



PROCUREMENT STRATEGY

MARCH 2008

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1. Introduction

The aim of this procurement strategy is to set a framework for all types of procurement across the Cosmopolitan Housing Group (CHG) as part of a focussed, coherent, and centralised approach to procurement practice.

This Strategy has been produced to support the Group's Mission Statement to:

'provide leadership and promote excellence in each member company and maintain an infrastructure for continued growth and financial stability'

This Strategy will assist the Group to achieve this Mission through ensuring a common and consistent approach to procurement across the Group in accordance with best practice.

The approach will support and assist the Group to achieve its sustainable growth objectives through adopting effective procurement practices, and through the generation of efficient working practices that enable the Group to maximize its use of resources so that it may also reinvest in the quality of its services to customers.

This Strategy is complementary to the Group's Value for Money Strategy and should be read in conjunction with this Strategy in order to understand the Group's overall approach to bringing about efficient and value for money working practices.

The importance of achieving efficiencies and delivering value for money services through effective procurement practice is recognised within the Group's corporate objective to:

- *'deliver efficient and strong financial performance'*

This objective links directly with the Group Parent's role, and includes such issues as investment policy for stock, people and other assets; treasury management and borrowing; budget setting and approval; and maintaining an overall framework for staffing and deployment of resources.

It is also a corporate objective of both Cosmopolitan Housing Association and Cosmopolitan Student Homes to focus upon improving service quality. This recognises the close links between procurement and value for money, and highlights how the approach is not necessarily about cost control and reductions, but procuring and delivering services at competitive rates in accordance with customers' needs and aspirations.

2. Procurement Objectives

The Group's approach to procurement will be in accordance with the following objectives:

- Develop and support a corporate approach to procurement which reflects the Group's overall values and objectives and which recognises the perspectives of individual Subsidiary companies within the Group;
- Ensure compliance with European public procurement regulation;
- Actively pursue opportunities for savings through improved procurement;
- Maximise efficiencies in operating costs and procurement methods, thereby creating more capacity for the group to achieve its vision of growth and improved service quality.
- To take procurement decisions that are based on an informed choice balancing both cost and quality, taking account of customers needs and aspirations

To achieve this the Group will recognise the importance of both cost and quality in everything it does, and will promote a culture throughout the group which is aware of the advantages of effective procurement practice, cost-conscious, and prepared to work in partnership with others where necessary, including end-users, in order to achieve joint solutions to the challenge of efficiency and value for money.

3. Definition and Context

Procurement is the process of acquiring goods, works and services, covering both acquisition from third parties and from in-house providers. The process spans the **whole cycle** from identification of needs, through to the end of a services contract or the end of the useful life of an asset.

In its publication '*Embedding Value for Money in Housing Association Services*' the Housing Corporation states the following with regards to procurement:

'Procurement concerns the acquisition of goods and services. Value for Money (VFM) aims to strike the optimum balance between low cost and high quality in procurement. A procurement strategy should provide the focus for the organisation's approach, and should take in to account:

- The 4C's of best value: challenge, compare, consult and compete.
- The long-term interests of the organisation and customers.

- Lifetime costs and environmental issues, e.g. making low maintenance a key element in specifications for capital works.’

Best Value Reviews

Introduced in 1999, and shortly after applied to the housing association sector, the Best Value regime aims to ensure the delivery of quality services. It represented a move away from lowest price tendering which did not necessarily provide the best quality and therefore most effective use of resources. Through the application of a robust Best Value Review methodology, the Group is able to place the customer as central, with service users influencing the review programme and subsequently assisting with shaping service delivery within available resource constraints. This involves the exploration and review of different service delivery models and the implementation of improvement programmes based upon a range of factors of which cost is only one aspect of a plethora of considerations.

