

<b>Committee:</b> Finance Committee	<b>Date:</b> 10 May 16
<b>Subject:</b> City Procurement Quarterly Update (End of Year Report)	<b>Public</b>
<b>Report of:</b> The Chamberlain	<b>For Information</b>
<b>Report author:</b> Chris Bell, Head of City Procurement	

### **Summary**

The report updates Members on the work of City Procurement and its performance for the year April 2015 to March 2016.

### **Recommendation**

Members are asked to note the progress report on key strategic improvement projects and performance:

- a. Annual savings of £8.48M achieved against 2015/16 target of £8.27M
- b. PO Compliance average of 94% for 2015/16
- c. 12 month average of 96% supplier payments happened within 30 days during 2015/16
- d. 12 month average of 86% of SME supplier payments happened within 10 days during 2015/16
- e. 24% of 2015/16 annual spend was with SME suppliers (Value of £116M)
- f. 13 Continuous Improvement projects under the strategic theme of Operational Excellence delivered with the 2015/16 period.

### **Main Report**

#### **Background**

1. City Procurement has three main functions, Category Management/Sourcing, Accounts Payable and Policy and Compliance. The service has a number of key improvement projects that support the objectives of the Procurement Strategy 2015-2018 presented to Finance Committee in June 2015. This report updates on progress of the key projects that were scheduled for the 2015/16 period and final annual performance of delivery against the service KPIs set in April 2015.

#### **City Procurement Strategy and Key Improvement Projects**

2. The City Procurement 3 year strategy has 4 themes and in year 1 the focus was on developing Operational Excellence. The key improvement projects supporting this strategy were:

- a) **Contract Management Review** – A service based review group sponsored by the Comptroller and City Solicitor was established to review the Corporation's existing contract management regime and capabilities. The review led by the Head of City Procurement has now concluded its findings. The final report and recommendations were approved by Summit Group in February 16 followed by approval at Efficiency and Performance Sub-Committee in March 16. The implementation of the contract management framework and commercial contract management service is a key project for 2016/17 being led by the Head of City Procurement. The implementation plan is currently being finalised and will be presented at a future Efficiency and Performance Sub-Committee.
- b) **City Procurement Code 2015** – The Corporation's new Procurement Code (formerly known as Regulations) were approved by Summit Group, Finance Committee and Court of Common Council and came into effect on 1 November 2015. There will be an annual refresh presented at Finance Committee in June to incorporate new legislation and operational lessons learned.
- c) **Implementation of eSourcing** – The Corporation fully transitioned to full eSourcing capability through our CapitalEsourcing platform effective from 1<sup>st</sup> May 2015. All suppliers transitioned to the new portal and all sourcing and buying activity over £10k is managed through the portal.
- d) **Payment Card Policy** – The Corporation's new Payment Card Policy was approved by Finance Committee in September 15 and came into effect from 1 October 2015.
- e) **Payment Card Management System** – The Corporation launched a new self-service portal (CityCard) for spend management of all payment card activity effective from January 2016. To date over 300 users have been trained one-to-one. This provides greater management and compliance data and a vastly improved user experience for officers.
- f) **Responsible Procurement Strategy** – This wide reaching strategy is in its final consultation stage and will be presented at Summit Group in May 16 and Finance Committee in June 16.
- g) **Efficiency and Savings Process Manual** - A corporate efficiency and savings process manual has been developed. This now means that there is a transparent and documented way of calculating project baselines and efficiencies/savings on all future projects.

### **Efficiency and Savings**

3. City Procurement is set an annual savings target at the start of each year, this target is 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 Procurement Category Board to set the targets, each contract target considers historic spend, scope changes, complexity, risk and industry benchmarks before setting a target. The 2015/2016 City Procurement target was £8.27M.

