

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
TENANT MANAGEMENT ORGANISATION

TMO BOARD - 8 JUNE 2006

REPORT BY THE CHIEF EXECUTIVE

TMO NON-TECHNICAL PROCUREMENT STRATEGY

<p>1. Purpose of this report</p> <p>1.1 To outline existing and proposed strategic approach to procurement of non-technical supplies and services.</p> <p style="text-align: right;">FOR DECISION</p> <p>2. Recommendation</p> <p>2.1 To adopt the 'Guiding Principles' set out in section 8 of the report as the TMO's strategic approach to non-technical supplies and services' procurement strategy.</p>

3. Introduction

- 3.1 The TMO's principle activity is to manage the housing stock of the Royal Borough of Kensington and Chelsea. In carrying out this activity the TMO purchases goods and services from external organisations. This strategy deals with how those goods and services are procured.
- 3.2 The Company's audited accounts in 2004/2005 showed expenditure of £12m for the year, salary related expenditure amounted to £8.4m, so apart from accommodation (of £695,000 including room hire) and some miscellaneous costs, e.g. Corporation tax, the remainder reflects the level of purchases. Some £1.3m was spent on Service Level Agreements (SLA's) with the Council, the remaining £1.6M is the TMO's own direct purchases.

4. What do we mean by Procurement?

- 4.1 Procurement is the whole process of obtaining goods and services. It involves:

- identification of needs
- specifying
- sourcing of providers
- tendering
- negotiation in some instances
- evaluation of tenders
- award of contract and legal formalities
- delivery of goods or services
- verification of quantity and quality (valuation)
- payment within terms.

5. The Services Covered by this Strategy

5.1 This strategy covers the TMO's non-technical services procured from external suppliers and contractors (including the Council) to support key business functions.

5.2 These services cover

- Administrative supplies and services
- IT Hardware Software and Support
- Legal Services
- Property Services (commercial property management)
- Management consultancy
- Payroll and Finance services
- Human Resources
- Pest Control
- Public Relations

6. Aims and Objectives

6.1 Procurement has a critical part to play in helping the TMO to achieve its overall aims as contained within the Business Plan, which is underpinned by four key issues:

- Financial stability
- Achievement of excellence in services and customer satisfaction
- Achievement of the Decent Homes Standard by 2008
- Building decent neighbourhoods.

- 6.2 The procurement strategy will enable the TMO to make financial savings from the cost of contracts, which will lead to greater efficiency, and financial stability. Value for money will therefore be demonstrated and transparent. It will also enable the TMO to ensure efficiencies in procurement and invoicing processes, which will free up resources that can be redeployed to services provided by the TMO, and lead to improvements in customer satisfaction.

7. The Context for Procurement

7.1 Public sector procurement is subject to EU Procurement rules, and over the recent period has been the subject of various governmental reviews and reports which create a context for procurement:

- Sir Peter Gershon's 2004 report 'Releasing Resources to the Front Line', which identified procurement as one of the six main potential areas where savings could be made. He concluded that significant scope exists for delivering procurement savings and efficiency through better supply-side management and further professionalisation of the procurement function, and suggested savings of at least 2.5% per annum should be targeted.
- The Audit Commission's procedures for regulating and inspecting social housing service providers via Key Lines of Enquiry (KLOE) which include procurement, and encourage the use of modern procurement methods such as partnering and joint procurement.
- The National Procurement Strategy for Local Government published by the Office of the Deputy Prime Minister (ODPM) in 2003. It highlighted the potential for procurement to improve cost effective service delivery whilst achieving community plan objectives.
- Sir Ian Byatt's report 'Delivering Better Services for Citizens' which recommended that procurement should have a much higher profile and be more strongly resourced in order that best value can be delivered.

8. The Guiding Principles - establishing strategic objectives

8.1 The guiding principles which underpin this strategy, and set out strategic objectives for non-technical service and supplies procurement are:

1. Achieving Best Value

By reducing costs whilst improving quality of service, 'best value' encompasses quality and other criteria (such as health and safety, investment in training etc), as well as good value for money, and ideally lower costs. The TMO is committed to ensuring that best value is received for all contracts, which should be awarded on an effective balance between quality and cost.

2. Maximising Customer Involvement

Wherever possible the TMO will involve the end user of services in the shaping of the arrangements and the monitoring of performance. This will be achieved by involving customers in the design of contract specifications, tender evaluation, and contract award, and subsequent service delivery and customer satisfaction monitoring.

3. Delivering Diversity and Equality

The TMO is committed to equality of opportunity and diversity, and aims to deliver contracts in a non-discriminatory way in order to ensure that contracts are tendered fairly and that contractors and consultants are bound by the TMO's Equality Policy. Although the TMO is consolidating its contracts in order to facilitate long-term arrangements, innovative ways are being sought in order to ensure that small and minority ethnic (SME) firms, social enterprises, and voluntary and community organisations are still able to win contracts or elements of contracts, and that local employment initiatives are maximized.

4. Developing Continuous Improvement

The TMO will work with its suppliers and contractors throughout their contracts to improve processes and promote better ways of working with the aim of improving services and driving down costs without any sacrifice in quality.

