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| Committee(s) | Dated: |
| Finance Committee | 8 May 2018 |
| Subject: City Procurement Quarterly Progress Report including annual results for 2017/18 (May 2018) | Public |
| Report of: The Chamberlain | For Information |
| Report author: Chris Bell, Commercial Director, Chamberlain's | |

Summary

The report updates Members on the work of City Procurement and the annual performance figures for the 2017/18 financial year.

Members are asked to:

Note the key strategic performance indicators:

- i. Procurement savings achieved £6.98m, against a target of £6.47m.
- ii. New service of Commercial Contract Management, achieved savings £311k against a target of £550k. The shortfall will be added to this year's target to be presented at June 18 Finance Committee.
- iii. Purchase Order Compliance was 97%.
- iv. Supplier Payments
 - a. 95% of all supplier payments happening within 30 days (Target 97%).
 - b. 76% of SME payments happening within 10 days (Target 88%).
- v. 93% of invoices are currently received electronically.
- vi. The City Procurement service costs £3.08m, with a breakdown found at paragraph 13 in the main report.

Main Report

Background

1. City Procurement has four main functions, Category Management/Sourcing, Commercial Contract Management, Accounts Payable and Policy and Compliance. This report updates on progress and performance results in delivery against the service KPIs set in the Chamberlain's Business Plan in April 2017.

Efficiency and Savings

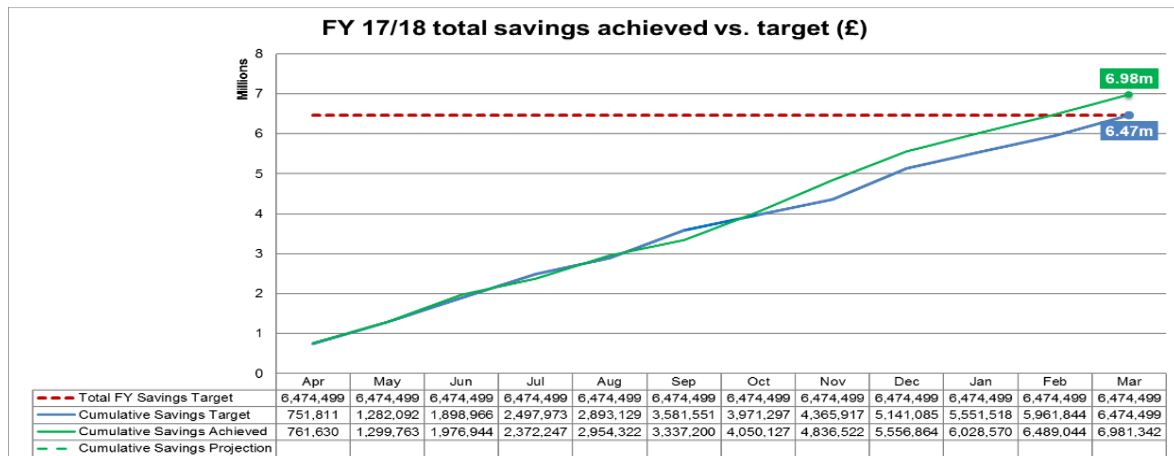
2. City Procurement is set an annual savings target at the start of each year based on the contracts to be let during the financial year that have the potential to make

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: each contract target considers historic spend, scope changes, complexity, risk and industry benchmarks. The 2017/18 City Procurement target was £6.47m.

The Annual Savings Target elements

3. 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 financial year.
4. 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.
5. The results of 2017/18 show that procurement savings achieved are £6.98m in total, compared to the target of £6.47m. Figure A below shows how this was achieved. Of the total £6.98m savings, £6.16m are budget impact savings with £1.28m (of the £6.16m) being the in-year result.

Figure A – FY 2017/18 Procurement Actual Vs. Target savings (Target £6.47M)



Commercial Contract Management savings target

6. In addition to the City Procurement annual target, a savings target for the new Commercial Contract Management was set for 2017/2018. This relates to efficiencies and savings delivered within the duration of a contract. The target for Commercial Contract Management was £550k which is a cost recovery figure reflecting that this is a start-up area of business for City Procurement.
7. Efficiencies and savings from this new function delivered a total in-year savings of £311k, the shortfall will be added to next years' target. The key lesson has been to understand the time taken to realise some of these types of savings, particularly in dispute or negotiation scenarios. It should be noted that the work

of this team has secured a further £680k additional savings for future years, these savings are spread over the life of the contracts. A regular update on Commercial Contract Management efficiencies and savings initiatives are to be reported at Efficiency and Performance Sub-Committee.

