

<b>Committee(s):</b>	<b>Date(s):</b>
Efficiency and Performance Sub (Finance Committee)	18 September 2012
<b>Subject:</b> Review of the Procurement and Procure to Pay (PP2P) programme	<b>Public</b>
<b>Report of:</b> Chamberlain	<b>For Information</b>
<p><b><u>Summary</u></b></p> <p>When the Finance Committee and subsequently the Court of Common Council approved the PP2P Programme it was looking for four major benefits:</p> <ul style="list-style-type: none"> <li>• Procurement capacity to be reorganised along modern category management lines – this is being achieved</li> <li>• Substantial savings to be delivered by the category management approach – this is being achieved</li> <li>• Process efficiencies should become available; - these should be achieved once the CLPS is formed; and</li> <li>• A professional buying image covering the whole organisation to be projected – this is being achieved.</li> </ul> <p>The driver for the PP2P programme has always been the need to make savings on third party procurement. However, it is the requirement to transform the way the City Corporation undertakes the procurement process to ensure these savings are embedded that has proved to be the major part of the challenge. It was also recognised that external support was required to ensure that the savings were delivered, the City of London procurement services was implemented and also capable of being sustained.</p> <p>Overall, the PP2P Programme is demonstrably delivering its objectives. However the journey has been and continues to be challenging and this report sets out the progress we have made in addressing those challenges.</p> <p><b>Recommendations</b></p> <ul style="list-style-type: none"> <li>• Members are asked to receive this report</li> </ul>	

## Main Report

### **Background**

1. The PP2P programme is reported regularly to the Finance Committee however it was agreed that it would be appropriate for this sub-Committee to take an in depth review of the programme and progress to date.
2. This report sets out a reprise of the origins of the project, its key objectives agreed by the Court of Common Council in December 2010 and more detail about how the programme is progressing and what has been achieved to date.

### **Origins of the PP2P Programme**

3. As part of the on-going drive to raise standards and improve efficiencies the City Corporation embarked on a number of corporate reviews. These reviews form part of the City's financial strategy to address the deficits of the City Fund and City's Cash. The whole area of procurement was subject of one of these reviews in 2009. Whilst its primary objective was to deliver substantial savings on third party spend (e.g. repairs and maintenance), the review also aimed to deliver procedural efficiencies and equip staff in professional procurement techniques which will lead to a better service and further savings.
4. In developing the Procurement and Procure to Pay Review the City Corporation looked at the experience of early public sector adopters. These experiences were compared to the City Corporation's current position where procurement is largely delivered vertically throughout the organisation (i.e. on a departmental rather than a corporate basis) which militates against best practice such as aggregating spend to maximise purchasing power and adopting best practice techniques such as category management. So although the City Corporation has been active in developing its procurement function in some areas, it was recognised that a fundamental organisational change would be required to realise fully the substantial benefits and savings that were believed available.
5. A report was considered by the Finance Committee on 28<sup>th</sup> July 2009 which concluded that there were at least £3m p.a. of procurement savings that could be made if a modern category management approach to procurement was adopted by the City of London Corporation. It was agreed that this would not be achievable under the devolved organisational structure and that creating a central team to undertake the vast majority of the procurement and procure to pay activities was the preferred solution.
6. The report also agreed that it was essential to bring in external expertise through the engagement of a commercial partner which was achieved when Accenture were appointed under the Competitive Dialogue procedure of the European Procurement Directive.

7. The benefits of making such a major strategic change were identified as having:
  - Procurement capacity reorganised along modern category management lines led by a team or manager that has the relevant professional expertise;
  - Substantial savings can be delivered by the category management approach;
  - Process efficiencies should become available; and
  - A professional buying image covering the whole organisation that will be projected to the market and the supply chain.
8. Accenture were the successful bidder and were appointed by resolution of the Court of Common Council on 13<sup>th</sup> January 2011 following the procurement process which was scrutinised by the Finance Committee.

