Committee(s)	Dated:
Finance Committee Procurement Sub Committee	21 January 2020 6 February 2020
Subject: City Procurement Quarterly Progress Report Quarter 3 2019-2020	**Public**
Report of: The Chamberlain	**For Information**
Report author: Chris Bell, Commercial Director	

Summary

The report updates Members on the work of City Procurement, key performance indicators and areas of progress.

Recommendations

Members are asked to note the progress of key strategic improvement projects and performance for Q1 – Q3 of 2019/20 financial year (FY 19/20):

- Procurement savings at end of December 2019 of £5.4m, made up of £930k Commercial Contract Management savings and £4.5m Sourcing & Category Management savings.
- Purchase order compliance of 98% (target 97%).
- 94% of all supplier invoices were paid within 30 days (target of 97%)
- 86% of SME invoices were paid within 10 days (target of 88%).
- 81% of invoices are currently received in True PDF format (target of 75%)
- Waiver trends:
  - Total number of waivers has reduced by 9% compared to same period during the previous financial year.
  - Non-compliant waivers have decreased by 33% comparing the same period during the last financial year.
  - A total of 17 Procurement Breach waivers have been recorded at end Q3 2019/20 with a value of £637k.

Main Report

Background

1. City Procurement has four main functions: Category Management/Sourcing, Commercial Contract Management, Accounts Payable and Policy & Compliance. This report provides an update on the progress and current performance against the service KPIs set out in the Chamberlain's Business Plan in April 2019.

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 and each contract target considers historic spend, scope changes, complexity, risk and industry benchmarks. The 2019/20 City Procurement target is £6.1m.

Commercial Contract Management savings target

3. In addition to the City Procurement annual target, a savings target for Commercial Contract Management has been introduced. This relates to efficiencies and savings delivered within the duration of a contract. The 2019/20 Commercial Contract Management target is £1.17m.

The Annual Savings Target elements explained

4. The 2019/20 annual savings target was set using two types of in-year savings:
    - **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-to-7-year period when the savings are spread across the contract life.
    - **New contracts let generating savings** – Savings targeted to be generated from new contracts let during the current financial year.
    - The savings targets are for competitive price savings and are not inclusive of scope changes/service downgrades or other operational decisions which are treated as local department savings.

2019/20 Efficiencies and savings progress as at 31 December 2019

5. Sourcing & Category Management achieved procurement savings of £4.50m at the end of Q3 compared to the projected expected savings of £4.58m for this period. The shortfall is expected to be made in in quarter 4.

6. Additionally, Commercial Contract Management has achieved total efficiencies and savings to the value of £930k at the end of Q3 compared to the projected expected savings of £881k for this period. This is tracking ahead of projections and may lead to an over achievement against target by year end.

**Accounts Payable Performance – Compliance with No PO No Pay Policy**

7. The Corporation's No Purchase Order (PO) No Pay Policy is now fully embedded, and we continue to achieve high levels of compliance. We achieved 98% PO compliance for Q1 – Q3 FY 19/20, therefore exceeding our target of 97%. This ensures that we have a high level of visibility of the organisations expenditure and maximises our opportunity to identify savings and efficiency opportunities whilst assure compliance.

