing.org.uk/uploadedFiles/Public%20Service%20Article-JNCL.pdf)

<sup>22</sup> Housing Corporation and the National Housing Federation (2007), op. cit. p4.

<sup>23</sup> Chartered Institute of Housing & Tribal (2005) Investment Partnering: An Evaluation of the Pilot Programme.

<sup>24</sup> Audit Commission (2008) Better Buys: Improving Housing Association Procurement Practice. [www.audit-commission.gov.uk/reports/NATIONAL-REPORT.asp?CategoryID=&ProdID=E02CDC49-64C0-412b-89B1-82B7191B662B](http://www.audit-commission.gov.uk/reports/NATIONAL-REPORT.asp?CategoryID=&ProdID=E02CDC49-64C0-412b-89B1-82B7191B662B)

INVESTMENT PARTNERS: PILOT PROGRAMME EVALUATION (CHARTERED INSTITUTE OF HOUSING)

21. This evaluation, commissioned by the Housing Corporation and undertaken by the Chartered Institute of Housing (CIH) and Tribal HCH, was carried out between January and April 2005. In terms of the cost effectiveness of Investment Partnering programme, 85% of surveyed housing associations believed that the Investment Partnering programme was helping deliver more homes than the traditional funding mechanisms. Preliminary findings indicated that Investment Partnering developments required on average 9% less grant per unit in 2004/05 when compared with traditional programme schemes the previous year and that this represented an average of 28 additional homes for every £10m of grant.

22. Other positive findings include:

- Two-thirds (64%) of surveyed associations said that they were interested in the Investing Partnering Programme because they believed that it would deliver more effective procurement arrangements;
- Investment Partnering has acted as a driver to improvements in supply chain integration;
- 85% of surveyed associations taking part in the programme stated that it had improved their working relationships with other associations and made them more likely to work with private sector bodies (86%);
- 35% of associations agreed that the programme was helping them produce better quality housing, less than one in ten of those surveyed (7% of associations and 9% of local authorities) said that they thought the programme was resulting in excessive standardisation; and
- 75% of surveyed associations reported that their relationship with the Corporation was more efficient or effective as a result of Investment Partnering programme.

23. However, the evaluation of the pilot scheme also highlighted a number of areas of concern, for example:

- A wide variety of partnership forms exist but there is no clear sense of which are the most efficient or effective. Just over half (52%) of surveyed Investment Partnering associations reported increased economies of scale whilst a third noted higher than anticipated costs associated with partnership working;
- Only a minority of Investment Partnership housing associations had in place contingency plans for losing their Investment Partner status;
- A significant number of local authorities expressed concern that their involvement in decisions regarding grant investment (already reduced by the introduction of national targets and Regional Housing Strategies) had been further eroded by Investment Partnering; and
- Uncertainty regarding how to ensure that small and specialist associations will have a role in development activity in the future and whether tenants will support ever larger and more complex partnerships/groups.

24. The pilot evaluation report concluded that, despite some of the concerns raised, there was sufficient evidence from the evaluation to support the roll out of the programme in future years. However, it supported the maintenance of a small ring-fenced traditional programme to support niche associations (such as those associations providing social housing to black and minority ethnic communities). It also warned that Government and the social housing sector would have to ensure that a number of 'unintended consequences', such as the eventual loss of competitive pressure and a reduction in the diversity and choice of partners, would not cause major problems in the future.

'BETTER BUYS': IMPROVING HOUSING ASSOCIATION PROCUREMENT PRACTICE (AUDIT COMMISSION)

25. To date there does not appear to be any in-depth evaluation of those capital works procurement consortia established through the Efficiency Challenge Fund. However, a recent study published by the Audit Commission into housing association procurement practice found that some housing associations have made significant savings through such purchasing consortia. It also found that some were using their membership of consortia simply to benchmark their costs and others were sceptical about whether they would make any real savings through using the consortia.

26. However, the Audit Commission conclude:

“One of the issues may be that many of the consortia are in their infancy and have not yet reached arrangements for a full range of materials. Restricting consortia to capital works is uneconomic, and widening the purchasing power of consortia to all types of materials and services would be advantageous in delivering efficiencies to the social housing sector”.