### **Objectives of the PP2P programme**

9. The report to Court of Common Council in January 2011 set out that there was an expected benefit of £31.4m savings over the five year period of the partnership with Accenture which would leave an ongoing annual legacy of £9.4m p.a. in savings. The bid price was £12.48m with a break even point estimated at month 27 of the contract.
10. In addition the following non-financial benefits were identified:
  - Transformation of the way procurement and procure to pay activities are undertaken by creating a new centralised procurement service with the ambition of being world class in its standards;
  - Training of City Corporation staff so that at the end of the contract they will be able to effectively manage and deliver the service;
  - Deployment of new technology through the implementation of an eMarketplace and a buyer portal to assist departments in requisitioning and using the new service; and
  - Joint management of the new service over the duration of the five year partnership.

### **Delivery of the Programme**

11. Appendix A shows a diagrammatic representation of the five years of the programme which we have called the PP2P journey map. In summary there are four phases;
  - Quick Wins - March 2011 – March 2012 (Year 1)

- Transition - April 2012 to March 2013 (Year 2)
- Stabilisation and Improvement - 2013 to 2014 (Years 3 and 4)
- Handover – 2014 to 2015 (Year 5)

12. **Quick Wins** in Year 1 was put in place to create momentum and confidence in the programme, as well as to help reduce the City Corporation's financial exposure by delivering significant savings. The technology enablers were delivered in the first year, along with engagement with departments and preparatory work for the transition phase.
13. A due diligence exercise was also undertaken in the first three months during **which** the assumptions around the longer term savings projections were validated. The outcome of this was that the overall programme target was confirmed as £30.1m still with an annual legacy of £9.4m.
14. We are now in the **Transition Phase** of the programme which is heavily focussed on establishing the City of London Procurement Service (CLPS) which will start to deliver the non-financial benefits of the programme. This phase also sees extensive engagement and work with departments in order to ensure that they are prepared and able to work effectively with the transformed procurement service. In addition, centralisation of disparate and inefficient transactional activity such as invoice processing and payment will occur, delivering substantial efficiency savings and improving the quality of management information.
15. From March 2013 we will be into **Stabilisation and Improvement** which will see a reduction in the change management activity and support as well as the stabilisation of the new procurement service. The category based approach to sourcing will have been implemented however it will need to stabilise to ensure that the savings targets for the remainder of the partnership are delivered and that we have a sustainable approach that will continue to deliver savings beyond the life of this programme. To achieve this, the staff will be up skilled and there will be knowledge transfer from Accenture to City of London staff to prepare them to run the service in the long term.
16. A process of review and continuous improvement will be implemented to ensure continued efficiency and performance savings while maintaining or improving the quality of procurement service to the City.
17. The final **Handover** phase will start from 2014 up to the end of the contract in February 2015. This will be where the Accenture resources move out of the CLPS and the City Corporation carries out all of the activities which will be the sustainable legacy of the programme.

## Fee structure

18. The fee structure has three elements to it: a fixed fee, a variable element (fees at risk) reflecting the delivery of agreed milestones, and a variable element (fees at risk) related to the delivery of financial savings.
19. For Year 1 the total estimated fees and the fees actually paid are set out in this table which was reported to Finance Committee in February 2012.

Fee element	Year 1 estimated fees £	Year 1 fees paid £
Fixed Fees	1,465,819	1,415,096
Variable – milestones	293,163	293,163
Variable – savings	1,172,654	232,975
<b>Total</b>	<b>2,931,636</b>	<b>1,941,234</b>

