

Committee: Efficiency and Performance Sub-Committee	Date: 2 July 2014
Subject: Supplies and Services and Third Party Payments	Public
Report of: The Chamberlain	For Information

Summary

A report was submitted to this committee in November 2013 which set out the findings of a corporate-wide review of Supplies and Services and Third Party Payments categories of expenditure. The report explained that a large element of Third Party Payment spend had been examined as part of the PP2P project, the IS Strategy Review and the City Police's City First Project. There were, however, some areas where more detailed analysis was warranted to determine whether potential efficiency saving areas could be identified. The outcomes and progress in those areas are set out in this report.

Third Party Payments

City of London Police Forensic Services payments and Open Spaces Winter Works payments will be reviewed by City Procurement in conjunction with the service department to identify if there are any potential sourcing efficiency savings.

Internal Audit reviewed inter-authority education recoupment claims made by Tower Hamlets LBC which confirmed they were accurate. As a result no potential savings were identified.

The Community and Children's Services Committee agreed that, due to a review of service provision and the content of the education programme scheduled for 2014/15, it was appropriate to extend the existing contract of service delivery provided by Hackney Community College for the academic year 2013/14 for adult education.

Third party payment made to Other Local Authorities and Voluntary Associations for services provided to City Departments are largely policy based decisions on supporting service provision, and therefore are being scrutinised as part of the service based reviews.

Supplies and Services

Research/Advice/Information - Hospitality and Subscriptions - Internal audit review of these areas established that all sampled transactions were properly approved, supported by valid invoices, and the expenditure justified by departments. It should be noted that the annual expenditure of £1m on Subscriptions has been separately identified by the Town Clerk and a proposal for making savings included in the service based review. Financial Services Division will be separately reviewing hospitality expenditure as part of the service based review.

Professional, Management and Consultant Fees – These three areas of spend is to be examined in more detail by the CP Buying Team during 2014/15. Initial examination of transactions indicates that scope may exist for entering into contracts with larger organisations where spend has been high, but it would not be feasible for smaller value, one-off type of project work. These types of expenditure are linked in some cases to existing corporate contracts, which have already been secured by City Procurement. This area will also be examined in more detail by Internal Audit during 2014/15 as part of a planned review of consultancy expenditure, working closely with the City Procurement function.

Whilst not the primary objective of the analysis work, internal audit did identify several areas where spending had been incorrectly coded to the expenditure subjective, particularly within the Research/Advice/Information category. Internal audit noted that processes were in place to correct a high proportion of the errors in coding as part of in-year budget monitoring arrangements. Budget Manager training now being rolled out across the Organisation includes emphasis on the correct coding of expenditure, and guidance on the virement process.

Recommendation(s)

Members are asked to:

- Note the report and comment on the findings.

Main Report

Background

1. A report was submitted to this committee in November 2013 which set out the findings of a corporate-wide review of Supplies and Services and Third Party Payments categories of expenditure. The report explained that a large element of Third Party Payment spend had been examined as part of the PP2P project, the IS Strategy Review and the City Police's City First Project. There were, however, some areas where further work and more detailed analysis was warranted; this work has now been completed.

Third Party Payments

2. The CIPFA definition of Third Party Payments is: a payment made to an external organisation or individual to provide a service of a statutory nature which would otherwise be provided in-house. The City of London Corporation procures a wide range of services of this nature. Examination of the full range of expenditure totals was undertaken by Internal Audit during 2012/13 and identified a number of categories of spend requiring additional examination for potential efficiency savings. This work has now been completed and the findings are detailed below and summarised in **Appendix 1** of this report.

Forensic Services

3. This area of spend relates solely to the City of London Police (CoLP) and was in the region of £1.4million over the three year period 2010/11 to 2012/13. The CoLP and City Procurement have agreed to review the existing Framework agreement with the Metropolitan Police to see if any potential savings can be considered.

Other Local Authorities

4. The City obtains a range of corporate-wide services from other local authorities. Expenditure over a three year period 2010/11 to 2012/13 was in the region of £900,000. The highest spend in this area is for social care. This category of expenditure is currently subject to the Service Based Review programme and no further separate analysis work was considered warranted.

Winter Works

This expenditure is incurred by the Directorate of Open Spaces and fluctuates from year to year, dependent on prevailing weather conditions. Spending over the three year period 2010/11 to 2012/13 was £100,000. It has been agreed that the City Procurement Buying Team will discuss the current methods of procurement of these services with the Director of Open Spaces within the remit of the Land Management Procurement Category Board.

Voluntary Associations

5. The City spends in the region of £100,000 per annum with voluntary organisations to supplement social care and support provision to City residents. This area, similar to expenditure with other local authorities is currently subject to the Service Based Review programme; therefore, no further separate analysis work was considered warranted.

Inter-Authority Recoupment

6. The Director of Community Services pays Tower Hamlets LBC for the provision of Special Educational Needs support to a number of pupils attending schools within that borough and who live in the City. The claim is off-set by the cost of providing reciprocal services for pupils at Sir John Cass School who live in Tower Hamlets LBC. The net cost to the City is approximately £200,000 per year. Internal Audit have undertaken a review of the claims made and paid within the academic year 2012/13 and concluded that these are accurate.