**A RATIONALISATION OF THE SOCIAL HOUSING SECTOR IN ENGLAND ?**

27. There have been an increasing number of large scale housing association mergers in recent years. The Investment Partnering pilot evaluation report suggests that the sector has seen considerable rationalisation with the consolidation of many housing associations via mergers or membership of larger groups and that this may, at least partially, be driven by the Investment Partnering Programme. For example, 54% of housing associations surveyed as part of the Investment Partners pilot programme study agreed with the statement that, “the introduction of IP makes it more likely that our association will merge or enter into a group structure with other associations”<sup>25</sup>.
28. It is suggested that many smaller housing associations or 'specialist' housing associations (such as those providing social housing to black and minority ethnic communities) have feared that entering into a strategic partnership might be taken as an indication of a future willingness to merge or that it might be a precursor for pressure to join a group structure. However, the study maintains that it found no evidence that there was any pressure within partnerships for such mergers.
29. There has been criticism by some bodies of what they perceive to be an increasing number of large-scale mergers amongst housing associations in

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<sup>25</sup> Chartered Institute of Housing & Tribal (2005) op. cit. p29.

England, often referred to as ‘mega’ housing associations. For example, the [PlaceShapers Group](#), a lobby group of 50 community based housing associations are perhaps one of the most vocal critics of large scale mergers. The Group maintain that such mergers have a tendency to lose the “ability to engage properly because of excessive scale or spread”<sup>26 27</sup>.

30. A report commissioned by the Housing Corporation maintains, however, that there is no set pattern to these types of mergers and that no two mergers are the same. It also highlights the loaded nature of the term ‘merger’ stating that it appears to imply a loss of sovereignty for one or more of the housing associations entering into such arrangements, the report maintains that this is not necessarily the case<sup>28</sup>.

31. A study published by the Chartered Institute of Housing in 2006, highlighted that there are both costs and benefits associated with the formation of Housing Association mergers, groups and non-constitutional partners (referred to as alliance-based partners). The pros and cons of such formations, extracted from the report, are outlined below<sup>29</sup>:

### Mergers

| Pros  | Cons   |
|---|--|
| Simpler Structure.  | Danger that one culture housing association may dominate.                  |
| Works well where there is significant overlap of geographical coverage, client group, and shared culture. | Integration may take a long time.  |
| Cheaper to maintain and easier to run (in governance terms) than groups.                                  | Maybe seen as a takeover by one association.                               |
| Avoids risk of us and them attitudes.   | May not be attractive to independently minded organisations.               |
| Enable radical rationalisation of funding arrangements.   | May increase risk by including riskier activities in main business stream. |
| Can retain organisational identities through branding of directorates.                                    | Risk of loss of local accountability mechanisms and therefore trust.       |
| Can be easier for tenants to understand the structure and so to participate in the new organisation.      | -  |

<sup>26</sup> PlaceShapers website, [www.placeshapers.org/?ob=1&id=14](http://www.placeshapers.org/?ob=1&id=14)

<sup>27</sup> See also Inside Housing, ‘Collective Departure’, 13 June 2008. [www.insidehousing.co.uk/story.aspx?storycode=6500064](http://www.insidehousing.co.uk/story.aspx?storycode=6500064)

<sup>28</sup> Housing Corporation (2003) Mergers, due diligence and housing associations. [www.housingcorp.gov.uk/upload/pdf/44mergers.pdf](http://www.housingcorp.gov.uk/upload/pdf/44mergers.pdf)

<sup>29</sup> Davies, A., Lupton, M., & McRoberts, D. (2006) The costs and benefits of groups, mergers and partnerships. Published by Chartered Institute of Housing and Tribal, funded by the Housing Corporation. [www.cih.org/policy/CostsBenefits.pdf](http://www.cih.org/policy/CostsBenefits.pdf)

**Groups**

| Pros  | Cons   |
|---|--|
| Easier to attract some partners.  | More expensive to maintain than a merger.  |
| Work well where housing associations work in discrete functions or different areas. | Can be bureaucratic or unwieldy.   |
| Preserves local/organisational identity.  | Danger of 'them and us' attitude between parent and members.   |
| Can ring-fence riskier/different business activities.                               | Difficulties caused by break-up if members have opt-out clause.  |
| May be a step along the way to a full merger at a pace comfortable to the parties.  | Is full merger inevitable?   |
| Potential to deliver improved services and pass lower costs on to tenants.          | Group parent can seem alien to tenants, and opportunities for tenant involvement at parent level may be limited. |