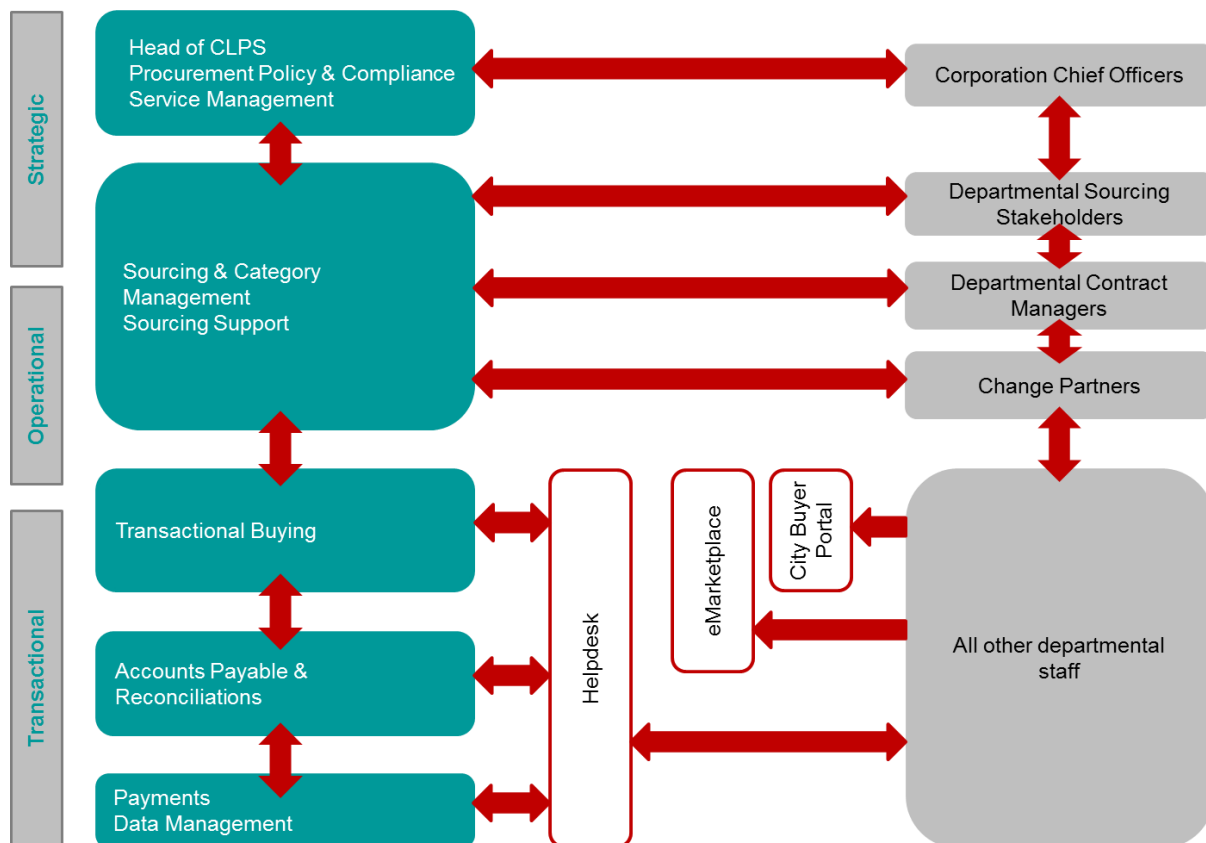
20. The fixed fee element relates to the investment of resources in the PP2P programme to give the capacity to make the change and deliver the savings in the early part of the programme until the CLPS is established and operational. In year 1 they included the purchase of the technology required for the eMarketplace. This is the technology that enables us to set up supplier catalogues which departments will use to place orders for goods.
21. The variable element related to milestones is included for the first 19 months of the contract and is directly related to the completion of key activities or tasks to ensure that the programme remains on target. After that point there will be a service level agreement relating to the inputs from Accenture into the newly formed CLPS. As a consequence of a phased implementation of the CLPS, we are reviewing the end point for the payments against milestones and the start of payments in accordance with the service level agreement.
22. The variable element of the fees relating to savings varies directly with the amount of savings that we make. There is an in depth process which is followed for the Savings Realisation Forum to sign off the each saving from each individual project. This was described in Appendix A to the report of the Finance Committee on 29<sup>th</sup> May 2012. Once the savings are signed off they are applied to the overall fees so that a monthly sum is paid to Accenture which relates to the benefit we gain from the savings.
23. Following the Finance Committee meeting on 4<sup>th</sup> September an addendum to this report will be prepared and circulated after the main papers setting out a fuller explanation of the savings and associated fees.

