

Committee(s)	Dated:
Procurement Sub Committee Finance Committee	6 July 2020 21 July 2020
Subject: City Procurement Quarterly Progress Report End of year 2019-2020	Public
Report of: The Chamberlain	For Information
Report author: Chris Bell, Commercial Director	

Summary

The report updates Members on the work of City Procurement, key performance indicators and areas of progress.

Performance for 2019/20 financial year is summarised below:

- Procurement savings at end of March 2020 totalled £7.88m (*exceeding the target of £7.27m*), made up of £1.75m Commercial Contract Management savings and £6.13m Sourcing & Category Management savings.
- Purchase order compliance was 98% (target of 97%).
- 93% of all supplier invoices were paid within 30 days (target of 97%)
- 85% of SME invoices were paid within 10 working days (target of 88%).
- 81% of invoices were received in True PDF format (target of 75%)
- Waiver trends:
 - Total number of waivers reduced by 11% compared to the previous financial year.
 - Non-compliant waivers decreased by 30% compared to the previous financial year.
 - A total of 21 Procurement Breach waivers were recorded in 2019/20 with a value of £1.63m.

Recommendations

- Members are asked to note the report.

Main Report

Background

1. City Procurement has four main functions: Category Management/Sourcing, Commercial Contract Management, Accounts Payable, and Policy & Compliance. This report provides an update on the progress and current performance against the service KPIs set out in the Chamberlain's Business Plan in April 2019.

Efficiency and Savings

2. City Procurement is set an annual savings target at the start of each year based on the contracts to be let during the financial year that have the potential to make efficiency or cost savings and contracts let in previous years that are generating guaranteed savings in the current year. Each contract is reviewed by the relevant Category Board to set the targets and each contract target considers historic

spend, scope changes, complexity, risk and industry benchmarks. The 2019/20 City Procurement target was £7.27m. This was made up of Sourcing savings target of £6.10m and in-contract savings of £1.17m.

The Annual Savings Target elements explained

3. The 2019/20 annual savings target was set using two types of in-year savings:
 - **Previously let contracts generating savings (known as run rate)** – Savings already guaranteed for the current financial year from contracts let in previous years. This is for contracts that span different financial years and is typically for service contracts that are let for a 2-to-7-year period when the savings are spread across the contract life.
 - **New contracts let generating savings** – Savings targeted to be generated from new contracts let during the current financial year.

2019/20 Efficiencies and savings as at 31 March 2020

4. Sourcing & Category Management achieved procurement savings of £6.13m at the end of Q4. Additionally, Commercial Contract Management has achieved total efficiencies and savings to the value of £1.75m. This represents a total savings performance of £7.88m, exceeding the target by over £500k.

