

Committee: Finance Committee	Date: 6 June 2017
Subject: City Procurement Efficiency and Savings Target 2017/18	Public
Report of: The Chamberlain	For Information
Report author: Chris Bell, Commercial Director, City Procurement	

Summary

The report is to advise members of the Efficiency and Savings target set for City Procurement; for the financial year 2017/18 of £6.47 million. This target figure includes a target of £994k of in-year new savings to be generated within this financial year. The target represents a 10.04% average savings overall for this year's procurement programme.

The target is based on the contracts that are to be let and implemented during the financial year that have scope to make efficiencies or cost savings and to reflect savings already generated from procurement activity in previous years that guarantee savings within the existing financial year.

The process in setting the annual target looks at the contracts due for renewal in the target year, the baseline spend, the complexity and risk of the contract and which month the new contract will commence. This is then considered against an industry benchmark using the Corporation's Category experience database which shows indices of savings generated across public and private sector over the last 10 years for all sub-categories of spend.

The monetary target is lower than last year (2016/17) of which the target was £7.9M, in comparison to this year's £6.47 million. This is due to the value and number of contracts to be let this year being lower than last year. In addition, as some of the high value projects have just been let at the tail end of last year we will only start realising the savings in the later part of this financial year e.g. Building Repairs and Maintenance and Multi-functional devices.

It is to be noted that the set target has excluded projects that have been identified by the Service Based Review (SBR) programme; income generation; major works contracts and projects where teams are yet to define the baseline. A quarterly reconciliation report will to be presented and approved at this committee should the target need to be revised.

Recommendation

Members are asked to note the Procurement Efficiency and Savings target of £6.47 million for the financial year 2017/18.

Main Report

Background

1. 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. Every contract target considers historic spend, scope changes, contract complexity, risk and industry savings benchmarks before setting a target.
2. This year's target is £6.47 million. Targets fluctuate year by year as it's based on the number and value of contracts to be procured within each year. The 2016/2017 City Procurement target was £7.9M.

The Annual Savings Target elements

3. The annual savings target is set using two types of in-year savings. Those are:
 - *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 life of the contract.
 - *New contracts let generating savings* – Savings targeted to be generated from new contracts let and commence during the financial year.
4. The procurement savings target is for competitive price savings and efficiencies generated by procurement interventions only and it's not inclusive of scope changes/service downgrades or other operational decisions which are treated as local departmental savings.

Summary of Projects making up the 2017/18 target

5. The target of £6.47 million is derived from savings previously generated of £5.48 million and £994k in year savings from the 85+ procurement exercises planned to happen this year and represents an average savings of 10.04%.
6. Our savings targets have all been benchmarked using our Category experience database which collates industry savings data for each sub-category of spend over a 10 year period. Additionally we have also put a 2% savings target on business as usual procurements to ensure all projects are considered fully in terms of efficiencies and savings.

Category	Number of projects (where a saving is forecasted)	FY 17/18 Savings Target (£)
Corporate Services	8	322,250
IT	12	313,891
Procurement Operations	20+	272,000
Facilities Services	8	44,553
Marketing	2	31,305
Land Management	3	9,533
Subtotal In year savings (New FY 17/18 projects)	53	993,533
On going savings (for projects sourced in previous years)	32	5,480,966
Grand Total	85	6,474,499

7. The new targeted in-year savings although only realising £994k within the current financial year would generate a total of approximately £9.74million in the next 5 years. This is caveated by the fact that it will only achieve this if the projects run to original plan within scope.

Cumulative Target

8. The £6.47 million target will be cumulative and will be targeted to achieve the following milestones throughout the year to ensure we are on target to achieve the total, these are:
- End of Quarter 1 (30th June 2017) - £1.90 million
 - End of Quarter 2 (30th September 2017) - £3.58 million
 - End of Quarter 3 (31st December 2017) - £5.14 million
 - End of Year Target (31st March 2018) - £6.47 million

Conclusion

9. City Procurement has finalised its Sourcing Plan for 2017/18 by gathering information from all departments on potentially new tenders to be run, combined with the expiry of contracts from our corporate contract register. The Target set is £6.47 million.

Chris Bell

Commercial Director, City Procurement, Chamberlain's Department

T: 020 7332 3961

E: Christopher.bell@cityoflondon.gov.uk