

<b>Committee(s):</b>	<b>Date(s):</b>
Efficiency and Performance Sub Committee	10 September 2014
Finance Committee	23 September 2014
<b>Subject:</b> City Procurement	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>

### **Summary**

As requested by Finance Committee on 22 July, this report sets out a more detailed situation report about City Procurement now that the partnership with Accenture has been concluded.

It highlights savings and performance levels that have been achieved, proposed changes to procurement governance, including the relationship with the Projects Sub-Committee and potential future developments, including steps to incentivise further savings and ensure appropriate use of frameworks:

- £5.03m savings in 2013/14 against a target of £4.82m (adjusted to discount impact of any change to service standards); the target savings for 2014/15 will be in excess of £7m, with construction savings still to be finalised;
- payment of invoices to suppliers 84% in 10 days (target 75%) and 95% in 30 days (target 95%) for July 2014;
- New Procurement Steering Group to be established to oversee work of Category Boards and ensure effective corporate approach;
- Increased support from City Procurement to Projects Sub, with a review of how to manage risk element;
- Examination of incentives, including sharing of savings, and use of frameworks to ensure only used when offer best value for money; and
- New leadership of City Procurement – including appointment of Chris Bell – to support next phase of work.

### **Recommendation**

Members are asked to note this report.

## **Main Report**

### **Background**

1. This report follows the comments raised by Members at the last meeting of the Finance Committee on July 22<sup>nd</sup> 2014 regarding the performance of City Procurement and the level of savings achieved over 2013/14.
2. City Procurement is now a consolidated service based in the Chamberlain's department which was set up as part of the Procurement and Procure to Pay Programme which started in February 2011. Accenture were engaged as our partner to assist us in transforming the way in which procurement was delivered at the Corporation so that savings could be achieved.
3. Members decided in September 2013 that the partnership should come to a close in March 2014 with a residual input from Accenture up to the end of September 2014 to allow for the recruitment to the posts which had been staffed by Accenture.
4. Up to March 2014, Accenture received an element of their fees as a result of the level of savings generated by the procurement initiatives. These savings had to be validated by the Financial Services Director in order for relevant budget adjustments to be made.
5. Historically the full value of savings made by the procurement initiatives was taken centrally in order to cover the cost of having Accenture as our partner. This approach did lead to some reluctance to fully engage with procurement activities in order that departmental budgets were not reduced. This was not the intention of the programme; the savings were intended to bring a corporate benefit.

### **Savings Achieved for 2013/14**

6. As reported in July 2014, the target for sourcing savings for 2013/14 was £4.82m against which savings of £5.03m were delivered. There were a total of 31 strategic sourcing projects completed across 6 categories. The most significant projects being:
  - On-Street Parking Services, Contracted savings over 5 years of £3.15m (£630k per annum);
  - Corporate Catering (5 Lots), Contract savings over 5 years of £768k (£153k per annum); and
  - Temporary Labour Services, Contracted savings over 3 years of £661k (£220k per annum)
7. The detailed list of the projects completed in 2013/14 is included at Appendix 2 of this report. City Procurement works with the relevant departments to agree the procurement approach, to run the procurement activity, advise on the prevailing market conditions and to ensure that the Corporation complies with any statutory and regulatory requirements as well as its own procurement regulations.

8. There is an agreed methodology for agreeing the savings levels which is set out in Appendix 1 of this report. This methodology has been used to establish the levels of savings achieved by each project and budget adjustments were made to reflect these. Accenture received fees based on three elements, one of which was a percentage of the savings achieved.
9. The methodology document will be updated now to reflect the end of the partnership and will continue to be used to determine the savings achieved by procurement projects. This is an important metric which can be used going forward to benchmark the performance of procurement.

