



DERBY CITY COUNCIL

**AUDIT AND ACCOUNTS
COMMITTEE
19 FEBRUARY 2007**

Report of the Director of
Corporate and Adult Social
Services

ITEM 5

AUDIT REPORT – RECRUITMENT AGENCY CONTRACT

RECOMMENDATION

- 1.1 To note the report.

SUPPORTING INFORMATION

- 2.1 At its meeting on 7 December 2006, the Committee discussed the findings of the audit report on the Recruitment Agency Contract with the managers responsible for the service.
- 2.2 The report detailed wider implications about the contract for the Council and Members requested more information and an update at the February meeting.
- 2.3 Appendix 2 is a report which updates members on the continuing progress against the original three recommendations since the publication of the report on 7 December and explains what is being done to address the wider implications of the contract discussed at the February meeting.

For more information contact:

Background papers:

None

List of appendices:

Appendix 1 – Implications

Appendix 2 – Report of Rod Wood Assistant Director Human Resources

IMPLICATIONS

Financial

1. None directly arising.

Legal

2. None directly arising.

Personnel

3. None directly arising.

Equalities impact

4. None directly arising.

Corporate objectives and priorities for change

5. None directly arising.

INTERNAL AUDIT REVIEW OF THE COUNCIL'S EMPLOYMENT AGENCY CONTRACT – UPDATE ABOUT RECOMMENDATIONS

- 3.1 Following an internal audit review of the above service, we agreed to implement three recommendations. Progress to date on the implementation process is shown in Table 1 at the end of this report.
- 3.2 The original audit report issued on 11 July 2006 contained three recommendations which were all agreed. It was expected that the recommendations would take between three to six months to implement, progress against the recommendations was given at the meeting on 7 December and there has been further progress since that time.
- 3.3 **Recommendation 1 – performance monitoring**
- Market information should be sought wherever possible.
- 3.3.1 No further action required relating to this recommendation.
- Savings should be reviewed at six and nine months following the start of the contract.
- 3.3.2 The contract started on 20 March 2006. At six months – 27 September – the identified savings were £76,000 to be shared on a 50/50 basis between the Council and Comensura. At the time of the meeting on 7 December the reported savings were £108,000 so £54,000 savings had been achieved by the Council and by the end of December – nine months after the contract started – the savings were £137,296 so the savings received by the Council at the nine month stage were £68,648.
- 3.3.3 Savings will continue to be reviewed monthly and formally at least every six months and the projected savings for 2007/08 are £231,060 so the Council should receive £115,530, £57,765 to departments and £57,765 to corporate savings targets.
- A sample of invoices from Comensura should be checked.
- 3.3.4 The electronic invoice is dealt with by the Business Systems section and processed according to the Council's Financial Procedure Rules. It was agreed that ten lines of the Comensura invoice would be checked. This is now being done and provides a spot check that the information on the timesheet reflects the charge on the invoice. Discussions with Audit have taken place and will continue to identify the value of the check and any other issues that need to be picked up in the Audit plan.
- 3.4 **Recommendation 2 – Temporary staff are still being recruited outside the contract. Efforts should be made to ensure that agencies are not contacted directly and managers still doing so should be asked to explain why.**
- 3.4.1 The latest communication for managers was released as planned on 16 November. This asked managers to:
- identify pay rates and job titles that were not on the system;

- raise problems and issues direct with the relationship manager;
- not allow auto-authorisation of timesheets;
- use the on-line system and only contact the service centre if absolutely necessary.

3.5 Recommendation 3 – steps should be taken to reduce the number of timesheets that are auto-authorised by the system each week.

- 3.5.1 The number of auto-authorisations in October was 451, amounting to a spend 52.08% of the total spend that month. Communication was sent to Managers in November and steps were taken in Social Care where the number was higher resulting in the number of auto-authorisations decreasing. In November there were 239 which was 32% of the total spend and in December to 292 which was 45.36% of the total monthly spend.
- 3.5.2 Although this figure has decreased, auto-authorisations are still at an unacceptable level in parts of the Council and a report will be prepared for COG detailing the areas where this is the case. Comensura are also now monitoring auto-authorisations and will inform Corporate HR of the managers that allow it to happen on a regular basis and this information will be referred directly to the chief officer of that department.

