

<b>Committee(s):</b>	<b>Date(s):</b>
Efficiency and Performance Sub Committee	6 November 2013
<b>Subject:</b> Supplies and Services and Third Party Payments	<b>Public</b>
<b>Report of:</b> Chamberlain	<b>For Information</b>

### **Summary**

The City of London utilises the CIPFA categorisation of expenditure and income for all transactions recorded in the City's accounts. Two of these classifications are Supplies and Services and Third Party Payments for which 'themed' efficiency review exercises have been undertaken.

### **Supplies and Services**

Total annual expenditure within this category of expenditure is in the region of £125.7million (2011/12). A large area of supplies and services expenditure has been included within the PP2P project review. Other significant areas of spend have been or are being addressed by other projects, including the IS Strategy Review, and the Police City First Project. There are, however, a number of areas that were identified for further analysis. Professional Fees (£10.7million); Management Fees (£5.9million); Consultancy Fees (£4.8million) are being reviewed by the CLPS sourcing team. Research/Advice/Information (£877,000); and Hospitality (£1m) and Subscriptions (£1.5 million) are being reviewed by internal audit.

### **Third Party Payments**

A review of Third Party Payments was reported to this Committee at the 8<sup>th</sup> May 2013 meeting. This exercise involved an examination of transactions posted to CBIS for the three year period 1st April 2009 to 31st March 2012. The total value of payments made over this period is in the region of £104.5million which includes payments of £22.2million over three years in respect of the City's grant to the Museum of London.

It was concluded that the majority of spend on services covered by these payments over the last three years has been or will be subject to review via the PP2P project, contract renewal negotiations, DCCS Commissioning Strategy, budget and policy initiative reviews, is mandatory in nature, or is recoverable. The remaining payments with a value of £5.5million over three years have been agreed for more detailed examination which is on-going.

The results of the on-going reviews are expected to be reported to this sub-Committee in the New Year.

### **Recommendation**

Members are asked to:

- Note this report.

## **Main Report**

### **Background**

1. At the April 2012 meeting of the Efficiency & Performance sub-Committee it was decided that departmental scrutiny exercises on a rolling basis would be discontinued and replaced by 'themed' reviews, although the option for Members to request reports from Chief Officers concerning value for money provided by their services would remain.
2. The City of London utilises the CIPFA categorisation of expenditure and income for all transactions recorded in the City's accounts. Two of these classifications are Supplies and Services and Third Party Payments for which 'themed' review exercises have been undertaken.

### **Supplies and Services**

3. The CIPFA definition for supplies and services is procurement from external organisations of consumable items, which can be on a contract basis but are distinct from contracts for specific service delivery. For example, the corporate office supplies contract is posted to Supplies and Services, whereas the contract for waste disposal is posted to Third Party Payments. Other procurement classified as supplies and services includes professional fees and consultancy fees; this is because the work undertaken by these suppliers is concerned with system development, or specialist advice and not service delivery.
4. An initial analysis of Supplies and Services expenditure for the financial year 2011/12 was undertaken so that an indication could be obtained of the typical annual level of spend. It was ascertained that total annual expenditure was in the region of £125.7million. Table One below shows the largest top 20 spending Departments for supplies and services expenditure (actual spend).

**Table One: Top 20 Departmental Supplies and Services Expenditure 2011/12  
(Actual)**

<b>Department</b>	<b>Actual £000</b>
Barbican Centre	24,091
The City Bridge Trust	20,363
City Police	19,113
Chamberlain's Department	5,377
Guildhall School of Music & Drama	5,116
Policy & Resources	4,737
Investment Properties (City's Cash)	4,253
City of London Freeman's School	3,384
Port Health & Environmental Services	2,926
City of London School	2,391
Culture, Heritage & Libraries	2,153
Planning & Transportation	2,110
DCCS - Social Services & Education	2,032
City of London School for Girls	2,032
Grants, Contingencies and Miscellaneous	2,011
DCCS - Housing & Community Services	1,978
City Academies	1,605
Investment Properties (City Fund)	1,579
Court of Alderman	1,410
Hampstead Heath	1,027
Bridge House Estates	1,020
Smithfield Market	1,000
Epping Forest	900
Town Clerk's	842
Tower Bridge Tourism	814
Total Other Departments	11,393
<b>Total</b>	<b>125,657</b>

5. It can be seen from Table One that the Barbican Centre expenditure on Supplies and Services is the highest with an actual figure of £25million on 2011/12. This table shows gross expenditure and does not reflect any recharge for external events or taken account of income from events. The City Bridge Trust expenditure includes the amount given as grants.
  