### **Sourcing plan for 2014/15**

10. The 2014 sourcing plan has increased significantly since April where the planned projects list totals 57 Projects, with target savings of £7.04m. Since then due to demand, tighter compliance and the bringing into scope of the Construction category the number of sourcing projects has steadily risen to 153 with increased challenges on resource capacity. The savings target will be re-adjusted once the savings methodology is agreed at the Construction Category board. The main focus is on delivering business as usual service for the many service contracts required but ensuring best value at all times. There will continue to be strategic savings projects addressed where there are efficiency or contractual savings available through a variety of sourcing strategies all approved by the Category. There is more detail in Appendix 3 of this report.

### **Future development of procurement**

11. Now that the service is operated by the City without a partner, it is timely to review the way budgets are adjusted for the savings achieved. This does not suggest that the rigour of establishing that savings have been made should be removed. Given the financial pressures that are on the horizon and the service based review programme in response to these pressures, rigour in identifying procurement savings remains very important to the organisation.
12. Recognising that some savings will be made from reducing the scope or quality of the service or goods that are procured, the current arrangement with departments is that savings relating to a change in service specification are counted as departmental savings i.e. the department retain the budget (and these savings then feature in the department 's service based review proposals). Savings relating to securing services at a lower price are recognised as a corporate saving and reduce the overall forecast deficit and therefore the saving target for all departments. However, the process of agreeing such a split on an on-going basis is time consuming and further thought is needed to establish an appropriate incentive for swift resolution.
13. In updating the savings methodology document to reflect the end of the partnership further consideration will be given to incorporating a general gain share arrangement to encourage increased collaboration and engagement by departments with City Procurement.

## **Future Governance of procurement projects**

14. Whilst the partnership arrangements have concluded, there is still a need to ensure that there is effective governance around procurement. Procurement itself should be an enabler that supports the achievement of business objectives. It is however important that there is a resource prioritisation, coherent strategy and a sharing of good practice. Appendix 4 sets out the aims of the City Procurement Service which will be launched in October 2014.
15. Category Boards which are chaired by an officer who is not a member of City Procurement will continue to operate to ensure that there is sensible packaging of contracts and departments engage with procurements to influence specifications and supplier selection to ensure that contracts deliver their business requirements. This will include reviewing the way in which sourcing activities are carried out so that appropriate use of framework arrangements is made, there is effective forward planning and risk is suitably managed.
16. Framework arrangements have their place in procurement however if they have not be the result of direct negotiations by ourselves they may not exactly deliver our requirements or represent the best value for money. With better forward planning, the appropriate time to run tenders can be built in so that there is very regular market testing.
17. City Procurement will be represented at all Project Sub-committee meetings to assist with the management of risk in procurement and engagement with suppliers.
18. The Category Boards will be drawn together by a Procurement Steering Group (PSG) which will report through to the Summit Group. The role of the PSG is set out in Appendix 5. The Boards will be accountable for the way in which they are operating their category and City Procurement will be accountable for its performance including delivery of sourcing projects and payment of supplier. Underneath this there is the operational management structure. This tiered arrangement is set out in Appendix 6.

## **Savings and fees**

19. Members asked for details of the fees that had been paid to Accenture and the savings that had been made. There is also the issue of the value of the savings which had been passed through to third parties.
20. At the end of the partnership with Accenture in March 2014 the signed off gross cumulative savings figure was £20.047m. The Finance Leadership Group has concluded that £13.884m is attributable to the Corporation and £6.163m to third parties. After fees of £10.175m this gives a net position for the City Corporation as follows.

	£m	£m
Gross signed off savings		20.047
Less: attributable to third parties		(6.163)
Signed off savings attributable to Corporation <sup>1</sup>		<u>13.884</u>
Less: fees paid (savings related)	(3.823)	
Add: recovery of procurement costs from third parties/departments	<u>0.914</u>	
		<u>(2.909)</u>
		10.975
Less: fixed fees paid to date	(5.393)	
milestones fees paid to date	<u>(0.959)</u>	
		<u>(6.352)</u>
<b>Net saving to Corporation over the 5-year PP2P programme</b>		<u><u>4.623</u></u>

<sup>1</sup>£9.909m to corporate centre and £3.975m to departmental budgets

21. If the target savings for the remaining two years are achieved the gross cumulative savings figure at the end of 2015/16 is estimated to be £23.452m (. Based on an initial review of the planned projects it is anticipated that the most of the £3.405m will accrue to the Corporation, increasing the net saving from £4.623m to an estimated £8.028m.