**Non-constitutional partners**

| Pros  | Cons   |
|---|--|
| Help 'test the water' for future 'constitutional partnership'.  | Larger associations may get/want more power in group.  |
| Enable flexible working on different projects.  | Management time taken to hold partnership together.  |
| Retention of operational autonomy.  | Long term costs of maintaining partnerships especially given the trend for associations to work with a number of partnerships. |
| Enables contracting for services to partners.   | Subject to EU Procurement Directive.   |
| Tenants may feel more comfortable with this option than with the upheaval involved with joining a 'constitutional partnership'. | Tenants unlikely to have opportunities for involvement in this area of business.   |

**IMPACT ON CONSTRUCTION AND SERVICE CONTRACTORS AND SUPPLIERS**

32. The 'Investment Partners' programme and the procurement consortia for capital works programmes are still relatively new developments. As such, there does not yet appear to be much in-depth analysis of the impact of such procurement arrangements upon building and service contractors and suppliers, particularly the impact upon small to medium size enterprises.

33. The Government's objectives regarding the establishment of procurement partnerships for capital works is to create efficiency gains by<sup>30</sup>:

- Reducing inputs (money, people, assets, etc) for the same outputs;
- Reducing prices (procurement, labour costs, etc) for the same outputs;
- Providing more outputs or improved quality for the same input (e.g. capital works to higher standards); and
- Providing more outputs/better quality for proportionately less increase in input resources.

34. In order to achieve efficiency savings capital works procurement consortia work collectively to bulk buy materials and installation services. Consortia can also chose to buy materials separately from installation services in a bid to make further savings. A number of consortia (as well as individual social housing

<sup>30</sup> National Change Agency Housing, [www.ncahousing.org.uk/efficiencymeasurement/](http://www.ncahousing.org.uk/efficiencymeasurement/)

providers) have also opted to use the procurement services of a group known as [Procurement for Housing](#)<sup>31</sup>.

35. Procurement for Housing (PfH) is a purchasing consortium for the social housing sector working with over 650 social housing providers throughout the UK. PfH claims to manage the purchase and supply of over £1 million in goods and services each week and to have created savings of £15 million for the social housing sector in its first four years of operation. PfH manages tenders and framework agreements for the procurement of a range of materials and services (e.g. gas servicing, janitorial supplies, building and renovation materials, kitchens, residential and office furniture, agency labour). It also provides a centralised billing system for costumers.
36. Concerns have been raised amongst some contractors that such bulk buying activity could impact upon their profits and create difficulties in construction supply chain relationships. It is suggested that this may be a particular problem for contractors who operate their businesses by supplying both labour and materials to social housing providers and that a consortia's ability to bulk buy their own materials may impact upon contractors' own bulk buying powers<sup>32</sup>.
37. The 'squeezing out' of smaller or medium sized local contractors in favour of larger contractors may also be another issue of concern. The Collaborative Working Centre's report on recommendations for a national procurement strategy for social housing in Scotland suggest that a way of preventing this could be for Framework Agreements to include 'banding' so that there is a range of projects suitable for a range of different sized contractors. The report also highlights that it is vital to provide support to small and medium enterprises to enable them to upgrade their capabilities to work on collaborative projects<sup>33</sup>.

#### **THE ROLE OF PROCUREMENT PARTNERSHIPS IN LOCAL JOB CREATION, COMMUNITY REGENERATION AND COMMUNITY ENTERPRISE**

38. In addition to improving efficiency savings, procurement partnerships for capital works developed under the Efficiency Challenge Fund are encouraged to become engaged in addressing skills shortages and developing pathways into sustainable employment for young people, minority ethnic groups and other vulnerable groups. They are also encouraged to support the development of local small and medium size enterprises. Many consortia also use efficiency savings derived from the partnership procurement arrangements to fund community regeneration initiatives, including making improvements to the physical environment of their communities (e.g. using profits to fund graffiti removal, tree planting, repair and clean-up of parks and play areas).
39. For example, with regard to job creation and apprenticeships one Efficiency Challenge Fund consortium, known as 'Impact Manchester', reports that in its first year of operation (up to the end of October 2007) it had 53 local trainees and

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<sup>31</sup> Procurement for Housing website, [www.procurementforhousing.co.uk](http://www.procurementforhousing.co.uk)

<sup>32</sup> Supply Management. 'Renovation, Renovation, Renovation'. 19 January 2006. [www.supplymanagement.com/EDIT/Featured\\_articles\\_item.asp?id=14464](http://www.supplymanagement.com/EDIT/Featured_articles_item.asp?id=14464)

<sup>33</sup> Collaborative Working Centre (CWC) (2007) Recommendations for a National Procurement Strategy for Social Housing in Scotland: A Report for Communities Scotland. [www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/otcs\\_017813.pdf](http://www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/otcs_017813.pdf)

apprentices working on 'Impact' capital works sites; had supported 45 local community projects at no extra costs to clients; and used the services of 91 local companies. The group also estimate that they have spent approximately £60,000 in local stores and £5.5 million of work has been placed with local companies<sup>34</sup>.