This approach impacts on the forms of procurement that the Group will adopt. It means that it will not only procure on the basis of cost, but consider a broader range of factors such as quality and outcomes for customers. This will be incorporated into procurement methodologies adopted by the Group. It means that where appropriate, ‘Partnering’ approaches will be explored, including the use of open-book methodologies and collaboration to achieve shared benefits through increased efficiency.

National Procurement Strategy

Published in 2003 by the ODPM, this report sets out a framework for public bodies to ensure a strategic approach to procurement. Due consideration has been given to this in the production of this Strategy.

A key theme of the approach outlined in this document is the benefits that can be achieved through working collaboratively as part of a partnership approach to procurement, as well as the benefits from embracing technology and undertaking e-procurement. The Strategy also highlights the benefits of effective procurement in bringing about improved outcomes for end-users.

Gershon Report

Published in 2004, this report was commissioned by the government to drive the procurement and efficiency agenda. The overarching theme of the report was that by

implementing sound procurement practices, the public sector should be able to redirect resources to front line services.

It is the Gershon Report that has given rise to the requirement for housing associations to submit Annual Efficiency Statements. It has also initiated other developments in the sector such as the Operating Cost Index.

The Gershon Report estimated that the public sector could generate £21.5 billion in efficiency savings over the three years from 2005 to 2008, of which £835 million could be contributed by the social housing sector. Of this amount, housing associations are expected to deliver £355 million in efficiencies over this period, which in cumulative terms is broken down as follows:

| | | |
|---------|---|-------|
| 2005/06 | - | £177m |
| 2006/07 | - | £260m |
| 2007/08 | - | £355m |

In crude terms, the targets can be equated to 2.5% efficiency savings year on year for the period to 2008. Whilst this has not been translated into targets for individual housing associations, this remains a marker for housing associations when efficiency targets are being set.

The underlying rationale for securing efficiencies is in common with the Group's broader understanding of Value for Money. It is not strictly driven by a requirement to cut costs, but by a broader recognition that these savings can be released and recycled to improve service quality for the benefit of customers.

Audit Commission

Since 2003, the Audit Commission have been responsible for undertaking periodic inspections of housing associations on behalf of their principle regulator, the Housing Corporation.

The inspection regime has acted as a key driver for service improvements within the sector, with a focus on outcomes for customers. Value for Money is a key focus of the inspection regime. It is worthy of its own separate Key Line of Enquiry (KLOE 32) in addition to it being embedded into all other KLOEs.

The Audit Commission has also published additional guidance for housing providers on procurement best practice, Due regard has therefore been given in the production of this strategy to *'Better buys: Improving housing association procurement practice'* (February 2008).

4. Current Approach

The Group has recognised the benefits that can be achieved through effective procurement practices being adopted for some time.

Details of progress to date include the following:

- All major purchases / contracts / services have been procured via a competitive tendering process. This has traditionally been undertaken on a competitive selective tendering basis.
- Three competitive quotes are obtained for all goods and services in excess of £5,000, and all goods and services procured that are over a value of £10,000 are subject to a formal contract.
- Engagement in a consortia approach to purchasing, such as operating through the Plus-Harvest Partnership for all grant funded development activities.
- Implementation of a Value for Money Strategy.
- Identification and realisation of year on year efficiencies, as evidenced through Annual Efficiency Statements. This includes both cashable efficiency gains that are available for another purpose, and non-cashable gains that result in higher quality or better services for customers.
- Participation in consortia approaches for procurement of planned maintenance programme, such as through the LHT Procurement partnership for kitchen and boiler replacement works, and comparison of costs with Fusion 21 and Procurement for Housing (PfH) to achieve best value.
- Partnership approaches to neighbourhood management and regeneration, such as through the Evolve partnership in Sefton.
- Placing responsive repairs service out to competitive tender, and subsequent outsourcing of call centre functions and entering into 10 year Partnering arrangement with KHT Services for delivery of maintenance and related services. This approach incorporates Egan principles of 'Rethinking Construction' and recognises that improved efficiencies and focus on service quality leads to better outcomes for customers.
- Procurement of various corporate services through competitive tender, such as Internal Audit and Marketing & Communications functions.