### Performance indicators for procurement activity

22. Performance is measured across City Procurement to ensure that the volume of work is being covered with the required levels of quality. Whilst the metrics are measured by the service, some of them (e.g. days to pay an invoice) are not just a measure of the performance in the team, they are a measure of a process which involves departments as well.

23. Key metrics

#### Category Management & Sourcing

- 153 live procurement projects spanning 7 categories (Originally estimated to be 57 in 2014/15 showing increasing demand)
- As at end of July 2014 £2.11m savings achieved against annual target of £7.04m (29.9%)
- As off 1<sup>st</sup> September, all suppliers where there is no formal contract will no longer have purchase order automatically created ensuring compliant purchasing is enforced.

#### Accounts Payable

- Payments made within 10 days – Target 75% - July actual 84%
- Payments made within 30 days – Target 95% - July actual 95%
- 38% of all invoices during July have no Purchase Order
- As at end of July, 2,271 invoices were on hold; 2,220 (98%) with departments. 3 main reasons (No PO, goods not receipted, budget coding error)

### Progress on internalising the service and restructuring

24. Members will be aware that recruitment was in progress to appoint a new Head of City Procurement. Chris Bell, who has been the Service Delivery

Lead from Accenture for the past year, was successful in the competitive process and will be taking up the role formally on 13<sup>th</sup> October 2014.

25. Others key leadership posts in the service have also been filled with just the Head of Accounts Payable role going through the recruitment process at the time of writing.
26. Personal consultations with staff members affected by the restructuring have been taking place during August. It is anticipated that staff will know the final outcomes by early September which may include some staff being displaced or being made redundant.

## **Conclusion**

27. Given the end of the partnership with Accenture the focus now needs to turn to ensuring that the Procurement Service is embedded into the organisation and assists in delivery of business objectives which must now include efficiency savings. With a change of governance, it is also opportune to consider how savings could be shared with departments.

## **Appendices**

- Appendix 1 – Extract from report to May 2012 Finance Committee
- Appendix 2 – Savings achieved in 2013/14
- Appendix 3 – Sourcing Plan for 2014/15
- Appendix 4 – The aims of City Procurement
- Appendix 5 – The role of the Procurement Steering Group
- Appendix 6 – Procurement Governance arrangements

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**Scrutiny of Savings and its application to the programme so far**

1. Savings arising from the PP2P programme are subject to scrutiny from a range of stakeholders which is enshrined in the programme governance. Four stages of review are involved:
  - Category Boards
  - Finance Leadership Group
  - Savings Realisation Forum
  - PP2P Joint Review Board
  
2. Category Boards are responsible for developing and tracking delivery of Category Plans, setting out the portfolio of sourcing projects the board intends to progress and savings they expect to deliver. There are six Category Boards, each of which is chaired by a City officer and includes a Head of Finance as a Member. The Category Board reviews:

**The proposed baseline;** this is the cost of supplies and services sourced using current procurement arrangements. It is based on actual spend by each supplier considered within scope of the PP2P procurement arrangements. The baseline is calculated by the procurement team based on actual spend ascertained from invoices and cross checked to each suppliers own records. The baseline is then verified by the Category Board. The Head of Finance leads on the analysis; verifying what is in scope and the level of spend.

**The savings calculation/ methodology;** this sets out the expected type of savings to be achieved i.e. expected procurements savings on the supplies and services, but also any savings associated with changing the procurement process or obtaining supplies and services more swiftly. Savings are analysed as to whether they are retained by the City Of London, ring fenced to Police or the Housing Revenue Account or whether they accrue to third parties. The methodology is initially set out by the procurement team and then challenged by the Category Board. The Head of Finance leads on analysing savings as to whether they are retained by the City Of London, ring fenced to Police or the Housing Revenue Account or whether they accrue to third parties.

