

Committees:	Dates:
Finance Committee – For Decision	15 November 2016
Efficiency and Performance Sub-Committee – For Information	30 November 2016
Subject:	Public
The establishment of a Procurement Invest to Save Fund	
Report of:	For Decision
The Chamberlain	
Report Author:	
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Summary

City Procurement has identified a number of continuous improvement projects to support its strategy over the forthcoming years that will require initial investment. It is proposed to establish a Procurement Invest to Save Fund using a percentage of the annual savings generated to allow funding bids on a case-by-case basis to be progressed. The new fund will be managed by the Efficiency and Performance Sub Committee (EPSC) with funding decisions delegated to Strategic Resources Group in consultation with the Chairman and Deputy Chairman of EPSC. Summary details of the new fund:

- The fund will be established effective from 1st December 2016.
- The fund will have an annual cap of £250k per annum.
- Funding is through contributions from the Finance Committee of 25% of the savings generated by City Procurement activity that results in budget adjustments (cashable in year savings) recovering money back to the Corporate centre.
- The fund will be held centrally with contributions apportioned between the three main Funds (City Fund, City’s Cash and Bridge House Estates), pro rata to the cost of City Procurement to each Fund.
- The fund is strictly to support investment in procurement projects that generate a return on investment and support sustainable efficiencies and savings.
- There will be a minimum threshold set for net efficiencies/savings of 5%, to be achieved over a maximum five-year period.
- Funding bids will be submitted to Strategic Resources Group for decision, in consultation with the Chairman and Deputy Chairman of EPSC. Bids will be supported by a business case and target savings to be achieved on a case-by-case basis.
- Quarterly reports on progress of the projects funded by the Invest to Save Fund will be submitted to EPSC, with annual reports to Finance Committee.

Recommendations

The **Finance Committee** is recommended to:

- a) Approve the establishment of the Procurement Invest to Save Fund, effective from 1st December 2016.
- b) Agree that decision making on funding bids be delegated to the Strategic Resources Group, in consultation with Chairman and Deputy Chairman of EPSC

- c) Note the mechanism of how contributions to the fund will be managed.

The **Efficiency and Performance Sub-Committee** is recommended to note the report.

Main Report

Background

1. The City Procurement Corporate function has now been operational since October 2014. During this period, the service has seen continuous growth in terms of service levels, performance metrics, customer satisfaction, and efficiencies and savings delivered.
2. The growth is in line with the aspirations of the three-year Corporate Procurement Strategy, which was published in 2015. Underpinning this strategy is a Continuous Improvement Programme, which breaks down all interventions and projects that are component parts in delivery of the strategic aims of Operational Excellence, Value for Money, Innovation and Technology and Responsible Procurement.
3. The initial strategic focus during 2015/2016 was on Operational Excellence and saw mainly internal efficiencies introduced. This was through a recruitment strategy focused on hiring procurement and commercial professionals, a focus on performance management, redefined processes and procedures, stakeholder engagement and an emphasis on learning and development.
4. As the service is now 24 months old, some of the future improvements ideas require some investment to allow further sustainable efficiencies and savings to be achievable. Some examples of these could include:
 - a. The introduction of a Fast Payment Discount Scheme where our major suppliers discount our invoices in return for faster payments than our 30 days contractual terms. The investment would be in a delivery partner and software to operate such a scheme.
 - b. The introduction of powerful spend analytic tools that easily identify new savings opportunities, identify duplicate payments, and enhance our resilience against non-compliance and fraudulent activities.
 - c. The potential to invest in one-off specialist project resource to enhance procurement strategies and/or savings and efficiency potential. A live example of this has been the fixed term hire of a facilities management specialist to work on the new Building Repairs and Maintenance procurement; this has added significant value to the process. On this occasion, this resource cost was met through City Procurement's local risk staffing budget at the expense of a full time Category Manager role.