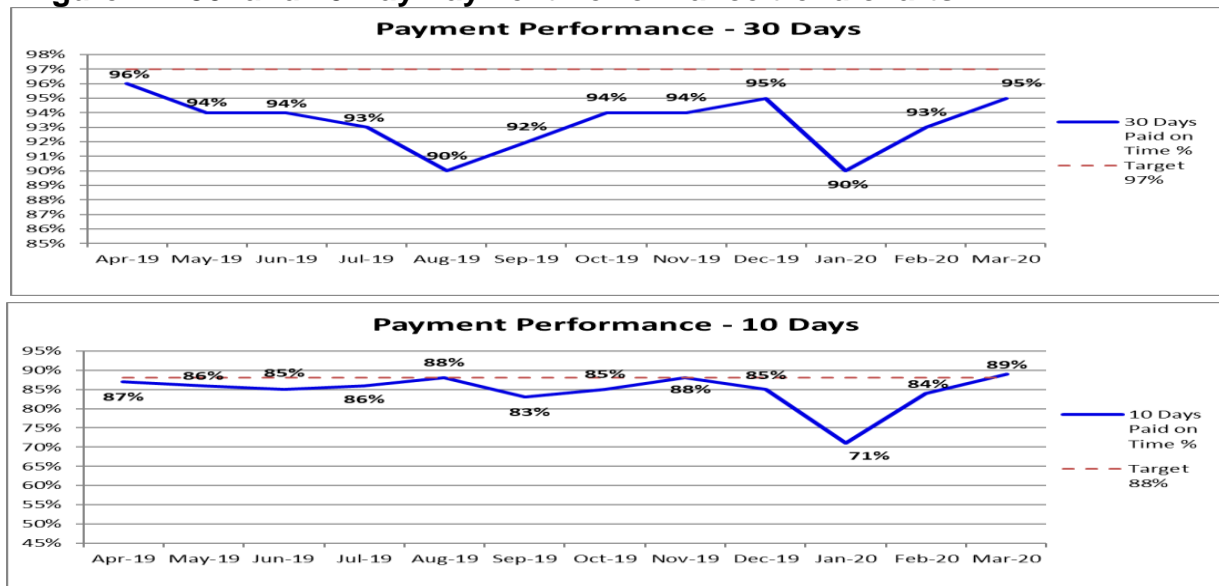
Accounts Payable Performance – Compliance with No PO No Pay Policy

5. We continue to achieve high levels of compliance with 98% PO compliance for 2019/20, therefore exceeding our target of 97%.

Payment Performance

6. The Corporation's 30-day invoices paid-on-time performance for 2019/20 is 93%, slightly below the target of 97%. Our 10-day SME invoice payment performance for FY 19/20 is 85%, falling just short of the 88% target. There have been a number of factors impacting results this year including carrying vacancies to balance budget, increased work for Accounts Payable assisting other parts of the organisation (including all Covid-19 relief payments) and some periods of down time in IT access to the payments systems.

Figure A – 30- and 10-Day Payment Performance trend charts



Electronic Invoices Received

7. Of all the invoices received from suppliers in FY 19/20, 81% were in the desired True PDF format, exceeding our target of 75% set for the year. 86%, our highest figure to date, was achieved in March 2020 and shows that we are moving in the right direction.
8. With all Accounts Payable staff working from home since mid-March due to the COVID-19 pandemic, it has become imperative for invoices to be submitted electronically. During March, the Head of Accounts Payable emailed all suppliers who had submitted paper invoices in the 13 months prior, asking them to send all invoices via email to our central AP mailbox, to mitigate the risk of late payment.

Waiver performance

9. The total number of waivers completed FY 19/20 is **194** (*compared to 217 in FY 18/19*), which breaks down as follows:
 - a. Compliant Waivers **150** (value £8.55m)
 - b. Non-Compliant Waivers **44** (value £2.49m)
 - i. Procurement Breaches (*subset of Non-compliant total*) **21** (£1.63m)
10. There has been a reduction of 11% in waivers with a 40% decrease in the total value, from £18.2m to £11m. A more detailed Annual Waiver report is being presented at this same committee.

Freedom of Information (FOI) Requests

11. City Procurement has responded to 62 FOI requests in 2019/20, amounting to 117 hours of officer time. Analysing the make-up of FOIs for this year gives the following categorisation:

Nature of FOI Query	Instances
Contract or procurement exercise specific	26
Understanding our expenditure	18
Policy queries (including Brexit)	6
Compliance queries	5
Payment queries	4
Seeking sales opportunities	3
	62

12. This analysis shows that FOIs typically fall into one of two categories: either (a) they relate to specific contracts or procurement exercises, or (b) they seek to understand our general expenditure and spend profile. There has been a slight rise this year in Policy queries, mainly related to Brexit planning.