3. The Finance Leadership Group (FLG) is the main forum for the Corporation's senior finance officers to consider and direct significant strategic finance priorities. The FLG is chaired by the Chamberlain and its

members include the Financial Services Director and the Heads of Finance. In relation to PP2P the role of the FLG and its members includes:

- providing advice and support to the Category Board Chairmen in assessing the robustness of the baseline data and reviewing the proposed methodology for calculating savings;
  - reviewing proposed savings calculations before they are ratified by the Savings Realisation Forum;
  - verifying whether savings are cashable or non-cashable such as notional efficiency savings that cannot be realised in budget reductions;
  - agreeing the appropriate basis for allocating budget reductions;
  - ensuring feedback is sought from Chief Officers on proposed budget reductions; and
  - following approval of savings by the PP2P Joint Review Board ensuring budget reductions are implemented.
4. The Savings Realisation Forum (SRF) provides consistent challenge across categories on savings calculations, ratifies calculations and resolves related queries prior to submission to the Joint Review Board for approval. The following officers attend the SRF:
- PP2P Programme Manager
  - Head of Procurement
  - CLPS Finance Manager
  - Category Board Chairmen – as required
  - Heads of Finance – as required
5. The PP2P Joint Review Board provides the overall direction for PP2P, signs off savings as they are delivered and decides what counts towards the PP2P gross savings target.

### **PP2P Contract Year one savings (Quick Wins)**

6. Year one savings relate to the quick wins and have been verified through the four stage approach. The full year impact of those savings related to the Corporate Centre have been verified, during May 2012, as £476,000 for 2012/13 which are analysed in the table below.



## Savings summary as at 17<sup>th</sup> May 2012

Project	Year 1 (2011/12)				Year 2 (2012/13)			
	Corporate Centre	Ring Fenced	Third Party	Total Year 1 Savings	Corporate Centre	Ring Fenced	Third Party	Total Year 2 Savings
<u>Annual Savings</u>	£000	£000	£000	£000	£000	£000	£000	£000
Cleaning Materials	29	2	13	44	61	4	24	89
Office Supplies	22	10	2	34	56	24	3	83
Thames Water Tariff	1	-	2	3	1	-	2	3
Postal Services	7	-	-	7	22	-	1	23
Temporary Labour (Overtime)	4	-	6	10	13	-	19	32
Mobile Telephony	17	17	1	35	63	59	5	127
Print Services (MFDs)	-	-	-	-	57	6	-	63
Recruitment Advertising	9	1	1	11	57	8	4	69
Fixed Telecoms	-	1	1	2	17	5	8	30
Toner Cartridges	11	10	-	21	43	41	1	85
Temporary Labour (Compliance)	15	7	1	23	-	-	-	-
Office Furniture	1	1	-	2	13	7	1	21
Custody Medical Services	-	-	-	-	-	87	-	87
<b>Total Annual Savings</b>	<b>116</b>	<b>49</b>	<b>27</b>	<b>192</b>	<b>403</b>	<b>241</b>	<b>68</b>	<b>712</b>
<u>Cash One-Off Savings</u>								
MFD Rebate	49	-	-	49				-
Thames Water Credit	-	-	9	9	2			2
Building Maintenance Services	-	-	2	2				-
Highway Maintenance Rebate	43	-	-	43				-
Temporary Labour Rebate	-	-	-	-	71			71
<b>Total Cash One-Off Savings</b>	<b>92</b>	<b>-</b>	<b>11</b>	<b>103</b>	<b>73</b>	<b>-</b>	<b>-</b>	<b>73</b>
<b>Total Savings</b>	<b>208</b>	<b>49</b>	<b>38</b>	<b>295</b>	<b>476</b>	<b>241</b>	<b>68</b>	<b>785</b>

### Year two savings

- The Category Boards and Finance Leadership Group are in the process of verifying the baselines and savings methodologies for the various schemes as shown in Appendix B of this paper. These amount to a target of £3,258,833 in total as reported to the Committee on 1<sup>st</sup> May 2012.