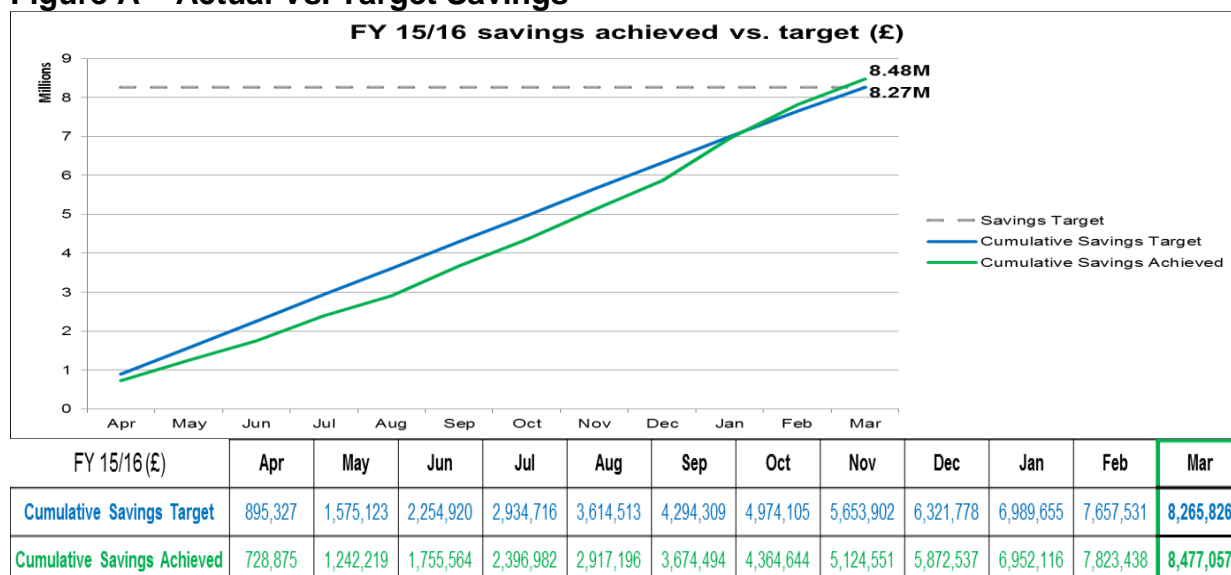
### The Annual Savings Target elements

4. The annual savings target is set using two types of in-year savings. Those are:
  - a. **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 2-7 year period when the savings are spread across the contract life.
  - b. **New contracts let generating savings** – Savings targeted to be generated from new contracts let during the financial year.
5. The procurement savings target is for competitive price savings only and is not inclusive of scope changes/service downgrades or other operation decisions which are treated as local department savings.

### 2015/2016 Efficiencies and Savings Final Position

6. City Procurement achieved £8.48M at 31 March 2016 compared to the target of £8.27M as illustrated in the Figure A below. Of the achieved £8.48M total savings, £6.69M was budget impact savings resulting in budget adjustments for any newly realised savings achieved within 2015/2016.

**Figure A – Actual Vs. Target Savings**



### Category Management and Procurement Operations Project Performance

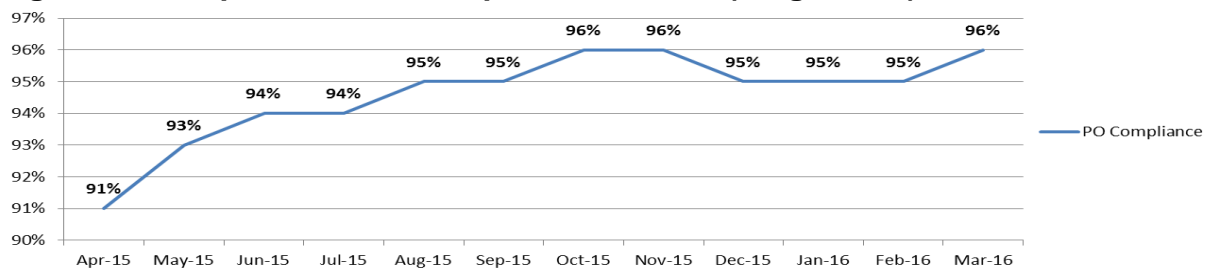
7. The Category Management and Procurement Operations team managed 527 projects during this year with 401 (76%) of them completed by 31 March 2016.

