



ISLINGTON



# **Using a Brokerage to Improve the Purchase and Use of Professional Services to Achieve Significantly Better Results**

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## 1 Introduction

There is a need to improve the results local authorities achieve from the purchase and use of consultancy services, and other professional services. This need is seen from two different perspectives:

- **Corporate**, to control purchases and save cash
- **Operational**, to improve results and solve problems

The approach this paper advocates focuses on achieving benefits, including cash savings, from the results of using professional services effectively. This is in contrast to the 'in vogue' approach of trying to achieve cash savings from the purchase of professional services. Whilst important, this approach focuses too heavily on reducing 'per-diem' rates, which distracts from the often significantly greater benefits that you can achieve from:

- Determining, describing and challenging why you need professional services
- More effective and efficient front and back office services

In general the purchase and use of professional services are fragmented across local authorities. Therefore, the expertise, experience and information associated with this are also fragmented and stored in many different places. This dilutes their ability to improve on the results they currently achieve.

Local authorities need to minimise the effects of fragmentation if they are to effectively develop and deploy their collective capability, as individual authorities and as groups. To do this they need to become better organised.

This paper describes how you can do this and achieve better results by using an approach that we've called a Brokerage. It's called this because to become better organised you need a '*go between*', an '*intermediary*', a '*negotiator*' and a '*matcher of supply to demand*', dictionary definitions of brokerage. The aim of this approach is "*to help people who need to buy professional services to do so better than they would have without it, not to stop them*".

## 2 Brokerages

There appear to be two broad types of Brokerage:

- Internal
- External

They aren't mutually exclusive; elements of each can be combined. The aim is for each type to provide information, advice and support for the purchase and use of professional services. Ideally start with a Virtual Internal Brokerage to “*get your own house in order*”.

However, Brokerages will not work without public and active backing from Directors and Senior Managers. This must be strong enough to convince direct reports that the contribution they make to the success of a Brokerage is sufficiently important for them to spend time doing it well.

### 3 Internal Brokerage

Internal refers to the fact that this approach is managed by people already employed by an authority. There are two broad types of Internal Brokerage:

- Virtual
- Full Time

#### 3.1 Virtual Internal Brokerage

A Brokerage should comprise three reasonably senior representatives from different professions / disciplines; as a minimum Finance, Procurement and a service area. They must operate in a publically aware context of “*we're here to help you, not stop you*”, and use e-mail and the occasional meeting to communicate. The purpose of the Brokerage, in order, is to:

- **Convince purchasers**, via Directors and Senior Managers, **to write a thorough ‘Decision Making / Briefing Paper’** (see appendix A) that includes an analytical description of the issue that professional services are needed for, the results needed, supply market dynamics, available options, analysis and a recommendation
- **Improve the quality of each ‘Decision Making / Briefing Paper’** by reviewing and challenging each one before a purchase has been made and providing constructive feedback via e-mail with additional support via a phone call and / or a quick meeting, as appropriate. To do this they should:
  - **Apply a series of tests**, tailored to suit local context, that each ‘Decision Making / Briefing Paper’ should satisfy and then provide feedback on this
  - **Ensure best use of in-house expertise**, for example a London Borough wanted to purchase £0.5m of legal services from an external supplier. On review they were advised to use in-house legal expertise and save £0.5m.
  - **Provide advice that will improve each ‘Decision Making / Briefing Paper’**, especially with regard to the framing of the issue they need

professional services for, the likely benefits, how to choose the best supplier and the management of the supplier's performance.

- **Identify the type and amount of in-house expertise available** and, jointly with Human Resources, develop a profile of available expertise
- **Record information on each assignment / project** in the Knowledge Centre (see appendix B). One person should be designated to input information.
- **Analyse information from the Knowledge Centre** to help improve the advice they give, share good and bad practice, predict the future need for specific types of expertise
- **Record the benefits achieved by the Brokerage**, they must be honest and direct when doing this, they need to learn what is and what isn't working

### Implementation

You should take about 8 to 12 months to implement Virtual Internal Brokerage. The most effective way to do this is incrementally, add departments, or rather clients, one at a time and do the same with different types of professional services. Ideally start with consultancy and then add others, for example legal services. This incremental and more gradual implementation is a more enduring and less disruptive way of becoming better organised.

