

Committee(s):	Date(s):
Finance Committee	25 th July 17
Subject: City Procurement Quarterly Update Report of The Chamberlain	Public For Information
<p style="text-align: center;">Summary</p> <p>The report updates Members on the work of City Procurement and the key areas of progress since April 2017.</p> <p>Members are asked to:</p> <ul style="list-style-type: none"> a) Note the progress report on key strategic improvement projects and performance: <ul style="list-style-type: none"> i. Current 2017/18 Q1 cumulative savings of £1.98m achieved against cumulative target of £1.90m ii. Projecting 2017/18 end of year savings of £6.75m against target of £6.47m iii. PO Compliance at 96% for Q1 FY17/18 iv. For Q1 FY17/18, 97% of all supplier payments happening within 30 days whilst 58% of SME supplier payments happening within 10 days v. 92% of invoices are received electronically 	

Main Report

Background

1. City Procurement has four main functions, Category Management/Sourcing, Commercial Contract Management, 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 continuous improvement projects and current performance of delivery against the service KPIs set in the Chamberlain's Business Plan in April 2017.

City Procurement Strategy and Key Improvement Projects

2. The City Procurement 3 year strategy has 4 themes and in year 3 the focus is on Technology and Innovation. Key improvement projects supporting this strategy are summarised in Appendix 1.

Efficiency and Savings

3. 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: each contract target considers historic spend, scope changes, complexity, risk and industry benchmarks. The 2017/18

City Procurement target is £6.47m. It should be noted that this target excludes any construction capital projects to be tendered as City Procurement are working with the Construction category board and finance team to establish a clear methodology to target and validate savings for these type of projects as part of the emerging Major Works Strategy.

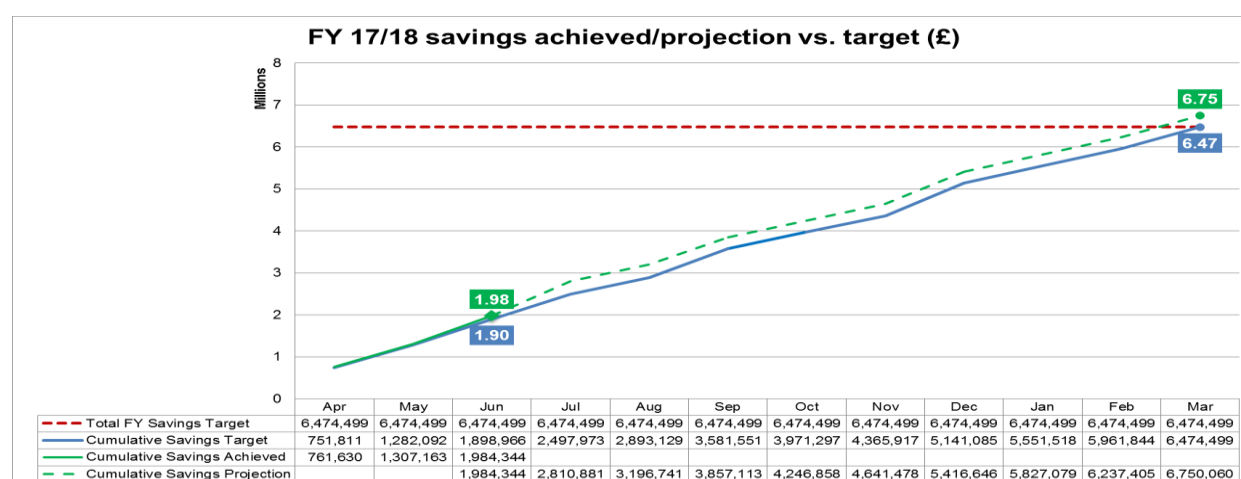
The Annual Savings Target elements

4. The 2017/18 annual savings target was set using two types of in-year savings:
 - 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 current financial year.
5. The savings targets are for competitive price savings and are not inclusive of scope changes/service downgrades or other operation decisions which are treated as local department savings.

2017/2018 Efficiencies and Savings progress as at 30 June 2017

6. City Procurement has achieved £1.98m this year to date compared to the cumulative target of £1.90m for this period. In terms of the annual position, City Procurement is projecting a positive end of year position of realised savings totalling £6.75m against the 2017/18 target of £6.47m as illustrated in the Figure A below. Of the projected £6.75m total savings, it is projected that £5.91m will be budget impact savings (£1.05m cashable in year) resulting in budget adjustments for any newly realised savings achieved within 2017/18.