### Governance

- As the Chamberlain is the Lead officer on PP2P as well as the Chief Financial Officer, safeguards have been built in on the savings calculation.
- For each of the Category Boards, it is the Finance Leadership Group which will formally sign off the agreement of baseline and savings methodology in two stages, recording the:

#### Stage one

- initial baseline, final agreed baseline and summary of key movements between;
- agreed savings methodology and items discounted from originally proposed methodology; and
- split between cashable and non-cashable savings.

#### Stage two

- appropriate basis for budget allocation.

## SAVINGS ACHIEVED IN 2013/14

## APPENDIX 2

Category	Project	Savings achieved £
Construction	BRM (Excluding NSR)	1,326,549
Construction	Minor Projects & Refurbishments	185,955
Construction	BRM (variable NSR)	53,218
Construction	Major Projects (IESE) - 1 Alie Street	407
eMarketplace	eMarketplace Product Rationalisation (clothing)	7,007
Highways	Highways	1,896,742
HR	Temporary labour	165,278
HR	R&PNA	69,580
HR	Comensura - forward overtime	38,796
HR	Occupational Health	34,886
HR	Work and health conference	26,500
HR	Clothing, Uniforms and Safety Apparel	25,315
HR	Health and Safety training	22,141
HR	General Skills training	11,169
HR	Phase 1 - Comensura Rebate Q2 2013	10,995
HR	Eye Tests	10,033
HR	Phase 1 - Comensura Rebate Q1 2013	9,760
HR	Phase 1 - Comensura Rebate Q4 2012	8,591
HR	Total tax research	5,000
HR	RMB Research	1,175
HR	Force Medical Advisor	338
ICT	Mobile Telephony	143,040
ICT	Print 1 (exc. Freeman's School)	81,849
ICT	Print Phase two: Guildhall North Wing	40,854
ICT	Fixed Telecoms - Daisy	30,420
ICT	Fixed Telecoms - Network and Telephony Maintenance	23,665
ICT	Fixed Telecoms - WAN	23,498
ICT	Print Phase two: Girls School	17,340
ICT	CCTV & Automatic Number Plate Recognition	16,964
ICT	Print Phase two: Guildhall West Wing	6,289
ICT	City of London School for Girls – Desktops and Laptops	5,880
ICT	Print 1 (Freeman's School & CoL Boys School)	4,107
ICT	Print Phase two: Guildhall School of Music and Drama	596
Other	Transactional Buying (Aug/Dec 2013) + Barbican Projectors	15,919
Other	Transactional Buying (Apr/Jul 2013) additional items	6,850
Other	Transactional Buying (Apr/Jul 2013)	266
Soft FM	Car Park Vinci	142,127
Soft FM	Cleaning Materials	89,155
Soft FM	Custody Medical	84,465
Soft FM	Office supplies - paper & stationery	83,355
Soft FM	Catering (Staff & Schools)	76,854
Soft FM	Water Auditing (Phase 1)	37,790
Soft FM	Tree Survey	34,041
Soft FM	Postal Services	22,872
Soft FM	Furniture	21,552
Soft FM	Water Coolers	19,781
Soft FM	Electric and Gas – Liquid Fuels Walbrook Wharf	16,567
Soft FM	Barbican Theatre Lighting	13,363
Soft FM	Couriers	13,239
Soft FM	Car Park Barbican	8,218
Soft FM	Water Auditing (Phase 2a)	7,095
Soft FM	Electric and Gas - Liquid Fuels	2,870
Soft FM	Water On-Going	2,148
Soft FM	Water On-Going 2 (Epping Forest)	1,251
Soft FM	Pest Control Phase 1	1,038
<b>Total</b>		<b>5,004,750</b>