5. Future Approaches

The Group will adopt a range of procurement options in order to optimise the quality of service outcome and achieve value for money. When choosing a procurement route, the form adopted will be the one that is most appropriate to the project in order to maximise best value.

Standing Orders

All Departments will be expected at all times to act within the fiscal limits and procurement rules set out herein and reproduced in more detail within the Group's Standing Orders, to ensure that all procurement activity is correctly placed and accounted for.

Procurement Panels will be established where budgets have already been allocated and agreed and will normally consist of the following members for each Subsidiary:

- CHA - Group Finance Director and Housing Services Director and/or deputies.
- CSH - Group Finance Director and Student Services Director and/or deputies.
- CE - Group Finance Director and Group Development Director and/or deputies.

No orders shall be placed for the supply of goods or services, nor other expenditure incurred without ensuring that provision exists in the capital or revenue budget for such expenditure. Where provision has not been made, relevant Board authority will be required.

No order for the supply of goods and services in excess of £5000 shall be placed without first having obtained a minimum of three quotations from different suppliers except where the order is in respect of goods and services of a standardised type or specialist nature supplied by less than three firms, and the relevant Director is satisfied that the price quoted is competitive.

All orders for the supply of goods or services in excess of £10,000 shall be the subject of a formal contract, in writing signed by a member of the Group's Management Team. Where it is not the practice in the particular trade to prepare a formal contract for the supply of materials, the order shall be issued under the signature of the relevant Director for sums in excess of £10,000.

Tendering Procedures

No contracts for Planned, Rehabilitation, Conversion or other contracts estimated to be in excess of £10,000 for the supply of goods or materials or the execution of work shall be made unless:

a) Selective Tendering

Tenders have been invited from amongst a list of persons or companies who have their names placed on an approved list of persons or firms able and willing to tender for contracts for the supply of goods or materials or the execution of work. Such lists shall be derived from the Plus Group/Cosmopolitan's Framework Agreement, the Constructionline Service and the Group's approved list of Contractors.

b) Serial Tenders

The proposed contract for the execution of work forms part of a serial programme the terms having been settled with the contractor at the date of his original tender, on the basis of the application of a stated addition or deduction to the rates and prices contained in an initial contract awarded competitively following an invitation to tender in accordance with the provisions of (a); or,

c) Negotiated Tenders

With the approval of the Housing Corporation (where appropriate) a tender is negotiated with an approved contractor on the basis of existing rates contained in an initial contract awarded competitively following an invitation to tender in accordance with the provisions of (a); or

d) Single Tenders

With the approval of the Housing Corporation (where appropriate) and following a written report from the relevant Director, the Board of Management considers it desirable in the best interests of the Group (relevant Subsidiary) that a tender be invited for the execution of work from a contractor selected.

Nominated Sub-Contractors and Suppliers

Tenders for sub-contracts to be performed or goods or materials to be supplied by nominated sub-contractors or suppliers shall be invited in accordance with the methods prescribed above.

The terms of the invitation shall require an undertaking by the tenderer that if they are selected they will be willing to enter into a contract with the main contractor on terms which indemnify the main contractor against their own obligations under the main contract in relation to the work in the sub-contract.