There are 126 projects currently live and progressing towards conclusion in 2016/2017. City Procurement has worked proactively with Category Boards and Chief Officers to gather all planned procurement projects for 2016/2017 of which there are a total of 300 projects identified.

### Accounts Payable Performance - PO Compliance/No PO No Pay

- Extensive communication was undertaken with departments and suppliers in the final months of 2014/15 in preparation of the launch of the City's No PO No Pay policy. Results for 2015/16 PO Compliance is an average of 94%, improving vastly from 70% prior to implementation of the policy in late 2014 and which has seen a steady improvement throughout the year. Figure B illustrates the trend.

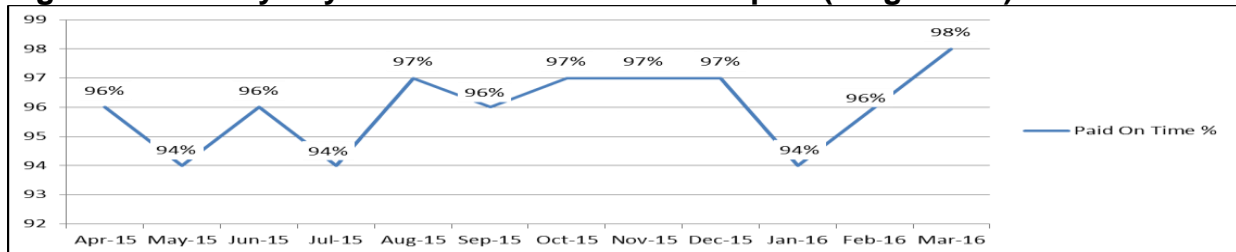
**Figure B – Corporation PO Compliance 2015/16 (Target 88%)**



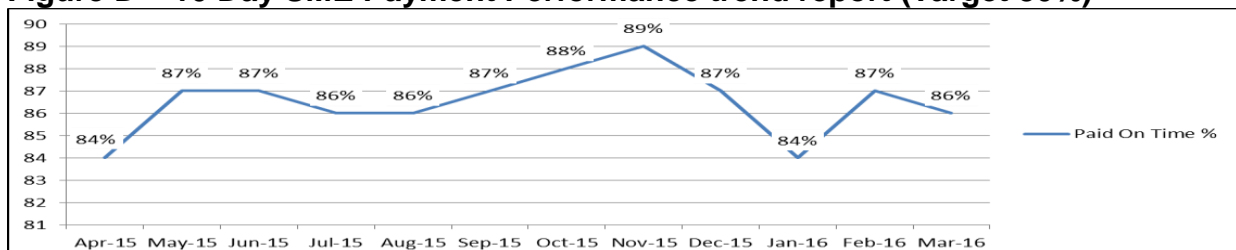
### Payment Performance

- The City's 30 days invoice paid on time performance for the year averaged at 96% (Target 97%) and our 10 day SME invoice paid on time average was 86% (Target 80%). There was a slight dip in performance during January 2016 as we had a task team clearing ageing invoice holds. The following figures show performance trends for both metrics during 2015/2016 to date.

**Figure C – 30 Day Payment Performance trend report (Target 97%)**



**Figure D – 10 Day SME Payment Performance trend report (Target 80%)**



## **Current Waiver performance**

10. Overall the number of waivers received has decreased from a total of 1,487 in 2014/15 to 1,093 in 2015/16. More tellingly since the introduction of the new Procurement Code there has been a significant decrease and trend downwards. It should be noted there will always be a viable reason for certain waivers with an industry norm of 5%, it is expected that in 2016/17 the Corporation will fall within this measurement.

## **Spend with SMEs**

11. 46% of the City's invoices were paid to SMEs in the last 12 months to total value of £116M. This equates to 24% of the Corporation's total spend (£481M). This figure remains positive and above the UK Government's public sector target of 20%.

## **Conclusion**

12. City Procurement continues to enhance its service levels whilst achieving improving performance, attaining consistently its KPIs. The strategy of developing our operational excellence levels during 2015/2016 has progressed significantly with a series of improvement programmes now completed whilst being managed at an implementation pace that has not impacted service delivery levels. We move to our second year strategy of a focus on value for money in 2016/17.

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