Methods have been put in place to ensure that the TMO's services are reviewed to ensure improvement. This means working in an open-book, transparent way with suppliers, understanding costs drivers and how to reduce them. These are most effectively established in the technical procurement strategy, but lessons from this continuous improvement process throughout the supply chain will be applied to non-technical procurement covered by this strategy.

5. Doing Business Electronically (e-Procurement)

The TMO recognises that in order to achieve efficiencies in the procurement process, and reduce paperwork and its associated costs, use of the appropriate e-procurement tools will have to be part of its IT strategy. There is a commitment to working with the

Royal Borough of Kensington and Chelsea to investigate the use of e-procurement tools such as e-tendering and e-market places, and to introduce efficiencies in the invoicing process by the use of electronic means.

6. Maximising opportunities for Economies of Scale

Opportunities of scale available to the TMO and its partners, especially the Council, will be maximised. Consortia which can achieve economies of scale, improved service and leverage over suppliers are particularly beneficial to groups of smaller organisations. The TMO is already a member of “Procurement for Housing” (PfH), one of the sector’s newest all encompassing procurement consortium which is rapidly extending its range. It already has contracts for stationery, mobile phones, printing and photocopiers. Whilst to date the TMO has benefited from the Royal Borough’s discounted schemes for these supplies, it is aimed to review these arrangements annually with PfH to maximise savings.

Procurement for Housing have also procured the TMO’s energy supply contracts for 2006/07, and have minimised costs incurred in this current buoyant market of inflated costs.

The TMO also participates in other procurement arrangements through LAPN (London Area Procurement Network) which is a group of ALMOs that are looking to adopt new processes to achieve targets for cost reduction, quality improvement and improved sustainability when procuring construction work. LAPN is developing a series of framework agreements for contractors that serve the needs of housing organisations. The members of the group will be able to procure services from the framework agreements thereby sharing resources, making use of combined buying power and ensuring supply chain development. The TMO is taking an active part in developing the consortium. In return it is expecting to achieve better quality housing maintenance work at a cost reduction of at least 10% within 2 years. The knowledge and experience gained from working with LAPN will be extended to non-technical service and supply procurement covered by this strategy.

7. Collaborating with the Council’s Procurement Service

The TMO also has the benefit of direct contractual relations with suppliers and service providers on some Council tendered and negotiated contracts, e.g. payroll, stationery, animal wardens and

mobile phones. It is essential that the TMO works with the Council's procurement function to ensure that its needs are fully understood and are properly catered for in the contractual arrangements. The TMO's membership of PfH will provide an effective benchmark to ensure this happens.

8. Extending Staff Training in Procurement

The TMO is committed to ensuring that staff have the necessary qualifications and experience to effectively procure contracts and services. In addition the TMO is committed to providing training for resident representatives who are involved in procurement processes. The TMO will ensure that staff are trained in the use of partnered forms of contract and framework agreements. In addition the TMO is looking to specify training that can be offered locally to people who are under-represented in the construction industry including young people, women and people from Black and Minority Ethnic (BME) groups as well as long term unemployed people.

9. Improving Benchmarking

The TMO is committed to benchmarking contracts and purchasing arrangements using a range of key performance indicators (KPI's). There is also a commitment, through LAPN and, where possible, organisations such as the Housing Forum, to benchmark key costs and performance against other similar organizations, including RSLs and commercial institutions in addition to ALMOs and other local authorities.

The TMO's joint venture company with Brent Housing Partnership, 'Grand Union Homes', provides an excellent opportunity for benchmarking of cost and quality of supplies and services with a high performing 3 star ALMO. It is aimed to use the economies of scale from this partnership to improve Value for Money of support services.

10. Ensuring Value for Money of In-house TMO Services

The TMO will ensure Value for Money of inhouse services by employing Best Value review methodology to all service reviews, which includes consideration of the four Cs of challenge, compare, consult and compete.

9. Support Services from the Council

- 9.1 Various services are at present purchased from the Council's central services e.g. legal services and commercial property management under Service Level Agreements which equate to approximately £1.8 m. These services have been subject to a Support Services' review as outlined in the paper to Board on 9 March 2006. The TMO will seek to improve its specification of these service requirements in accordance with needs, and identify client arrangements to ensure that benchmarking of costs and performance are dealt with, and that the cost of the service is benchmarked as far as possible, to ensure value for money.
- 9.2 The TMO has identified client managers within the organisation for co-ordinating the clienting of these services to ensure that a monitoring framework is embedded, and that agreed costs and performance targets are being met. A review framework for these arrangements has been put in place that ensures that the scope is annually reviewed, and that where appropriate (e.g. Legal Services in 2006/07), these are competitively tested.
- 9.3 Certain functions like finance and banking are effectively sole provider services from the Council. The TMO will work closely with these providers to ensure that value for money can be demonstrated as far as possible within these constraints.

10. Value for Money

- 10.1 The TMO will strive to achieve Value for Money in these services by regular review of scope, cost and performance. Some by their nature are difficult to assess, and will be compared with other organisations wherever possible. This is set out in the TMO's Value for Money strategy.

11. Policies and Procedures

- 11.1 This strategy is supported by the following Policies and Procedures which will need to be annually reviewed in order to ensure compliance with the strategy:
- Memorandum and articles of association of the company
 - Standing orders, financial regulations and contract regulations
 - Quotation and tendering procedures
 - Contract procedure



Gordon Perry
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