Figure A – Actual Vs. Target Savings (Target £6.47M)



Accounts Payable Performance - PO Compliance/No PO No Pay

7. The Corporation's No PO No Pay Policy is now fully embedded and we continue to achieve high levels of compliance with every month so far achieving or beating our new target for FY17/18 of 96% compliance averaging 97%.

Payment Performance

8. For Q1 the Corporation's 30-day invoice paid on time performance is 97% (target 97%).
9. Our 10-day SME invoice payment performance for Q1 2017/18 is 58% (target 88%). Unfortunately the 10-day paid on time figure has dropped significantly due to the Accounts Payable Team dealing with a backlog of invoices that built up as a result of year-end processing, Oracle downtime, annual rates and council tax bills, as well as some resource capacity issues in April and May.
10. The Accounts Payable Team have focused resources on catching up as quickly as possible and at the end of June we can see a significant improvement. The backlog is almost cleared which should result in an increase in payment performance in July, particularly for 10-day invoices. City Procurement will continue to monitor payment performance throughout the month to ensure we are heading in the right direction. The following figures show performance trends for both metrics during 2017/18 to date.

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

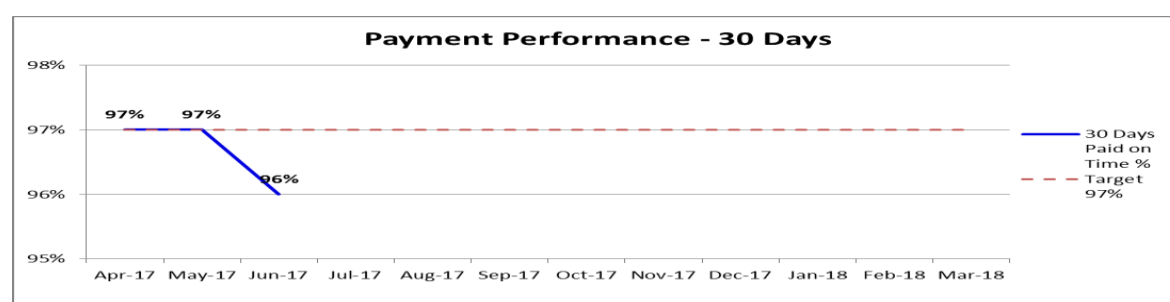
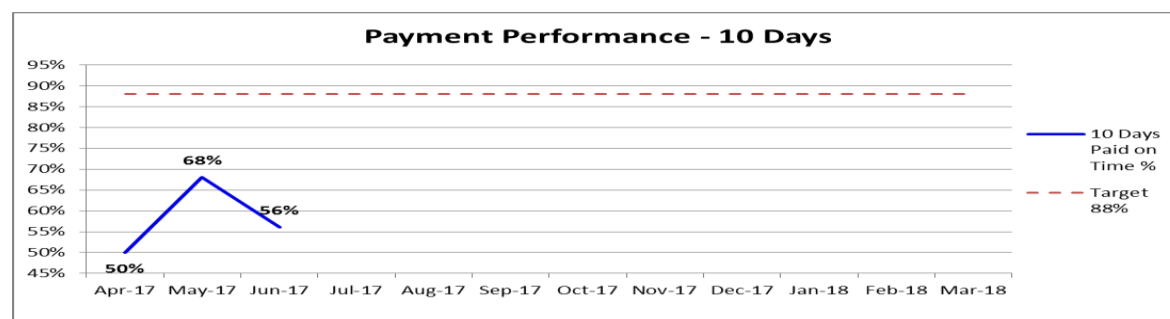


Figure D – 10 Day SME Payment Performance trend report (Target 88%)