EXPENDITURE AND SAVINGS

- 4.1 As reported on 7 December, the identified expenditure before we awarded the contract in 2005 was around £2.5 million, this was the expenditure that was coded to agency temporary staff budgets excluding that spent on teaching supply and the contracts Environmental Services have in place for refuse collection and cleaning.
- 4.2 During implementation of the contract in 2006 the Comensura implementation team believed that our spend was more in the region of £4 million and they came to that conclusion after they had done an audit of our current suppliers and their supply history. We concluded that a reason for this could have been mis-coding of expenditure on temporary staff by managers to their permanent staff budgets.
- 4.3 The Comensura system stops any mis-coding of expenditure on temporary staff because the system is set up for managers to order only against their own temporary staff cost code.
- 4.4 The latest information on temporary staff expenditure through the Comensura system is in line with the original estimate of £2.5 million a year. From March 2006 to December 2007 the expenditure was £1,896,042 making a projected annual spend of £2,539,128.
- 4.5 Refuse Collection and Cleaning and Teaching Supply are outside the contract. Expenditure on Teaching Supply for 2005/6 was £5.7 million and in the period that the Comensura contract has been running – March to December – around £3.5 million. Expenditure on Refuse Collection and Cleaning in 2005/6 was £491,000 and in the period that Comensura contract has been running it is £404,000.
- 4.6 The cost savings from March 2006 to December 2007 through Comensura were £137,296 so the amount of savings received by the Council from the contract so far is £68,648. The projected savings for the year are £184,504 so the Council should receive £92,252. The Council's share of the savings is shared equally between

directorates and corporately so the corporate contribution will be £46,126 and this almost reaches the £50,000 target identified in the budget for 2006/7.

- 4.7 Research suggests that indirect cost savings relating to processing of invoices, timesheets and vendor management are likely to be £121,894.00 a year.
- 4.8 A re-procurement exercise during which Comensura contacted our suppliers and re-negotiated the rates was undertaken by Comensura in October and more savings will be achieved as a result of this. The projected savings for 2007/08 are £231,060, so £115,530 to be returned to the Council, £57,765 to departments and £57,765 to corporate budget.
- 4.9 We still have some workers that were taken over at the start of the contract on their original rates and to achieve better rates these workers need their assignments to be closed and re-opened. Managers will be approached about this over the next few weeks.
- 4.10 When the initial research was carried out during 2004 it was found that Derby City Council spent considerably less on temporary staff than some of the other Councils in the region and the latest research released by the GMB on 7 December 2006 backs this up:
- Lincolnshire County £54.5 million including relief and all temporary staff;
 - Nottinghamshire County £9.3 million;
 - Nottingham City £8.7 million;
 - Northamptonshire County £6.4 million;
 - Northampton £5.1 million.

MANAGEMENT INFORMATION

- 5.1 Before the contract with Comensura, the Council had only sketchy information about use of temporary staff. Managers raised orders individually, no reasons for using temporary staff were recorded, rates were inconsistent and in some cases agencies were charging mark ups in excess of 100%. The cost savings have been achieved by Comensura's negotiations with agencies to agree a reasonable mark up in line with the market.
- 5.2 There is a real benefit however to having the management information that we now receive from Comensura particularly around order justification. This should make further significant savings possible. It can be used to identify long term temporary assignments that should be converted into cheaper direct employment. The report to COG will explain to managers how they should be using the information that is now available to them.