Payment Performance

8. The Corporation's 30-day invoices paid-on-time performance for Q1 – Q3 FY 19/20 is 94%, slightly below the target of 97%. Our 10-day SME invoice payment performance for Q1 – Q3 FY 19/20 is 86%, falling just short of the 88% target. Accounts Payable have been carrying between one and three vacancies
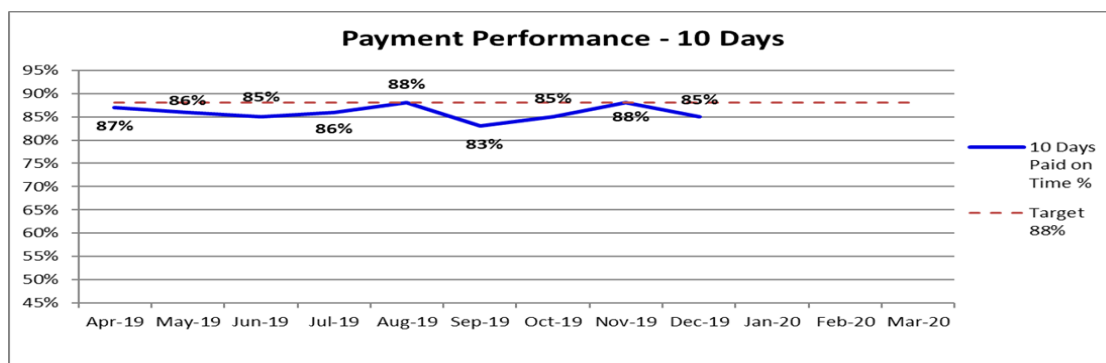
consistently this year which is the main reason for the variance of performance against target.

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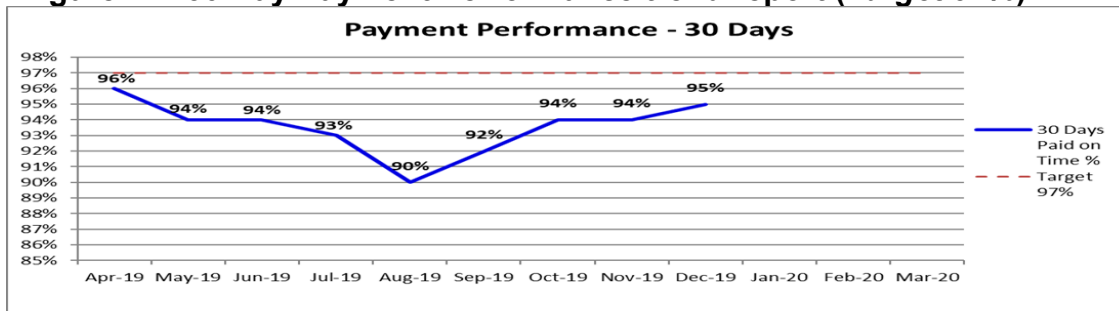
Figu

**re B – 10 Day SME Payment Performance trend report (*Target 88%*)**

True PDF Invoices Received

9. City Procurement has been monitoring the number of invoices received in 'True PDF' format, which is the machine-readable format required for the new electronic invoicing system. Suppliers already submitting True PDF invoices containing product item numbers will be prioritised and invited to invoice us via the new e-invoicing route. We have recently appointed on a short-term basis an E-invoicing Project Manager to solely focus on this and to increase the volumes of electronic invoicing. Note however that this is not only restricted to the True PDF solution provided by Basware as there are other electronic invoicing routes which may potentially be a better alternative for example Electronic Data Integration (EDI). Conversion of suppliers to e-invoicing will see us have the opportunity to gain further efficiencies through staff headcount reductions of 1-2 FTEs in the next 24 months.

10. Of all the invoices received from suppliers in Q1 – Q3 FY 19/20, 81% were in the desired True PDF format. 84%, our highest figure to date, was achieved in both October and December 2019 and shows that we are moving in the right direction and exceeding the 75% target set for the year.

11. The new e-invoicing technology should also increase process efficiency whilst reducing error rates, as it eradicates the need for manual keying, and improve our payment performance.

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 for the number of waivers for FY 18/19 and Q1 – Q3 FY 19/20. Waivers for procurements valued under £50k require Chief Officer approval, while those above £50k require the approval of the appropriate spend Committee.