It is more effective to establish a Brokerage, as a dedicated if 'virtual' resource, rather than, say, asking Directors to review business cases. This doesn't deal with fragmentation effectively, whereas a Brokerage offers a more independent approach:

- It applies the expertise of several professional disciplines, not involved in the purchase, to each business case
- Over time the Brokerage will accumulate and apply valuable specific professional services experience and expertise

A service level agreement is needed to support this approach. It must describe what the Brokerage will achieve for its '*clients*', the responsibilities of all parties involved and their expected performance. The success of this approach relies on the people who write a 'Decision Making / Briefing Paper' to trust the context of "*we're here to help you, not stop you*".

This approach is gentler than say a rule based mandate, and its success relies on the value that its '*clients*' get from the service they receive and, the results it achieves for them. If the Brokerage doesn't provide a service that achieves valuable results then people will avoid using it. Therefore the choice of the

people who will form the Brokerage is critical, as is their attitude and the time they are given or have, to do what is needed.

Over the medium to longer term this approach will be more effective than a mandated approach.

### Benefits

If we refer back to the differing needs from a corporate and operational perspective, the priority from the use of professional services must be to improve results and solve problems. If done thoroughly this will control purchases and save cash.

However, the focus, in terms of cash savings, must be on those that can be achieved from the results of using professional services effectively, rather than from their purchase. The prize is considerable larger when viewed in this way.

Another key benefit is a more accurate and in depth understanding of the issue, including the causes and effects, which professional services are needed for.

This enables:

- **In-house expertise to be used more widely and often.** This will save cash and will also expand the capability of this expertise as they accumulate more experience and knowledge.
- **Accurate and sufficient information** about the need for professional services so that suppliers (internal and external) are able and more willing to submit **accurate and therefore more competitive proposals.**
- **Less scope creep**, from both parties. A new 'Decision Making / briefing Paper' is always needed for any other work identified during the original project, even if it is associated. This attention **stops / slows the common and lazy practice of extending and / or expanding projects** to accommodate additional work.

### 3.2 Full time Internal Brokerage

The proactive and dedicated approach of a Full Time Brokerage will enable each organisation to extend the benefits that a Virtual Brokerage will achieve, but only if there is enough demand. It will be at its most effective as a Shared Service, we've discussed this separately below.

This type of Brokerage will also enable more research to be done to enable purchasers to be better prepared and to make wider use of in-house capability.

### **Implementation**

Initially it should be managed by one full-time person, assisted by at least two more in virtual roles. Ideally a Full Time Brokerage should develop from a Virtual Brokerage, there should be one or the other not both. If a local authority hasn't had a Virtual Brokerage then it should use a similar incremental scaling up approach across departments and types of professional services.

### **Funding**

Resist the temptation to make the Brokerage fund itself directly, by using cash it saves from the purchase of professional services. This will skew behaviour towards smaller and largely superficial results. It'll distract you from the bigger prize of improving performance and / or solving problems, the results of which are likely to result in significantly larger cash savings. The focus should be on this, rather than simply trying to pay less. In many cases there will be the potential to achieve more by paying more to access better expertise.

Given the above we recommend funding the Brokerage by asking each department to pay an annual subscription. In the first year this should be mandatory; this will allow you to focus on the set up and implementation. However, in subsequent years a majority percentage should be mandatory with the rest being discretionary, based on performance and results.

### **Benefits**

This is a more proactive and dedicated approach compared to the Virtual Brokerage. It will be able to do more of what the Internal Brokerage does, but more quickly and thoroughly, because it has more time and a single focus. In addition it will be able to:

- Develop a more in-depth understanding of what departments will need in the future, for some types of professional services for example Quantity Surveyors
- Use and support the development of in-house capability more widely, efficiently and effectively
- Accumulate and record a wider range of information in more detail using the Knowledge Centre
- Provide advice and support on the procurement of professional services, corporately and for specific needs

- Research previous work done and results achieved by other authorities with the same or similar problems
- Identify and help manage collaborative opportunities with authorities that have the same or similar issues to tackle

### 3.3 Full Time Internal Brokerage as a Shared Service

A Shared Service approach to a Brokerage has the potential to achieve significantly more. It's more active and focused role with more resources over a wider catchment area will enable it to do what a Full Time Brokerage does but significantly more effectively. If it has the right number of 'clients' in relation to the number of people it has to staff it then it will also cost less per client per assignment.