## **Progress to Date**

24. The Quick Wins phase is now complete with the signing and mobilisation of two large sourcing projects for Highways and Building repairs and maintenance. The in year savings in year 1 amounted to £303,298 plus a further £101,000 of rebates totalling £404,298 against an original target of £1.48m. This was because it took longer to finalise these two major contracts; this delay has meant that these projects will contribute £12.1m to the overall PP2P programme target of £30.1m plus a further £5m of savings for the Corporation because they expire after the PP2P programme finishes. The £12m from these two projects together with the ongoing Year 1 savings of £3m means by July 2012 the programme has delivered 50% of the overall savings target agreed at due diligence. Category Boards have been established and are bedding in. As planned, the technology for the eMarket place was installed, the first eAuction was carried out, and contract management was established for those contracts let. This was particularly significant for the City Surveyor's department which has had to carry out its own reorganisation.
25. Year 2 transition sourcing projects are on target to meet the year 2 savings target of £3.2m. Once this is achieved, this will mean that a total of £18.5m of the £30.1m will be secured, but the real emphasis is now centred on the creation of the CLPS, an internal shared service providing procurement services to all departments across the Corporation. The CLPS will provide both support to complex procurement projects and also transaction processing such as paying supplier invoices and supporting buying activities. Not only is this a major task to consult with, transfer and recruit staff, there is a significant level of engagement with all departments to establish the processes that will be necessary to start the centralised service. This is only the beginning as once the CLPS is established there will be further refinement of processes to ensure that they are efficient and operationally excellent.

## **The Vision of the CLPS**

26. The framework diagram below shows how the teams in the CLPS will work with and provide a service to the Corporation departments covering procurement, buying and paying invoices. Working in this way departments can make it clear what they need from the service to support them in delivering their own services.



27. The day-to-day route to the CLPS for both internal departments and external suppliers will be through the Helpdesk. The other route for departments will be the City Buyer intranet portal which it is expected will answer the majority of internal questions. Routing through the Helpdesk will allow the rest of the CLPS team to focus on strategic processes, with commonly asked questions and queries answered by the Helpdesk. When necessary the Helpdesk will direct calls to the core Sourcing & Category Management or transactional teams, if they cannot be resolved directly.
28. As indicated earlier, the eMarketplace will allow departments to select goods from supplier catalogues as they require them and then a single invoice will come to the CLPS for reconciliation and settlement.
29. The Accounts Payable & Reconciliations teams will work directly with departments and finance teams to process invoices and perform reconciliation activities to ensure that the right goods or services have been ordered and delivered, ready for payment to the supplier. Suppliers and creditors will contact the Helpdesk in the first instance for standard questions, such as whether an invoice has been paid. Where a supplier needs to change their details for example, or they have released new catalogue information, the Helpdesk will pass the contact on to the Payments & Data Management team. This team will also be responsible for paying suppliers and creditors, and as such will work closely with finance teams.

30. The Transactional Buying team will work with departments to buy low value, low risk goods and services. This could be through a simple quote approach, calling off of an existing framework, a one-off spot buy purchase or through an eAuction. High value, high risk buying that is subject to EU legislation will be passed to the Sourcing & Category Management team.
31. The Category Management team will engage with key departmental stakeholders on a project-by project basis, commonly through Category Boards. Category Managers will identify key stakeholders across departments for each sourcing project. The Category Managers will then run one-to-one sessions and cross-functional workshops to collate requirements across departments, to agree strategic direction and to follow the agreed evaluation criteria in order to identify the successful supplier/s. The Sourcing & Category Management teams will follow the Corporation's Procurement Regulations to minimise risk and ensure that the right approvals are sought at the right time, for example from service committees. The upfront engagement and buy-in of the stakeholder group is crucial to the success and final sign off of a sourcing project.
32. The Category Management team will also have a link to the Contract Managers who will remain in departments. When a Contract Manager has a repeated issue with a specific supplier that cannot be resolved with the supplier directly, they will contact the appropriate Category Manager and request appropriate support to resolve the matter. The Category Manager will work with the Supplier Performance Officer to collect supplier performance information to support this resolution, as well as identifying any other relevant people who need to be involved.
33. Each department will have a dedicated point of contact within the CLPS teams, who will be able to provide specialist support specific to that department throughout the buying and paying process. Departments will be able to feed back their views on the level of service provided by the CLPS, as well as specific requirements and specifications as part of each sourcing project.
34. The Head of CLPS, with support from Procurement Policy & Compliance and Service Management teams, will be responsible for collating the strategic procurement requirements of each of the departments and understanding any specific policies that need to be adhered to. They will also be the first point of contact for senior departmental team members and Chief Officers. The team will feed strategic departmental requirements directly to the Sourcing & Category Management team to help shape their thinking. A key responsibility of the Service Management team is the measurement of service performance indicators and performance measures.