Figure C – Total waivers (*compliant and non-compliant*) trend charts

Total number of waivers under £50,000 (Completed Only)	Total number of waivers over £50,000 (Completed Only)
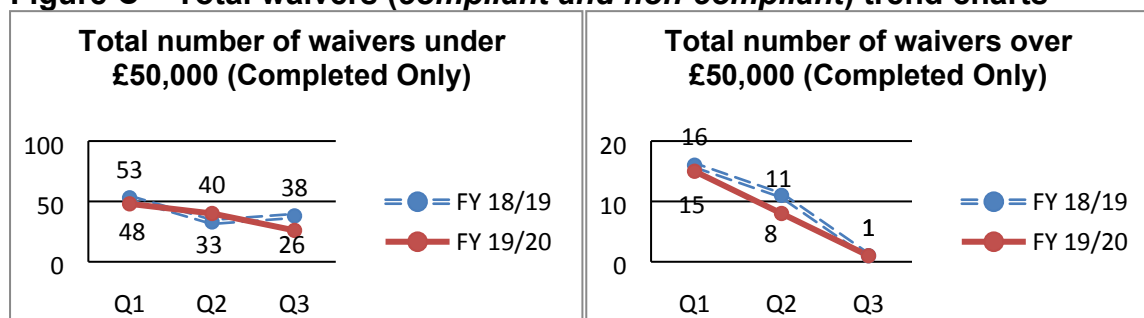
13. The total number of waivers completed Q1 - Q3 FY 19/20 is **138** (*compared to 152 Q1 - Q3 2018/19)*, which breaks down as follows:
    a. Compliant Waivers **105** – (value £6.82m)
    b. Non-Compliant Waivers **33** – (value £1.08m)
        i. Procurement Breaches *(subset of Non-compliant total)* **17** (£637k)

14. **Waiver Trends**:
    - There has been a reduction in the number of waivers completed during the first three quarters of FY 19/20 in comparison to the same period of the previous financial year (9% decrease), as well as a 20% decrease in the total value, from £9.9m to £7.9m.
    - Comparing the end of Q3 FY 19/20 to the same period last financial year, the total number of non-compliant waivers has decreased by 33%, with the value of non-compliant waivers decreasing by 60%.
    - Non-compliant waivers make up 24% of all waivers completed between Q1 - Q3 FY 19/20, and 14% of the total value.

15. Significant progress has been made to reduce waivers in the last 3 years, considering the make-up of the non-compliant waivers, 43% come from the Barbican/Guildhall School and a further 21% from the Schools. The rest of the departments make up the balance with typically 1 waiver of this type. We have been working closely with the Barbican, having regular workshops, had City Procurement personnel working onsite and a range of training sessions. But whilst there is improvement, the Chamberlain and his team will work with senior Barbican leaders to ensure that further efforts are made to increase compliance, in line with progress elsewhere.

Freedom of Information Requests

16.   City Procurement has responded to 40 FOI requests in Q1 – Q3 FY 19/20, amounting to 85 hours of officer time. Analysing the make-up of FOIs for this year, it shows the following categorisation:

Nature of FOI Query	Instances
Contract or procurement exercise specific	14
Understanding our expenditure	10
Compliance queries	5
Policy queries (Inc. Brexit)	5
Payment queries	3
Seeking sales opportunities	3
	40

17.   In the main it shows that FOIs are typically related to specific contracts or procurement exercises we have run, or more generally looking to understand our expenditure and spend profile. There has been a slight rise this year in Policy queries, mainly related to Brexit planning.

Conclusion

18.   City Procurement continues to achieve a high level of performance, meeting or surpassing most of its KPIs for Q1 – Q3 FY 19/20. The two main savings targets together have achieved a total of £5.43m of savings compared with the cumulative target for this period of £5.46m, just falling short by £30k, however still on track to achieve the target set for FY 19/20. The payment performance figures are falling just short of their respective targets, but a few adverse factors have been identified and further investigation will be carried out with the aim of introducing measures to counteract these. PO Compliance continues to exceed the target of 97% achieving 98% in most months, and both compliant and non-compliant waivers continue to decrease compared with previous years. We continue to exceed the True PDF invoice target, and this will hopefully aid the E-invoicing Project Manager in increasing the number of e-invoices being processed to reduce the current manual input required.

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