40. Another Manchester-based consortia group, 'GM Procure' is committed to reinvesting volume cost savings directly back into local businesses and the local community by:
- The creation of apprenticeships (all contractors with contracts over the value of £1million must recruit two trainees per £1million and provide training up to NVQ Level 2) with 30% of apprentices to be from non-traditional backgrounds (e.g. women, minority ethnic groups, ex-offenders);
  - Supporting three small non-traditional contractors each year;
  - Creating and supporting one community enterprise each year; and
  - Allocating a significant proportion of cost savings to a 'Sense of Place' Fund, which provides financial support for construction-based community regeneration projects.
41. [Fusion21](#), is a procurement partnership formed in 2002, by seven Merseyside social housing providers and Knowsley Borough Council. It is held up by the National Change Agent for Housing as an example of best practice. Since 2002, the group claim to have created 566 permanent jobs in construction (of these 160 are Merseyside social housing residents, 26 women, 21 members of the black and minority ethnic community and 19 people with disabilities); provided vocational training to over 684 Merseyside residents (many of whom have gained NVQs in construction skills); and delivered £13 million cashable efficiency savings over a three year period.
42. The Fusion21 Skills Programme is funded by the consortia's contractors and suppliers. 1% of the total contract value is contributed by the Fusion21 supply chain partners towards promoting and delivering the construction training and job creation initiatives. Fusion21 maintain that this programme differs from many conventional training programmes because trainees are recruited, trained and guaranteed jobs with partner contractors, suppliers or Social Housing Providers at the end of the programme<sup>35</sup>.

## **SECTION TWO: SOCIAL HOUSING AND PROCUREMENT PARTNERSHIPS IN SCOTLAND**

### **EXISTING COLLABORATIVE PROCUREMENT ARRANGEMENTS**

43. There are a number of procurement partnerships in Scotland, but the level of collaborative working is currently not on par with the Investment Partners programme in England. However, a national procurement strategy for social housing in Scotland is currently being developed which aims to increase the level of collaboration between Registered Social Landlords (RSLs) and the

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<sup>34</sup> Impact Manchester. Annual Report 2006-2007. [www.impact-manchester.co.uk/documents/annual\\_report.pdf](http://www.impact-manchester.co.uk/documents/annual_report.pdf)

<sup>35</sup> Information extracted from the Fusion 21 website, [www.fusion21.co.uk](http://www.fusion21.co.uk)

construction industry. The table below provides examples of some of the partnership arrangements currently operating in Scotland.

**Table 3: Examples of RSLs procurement partnerships in Scotland**

**Larach Alliance**

Larach is an alliance of six Scottish Housing Associations (Perthshire HA Ltd, Link Group Ltd, Castle Rock Edinvar HA, Kingdom HA, West of Scotland HA and Hillcrest HA Ltd). In January 2004, with a £40m investment from Communities Scotland, the six Larach partners signed a framework agreement to build 800 new affordable homes at 35 sites over a three year programme. Four contractors were appointed to carry out the work<sup>36</sup>. Progress was initially slow due to the complexity of the partnership and different business objectives and motives of members. However, despite the initial differences the group were said to be on schedule to deliver the agreed three year programme<sup>37</sup>.

**Devanha Initiative**<sup>38</sup>

Devanha is a consortium of Registered Social Landlords in the Grampian Region and is a pilot for Scottish development projects. Devanha is a limited company which procures framework partners and acts as a best practice development agency for its members. The partnership was established in May 2004 by Castlehill, Grampian and Langstane Housing Associations, Tenants First Housing Co-operative and Aberdeenshire Housing Project who pooled their projects into one large tender valued at £18.8m. The tender was subsequently won by Stewart Milne Construction and Robertson Construction and 235 new houses were built between 2004-2006. As part of the construction contract, Devanha was able to secure the creation of new apprenticeship schemes for local people.