Covid-19 Response and actions for City Procurement

13. Like much of the organisation, there has been a significant impact of the Covid-19 crisis on City Procurement. Below is a summary of new unplanned work that was undertaken by the division to support the Corporation and beyond since mid-March:

Implementation of Government Procurement Policy Notices

14. During Covid-19 the Government has issued a series of temporary Policy Notices (*see Appendix 1 for the full Policy Notices issued*), some mandatory and some guidance that we have had to interpret and develop into local policies during the crisis. The subject matter and our actions are summarised below:
- a. **PPN 01/20 - Responding to Covid-19:** This covered topics such as procuring under extreme urgency, direct contract awards, accelerated procurement timescales, more powers to extend or increase scope in existing contracts and the likelihood of 'force majeure' being cited by suppliers in existing contract terms. **Our response** was to put in place a new temporary exemption code for urgent purchases under Covid-19 and issue clear guidance on revised procurement processes and contract items such as force majeure. The guidance can be seen at *Appendix 2*.
 - b. **PPN 02/20 - Supplier Relief due to Covid-19:** This mandatory notice issued directions for authorities to review its supply chain, identify at risk suppliers, where possible pay invoices quicker and if appropriate provide relief to suppliers in the way of advance payments under certain conditions. Our response to this was to:
 - i. Collate, assess and review the status of all our critical suppliers (665 in total).
 - ii. Issues a letter from the Commercial Director to all 665 suppliers outlining all of the government support and our local support and guiding them on how to access these (*see Appendix 3*)
 - iii. Change internal procedures to pay SMEs immediately on receipt of valid invoices and pay all suppliers within 20 days.
 - iv. Design an application, assessment and relief award process for advance payments. (*see Appendix 4*)
 - v. Design standard Contract Change terms to implement advance payment agreements under contract.
 - c. **PPN 03/20 – Use of Procurement Cards during Covid-19:** This was guidance to authorities to consider greater use of payment cards to assist ease pressure on invoice payments. Our response was to **not** make any changes to our processes. This was due to our already good payment performance, our robust payment card policy and processes and to ensure appropriate oversight of expenditure during Covid-19. We have been able to manage good payment performance throughout.
 - d. **PPN 04/20 – Recovery and transition from Covid-19:** Further guidance on measures to assist suppliers and maintain services during the recovery phase of Covid-19 until 31 October 2020. Our response is to maintain the current temporary policy, processes and targets outlined in response to the previous 3 policy notices.

Supporting Urgent Department requirements

15. The main element of support to City Services, has been sourcing PPE and other urgent commodities or services for the organisation and the Covid-19 Strategic Coordination Group for London. We have been able to meet urgent demands consistently in a very difficult marketplace, and have quickly built up a panel of

suppliers to meet needs arising. This included large urgent orders for DCCS to support crucial services and suppliers. Both then and now, ensuring that services identify needs early is critical to ensure supply. It is expected that demand will remain high across London.

Impact on live and soon to commence procurement exercises

16. The impact of Covid-19 has been very different across the range of goods, services and works contracts we are currently working on. Due to this, the Commercial Director has requested revised Category Strategies to reflect this. These draft strategies will be completed by the end of June 2020 and then presented and discussed at the various Category Boards before being approved. These strategies will consider whether to pause/defer certain procurements, extend existing arrangements, challenge the need or scope of procurement exercises and also take advantage of short-term market conditions that would be positive to the organisation. We will bring back the outcome of those exercises at September committee. This also has an impact on our targets for 2020/21, therefore we will present our target figures at this same committee.

Conclusion

17. City Procurement continues to achieve a high level of performance during an extremely challenging year and operational environment. The two main savings targets were both realised and total savings achieved for the year was £7.88m. The payment performance figures are falling just short of their respective targets, but a few adverse factors have been identified and further investigation will be carried out with the aim of introducing measures to counteract these. Latterly, the impact of Covid-19 has created significant new additional work in terms of responding to the situation and new government policy notices. The current environment also has impacted our sourcing plan and ability to procure as normal, thus revised category strategies are being worked on with a revised plan and targets being presented for 2020-21 at the September Procurement Sub-Committee.

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