6. Further analysis of expenditure into type was made. It will be appreciated that there are approximately 100 subjective codes for supplies and services, therefore, a sample of these was analysed in more detail, based on the level of overall corporate spend. The results of this exercise are contained in Table Two below, along with the status of any relevant efficiency review activity.

**Table Two: Sample of Subjective Supplies and Services Spending 2011/12**

<b>Subjective Description</b>	<b>Actual £000</b>	<b>Comments</b>
Grants to Voluntary and Other Organisations	47,317	Area subject to separate efficiency review of grants.
Professional Fees	10,688	More detailed analysis of this area by the CLPS Sourcing Support Team.
Management Fees	5,877	More detailed analysis of this area by the CLPS Sourcing Support Team.
Consultants Fees	4,766	More detailed analysis of this area by the CLPS Sourcing Support Team
Equipment Purchase/General	3,207	This spend has or is being examined via the PP2P project.
Security	3,021	This spend has been examined as part of the PP2P project.
Provisions	1,870	The CLPS now involved in sourcing of future requirements.
Subscriptions	1,500	Payments to professional journals/information services subject to internal audit analytical review
Printing	1,207	Currently being reviewed by the Soft FM category board.
Computer Hardware Purchase/Hire	1,169	Part of the IS Strategy Project Review
Hardware Maintenance and Support	1,062	Part of the IS Strategy Project Review
Telephones	1,055	This spend has or is being examined via the PP2P project.
Hospitality	1,010	Mainly via petty cash and procurement cards. Subject to internal audit review.
Subsistence	993	Mainly via petty cash and procurement cards
Research/Advice/Information	877	Payments subject to internal audit efficiency review
Software Purchase/Hire	794	Part of the IS Strategy Project Review
Equipment Maintenance	761	This spend has or is being examined via the PP2P project
Postage	595	This spend has or is being examined via the PP2P project
Conference Expenses	588	A more detailed analysis of this area is warranted.
Equipment Hire	495	The CLPS now involved in sourcing of future requirements.
Photocopiers	474	This spend has or is being examined via the PP2P project
Mobile Phones	452	This spend has been examined via the PP2P project
Stationery	437	This spend has been examined via the PP2P project
General Office Expenses	371	The CLPS now involved in sourcing future requirements.
Furniture Purchase/General	226	This spend has or is being examined via the PP2P project
Newspapers and Periodicals	119	The CLPS will be involved in sourcing in future.

## Supplies and Services Areas identified for more Detailed Analysis

7. The analysis shown in Table Two identified a number of areas where greater analysis was warranted in order to obtain a more detailed understanding of current expenditure patterns. Three of these areas related to expenditure which would be covered by the new CLPS Sourcing Support Team and therefore future purchasing decisions will be subject to on-going efficiency review and scrutiny as follows:-
  - Professional Fees (£10.7million in 2011/12) – cursory examination of transactions suggests that departments may be coding a range of expenditure to this subjective that are not being correctly posted. For example, payments to Office Depot Ltd., the Carphone Warehouse and Yahoo.co.
  - Management Fees (£5.9million in 2011/12) - this subjective heading includes payments for contract management including catering and housekeeping services, but it also includes payments to individuals, so there may be a confusion between the posting of consultancy payments here rather than the correct subjective for consultancy type review work.
  - Consultants Fees (£4.7million 2011/12) – this is an area of spend that previous Internal Audit work has often revealed to be problematic in terms of compliance with Standing Orders, definition of what constitutes consultancy rather than contract management, and the difference between advising on the “shape” of a service rather than providing the service.
8. The following three areas were identified for internal audit efficiency analysis. Work on these areas is on-going and is nearing completion.
  - Subscriptions (£1.5million 2011/12) – City departments subscribe to a wide variety of journals, periodical publications and academic materials. A corporate criteria for making such subscriptions does not currently exist and might lead to more efficient procurement in this area of spend.
  - Hospitality (£1million 2011/12) – most expenditure is via expense claims and paid in cash or via procurement cards. There is specific guidance concerning when hospitality provided to visitors and staff can be refunded to officers, but control is subject to line management approval which may not be consistently robust across the City’s departments.
  - Research/Advice/Information (£887,000 2011/12) – initial examination of transactions has revealed that this subjective is used to post payments to consultants, management agencies, as well as professional bodies. It is, therefore likely that some confusion exists concerning the correct usage of this subjective.