ADMINISTRATIVE PROBLEMS

- 6.1 The following administrative problems have been raised by managers about the contract:
- making changes to users of the system and gaining access to the system;
 - technical problems with the on-line system;
 - user-friendliness of the system;

- difficulties in getting through to the service centre and inadequate knowledge of the service centre staff;
 - pay rates listed on the system are inflexible;
 - cover whilst the Relationship Manager is on leave.
- 6.2 Comensura has accepted that access to the service centre was a problem and have taken steps to deal with overspill calls and separated the calls that are received from vendor agencies from those received by the Council, thereby improving access for managers.
- 6.3 Managers have been asked to refer specific examples and issues to the Relationship Manager on a daily basis. This is now happening and the amount of time spent dealing with queries in Corporate HR has dropped from up to two hours a day to two hours a week.
- 6.4 At implementation the categories of occupations covered by the system were identified by departmental representatives. Some job titles that we may require temporary staff to fill were not identified and this caused problems for managers when they wanted to order those staff. Managers have been asked for any other job titles that they want setting up on the system. There was also a problem ordering administrative staff because the scales for this category of worker can range from scale one through to scale six and not all of these were on the system. These have now been added to the system.
- 6.5 The issue of cover while the Relationship Manager is on leave has been resolved satisfactorily.
- 6.6 There are still difficulties with the on-line system and this has resulted in managers using the service centre instead of placing orders on-line. The efficiency is therefore reduced and the service will cost more because of the telephone calls and take longer as service centre staff have to complete information which is already populated onto the on-line system. Comensura are now going to contact all managers who are using the telephone access to the service centre instead of the on-line system over the next few weeks to arrange for support and training to encourage them to use the on-line system. Comensura's action plan is designed to drive up on-line ordering to over 70% by the end of March 2007. This issue will also be reported to COG.

CONCLUSIONS

- 7.1 Progress against the original Audit recommendations has been achieved and is ongoing where applicable.
- 7.2 The expenditure through the Comensura contract is in line with original estimates of £2.5 million that was issued in the tender documentation. The amount of money spent outside the contract on the agreed exceptions of teaching supply and refuse collection/cleaning is £6.1 million
- 7.3 The Council's share of cost savings has already reached £70,000 so far and should reach £92,252 for the full year 2006/7.

- 7.4 The Corporate allocation of these savings will be around £46,000. This will almost reach the £50,000 target set in the budget for 2006/7 but the projection for 2007/08 is for the target to be exceeded.
- 7.5 Derby already spends less on temporary staff than many surrounding authorities and the Comensura contract will help us to make further improvements.
- 7.6 Administrative issues and problems raised have decreased since October.
- 7.7 Auto-authorisations have decreased since October but are still too high and Comensura will take action to contact managers allowing this to happen and continuing auto-authorisations will be reported to Chief Officers.
- 7.8 Too many orders are being placed through the service centre rather than on-line and Comensura will contact managers using the telephone system to offer support to use the on-line system with the aim to drive up use to 70% by the end of March 2007.

RECOMMENDATIONS

- 8.1 To report to COG outlining the issues and expectations of managers about:
- increasing use of the on-line system;
 - decreasing auto-authorisations;
 - publicising the savings made;
 - use of the management information relating to particularly to the use of temporary staff and the length of assignments to deliver further savings.
- 8.2 To ask Comensura to contact directly managers who are not using the on-line system and offer training and support and to inform Corporate HR of the managers allowing auto-authorisations.
- 8.3 To ask the Audit and Accounts Committee to debate the issue of auto-authorisation.

Table 1 - Summary of progress made in implementing Audit recommendations

Rec No	Original Recommendation	Original Agreed Action Details	Current Status
1	<p>Significant</p> <p>Arrangements for monitoring the performance of the contract have yet to be determined.</p> <p>We recommend that the following performance monitoring should be undertaken:</p> <ul style="list-style-type: none"> •Market information should be sought, wherever possible •At 6 and 9 months following the start of the contract •A sample of invoices from Comensura should be reviewed 	<p>The benchmark price for each category of temporary labour was set as the historic figure of the rate the Council were paying in the four months prior to the commencement of the Comensura contract. It was agreed by Accountancy as being an accurate reflection of the price we were paying for these posts and would, therefore, be used throughout the first year of the contract as the basis of the calculation of the saving achieved through the use of the Comensura system.</p> <p>It was agreed through the tender process that we would have a shared savings remuneration system for the first 12 months and that we would be able to review this option at the end of the first year of the contract and decide if we wish to transfer to a management fee instead.</p> <p>It would be anticipated that as we come towards the latter part of the first year of the contract that we would seek information to ascertain whether the level of mark up that is being managed through the Comensura arrangement remains competitive.</p> <p>Benchmark rates for temporary staff will be assessed annually but these are to reflect market forces of temporary staff and cannot be driven downwards continually. Current rates have been agreed between Comensura and the council.</p>	<p>Implemented</p> <p>This is still an option but as the level of savings is still likely to increase we are unlikely to recommend moving to a management fee after the first year.</p> <p>Comensura have already implemented a re-procurement exercise in October to negotiate more competitive rates and will continue to do so to reflect market prices.</p>