## **Timetable for establishing the CLPS**

35. Appendix B shows the approach to establishing the CLPS. The first step is to develop an operating model and detailed transition plan describing the order in which processes and departments move to CLPS. A specialist team will supplement existing PP2P resources to manage this stream of work. Following that the PP2P team will build the new team and work with departments so that they are ready for CLPS go-live which will be delivered in 2 waves; Payment functions and processing at the end of 2012 and full buying functions and processing in March 2013. The go-live periods will be heavily managed with weekly (and for short periods) daily readiness meetings and stabilisation meeting post go-live. This approach recognises that we must make a success of initial implementation in order for departments to have confidence in the service and to avoid suppliers not getting paid which in turn could impact on front line services and our reputation.
36. Change management activity is key to the successful implementation. The output from the ChangeTracking® survey which we have now run twice demonstrates that we have not yet got all departments fully engaged with the transformational aspect of the programme. In some cases this is understandable as it has yet to impact them. We have seen some increased engagement now that individual staff members have been identified to transfer into the service and discussions are beginning about the need to transfer financial resources in some cases to fund the new service. Departments will also need to consider how to change operating practices in their own departments because of the transfer of certain buying activities in particular.
37. In addition to the change management resources which are an integral part of the PP2P team, we have set up a network of Change Partners who are individuals from departments to champion the transformation and support colleagues to understand what it means for them. Change Partners will use their individual departmental knowledge to assist the Change Management team to make sure that the implementation plan for each department works for them. These plans, based on the broader transition plan, will answer the three basic questions – the how, what and when – that departments can expect things to change. Key elements of the plan will include knowledge transfer, training service departments to use the new processes, setting up governance and communicating the change.
38. Change Partners will also work with the PP2P team to record the impacts of the changes as a result of the transition to CLPS. Once the CLPS user instructions have been created, a further focus for the Change Management team will be to conduct briefing sessions for each department. These will be facilitated by Change Partners as part of the go-live of the CLPS. These will be based around easy-to-use process handbooks. Follow-up sessions

will be organised as required and will be supplemented by online help, available through the City Buyer site.

39. From a Change Management perspective the success of the CLPS depends on the following factors:

- Continuing and visible senior management support;
- Early departmental engagement and support for CLPS;
- Early agreement on the consultation and recruitment process;
- Common processes and understanding of exceptions;
- Effective knowledge transfer delivering day 1 service level targets;
- Departments align with new operating model; and
- Effective cut-over and stabilisation support

40. These success factors have been identified by us but they accord with a report from the LGA “Services shared: costs spared?” which stated that “for shared services to get off the ground strong leadership, commitment from senior management and good project management are essential.” The report also included an evaluation tool which the Corporation had input to. This can be accessed by the following link <http://tinyurl.com/cjrt93e> .

### **Key lessons learnt to date**

41. **Pace of change.** We have not been able to match the pace of change originally envisaged. In part, this is because we underestimated the time that would need to be taken to consult internally and to ensure that there was sufficient time to get the necessary approvals from the relevant committees. This has meant that we have had to invest more resources and time but, despite this, one consequence is that the implementation of CLPS which was originally planned for end of September 2012 will now be a phased implementation on a slightly longer timescale with the CLPS being live from March 2013.

42. **Communication and engagement.** The importance of communications and engagement and recognising that the approach needs to change as the programme unfolds and needs to be periodically revisited to re-energise the approach. We made a good start in this area however we did take our eye off this for a while and as a consequence there was some negative feedback in this area. This had been actively addressed and there is a very detailed plan to ensure that tailored and timely messages are sent to the wide range of stakeholders. This includes the regular reports that we make to the Finance Committee to keep Members informed about the progress of the programme.