In addition it will:

- Achieve a better understanding of what 'clients' need
- Become more actively involved in understanding suppliers
- Have a better understanding of supply markets and their dynamics
- Accumulate and disseminate more information to help share experiences and expertise more quickly and accurately
- Foster wider collaboration more efficiently and more quickly to achieve better results

#### Implementation

It's difficult to suggest how it should be staffed, or where they should come from, until the number and type of initial 'clients' are known. You should implement the Shared Service using a similar incremental approach to that described for the Full Time Brokerage. Where possible resist the inevitable pressure to do a 'big bang' implementation.

If 'clients' haven't previously had an Internal Brokerage then the Shared Service will have more 'promotional' activities to manage to make it work effectively.

#### Funding

A shared service should be largely funded in the same way as a Full Time Brokerage for a specific authority. However, in addition the Brokerage could charge a 'commission' from those 'clients' who use information provided by other 'clients'. The more information 'clients' make available the greater their chance of

earning a larger annual commission payment. It's an inducement to make more information available.

There is the potential to extend this approach. The Brokerage could:

- Charge a 'commission' for advice given directly via e-mail, phone and face-to-face meetings
- Pay royalties to those suppliers whose information they share and who actively support this approach

## **4 External Brokerage**

External refers to the fact that this approach is purchased from and managed by external organisations. This can also be broadly split up, into:

- Managed Service Brokerage
  - Provide advice and support to purchasers and suppliers
  - Match demand to supply
- Transactional Brokerage
  - Provide easy access to a range of suppliers
  - Transact business more efficiently

Again they aren't mutually exclusive; in fact they are more effective if implemented together with one or more of the Internal Brokerages.

### **4.1 Managed Service Brokerage**

A Managed Service Brokerage is very similar in concept to the Shared Services approach to a Full Time Brokerage. However, the key difference is that both suppliers and purchasers would be clients. The suggested funding / charging structures are designed to minimise adverse and / or behaviours biased towards anything other than the best balance of outcomes for purchasers and suppliers.

The expertise an external commercial supplier can deploy is likely to be perceived by purchasers and suppliers alike, as being more credible. It's also likely to be more focused with more directly relevant experience and knowledge.

Volumes of assignments could be much larger as the catchment area of purchasers and suppliers could increase significantly depending on the number of purchaser clients. To ensure as much information as possible is recorded the

chosen Brokerage supplier should manage the Knowledge Centre and be tasked with developing it further.

### **Implementation**

You can implement a Managed Service Brokerage directly from a Virtual Brokerage, broadly in the same way you implement a Full Time Brokerage. However, for a commercial organisation to do this effectively there does need to be enough clients who commit to a reasonable initial minimum period, say three years. Although an ideal duration would be 10 years.

It may be possible to pilot this approach, over say a year, but unless there is a commitment to extend the pilot if it is successful it's likely to be difficult to get the right supplier to do this.

The Managed Service Brokerage will be at its most effective when it is used with:

- A Virtual Internal Brokerage for each client (purchaser)
- A Transactional External Brokerage

### **Supplier**

The supplier must be an organisation or group of individuals with significant experience of the purchase and use of consultants in the public sector, especially local authorities. They should also have experience of supplying professional services to local authorities, preferably consultancy services.

Given the confidential and sensitive role a supplier will play they should, ideally, be monitored with regard to them supplying professional services to the Brokerage's clients. They should not become a vendor neutral supplier. There will be a need for the supplier to continue purchasing and supplying professional services for and to the public sector. This will maintain and increase their experience and expertise and enable them to apply this to good effect with purchaser and supplier clients.

### **Benefits to purchaser clients of professional services**

Purchasers will benefit in broadly the same way as described for the Full Time and Shared Service Brokerages. However, benefits will be extended and enhanced because of the more directly relevant experience and knowledge.