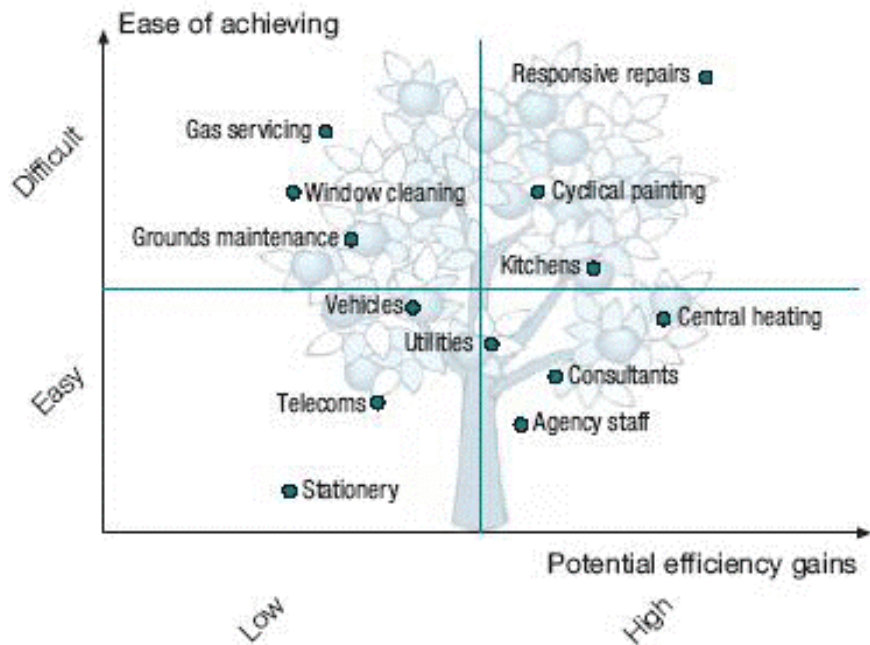
Exceptions to Tendering Procedures

Nothing in these Standing Orders shall require tenders to be invited if, and with the approval of the Housing Corporation (where appropriate):

- a) In the case of contracts for the supply of goods and materials:
 - i. the goods or materials are proprietary articles or are sold only at a fixed price and no reasonable satisfactory alternative is available; or
 - ii. the prices of the goods or materials are wholly controlled by trade organisations or government order and no reasonably satisfactory alternative is available; or
 - iii. for other reasons, there would be no genuine competition; or
- b) The work to be executed or the goods or materials to be supplied constitute an extension of an existing contract (such an extension to be approved by the Relevant Procurement Panel), or
- c) The contract is for the execution of work or the supply of goods or materials certified by the relevant Director as being required so urgently as not to permit the invitation of tenders, or
- d) The work to be executed or the goods or materials to be supplied consist of repairs to or the supply of parts for existing proprietary machinery or plant; or
- e) Tenders shall have been invited on behalf of any consortium, collaboration or similar body, of which the Group is a member, or eligible to participate in, in accordance with any method adopted by such a body.
- f) The estimated expenditure is less than £10,000.

Targeted Procurement

The Group recognises that some areas can generate greater efficiencies than others. It will therefore target those areas where it is easier to achieve efficiencies first. These have been identified by the Audit Commission as follows:



Contract types

The Group will select the contract type that is most applicable to the form of product or service that is being procured. In general, it will consider the following:

- **One-off contracts** – these will usually be used by the Group as short-term contracts for a specific piece of work such as consultancy work and legal advice.
- **Framework agreements** - allow the Group to form an arrangement with a supplier to purchase goods at a predefined price over a set period of time. This agreement will then establish the terms of any contract awarded to the supplier within that period. Framework agreements are typically used for example, for printing or the supply of boilers. The Group is currently a party to the PlusHarvest Development Partnership Framework Agreement for its grant funded development activities. This consortia approach generates opportunities to negotiate more favourable terms for its members.

- **Renewable or period contracts** - are used for goods that are continually required. These contracts are periodically reviewed and the client will either renew the contract or go back to the market to re-tender. These contracts, for example, may be used for the supply of doors or for insurance.
- **Partnering contracts** - are different from the traditional client/contractor relationship. Partners will establish shared objectives, and share risks and benefits. Open-book accounting and co-location are two possible features of partnering contracts. Partnering contracts are often used for the responsive repairs service or gas servicing and this approach has been adopted for the provision of housing association responsive repairs and gas servicing arrangements with its long term partner, KHT Services.