43. **Resources.** In the early stages of the programme we did not put sufficient resources into the project from a City of London perspective. We did focus, quite correctly, on engaging Accenture and agreeing the commercial and contractual terms. However, we did not sufficiently prepare the organisation for the impact that the programme would have nor did we assign sufficient project management to match the resources which Accenture mobilised. This has been addressed on both counts by our increased effort in communication with the business but also by bringing in additional project resources so that we can cope with the pace of change that is required to meet our revised plans.
44. **Contract Management .** Traditionally we have always focussed on the letting of contracts however we have not been as robust in managing them. We are not alone in this. Recognising this has led to the need for organisational and operational changes in departments, particularly the City Surveyors. The Category Boards are actively considering the contract management arrangements for each and every contract as they consider the sourcing strategy and procurement approach.
45. **People and training.** We have recognised that filling all CLPS roles in an appropriate and timely manner with quality people is vital to a successful new service. We have been very focussed on ensuring that we sell the new service and attract highly motivated people who want to develop and grow. To mark that this is a new service we will run a training programme that will be undertaken by all staff irrespective if they have transferred in doing a similar role to their current one or if they have been specifically recruited. This will set the cultural tone for the new service.

### Measuring progress

46. The following table sets out how we are measuring our progress.

Area	How we measure progress	Measures
Savings	Quick wins Yearly targets Overall target Ongoing annual savings	£404,398 Year 2 - £3.2m £30.1m (£15m achieved) £9.4m per annum
People	CLPS Organisation structure	Professional consultation Feedback from Trade unions
Change and Communications	ChangeTracking® survey Heat maps Change partner network Transformation Board (further detail in Appendix C)	Results from Change Tracker and surveys

<b>Area</b>	<b>How we measure progress</b>	<b>Measures</b>
Processes	Look at current practice, over lay best practice tailored for local City needs. Test with local process experts, managers and chief officers	Proportion of processes signed off and the number of exceptions to standard processes
Operations	Business/operational readiness assessments	Service Level Agreements KPIs Survey service users and customers External awards
Technical work environment	Compare to other 'best of breed' service centres	CLPS stands out in the City People enjoy and want to work in CLPS
Programme/ Project Management	Robust governance structures. Regular reporting to management. Active management of risks and issues	Number of contract changes required. Progress against plans Number of exceptions raised.

47. In addition to these measures which will be used during the programme, we will undertake a post implementation review to evaluate the benefits. Key Performance Indicators will be established and must be meaningful and drive the right behaviours in the CLPS as well as the business as a whole. Service level agreements need to be established and used to actively manage the service that departments receive. Customers and suppliers will be surveyed to establish their satisfaction with the service of the CLPS and enable it to continue to improve. Benchmarking with other procurement services considered as best of breed will inform the on-going development of the service.

## **Conclusions**

48. This is a very challenging programme which has already delivered significant financial value to the City Corporation. The non financial benefits are still to be delivered. The key challenge for year 2 is establishing the CLPS which will signal the real transformational change that will affect the business and ensure that we have a sustainable legacy from the programme.

49. Our approach to the programme has not been as robust as it should have been but this has been reviewed and addressed. In addition we have learnt that our ability to deliver change as an organisation is not as quick as it could be.
50. As with every change programme, communication is key and however much effort is expended it always seems to fall short of what is really required. We have plans to address these so that at the end of the programme we will be able to demonstrate that both the financial and non-financial benefits have been delivered.
51. However overall the programme is on track to deliver the benefits set by the Court of Common Council when it approved the PP2P Programme.

**Appendices:**

- Appendix A - The PP2P journey map
- Appendix B - The Transition Plan for establishing the CLPS
- Appendix C - Change Management Tools

**Background Papers:**

- Procurement & Procure to Pay report and Addendum – (Finance Committee 24/01/12)
- Procurement & Procure to Pay – Due Diligence (Finance Committee 26/07/11)
- Efficiency Review – Procurement and Procure to Pay (Finance Committee 23/11/10)
- Procurement and Procure to Pay Efficiency Review (PP2P) – Further Report (Finance Committee 14/12/10)
- PP2P Update Report (Efficiency & Performance Sub Committee 23/5/11)
- Procurement & Procure to Pay Updates (Finance Committee 28/6/11, 20/9/11, 18/10/11, 15/11/11, 13/12/11, 24/01/12, 21/02/12, 20/03/12, 01/05/12, 26/06/12, 25/07/12, 04/09/12)

**Contact:**

*suzanne.jones@cityoflondon.gov.uk / telephone number: 020 7332 1280*