Proposed Procurement Invest to Save Fund

5. It is recommended to establish a Procurement Invest to Save Fund using a percentage of the annual savings generated to allow funding bids on a case-

by-case basis to be met. The Fund would be established with an annual cap of £250k per annum and funded by taking 25% of savings generated by City Procurement that involve in-year budget adjustments (cashable in-year savings) coming back to the Corporate centre. We propose the fund commences from 1st December 2016 to accept bids in the remainder of the 2016/2017 financial year to allow additional efficiencies and savings to be achievable from 2017/2018 onwards.

6. Each of the City's three main Funds (City Fund, City's Cash and Bridge House Estates) would make contributions. The Fund is strictly to support investment in procurement projects that generate a return on investment and support sustainable efficiencies and savings. Each bid would be supported by a business case outlining the intervention and the targeted efficiency or saving amount that will be generated in future financial years due to the investment.

Governance and Decision Making

7. It is proposed that EPSC manage the new fund. To allow timely decisions to be made, we would recommend the decision to fund individual project bids be delegated to the Strategic Resources Group, chaired by the Chamberlain, in consultation with the Chairman/Deputy Chairman of EPSC. A report will be submitted on a quarterly basis to EPSC (and annually to Finance Committee) highlighting the projects that have been invested in and their performance in generating new efficiencies and savings.

Financial Management of the proposed Fund

8. The total amount of the contribution to the Fund would be based on the in-year budget adjustment savings achieved. However, the contribution would be apportioned between the three main Funds, pro rata to the cost of City Procurement to each of the Funds, rather than where the specific savings were achieved. The fund would be held centrally in the Chamberlain's Guildhall Administration budget, given that spend will be of a corporate change nature. An illustrative example of how it will work in practice is at Appendix 1.
9. It is proposed that any uncommitted monies held in the fund at year-end be carried forward to the new financial year as procurement activities typically do not generate savings in quarter 1, therefore funding of new projects could be stalled if not carried forward.

Conclusion

10. City Procurement has identified a number of continuous improvement projects to support its strategy over the forthcoming years that will require initial investment. It is proposed to establish a Procurement Invest to Save Fund using a percentage of the annual savings generated to allow funding bids on a case-by-case basis to be met. The new fund will be managed by EPSC, with funding decision delegated to Strategic Resources Group, in consultation with the Chairman and Deputy Chairman of EPSC. The fund would have an annual cap of £250k per annum. It is proposed the fund be established from 1st December 2016 to accept bids in the remainder of the 2016/2017 financial

year to allow additional efficiencies and savings (beyond existing SBR and Procurement targets) to be generated from 2017/2018 onwards.

Appendices

Appendix 1 – Illustrative example of the accounting treatment of fund contributions

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Appendix 1

Illustrative Example

New (in year) cashable/budget impact savings retained centrally	£'000 350
Allocated to procurement funding (£) - say 25%	88

Budget Reductions would be made to the Service Committees where the savings are achieved

Budget Reductions by Fund to reflect where savings are achieved	£'000	
City Fund	(296)	85%
City's Cash	(54)	15%
BHE	0	0%
	(350)	100%

An amount equivalent to 25% (£88,000) of the saving would be contributed to the Procurement Fund. The contribution would be apportioned between the three main Funds pro rata to the cost of City Procurement to each of the Funds - as a proxy for the share of the benefit to each of the Funds from the potential improvement projects.

Contributions to Procurement Fund based on cost of City Procurement to each of the three main Funds	£'000	
City Fund	53	60%
City's Cash	32	36%
BHE	3	3%
	88	100%

Summary of Budget Adjustments	Savings £'000	Procurement Fund £'000	Total £'000
City Fund	(296)	53	(243)
City's Cash	(54)	32	(22)
BHE	0	3	3
Guildhall Admin.	0	(88)	(88)
Total	(350)	0	(350)

Use of Procurement Fund

The above budget adjustments produce an income budget of £88,000 in Guildhall Administration to be used to fund procurement improvement projects of a corporate nature