6. Procurement Themes

There are five themes adopted in the Group's approach to achieving effective procurement practice. These themes largely reflect those contained within the Government's National Procurement Strategy, and are as follows:

- Provide strong leadership and build capacity in effective procurement;
- Adopt active contract and supply chain management
- Adopt a partnering and collaborative approach to procurement;
- Embrace the benefits of technology for procurement;
- Achieve benefits for customers and communities through effective procurement.

These will each be addressed in turn.

Provide strong leadership and build capacity in effective procurement

The Group will establish the framework for effective procurement through the adoption and implementation of this Strategy and related approaches such as those set out in the Group's Value for Money Strategy.

The Group will establish the capital and revenue budgets within which the Group and its Subsidiaries must operate.

The Group will appoint a senior member of staff to act as a “Procurement Champion”. This will be the Housing Services Director. Evidence suggests that where there is a champion in place, organisations are able to make more effective use of procurement to achieve value for money for their residents.

Its staff are the Group’s biggest asset. The Group will therefore actively support people through training and development to enable them to do their job well. This will be supported by attendance at conferences and joint working to identify sector wide best practice approaches to procurement.

The Group will implement its approaches to continuous improvement, including the operation of a Best Value Review programme, to systematically review areas of activity in accordance with an established methodology in order to bring about value for money.

The Group will maintain effective performance management and monitoring systems to enable the benchmarking of costs and performance to identify areas for review and improvement.

Where in-house expertise does not exist, the Group will consider this and evaluate the merits of using external expertise to supplement and enhance existing in-house knowledge.

The Group will also maintain the highest standards of probity in its procurement practices. It will maintain lists of approved contractors and consultants in accordance with the measures set down in its Standing Orders and Financial Regulations.

The Group will also ensure that all procurement exercises comply with the EU Procurement Directive or other relevant legislation as may be applicable.

Adopt active contract and supply chain management

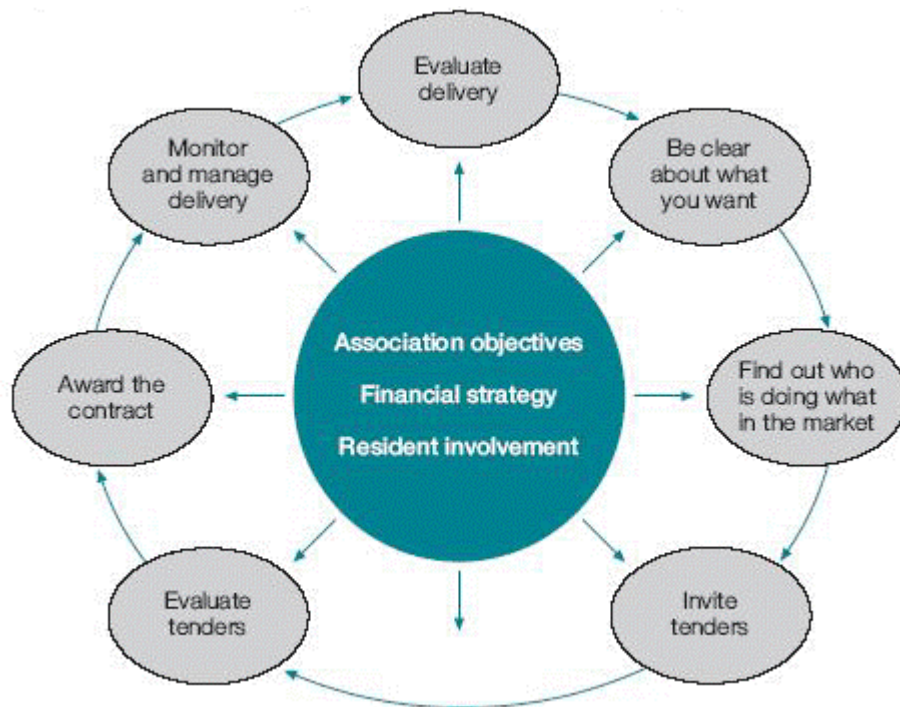
The Group recognises that it is important for it to adopt the principles of good procurement at all stages of the procurement cycle. This will ensure that the benefits realised are sustainable, and not confined to the initial change in procurement method.