**NATIONAL PROCUREMENT STRATEGY FOR SOCIAL HOUSING**

44. The basis of the new procurement strategy for social housing in Scotland will be influenced by a [report](#)<sup>39</sup> published by the Collaborative Working Centre (CWC) in 2007, and commissioned by Communities Scotland, which sets out recommendation for collaborative working between Registered Social Landlords (RSLs) and the construction industry. The report maintains that an analysis of Communities Scotland spend on social housing projects completed in 2005/06 showed evidence of fragmentation which prevented the adoption of best practice procurement. From a total annual spend of £450m, managed by eight Area Offices (or councils) with budgets ranging from £30m to £80m there were 170 individual RSLs in receipt of development funding.

<sup>36</sup> Information extracted from Larach website – [www.larach.org.uk](http://www.larach.org.uk)

<sup>37</sup> Collaborative Working Centre (CWC) (2007), op. cit. p37.

<sup>38</sup> Information extracted from Collaborative Working Centre (CWC) (2007) Recommendations for a National Procurement Strategy for Social Housing in Scotland: A Report for Communities Scotland.  
[www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/otcs\\_017813.pdf](http://www.communitiesscotland.gov.uk/stellent/groups/public/documents/webpages/otcs_017813.pdf)

<sup>39</sup> Ibid p33-34.

45. The report maintains that there is strong industry support in Scotland for greater collaboration. Of those who responded to the survey 84% supported the idea of RSLs working in partnership to jointly procure designers and contractors, however, 16% stated that they would not collaborate. For those who did not wish to collaborate, fear of losing local input into development decisions was one of the main concerns.
46. The report sets out a number of key recommendations for the proposed strategy including, for example:
- A move away from annual budgeting to a **predictable and continuous stream of funding** for each region over a longer term period (i.e. 3-5 years) so that RSLs are able to work more effectively with the construction industry;
  - The establishment of **regional groupings of RSLs** must be encouraged so that their joint spend is sufficient enough to enable the construction industry in any region to make the necessary investment in collaborative procedures; and
  - Investment in RSLs capacity building to **develop skills** and promote a better understanding of costs so that they are able to engage with consultants, builders, specialist sub-contractors and the providers of maintenance services.

#### **'INVESTING IN AFFORDABLE HOUSING' CONSULTATION**

47. Many of these recommendations, particularly in relation to the development of procurement consortia, have been incorporated in the recently published consultation on '[Investing in Affordable Housing](#)' (December 2008) the Scottish Government's strategic approach to affordable housing investment<sup>40</sup>.
48. The central proposal of the consultation is the introduction of a greater strategic approach to the allocation of subsidy through a network of Lead Developers across Scotland. It is anticipated that the majority of the affordable housing investment programme will be channelled through Lead Developers (who will be Registered Social Landlords). The Lead Developers will provide a specialist development and procurement function on behalf of other RSLs. This approach will result in a number of important choices for each RSL when considering future investment activities.
49. The key aspects of the reformed approach to investment are as follows:
- Investment priorities will be determined on a regional basis in agreement with local authority partners, it is proposed that Scotland will be divided into five regions for this purpose<sup>41</sup>;

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<sup>40</sup> The Scottish Government (2008) Investing in Affordable Housing: A Consultation. [www.scotland.gov.uk/Resource/Doc/253853/0075220.pdf](http://www.scotland.gov.uk/Resource/Doc/253853/0075220.pdf)

<sup>41</sup> The City of Edinburgh and Glasgow City will retain their responsibility for awarding subsidy within their own areas and are therefore excluded from the comprised regions. The Scottish islands are also excluded from the proposals as it is considered that their situation is unsuitable for the Lead Developer concept.

Regional priorities will be set out in prospectuses which will be based on Strategic Housing Investment Plans;

- Lead Developers will operate within the agreed regions, but there should be scope for more than one Lead Developer in each of the regions;
- In order to become a Lead Developer, RSLs will be encouraged to form development consortia. Each consortium should be led by one RSL (the potential Lead Developer) which will bid for subsidy on behalf of the consortium as a whole;
- There will be time for RSLs not currently working in existing consortia to organise themselves and either join a consortium or set one up;
- There will be two stages in the process: the first stage will be pre-qualification and only pre-qualified RSLs will be able to move onto the second stage, which is bidding for subsidy and for appointment as a Lead Developer; and
- Subsidy will only be awarded to those projects which offer the most competitive price and best match the funding criteria.