Some of these benefits will include:

- **Accurate matching of supply to demand**, the better the match the more competitive the suppliers will be and the better the work they will do, as this focuses on what they are good at and minimises time wasted on less directly relevant opportunities
- **Mini competitions**, that will induce greater thought and promote more effective approaches
- **Greater competition using a shortlist**, of say three, for each assignment because it reduce the odds considerably from the norm of winning the business so each potential supplier is likely to put more effort in

### **Benefits to supplier clients of professional services**

Suppliers will benefit significantly from this approach because:

- They will have a greater chance (e.g. one in three) of winning business
- They won't waste as much time as they currently do on speculative proposals
- They will get all the information they need to write an accurate proposal
- More suppliers will have more opportunities; a brokerage allows purchasers to do business with more, not less, suppliers unlike other approaches (e.g. framework contracts, strategic partnerships etc.)

SME suppliers of professional services are more likely to benefit from a Brokerage. This is because a Brokerage does more work than normal on the supply side; assessing and understanding supply markets and indentifying specific suppliers. Over time an effective Brokerage could nullify much of advantage that larger supplier's get from their sales and marketing resources. Therefore, larger organisations would be less likely to favour this approach.

### **Funding / payment**

The way to pay for an External Brokerage is similar to that suggested for to fund a Full Time or a Shared Service Brokerage. A Managed Service is likely to be cheaper per assignment than the Full Time or Shared Service Brokerages because:

- The expertise a commercial supplier brings
- A wider catchment area equals more assignments
- They will collect and be able to use more information

In addition to an annual subscription from the purchaser client the Managed Service Brokerage should charge a **fixed fee from each supplier client**, when they have done some work and been paid for it. The fee should be based on

bandings for the value of the work done excluding expenses, for example services that cost between £10,000 and £25,000 could incur a fee of £300.

Other changes to consider include:

- The length of time each purchaser client commits to use the Brokerage for, the longer the better. We'd suggest at least three years with ten years being the ideal, obviously with break clauses.
- The amount for the annual subscription will depend on the number of initial purchaser clients; we'd suggest at least five to make it viable to start up.

If you pilot this approach then a different charging structure should be developed and applied, to reflect the additional risks a supplier would take on.

### 4.2 Transactional Brokerage

This is about brokering transactions using software and providing access to a lot of different suppliers more efficiently and effectively. It will operate very much like a 'vendor neutral' supplier of temporary staff, for example Comensura.

It could be coupled with the above managed service option, or if the supplier has or buys in the necessary expertise then it could provide a combined Managed Service and Transactional Brokerage.

## 5 Conclusion

The ideal approach to purchase and use professional services to achieve better results, with operational perspectives being seen as the priority, is a combination of Internal and External Brokerages. This is a:

- Virtual Brokerage, for each local authority
- Managed Service and Transactional Brokerage combined

It is a close run thing between the Managed Service and the Shared Service Brokerage. A commercial organisation is likely to have more directly relevant expertise and benefit from greater credibility with both purchasers and suppliers. This shades a Shared Service, which is biased more towards purchasers and a per-diem rate orientated approach.

## 6 Next steps

The first step a local authority should take is to form and implement a Virtual Brokerage. This is a relatively easy argument to make. There is no cash outlay,

but there is an opportunity to significantly influence the effectiveness of the purchase and use of professional services.

When making the decision to implement a Virtual Brokerage you should consider:

- The strength of the support from Directors and Senior Managers
- People with suitable expertise who are available and willing to review, challenge and provide advice
- The opportunity cost of the people who will be involved

If there are doubts about any of the above then it's probably best to monitor the progress and results that another local authority achieves, and then revisit the decision to implement a Virtual Brokerage later.

However, the experience you'll gain from an effective Virtual Brokerage and the results it achieves will help you develop a business case that recommends forming and implementing External Brokerages.

This isn't to say that you should not implement a Full Time or a Shared Service or an External Brokerage without having had the experience of a Virtual Brokerage. It's just that over the medium to long term having the experience of a Virtual Brokerage is much more likely to help the whole organisation achieve better results.

## 7 Appendix A – Guide to Buying Professional Services

This is a short summary of the full 'Guide to Buying Consultancy Services' that includes the purchase and use of all professional services. It is available to download from [www.lcpe.gov.uk](http://www.lcpe.gov.uk). The guide has three parts:

- **Decision Making / Briefing Paper**, a suggested template
- **Choice of Supplier**, questions and comments
- **Results**, a suggested template

### 7.1 Decision Making / Briefing Paper

The purpose behind the need to write this paper using the suggested template is to stimulate the thinking behind the perceived need to purchase professional services. It isn't to stop people buying them, but to help them do so better than they would have without it.