## SOURCING PLAN for 2014/15

## APPENDIX 3

Category	# of Projects	Annual Addressable Spend	2014/15 Savings Target
ICT	28	£10,365,750	£107,755
FM	23	£21,731,382	£464,389
Land Management	5	£386,285	£1,294
Dept. Child & Community Services	2	£944,297	£30,459
Corporate Services	17	£3,251,239	£198,267
Construction, Building Works and Property Professional Services	71	£210,462,206	0*
Marketing & PR	7	£4,219,246	£132,856
Transactional Buying	N/A	£13,000,000	£650,000
eMarketplace	N/A	£436,800	£150,000
Bank Savings from Years 1,2,3	N/A	N/A	£5,300,293
<b>Totals</b>	<b>153</b>	<b>£264,797,206</b>	<b>£7,035,314</b>

*\*Savings Methodology and Target to be agreed at Construction Category Board in September 2014*

## The aims of City Procurement

## Appendix 4

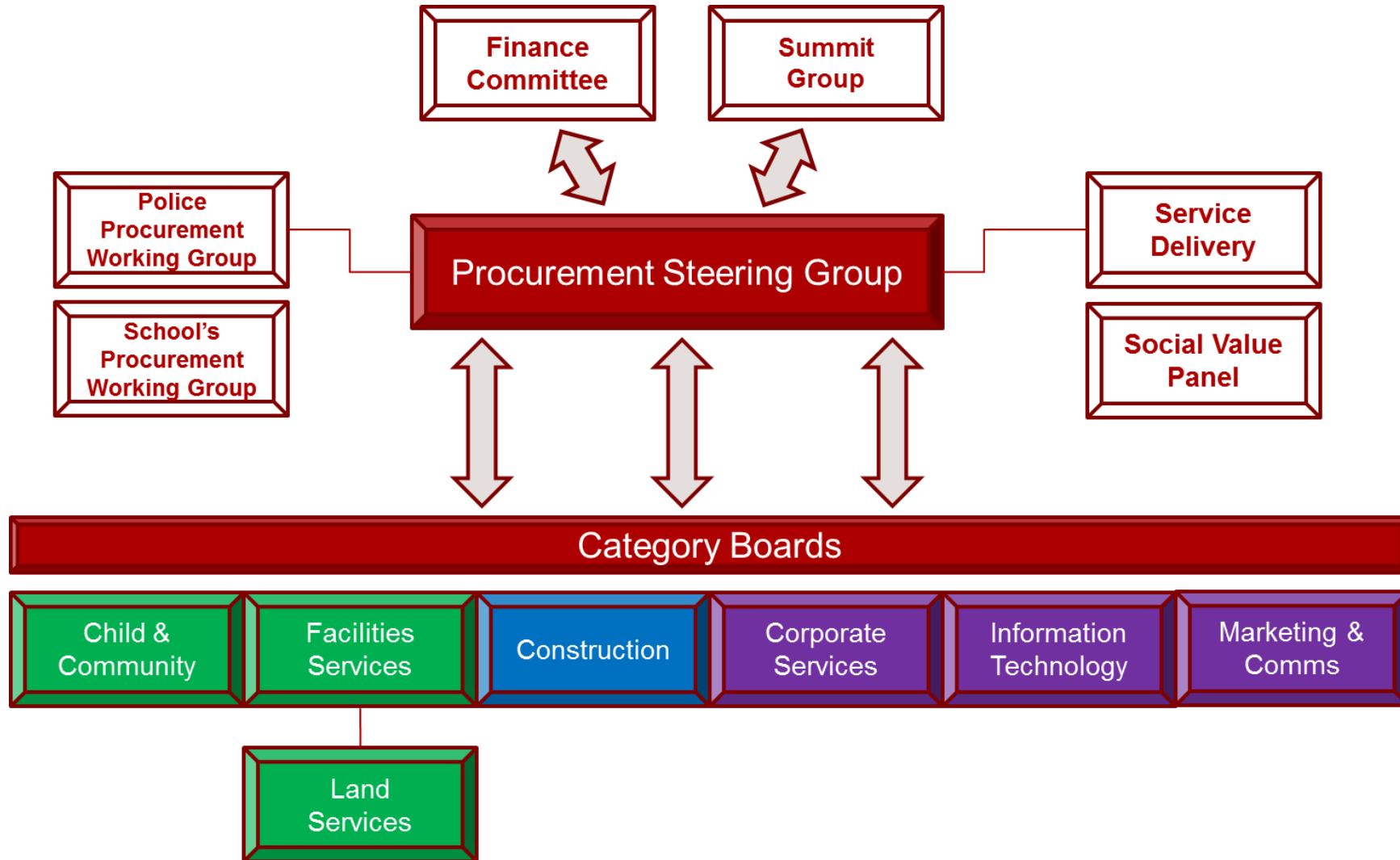
- To deliver best in class purchasing service to our client departments
- To Pay our suppliers in line with Government and City policies
- To deliver Best Value principle on all City spend
- To ensure the City's wider objectives are met through procurement activities
- To facilitate and efficient, legally compliant risk aware service
- To ensure annual procurement savings targets are met or exceeded in line with the overall City business plan
- To develop strategic contracting strategies in all future purchasing leveraging the buying power of cross departmental spend
- To bring industry knowledge, collaboration opportunities and peer learnings to each purchasing exercise
- To develop a supplier charter, driving the behaviours of all contracted 3<sup>rd</sup> party suppliers to work in a manner consistent with the City's policies and objectives