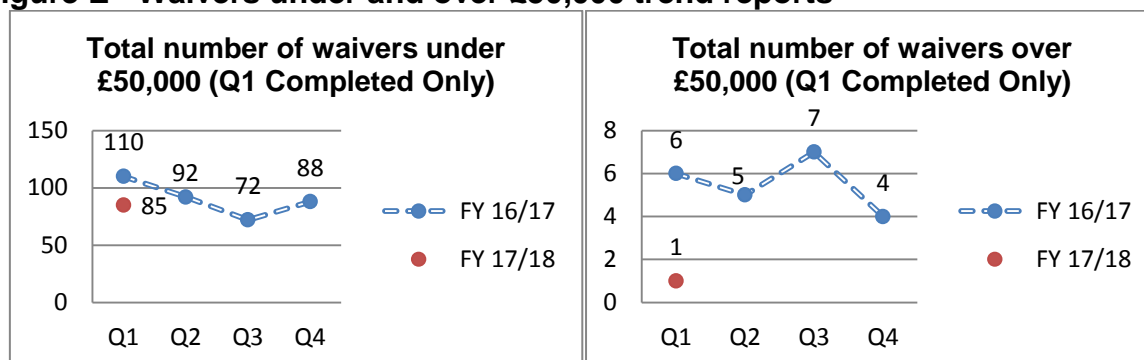
Electronic Invoices Received

11. The percentage of electronic invoices being received in Q1 2017/18 is 92%. This has decreased by 1% compared with 93% achieved in Q4 2016/17. The report will be issued quarterly so Departments do not lose sight of how they are performing and to also assist in driving up compliance in this area. City Procurement will continue to attempt to increase this figure where possible by contacting suppliers to send invoices electronically in future.

Current Waiver performance

12. This part of the report sets out the quarterly trend update on the approval of waivers. The following graphs compare the trend of number of waivers from Q1 2017/18 and Q1 2016/17. Appendix 2 sets out a summary of the total number, value and the reasons for the waivers. Waivers under £50,000 require a Chief Officer approval, with those above requiring the approval of the Chamberlain (under urgency) or the appropriate spend Committee.

Figure E - Waivers under and over £50,000 trend reports



- 13.** The number of under £50k waivers in the first quarter of 2017/18 decreased slightly in comparison to the same period of 2016/17 showing a growing awareness of regulatory requirements within the Corporation. There has also been a dramatic decrease in the number of over £50k waivers in comparison.

Compliance with our Living Wage Policy (London Living Wage)

- 14.** City Procurement can report that all eligible contracts are now contracted to pay Living Wage (London Living Wage) in line with our policy. Progress in this area since April 2016 is documented in Appendix 3.

Conclusion

- 15.** City Procurement continues to enhance its service levels whilst achieving consistent performance, attaining the majority of its KPIs so far this financial year. We have had some performance issues in the 10 day payment area with measures taken to address this concern in quarter 2. The strategy of developing operational excellence, value for money and innovation levels continues to progress with a series of improvement programmes now completed.

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Appendix 1 - Summary Key Continuous Improvement Projects

- a) **Commercial Contract Management** – The framework and toolkit to support and embed better contract management within the organisation is currently going through a final consultative review and will be launched across the organisation mid-July. The corporate scorecard that underpins all CCM activity has been finalised and approved at Efficiency and Performance Sub-Committee in May 2017
- b) **Responsible Procurement Strategy** – The Corporation's first Responsible Procurement Strategy was published in July 2016. A range of interventions are embedded across all our new contracts to ensure greater results from our purchasing activity. A report will be brought back to Committee in September 2017 with details of the impact of the strategy 12 months on.
- c) **Commercial Opportunities** –. A report on early opportunities identified was presented at Efficiency and Performance Sub-Committee in May and illustrated a range of activities this new team are pursuing.
- d) **Early Payment Discount Scheme** – City Procurement signed a contract in May with the supplier Oxygen Finance to develop an Early Payment Discount Programme. This programme will allow us to capitalise on our consistently high performance in paying invoices quickly (currently averaging 16 days) by achieving discounts from suppliers who opt into the programme in return for faster than 30 days payment. The implementation of the project has had a soft start as work has begun on agreeing the project team, developing the branding of the programme and creating the marketing materials for supplier on-boarding. The current focus is to work on non-technical related parts of the project full mobilisation firmed up once the technical IT and Oracle timelines are confirmed.
- e) **Electronic Signatures** – as part of the strategy we have been exploring with Comptrollers and City Solicitors a method in which we can accept electronic signatures for contractual documents. Our current e-tendering supplier has now upgraded their system to offer this functionality. If implemented it will improve process efficiency and reduce time in finalising contracts.
- f) **Enhanced spend visibility and analytics** – City Procurement are in consultation with a new business venture (university spin-off) to review and develop a new spend data analytics tool that offers live data exploration that is not restricted by the coding structure of our ERP system. This not only could increase efficiency it could also offer a commercial venture in the roll-out of this new software tool.
- g) **Web Applications Desktop Integrator (Web ADI)** - is a self-service Oracle tool, which comes as part of our existing Oracle suite and is accessed via an internet browser. There are two main uses that we are exploring that could for example, replace the 7,000 payment request forms AP currently receives each year which are manually processed to a more automated process.