Rec No	Original Recommendation	Original Agreed Action Details	Current Status
		<p>Assessment of value for money will need to be carried out by other means such as checking against other authorities in the local vicinity.</p> <p>Savings information provided by Comensura can be checked departmentally and assessed against those predicted during the first year at timings to be agreed with Technical Finance.</p> <p>I would agree to the recommendation of monitoring invoices and would suggest the checking of the rates of 10 lines of a Comensura invoice every month.</p>	<p>This recommendation was only implemented at the end of November and provides a spot check that the information on the timesheet reflects the charge on the invoice.</p>
2	<p>Merits Attention</p> <p>There are indications that temporary staff are still being recruited directly through agencies. There is also a risk that the invoice processing system may not prevent both Comensura and the relevant recruitment agency being paid for the same temporary employee.</p> <p>We recommend that efforts are made to ensure that recruitment agencies are no longer contacted directly. Management information should be obtained from the payments system to identify the managers who are still recruiting temporary staff directly from agencies. Managers should be required to explain their reasons for not using Comensura, to determine why initial take-up has not been as expected. When contract take-up has improved, all officers involved in the processing of invoices should</p>	<p>Advice has been sent out to departments that all supply staff should be obtained using Comensura unless managers are specifically authorised to go outside the contract such as Schools Supply and orders placed with Taskforce by Environmental Services. Also advice has been given that all invoices submitted by agencies should be referred to Amanda Hicks. Consideration will be given to referring the matter upwards to get sufficient authority to ensure that the contract with Comensura is fully supported if this issue persists.</p> <p>Comensura do not submit an invoice if a temp is not ordered through the system so the situation of two invoices sent through for the same person will not happen as a result of the contract. It could happen only because an agency raises an invoice themselves as well as charging through Comensura. It is the responsibility of managers to only authorise agency invoices when these have been appropriately checked. There will be some</p>	<p>The current annual spend through the Comensura contract is £2.5 million. The cost of teaching supply is £5.7 and the cost of the Environmental Services contracts is £491,000 annually. Managers are aware that they should not be hiring temporary staff outside of the contract unless the job category is an exception. Finance teams are checking for invoices from other agencies and referring these to Corporate HR and Finance.</p>

Rec No	Original Recommendation	Original Agreed Action Details	Current Status
	be informed that any invoices from recruitment agencies should be closely scrutinised and challenged with the relevant manager prior to payment.	checking carried out over the next few weeks by Lynda Innocent's team to identify departments/sections where two invoices have been submitted for the same temp.	Lynda's team conducted checks in August 2006 as agreed. The reason was that at implementation there was some confusion with Comensura invoices arriving along with invoices from other agencies. The areas where this happened were identified and credited back to the Council and controls were put in place to stop it happening again.
3	<p>Significant</p> <p>A high percentage of timesheets and hence invoices paid to Comensura have been authorised via 'systems authorisation' rather than management authorisation, which could result in incorrect Comensura invoices being paid.</p> <p>We recommend that the reasons for the use of the 'systems authorisation' facility are determined by questioning the officers who should have authorised the timesheets. Appropriate actions should be taken to reduce the incidence of 'systems authorisation', dependent upon the reasons established.</p>	Departments are notified by email to alert them to go into the system to firstly authorise orders and then secondly to authorise timesheets. System authorisation happens when the appropriate officers do not respond to these prompts. Advice has been sent to departments that managers should carry out the authorisation process to avoid system authorisation and attempts will be made to ascertain why they are not doing this in all cases.	Being Implemented by Comensura checking where auto-authorisations occur and contacting Corporate HR and chief officers about constant auto-authorisations.