A key to this approach is the occasioning of effective contract relationship management, particularly relevant in relation to partnering arrangements.

This approach will require representatives of the Group responsible for managing contracts to proactively managing and controlling all aspects of the contract relationship to ensure that targets, price and quality is achieved.

The Group will take this approach further when possible, particularly in relation to its partnering arrangements, to actively manage the contractual supply chain. This second generation approach to partnering will be linked to financial incentives for both sides of the contractual relationship.

The features of the procurement cycle which will be followed have been identified by the Audit Commission as follows:



Adopt a partnering and collaborative approach to procurement

The Group has fully embraced the concept of partnership working. It has recognised how it can:

- Deliver seamless, customer-focused services;
- Provide more choice for service providers;
- Drive improvements in service delivery.

Partnerships mean closer working with suppliers, developers, other housing associations and local authorities.

The Group is outward focused and actively looks to call on and work with expertise from outside the organisation.

The Group is already a member of Procurement for Housing and will consider the use of other procurement networks (such as Fusion 21) to scope the potential for efficiency gains to be achieved.

We are committed to working with construction partners to improve supply chains and stimulate the local economy wherever possible.

The Group will give consideration to long-term relationships and partnering arrangements consistent with best value. In doing so, it will adopt an approach to contractor relationships which is transparent, honest, and encourages innovation.

Within the housing association's activities, the approach to planned and cyclical maintenance activities will aim to minimise the amount of responsive repairs that are required, increasing the proportion of planned works where possible and feasible, with an ideal balance of 70:30 planned to responsive repairs. Annual targets will be set by the relevant Board in respect of this balance.

Embrace the benefits of technology for procurement

The Group will embrace technology as a means of improving the Group's approach to procurement and to drive up efficiency. This will include reducing bureaucracy within the repairs and maintenance activities of the Group through:

- Moving to a smaller number of contractors, including partnering arrangements, to reduce the burden of managing multiple contractors and associated invoices
- Develop and implement systems for automating invoicing through the use of workflows, including the use of the Group's INVU document management systems.
- Seek to remove duplication through the use of joint or shared IT systems, including internet services and system interfaces.

The Group will also explore opportunities for introducing e-purchasing initiatives.

Achieve benefits for customers and communities through effective procurement

Through a focus on effective and competitive procurement and the sustained delivery of value for money services, the Group will seek to bring about discernible benefits for its customers and the communities in which it operates.

This approach will ensure that the Group’s costs remain competitive, and that its resources are used efficiently to maximise the benefits to its customer base. This will be supported by on-going benchmarking and performance monitoring that compare the costs of services with its peers.

The Group would also expect, particularly in relation to its social housing activities, that tenants will be engaged in the process of contractor procurement and selection as part of any major service procurement exercises that are undertaken.

The approach to involving residents in the procurement process will typically follow the Audit Commission’s guidance in this area, which is set out as follows:

| Procurement stage | Residents’ role | | | |
|---------------------------------------|--|--|--|--|
| | Informed | Consulted | Involved | Devolved |
| Identify the requirement | | Residents asked about future service and product requirements and their perceptions of impacts on association services | Residents’ representatives discuss and negotiate future standards and requirements with the association | Residents identify service need and draw up specifications for delivery |
| Research the market | Information supplied to residents about current procurement activity | Residents asked for any information they have on potential suppliers | Residents/residents’ representatives are involved in searches, ‘meet the buyer’ activities and visits to see suppliers’ work (alongside association staff) | Residents use their own contacts and networks to research the market |
| Seek tenders | | Residents asked to recommend suppliers | | Residents organise invitation to tender |
| Evaluate tenders | | | | |
| Award contract | Award notice(s) included in newsletter and other communications to residents | Resident observers present on evaluation panel | Residents’ representatives sit on the evaluation panel and are involved in the choice of supplier | Residents evaluate tender and choose supplier |
| Measure and manage performance | Performance scores communicated to residents | Residents consulted on their perceptions of supplier performance | Residents score the suppliers performance for the association | Residents measure suppliers’ performance and negotiate re-work, compensation and other action as appropriate |
| Evaluate contract | Contract evaluation included in regular communications to residents | Residents asked to give end of contract feedback on service design and supplier performance | Residents’ representatives discuss and identify lessons from service design and supplier performance with the association | Residents evaluate service design and deliver and make recommendations to the association’s board |