Appendix 2 - Summary of overall waivers performance

Table 1- Waivers under £50,000 number and value comparator report

2017/18	Number	Value (£)	Average Value(£)
Q1 (April – June)	85	1,798,148	21,155
2016/17	Number	Value (£)	Average Value(£)
Q1 (April – June)	110	2,430,762	22,098
Q2 (July – September)	92	1,682,215	18,285
Q3 (October - December)	72	1,339,182	18,600
Q4 (January - March)	88	1,994,070	22,660

Table 2 - Waivers over £50,000 number and value comparator report

2017/18	Number	Value (£)	Average Value(£)
Q1 (April – June)	1	245,450	84,817
2016/17	Number	Value (£)	Average Value(£)
Q1 (April – June)	6	648,950	108,158
Q2 (July – September)	5	816,212	163,212
Q3 (October - December)	7	1,034,735	147,819
Q4 (January - March)	4	543,900	135,975

Table 3 – Analysis of reasons provided for need for waivers (Under £50k)

Under £50k 17/18 Q1	
Retrospective Waiver	69
Sole Supplier (not advertised)	10
Extension of Contract	4
Outside Corporate Contract	1
Urgent due to Security Risks	1
Total	85
Over £50k 17/18 Q1	
Retrospective Waiver	1
Total	1

Table 4 – Retrospective Waivers (Under £50,000 – FY 2017/2018 to Jun 17)

Retrospective Waiver (A purchase where previous authority has not been obtained)	Number of Waivers	Total Value £
Barbican	24	£434,835
Community and Children's Services	6	£145,715
City of London Police	3	£127,680
Chamberlain's	6	£125,426
Built Environment	4	£121,555
Town Clerks	4	£99,025
City Surveyors	3	£91,785
Freemen's School	4	£74,069
Markets & Consumer Protection	3	£57,000
Remembrancer's	1	£45,000
Culture, Heritage & Libraries	3	£36,300
GSMD	2	£33,315
COL School for Girls	1	£30,415
COL School	2	£24,000
Open Spaces	2	£20,764
Mansion House	1	£13,000
Total	69	£1,479,884

Table 5 – Retrospective Waivers (Over £50,000 – FY 2017/2018 to Jun 17)

Retrospective Waiver (A purchase where previous authority has not been obtained)	Number of Waivers	Total Value £
Barbican	1	£56,415
Total	1	£56,415

Appendix 3 - Living Wage Update - June 2017

Living Wage Policy and Invitation to tender Living wage clause

The 2015 Living Wage Policy and ITT Living Wage clause was updated in January 2017. As a result the City will ensure to the extent permitted by law that any of its contractors or sub-contractors pay LLW to those employees based in Greater London and UKLW to those employees based outside Greater London. This provision applies to employees providing service contracts at £100,000 and above to the City, for two or more hours of work in any given day in a week, for eight or more consecutive weeks in a year, on our premises; premises occupied by the City; and land for which the City is responsible for maintaining or on which it is required to work.

It is now the intention of the City of London Corporation not to contract with any supplier who does not comply with the Living Wage policy and Living Wage will form part of the evaluation criteria. If a bid does not allow for the tenderer's employees to be paid Living Wage rates, the bid will be disqualified. Therefore the requirement for an option A and option B tender in the event of non-payment of Living Wage has been removed.

Contracts that were not compliant with the Policy as at 1st April 2017 update:

Grazing Contract

The Grazing contract was terminated due to poor performance in November 2016. The City has employed City of London staff to provide the grazing services previously covered by the contractor. All City of London staff are paid Living Wage rates or above.

Waste Collection and Street Cleansing Contract

Built Environment is working with Comptroller and City Solicitor's Office to finalise a Change Request Form with the waste collection and street cleansing contractor, Amey, to ensure Living Wage is implemented into the contract this financial year as the LLW rate in 2017/18 is higher than the originally contracted rates within this contract from this year onwards.

Social Care Contracts

All non-residential care/supported living contracts are compliant with the City's Living Wage policy.

There are 27 providers of residential care within London, out of which ten pay London Living Wage rates. The 17 remaining contractors do not pay the London Living Wage rates. This is due to the difficulties of implementing Living Wage previously reported on. That is, care staff often provide services to clients from a range of Boroughs, not all of whom require the payment of Living Wage. To do so would mean that the contractor would incur significant costs that could not be recovered from those Boroughs.

We cannot restrict the choice of care homes for clients as this would contravene the Care Act as the supported person/nominated person has that choice.

However, the Corporation is continuing to support the promotion of Living Wage within the care sector by participating in the Living Wage Foundation (LWF)'s cross borough social care network, requesting support from the LWF on implementation and providing information on Living Wage providers to service users when making a choice of service.