

<b>Committee</b>	<b>Date</b>
Efficiency and Performance Sub Committee	22 <sup>nd</sup> January 2014
<b>Subject:</b> 90 day review of the City of London Procurement Service (CLPS)	<b>Public</b>
<b>Report of:</b> Chamberlain	<b>For Information</b>

### Summary

This report is the result of the 90 day review of the City of London Procurement Service (CLPS) carried out by Nick Haslock at the request of Chris Bilsland, Chamberlain.

The CLPS has been in existence for approximately 9 months which is a long enough period of time for problems and issues to come to light. The withdrawal of Accenture from the PP2P project is also set for March 31<sup>st</sup> 2014 so there is an obvious opportunity to recognise what has gone well and address areas where performance could be improved before the transition to a wholly in-house operation

Much of what has been introduced by the CLPS has gone well and the assumption is that good practise will be maintained and used as a base on which further improvements can be made. The report therefore focuses on areas for development that can be introduced in a 12 to 18 month timeframe. These can be divided into process improvements, staff performance issues, team structure and a consideration of contract management.

**Recommendation:** Members are asked to:

Note the observations made in this report.

### Main Report

#### **Purpose of Report**

1. This report provides members with the results of the 90 day review of the CLPS carried out by Nick Haslock, the new Head of CLPS, since his arrival on 4<sup>th</sup> November 2013.

#### **Process**

2. The throughput of the accounts payable team is significantly below industry best practise. On average each team member processes 300 invoices per week against a best practise level of 1500 invoices per week. This significant gap is a result of both process and people issues but it leads to an Accounts Payable (AP) function is larger and more expensive than it should be for an organisation of the size of the City of London Corporation (COL).

3. A high performing AP function relies on minimal manual intervention. If this is to be achieved the key initial requirement for the majority of transactions is the creation by the business of correctly formatted Purchase Orders (PO) that can be seamlessly matched to received invoices. Current statistics show that a PO was not available prior to invoices being received for 36% of the transactions where a PO should be generated. This figure is made up of instances where a PO was provided retrospectively (23%) and instances where a PO was not provided at all (13%).
4. Approximately 1700 people within the COL have the ability to raise requisitions and for many of these it is an infrequent and comparatively unfamiliar activity. This leads to errors so even in instances where a PO has been raised it is not always possible to match invoices without some manual intervention. From early 2014 suitably skilled CLPS staff will be released from general duties on a periodic basis to provide one to one training in the departments in an effort to improve the levels of PO compliance. This can only be a short term response and a recommendation will be made to the Establishment Committee to request the recruitment of a specialist training resource to carry out this role on a long term basis.
5. An increased and more creative use of electronic catalogues will improve the quality of requisitions being raised and allow more invoices to be matched first time. E-catalogue functionality is available in the CBIS finance system but it is currently only used for stationery and cleaning consumables which together account for approximately 1% of total spend. Catalogues can be used for anything where a unit rate has been agreed and they provide a quick and accurate method of raising requisitions. Specialist resource will be provided by Accenture under the PP2P project to recommend improvements to the use of catalogues during the first quarter of 2014.
6. Due to the varied nature of the activities carried out by the COL approximately 40% of the transactions processed by the AP function are PO exempt. These are transactions such as rent refunds, expenses claims and payment of utilities invoices where the generation of a PO is impractical and invoice matching becomes a complex and manual process. This high level of PO exempt transactions is a further restriction on the ability of the CLPS to achieve best practise levels of AP throughput
7. Consolidated billing and subsequent electronic file uploads can be used to reduce the volume of individual paper invoices and most utility providers are keen to offer this type of solution. As physical utility bills are not provided it does require a change in working practises as the belief is that a bill can only be paid once the individual consumption level has been verified. In actuality it is possible to use automatic means to verify bills prior to payment or pay consolidated bills once they arrive and arrange for retrospective credits which most utility providers are more than happy to provide.
8. Expanding the use of Purchasing Cards in the COL will also lead to greater efficiency in the AP function by further reducing the volume of low value invoices. Purchasing cards operate in the same way as a credit card but they can be restricted to certain types of purchase and by single transaction value. The level of reporting available on a Purchasing card is also much greater than that

typically provided on a monthly credit card statement so they provide a very visible method of tracking purchasing activity. Interrogation of these reports will suggest future opportunities for the strategic sourcing team and by consolidating spend through the card issuer the volume of invoices presented to the AP team will reduce. A paper considering the options for the use of Purchasing Cards in the COL will be presented to the Finance Committee in early 2014.

9. Reducing the volume of low value invoices and improving the quality of purchase orders generated will support the use of e-invoicing where suppliers post electronic copies of their invoice on a web portal. Suppliers will receive real time information showing the stage in the payment process that the invoice has reached and the use of e-invoicing will lead to a fully electronic process from requisitioning through to payment. This will generate further efficiencies in the AP function and will support our SME and local supplier engagement policies by speeding up payment and improving cash flow.