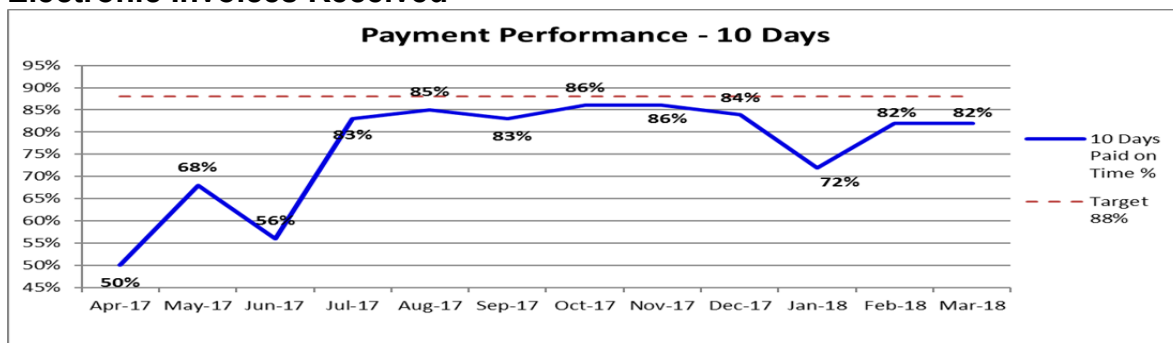
Accounts Payable Performance - PO Compliance/No PO No Pay

8. The Corporation's No PO No Pay Policy continues to achieve high levels of compliance, averaging 97% compliance overall for the year, and meeting or beating our target of 96% in each and every month.

Payment Performance

9. The Corporation's 30-day invoice paid on time performance for 2017/18 is 95% (target 97%). Quarter 4 performance is in line with previous years, seeing a reduction in the performance figures. This is due to departments preparing for year-end closure, typically this sees a rise in the number of legacy invoices older than 30 days being processed which has a negative impact on this metric.
10. Our 10-day SME invoice payment performance results are 76% (target 88%). The backlog of invoices to be input in Q1 played a significant part in this and made it difficult to pull the overall average back up. Other factors, such as PO receipting and approving invoices in a timely manner, that are out with our control, also contributed. These are the Departments' responsibilities, but City Procurement will continue to provide training, support and encouragement to Departments in order to improve payment performance in the new financial year.

**Figure B – 10 Day SME Payment Performance trend report (Target 88%)
Electronic Invoices Received**



11. The percentage of electronic invoices being received in 2017/18 is 93%. The focus of this report will change in 2018/19 when we will be encouraging suppliers to submit invoices to us in a True PDF format (not a scanned image), which will assist with our strategy to expand Electronic Invoicing significantly and increase efficiencies in invoice processing. This step will support greater automation and see the need for manual keying removed, significantly speeding up processing time and reducing human errors in future years and in time provide an opportunity for efficiency savings.

Freedom of Information Requests

12. City Procurement have responded to 41 FOIs during the last financial year totalling 100 hours of officer time.

Cost of City Procurement service

13. Members at the April 18 Finance Committee requested a breakdown of costs of the City Procurement service. To ascertain the costs of the elements that generate savings, specifically, these would be the Category Management and Sourcing and Commercial and Contract Management areas. The Total budget for City procurement £3.08m. This is broken down as follows:

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|--|---------------|
| a) Leadership, admin, income and non-staffing costs | £0.05m |
| b) Accounts Payable | £0.91m |
| c) Category Management and Sourcing | £1.27m |
| d) Policy and Compliance (<i>inc. Responsible Procurement</i>) | £0.32m |
| e) Commercial and Contract Management | £0.53m |
| TOTAL | £3.08m |

Conclusion

14. City Procurement continues to achieve consistent performance, attaining the majority of its KPIs. Payment performance has suffered this year and in particular the 10-day payment was significantly lower than targeted. The team have considered the lessons learned and have a number of initiatives to improve this, whilst it should be noted we are reliant on Departments to support achieve this.

Report Author

Christopher Bell, Commercial Director

T: 0207 332 3961

E: Christopher.bell@cityoflondon.gov.uk