50. The consultation paper states that there should be flexibility in how the consortia are structured so that any RSL wishing to add to its housing stock is free to apply to join any consortium, or more than one consortium. The Scottish Government has stated that it will not prescribe which consortium an RSL should join.

51. The Scottish Government has set a target date of June 2009 for the regional consortia structures to be confirmed and for RSLs to make provisional plans for joining consortia and applying to become a lead developer. It is proposed that October to November 2009 should see RSLs finalising their consortium membership and investment proposals.

52. The proposals have received a somewhat cautionary reception from the Scottish Federation of Housing Associations (SFHA). Specific aspects of the proposals supported by SFHA include:

Provision of a five year funding programme, providing opportunities for long term planning and for procurement initiatives that can improve quality and reduce costs; and

Proposals to involve smaller associations in both the development and ownership of new build housing.

53. However, SFHA also seek clarity on a number of issues, i.e., further information on the benefits for Lead Developers in the process given that this role may be subject to a greater level of risk; and information on how the strategy will ensure that other consortium members have appropriate input into the procurement process.

54. SFHA have also expressed reservations regarding the proposed regions in which Lead Developers will operate believing that they do not reflect building contractors' operational areas. They are also concerned at what they perceive to be a challenging timescale for the introduction of Lead Developers "particularly

when housing market conditions have resulted in greater risk aversion on the part of not only the financial sector, but across the economic spectrum”.

55. SFHA maintained the view that, “the supply of sufficient, affordable and serviced land with planning permission will have a greater impact on costs than a procurement initiative which is predicated simply on bulk and competition”<sup>42</sup>. It is also reported that the proposals have led to a warning by the Chartered Institute of Housing Scotland’s Head of Policy, that Scotland needed to guard against the rise of ‘mega associations’ as reportedly seen south of the border<sup>43</sup>.

**\*UPDATE – 6 OCTOBER 2009**

Since the completion of this briefing paper in January 2009, the Scottish Government has published a [report](#) which provides an analysis of the responses to the ‘Investing in Affordable Housing’ consultation (the consultation period ended in March 2009)<sup>44</sup>. Subsequent to this, the Scottish Government released a [statement](#)<sup>45</sup> in June 2009 outlining the way forward for investment in the social housing sector. The statement announced a number of important revisions to the Government’s proposals for social housing procurement including abandoning plans for dividing the country into different investment regions and moving away from the proposals for ‘Lead Developers’ preferring instead to monitor good practice amongst different collaborative models. It is reported that both these proposals failed to gain sufficient support from Scottish Housing Associations<sup>46</sup>.

For further information see:

[www.scotland.gov.uk/Publications/2009/06/04132312/0](http://www.scotland.gov.uk/Publications/2009/06/04132312/0) (consultation analysis report)  
[www.scotland.gov.uk/Topics/Built-Environment/Housing/investment/affordable/wayforward](http://www.scotland.gov.uk/Topics/Built-Environment/Housing/investment/affordable/wayforward) (Scottish Government statement)

<sup>42</sup> Scottish Federation of Housing Associations (2008). Information Note: Investing in Affordable Housing – a Consultation. [www.sfha.co.uk/](http://www.sfha.co.uk/)

<sup>43</sup> Inside Housing. ‘Scottish federation criticised for stance on development’. 7 January 2009. [www.insidehousing.co.uk/story.aspx?storycode=6502420](http://www.insidehousing.co.uk/story.aspx?storycode=6502420)

<sup>44</sup> Scottish Government (2009) ‘Investing in Affordable Housing’ Consultation: Analysis of Responses. [www.scotland.gov.uk/Publications/2009/06/04132312/0](http://www.scotland.gov.uk/Publications/2009/06/04132312/0)

<sup>45</sup> See [www.scotland.gov.uk/Topics/Built-Environment/Housing/investment/affordable/wayforward](http://www.scotland.gov.uk/Topics/Built-Environment/Housing/investment/affordable/wayforward)

<sup>46</sup> Inside Housing. ‘Scots revise plans after association revolt’, 30 June 2009. [www.insidehousing.co.uk/story.aspx?storycode=6505274](http://www.insidehousing.co.uk/story.aspx?storycode=6505274)