## People

10. The CLPS has been set up on class leading lines but in order to achieve class leading performance, which is a stated aim of the PP2P project, high performing staff will need to be recruited and retained. A small number of people with the right skills can have a significant impact but these skills are also in demand from private sector organisations that may have more flexible recruitment policies.
11. The CLPS is a large team (62 heads) but it suffers from a disproportionately high number of staff with problems including long term health issues, poor attendance, inadequate skills and low motivation. As an illustration of this the AP function accounts for 32 heads, 24 of whom have recognised training requirements and 8 of whom are going through formal attendance or performance management processes. In a number of key areas the performance of the CLPS is being maintained by the Accenture team members and there is a recognised risk that levels may fall once the Accenture presence is reduced.
12. The information originally available to the CLPS was incomplete so certain assumptions had to be made around likely volumes of work when the structure of the sourcing team was agreed. These assumptions have proved to be rather optimistic and a larger number of potential sourcing projects have been revealed than where originally planned for. In addition to this the large contracts with high potential for saving have now been let so in order to continue to generate savings the 2014 and 2015 project plans will necessarily focus on smaller value contracts where the savings potential is not so great. Each procurement project has a similar resource impact regardless of the value so the move to a higher volume of lower value projects will require additional skilled sourcing resource if savings are to be maximised.
13. The process of embedding change is not yet complete and if momentum is lost once Accenture depart then the aims of the PP2P project will not be fully realised. The effectiveness of the change partner network has been patchy and in some departments the level of engagement with PP2P and perception of the CLPS is quite poor. The original team structure allowed for a named member of the sourcing team to act as a business partner for each department but in many cases the individuals selected did not possess the required influencing and change management skills to act in this capacity. Although the idea of naming

business partners is sound, and has precedence within the HR function, it has not been an overall success.

14. The CLPS is currently structured around three teams – Accounts Payable, Sourcing and Policy & Compliance - but as the Accenture presence declines there is an opportunity to re-structure the CLPS and take account of the learning opportunities that have presented themselves since the CLPS was formed. Sustainable procurement resource should be brought into the Compliance team, the Sourcing team should be re-organised with multi-skilled sourcing resource at both junior and senior levels and the accounts payable team will naturally decline in size as the requirement to manually process large volumes of invoices lessens. This will allow for the formation of a fourth team within the current staffing budget that will focus on training, reporting and customer service. This team will actively work with the departments to change behaviours, drive up levels of compliance and improve the perception of the CLPS.

## Risks

15. Since its inception the PP2P project has delivered approximately £21.5 Million of projected savings. These savings will only actually come to fruition if the contracts set up by the CLPS are actively managed throughout their life to ensure that scope creep is controlled, price variations are challenged and contract requirements are adhered to.
16. The report 'Making Savings from Contract Management' presented by the Local Government Association (LGA) recommends that local authorities invest in contract management in order to drive ongoing savings and continuously improve the services provided by third parties.
17. The LGA states that effective contract management requires a commercial outlook, advanced negotiation skills, knowledge of contract law and an understanding of cost and value but also acknowledges that such skills are often in short supply across the public sector. This puts organisations at a disadvantage in their dealings with external providers and leads to the provision of services that are less efficient and at a higher cost than they need to be.
18. Contract management is not currently part of the scope of the CLPS but the key skills required for effective contract management are the same skills that are already contained within the central procurement team.
19. A consistent presence in both the procurement and ongoing management of the contract will also ensure that the contract is correctly interpreted, the original objectives are achieved and that any learning obtained throughout the life of the contract will be incorporated the next time the requirement is put to the market.
20. It may help to consider Contract Management as having two aspects: operational service delivery, which should rest with either the individual department or a specialist department such as City Surveyors, and the strategic overview of contractual compliance and variation which the CLPS should be actively involved in. The exact spread of responsibilities between departments, specialist departments and CLPS can be determined using a matrix considering spend and criticality with more central control being applied to high value and high risk contracts.

21. Winning new business is a risky and expensive activity for a supplier so their preference is often to retain and grow existing business. They will put time and effort into developing a relationship with a client in the hope that it will become difficult for the client to take their business elsewhere. When correctly done the client will feel comfortable with a supplier, offer them more work outside of the original contract scope and potentially resist attempts to bringing the contract to a close upon its natural expiry.
22. A properly structured Contract Management regime under the direction of correctly skilled professionals can ensure that the relationship between Client and Supplier can be maintained at a business-like and professional level. This is not to say that a more personal relationship cannot develop but it will ensure that this is done with the knowledge that the commercial aspects of the relationship must always be considered. Contract extensions can be planned in advance and offered as a reward for continued good performance or continued costs savings. Enhancements to the scope of the original contract can be correctly considered and costs can be negotiated in the light of knowledge around the capabilities of other suppliers in the market.
23. Awarding additional business to an existing contractor is a prize that will be valued and as such it should not be given away lightly.

## **Conclusion**

24. The CLPS has been in existence for nine months and the general progress that has been made in that time is impressive.
25. The Accounts Payable process is not as efficient as it could be but a number of initiatives have been identified that will lead to an improvement during 2014.
26. The CLPS suffers from a disproportionate number of staff performance issues but measures are in place to work through these in accordance with defined procedures.
27. The ending of Accenture involvement in the PP2P project gives an opportunity to reflect on team structure and focus on the areas that will bring about further savings and efficiency improvements.
28. A debate on contract management across the COL and the CLPS role within this needs to take place if projected savings are to be assured.

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