Other Bodies – (Including Adult Education)

7. The level of spend with other bodies is in the region of £2.1million over the three year period 2010/11 to 2012/13. This expenditure will also form discussions within the Service Based Review programme. However, Internal Audit has examined the provision of Adult Education by Hackney Community College. It has been established that the Director of Community Services undertook a competitive tender for these services in 2008 and the contract was awarded to Hackney Community College. The initial term of the contract was three years, but in accordance with

the terms of the contract, this has been extended annually, since 2011. The most recent extension was in April 2013. The Community and Children's Services Committee agreed that, due to a review of service provision and the content of the education programme scheduled for 2014/15, it was appropriate to extend the existing contract for the academic year 2013/14.

Supplies and Services

8. Supplies and Services are categorised by CIPFA as: expenditure on goods and services in support of in-house provision of a local authorities functions, both statutory and discretionary. The full range of expenditure totals was examined by Internal Audit during 2012/13 and areas for further, more detailed examination were identified for potential efficiency savings. It should be noted that the sample examination of transactions undertaken by Internal Audit during this review established that all transactions: were properly approved; supported by valid invoices; and could be justified by departments.

Professional Fees

9. The City spends in the region of £10 million per annum on fees relates to legal, financial, property and administrative services. Some of these services are related to statutory obligations such as health and safety. Initial examination of transactions indicated that not all expenditure had been accurately posted and transactions for the procurement of office supplies and other inappropriately categorised payments were identified. A detailed analysis of this subjective spend has been prepared by Internal Audit and forwarded to the City Procurement Team. City Procurement will now determine whether there is scope to approach larger organisations providing these services to the City with a view to negotiating prices based on specified levels of activity. Small one-off payments are unlikely to provide any opportunities for improving on the current methods of procurement.

Management Fees

10. The annual corporate spend is approximately £6 million. Management Fees are generally related to on-going contracts of supply, such as, security, cleaning and waste disposal. The Head of CP has advised that whilst further analysis of spending in this area will be undertaken by the City Procurement Buying Team, this spend is likely to have formed part of the negotiations when tendering existing corporate contracts. Internal Audit has, however, found that there is confusion between the use of this subjective and Consultancy Fees, since payments to individuals have been found within transactions. A corporate-wide Internal Audit review of Consultancy Payments will be undertaken during 2014/15 which will seek ways to reduce coding errors, potentially via improved training on the distinction between the definitions of Management and Consultancy activities and looking at the VFM achieved from Consultancy spend.

Consultants Fees

11. These fees cost the City approximately £5million per annum. They stem from advice on project development, legal, financial, property and administrative activities. The definition of consultancy fees and professional fees can cause confusion: consultancy work is related to advice when developing an activity of project; whereas, professional fees relate to existing activities which require some external verification, assurance or scrutiny. Consultancy fees will be examined by Internal Audit in more details during 2014/15 with findings shared with City Procurement so they can examine the potential for negotiating contracts with larger consultancy firms. There may also be scope to create framework agreements for smaller spend, ad hoc consultancy activities.

Research/Advice/Information

12. The CIPFA description for the subjective coding Research/Advice/Information is: expenditure which supports a particular service or project in order to ensure its success. It is distinct from Consultancy or Professional Fees in that research materials can be procured and used by officers employed by the City, advice can be obtained from sources which are not specifically dedicated to the City of London (for example, Central Government surveys), Information can be in the public domain (for example, academic papers and journals). Analysis of the £774,000 of 2013/14 expenditure in this area, indicates that £240,200 was initially mis-coded.
13. It should be noted that Finance teams do undertake coding corrections during the year and that a high percentage of this spend will be correctly re-coded as part of that work. Reasons given by staff were: not aware of the correct code to use; insufficient budget provision for accurate coding; considered that coding was accurate given the project to which expenditure related; no other code for the department to post this expenditure and genuine error.

Hospitality

14. City of London departments spent approximately £1million on hospitality payments during 2013/14. Examination of transactions coded to this subjective expenditure heading were found to be generally accurate, however some miscoding was identified and a failure to use virements in accordance with the correct accounting procedure. Financial Services Division will be separately reviewing hospitality expenditure as part of the service based review.

Subscriptions

15. This expenditure subjective heading relates to payments to other bodies for corporate membership, but has also been used to post purchases of journals, periodicals and newspapers. Total expenditure was approximately £1million in 2013/14. Internal Audit examination of a sample of departmental transactions established that these were generally accurate. The question was also posed with departments how often they reviewed the need to subscribe to

services and whether all copies of publications were required. Departments provided details of the process whereby subscriptions were reviewed and justified reasons for purchasing publications.

16. It should be noted that the annual expenditure of £1m on Subscriptions has been separately identified by the Town Clerk and a proposal for making savings included in the service based review.

Conclusions

17. Some further work has been identified which will be undertaken during 2014/15 in relation to the City of London Police - Forensic Services, Open Spaces – Winter Works and the service provided by the Hackney Adult Community College.
18. Further work is also planned on Professional and Management Fees. This is with a view to determine whether these relate to existing corporate contracts, scope to tender contracts for large areas of corporate spend, and the potential for framework agreements for smaller spend on similar services.
19. Analysis of Research/Advice/Information, Hospitality and Subscription expenditure areas has identified many examples of expenditure being initially incorrectly coded. Internal audit noted that processes were in place to correct a high proportion of the errors in coding as part of in-year budget monitoring arrangements. Budget Manager training now being rolled out across the Organisation includes emphasis on the correct coding of expenditure, and guidance on the virement process.

Appendices

Appendix 1 – Summary of categorised expenditure – outcomes and action.

Background Papers:

Efficiency and Performance sub-committee report 6th November 2013.

Jeremy Mullins, Audit Manager

T: 0207 332 1279

E: Jeremy.mullins@cityoflondon.gov.uk