Take the time to understand what you want to achieve. Writing down what you need to do and how you might do this is a good way to do this. It'll help your thinking about what you have to achieve and how best to do it. The headings in the suggested template are shown below, those marked \*\* will help brief potential suppliers when asking them for a proposal.

- Owner\*\* (person who needs to achieve results):
- What you need to achieve\*\*
- Background\*\*
- Results needed from a supplier\*\* (includes activities they are likely to do to achieve them)
- Supply market (and its dynamics)
- Options, costs and timing
- Recommendation
- Sign off

### 7.2 Choice of Supplier

If you have the time, and the value / impact warrants it, then you should ask several suppliers to provide proposals. In some cases you might know which supplier you want to use if you do still evaluate their proposal in the same way as if you had several proposals. At the very least answer the following suggested questions to help you evaluate proposals from potential suppliers and choose the best supplier for your circumstances. Don't take them literally, think around the issue and adapt them to suit your circumstances.

- How likely is it that each potential supplier will achieve the results they say they will achieve? (Will this help you achieve the results you need?)
- How likely it is that they will add more value than expected? In doing the work to achieve the results they say they will achieve have any potential suppliers suggested / offered to add further value at no extra cost?
- How well will they do this? Can they achieve the results they say they will achieve in a way that is 'in tune' with how you organisation operates?
- How much will it cost and when will it finish?

### 7.3 Results

Use the suggested template to help you review each project and the results you achieve, and then to use what you learn on other projects and to pass it on to others. The headings in the template are shown below, all those marked with \*\* should be completed straightaway at the end of the project.

- Owner\*\*:
- Project / Scope\*\*
- Scope creep\*\*
- Supplier Performance\*\*
- Client Performance\*\*
- Key Learning Points\*\*
- Follow Up (3 to 6 months after the end of the project)
- Sign off

## 8 Appendix B – The Knowledge Centre

The London Centre of Excellence Consultancy Knowledge Centre is a secure database that is accessed via the web. Each participating organisation uploads and maintains information and data on the database. Users can then search this information.

The database includes information and documentation, where available, on the Scope, Approach and Final Recommendations of assignments. Users of the database categorise information, using Proclass, to enable users to search it; this makes it more meaningful. The information includes overall costs, project durations and the consultants that purchasers used. Users can also contact the information owner to ask them for further details.

The Knowledge Centre enables users to find information on previously commissioned assignments that can help them to approach a particular issue more effectively and prevent duplication. Collective management information and market intelligence provided by the Knowledge Centre, if used effectively, is invaluable. It will support organisations to improve the way they commission professional services and to achieve better value for money, efficiency gains and cashable savings.

The Knowledge Centre is an effective tool that when used with the brokerage approach can help organisations achieve better results. The benefits of its use increase with the more information uploaded and the more individuals and organisations that use it.

This value and benefit is achieved through providing:

- a searchable central repository for recording and categorising information on the commissioning of consultants;
- easily accessible summary information on assignments with the facility for users to request additional information, where available;
- key documentation such as business cases and final reports that can be shared to help achieve more effective approaches and prevent duplication;
- information on procurement path and time, overall cost and duration of assignments;
- collective market intelligence and management information whose value and quality increase with the number of assignments recorded;
- information that can support:
  - demand management and challenge of proposed consultancy assignments;

- future planning and the identification of collaborative opportunities;
- the identification of areas for building capacity and work force planning;  
and
- the review of commissioning and assignment performance management practice to identify areas of skills deficit that may need addressing;
- a process that helps to embed best practice
- a directory of consultants completing for work
- a platform to share information and knowledge that will help achieve better results.

To get the best from the Knowledge Centre local authorities must commit to upload accurate information to it and to embed this as normal working practice. The more that do this the more information the Knowledge Centre will store and therefore the more value participating organisations will be able to extract from it.

The Knowledge Centre needs a reasonable amount of information input into its database before it can start to provide this value to its users. More information equals more value.

If you would like to access information that can help you achieve better value-for-money, from the purchase and use of professional services, please register your organisation on the Knowledge Centre at [www.lcpe.gov.uk](http://www.lcpe.gov.uk). This starts your commitment to upload your information about the purchase and use of professional services, and to then search and extract valuable insights from information that other organisations upload.