# The role of the Procurement Steering Group

## Appendix 5

<b>Role &amp; Rationale</b>	<ul style="list-style-type: none"><li>• <b>Strategic decision</b> forums that assure strategic objectives of the City are met by all procurement activities including procurement strategy, evaluation criteria, award decisions and implementation</li><li>• Primary role is to <b>ensure City objectives are being met</b> by the Category Boards, the annual sourcing plan and the operational team</li><li>• To act as an <b>escalation point for disputes</b> relating to strategy, evaluation criteria, awards and savings attributed</li><li>• <b>Informs Finance Committee and Summit Group</b> of cross cutting procurement strategies</li></ul>
<b>Objectives</b>	<ul style="list-style-type: none"><li>• To review and approve the Category Board annual sourcing plan</li><li>• To ensure Category Boards deliver targeted City Objectives, Outputs and Savings (efficiencies)</li><li>• Continually grow the Procurement maturity at City by reviewing performance, resource, strategy</li><li>• Ensure that City policies and objectives are achieved through procurement e.g. CSR, LLW</li></ul>
<b>Decisions</b>	<ul style="list-style-type: none"><li>• <b>Strategy:</b> Approval of Category Board annual sourcing plans and project strategies that are cross City initiatives</li><li>• <b>Implementation:</b> Consulted on complex implementations and exceptions to management of change process</li><li>• <b>Sign-off:</b> Approve award decisions for procurement up to £2M that have been delegated to Category Boards</li></ul>
<b>Commitment of members</b>	<ul style="list-style-type: none"><li>• 1x 2hr meeting every 8-12 weeks</li><li>• Board members to engage with Category Boards as required outside the meetings</li><li>• Chair to report decisions to Chief Officers/Members as required</li></ul>

Diagrammatical representation of the governance arrangements



## The tiered governance arrangements

## Appendix 6

### Procurement Steering Group

Leadership and Senior Officers board managing procurement strategy and policy.

### Category Boards

Sourcing boards with multi-department members. Key decision forums that assure approval and implementation of the strategy for categories and sourcing initiatives.

### Procurement Working Groups

Temporary working groups working on procurement projects or functional procurement matters. i.e. Police Procurement Working Group

### Service Delivery Meeting

City Procurement Management Operations and performance monitoring meeting, internal to Chamberlain's Department.

### Sourcing & Category Management teams

City Procurement Sourcing and Category Management teams responsible for day to day delivery of all sourcing and buying activities for the City of London.