Contained within the Group’s procurement and contract management arrangements will be the scope for encouraging its contractors to source local labour, as well as the employment of persons from BME and other marginalised and/or vulnerable groups. As a

major purchaser of goods and services in the region, through this approach the Group is able to occasion improvements in outcomes for local communities.

The performance of contractors and consultants will also be assessed by the Group, as appropriate, at the end of contracts for work by the relevant Project Manager. This will include the use of Standard Construction industry KPIs measuring time, cost, quality, and customer satisfaction. The results of these exercises will be used to review the contractors and consultants used by the Group to ensure that high standards are maintained and the quality of services for customers assured.

The information derived from these processes will be used to review the Group's lists of approved contractors, consultants and suppliers.

7. Consultation

The Group will utilise feedback from customers, and also engage with tenant representatives and forums in monitoring the performance of its contractors, particularly in relation to the selection and subsequent delivery of planned and responsive services by its contractors.

8. Links with other Strategies

Risk Management Strategy

Purchasing and procurement is a major consideration for the Group, and the Group will seek to reduce threats to its success through effective risk management practices. The risks associated with the Group's approach to procurement will be considered and reviewed as part of the Group's formulation and review of its risk maps.

Sustainability Strategy

The Group has adopted a formal Sustainability Strategy setting out its approach to environmental issues. The adoption of sustainable procurement practices is a key aspect of delivering this Strategy and reducing the impact of the Group's activities on the environment.

One area that will contribute to this agenda, as well as contributing to local communities, is the sourcing of suppliers and labour locally.

Equality and Diversity Strategy

The Group will promote equality in its procurement processes in accordance with its commitments to this agenda as set out in its Equality and Diversity Strategy. The Group will embed the former Commission for Racial Equality's guidance (now the Commission for Equality and Human Rights) on equality considerations into its procurement approach. Within the legal framework, we will endeavour to ensure that our procurement practices do not exclude other equality target groups. The Group will seek to integrate Equality and Diversity objectives into its contracts.

A key way in which the Group's commitments to the agenda will be achieved is through raising the awareness of its contractors to Equality and Diversity related issues through training, and encouraging the engagement of communities through target setting as part of the contract procurement arrangements. This will include an equal opportunities policy being a prerequisite of working with the Group, as well as setting targets on employment and training for BME groups, as well as other under-represented groups such as females and disabled persons to bring about gender and disability equality.

Value for Money Strategy

The Group's approach to procurement is closely aligned with its commitments to value for money and this document should be read in conjunction with its Value for Money Strategy.

9. Associated Documents

Other documents associated with this strategy include the following:

- Governance and Standing Orders for CHG and Associated Organisations
- Approved Contractor, Consultant, and Suppliers lists
- Standing Orders Policies
- Procurement Panel Policies and Terms of Reference
- Value for Money Strategy
- Risk Management Strategy
- Equality and Diversity Strategy
- Sustainability Strategy

10. Actions

Due to the close links between procurement and value for money, actions associated with this Strategy will be incorporated into the Group's Value for Money Action Plan.

DOCUMENT CONTROL

| | |
|---------------------|-----------------------------------|
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| Person Responsible | Group Corporate Services Director |
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