## Analysis of Supplies and Services Expenditure in terms of current review processes

9. From the details of spending on subjective areas shown in Table Two above, an analysis of 2011/12 value spending in terms of inclusion in current efficiency activities was undertaken, including PP2P; the IS Strategy Review and the departmental scrutiny exercises. The results of this analysis are contained in Table Three.

**Table Three: Current Supplies & Services Review Position**

<b>Current Review Activity</b>	<b>£000</b>	<b>£000</b>
Grants to Vol. & Other Organisations	47,317	
PP2P Projects	10,228	
CLPS future sourcing (Assisted Buying Team)	39,152	
IS Strategy	3,025	
Soft FM category board review of Printing	1,207	
<b>Detailed Scrutiny Areas</b>		100,929
Professional Fees (CLPS Sourcing Support Team)	10,688	
Management Fees (CLPS Sourcing Support Team)	5,877	
Consultants Fees (CLPS Sourcing Support Team)	4,766	
Hospitality (Internal Audit review)	1,010	
Subscriptions (Internal Audit review)	1,500	
Research/Advice/Information (Internal Audit review)	887	
<b>Total</b>		<b>125,657</b>

## Third Party Payments

10. The classification of Third Party Payments is services which the City is responsible to provide, for example, Council Tax collection, that are being provided by an external body, usually via a contract or partnership agreement. An initial high-level examination of Third Party Payments was made; this involved analysing transactions posted in CBIS by each City department into specific areas of spend, for example, Private Contractors; specific service providers and the value of payments made to them were identified; the justification for making the payments was obtained from Heads of Finance and service managers; the existence of current or planned review activity was ascertained; and any further examination of spend not included in current scrutiny exercises was considered.

11. A review of Third Party Payments was reported to this Committee at the 8th May 2013 meeting. This exercise involved an examination of transactions posted to CBIS for the three year period 1st April 2009 to 31st March 2012. The total value of payments made over this period is in the region of £104.5million which includes payments of £22.2million over three years in respect of the City's grant to the Museum of London.
  
12. The review concluded that the majority of spend on services covered by these payments over the last three years have been or will be subject to review via the PP2P project, contract renewal negotiations, DCCS Commissioning Strategy, budget and policy initiative reviews, are mandatory in nature, or are recoverable. The remaining payments with a value of £5.5million over three years have been agreed for more detailed examination. Work on these areas is on-going and will be reported back to the January EPSC when it is expected this work will be completed.
  
13. Those areas which will be subject to further work are detailed in Table 4. It should be noted that the values of payments are indicative of the level of expenditure incurred during the three year period examined. Whilst they are based on total postings to Third Party Payment subjective headings in CBIS they are not intended to reflect actual expenditure shown in the City's accounts.

**Table Four: Details of Third Party Payment areas subject to further review work**

<b>Review Area</b>	<b>Indicative Payments £000</b>	<b>Total £000</b>
Forensic Services (CoLP)	1,400	
Other Local Authorities	900	
Winter Works	100	
<b>To be reviewed by the Director of Business Support</b>		<b>2,400</b>
Voluntary Associations	300	
<b>To be reviewed by the Director of Financial Services</b>		<b>300</b>
Inter- Authority Recoupment	700	
Other Bodies – Adult Education	2,100	
<b>To be reviewed by Internal Audit</b>		<b>2,800</b>
<b>Total further review work</b>		<b>5,500</b>

## Conclusion

14. Scrutiny of Supplies and Services expenditure has been explored in great detail. Expenditure of £24.7million in total has been identified for further examination which includes: Professional, Management, Consultants Fees (£21.3million); Hospitality (£1million); Subscriptions (£1.5million); and Research/Advice/Information (£887k). (See **Table 3**).
15. The review of Third Party Payments concluded that the majority of spend on services covered by these payments over the last three years have been or will be subject to review via the PP2P project, contract renewal negotiations, DCCS Commissioning Strategy, budget and policy initiative reviews, are mandatory in nature, or are recoverable. The remaining payments with a value of £5.5million over three years were agreed for more detailed examination – **Table 4**.
16. Work on the areas of additional scrutiny identified from both the Supplies and Services review and Third Party Payments are on-going and are expected to be completed and reported back to the sub-Committee in the New Year.

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