

# Commercial Directorate Finance and Resources

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# What am I going to cover?

## Outline

- What is Supplier Risk Management in this context?
- Where is it embedded in the procurement cycle?
- Why are DWP concerned?
- How do we do it?
- What are our plans going forwards
- How can partners help?

# What is it (in this context)?

## Supplier Risk Management

### Focus is on

- Financial Viability Risk Assessment (going concern assessment)
- Welfare to Work provision - £1+bn pa

### Objective

- Ensure appropriate risk management strategies are in place
- Better understand our partners (brought service back in-house)
- **NOT** about terminating contracts
- **IS** about clear line of sight of risks
- **IS** about managing the risks
- **IS** about building relationships

### Critically

Identify business continuity risk (customer journey)

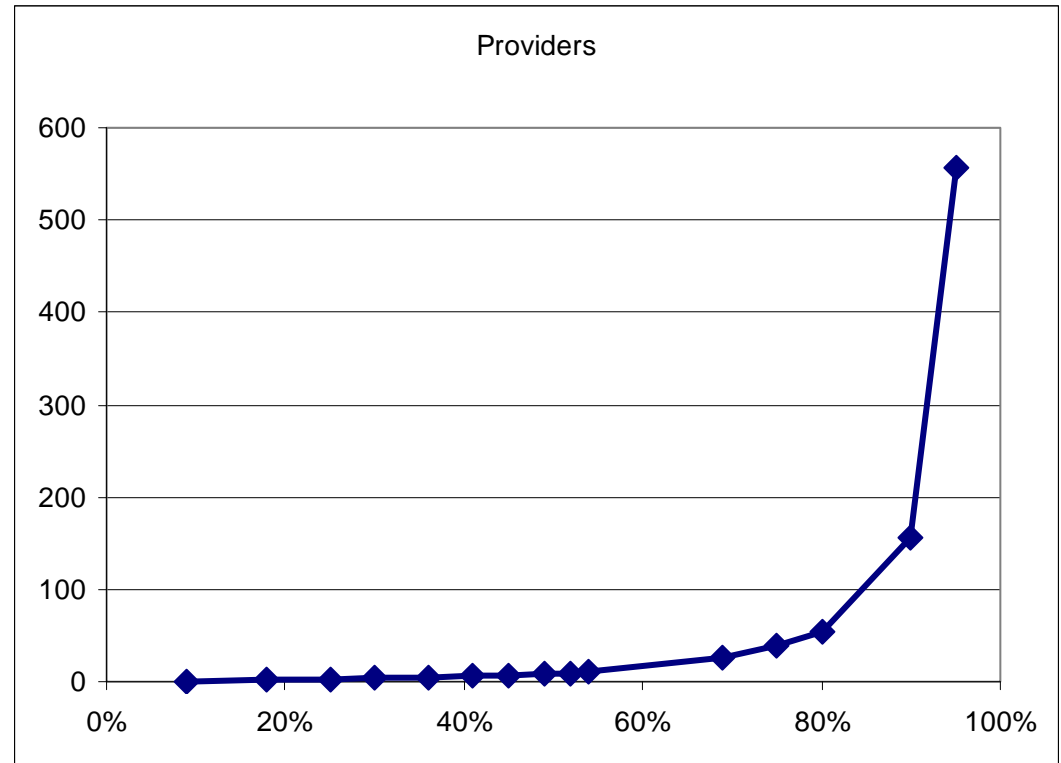
# We are highly dependant upon a small number of providers

The largest provider accounts for 9% of our spend

50% of our spend is with 8 organisations

80% of our spend is with 26 organisations

90% of our spend is with 160 organisations



# We are working in a volatile economy

The number of liquidations is increasing

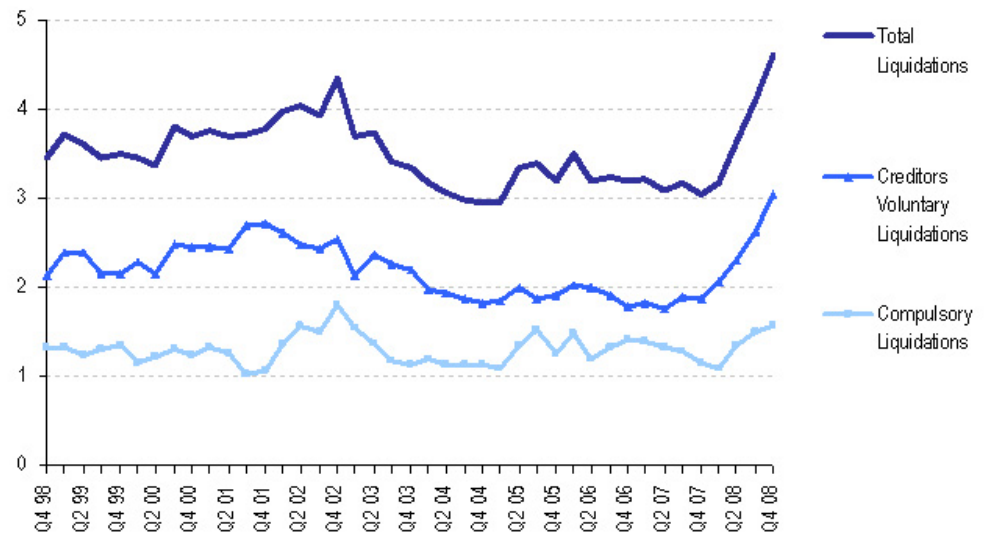
Funding models tend to focus on job outcomes

Job outcomes are more *difficult* to secure leading to potential revenue risk

**DWP key risk:**  
Business continuity and support for customers.

Figure 1. Company Liquidations in England & Wales

Thousands, seasonally adjusted



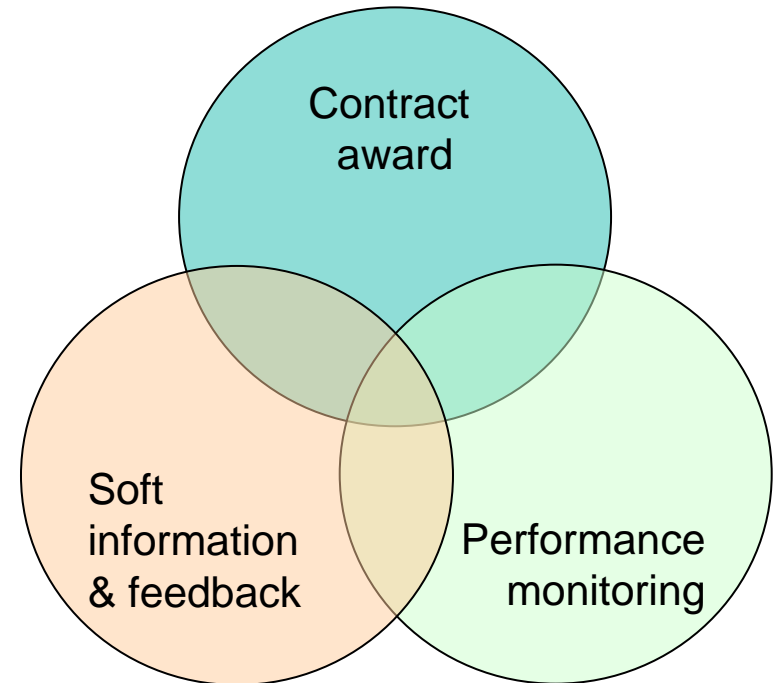
Source: Insolvency Service and Companies House

The process starts with contract award;

Continues throughout the life of the contract; with

The focus on risk management (understanding and managing the risks); *and*

Critically it's about building up a financial relationship



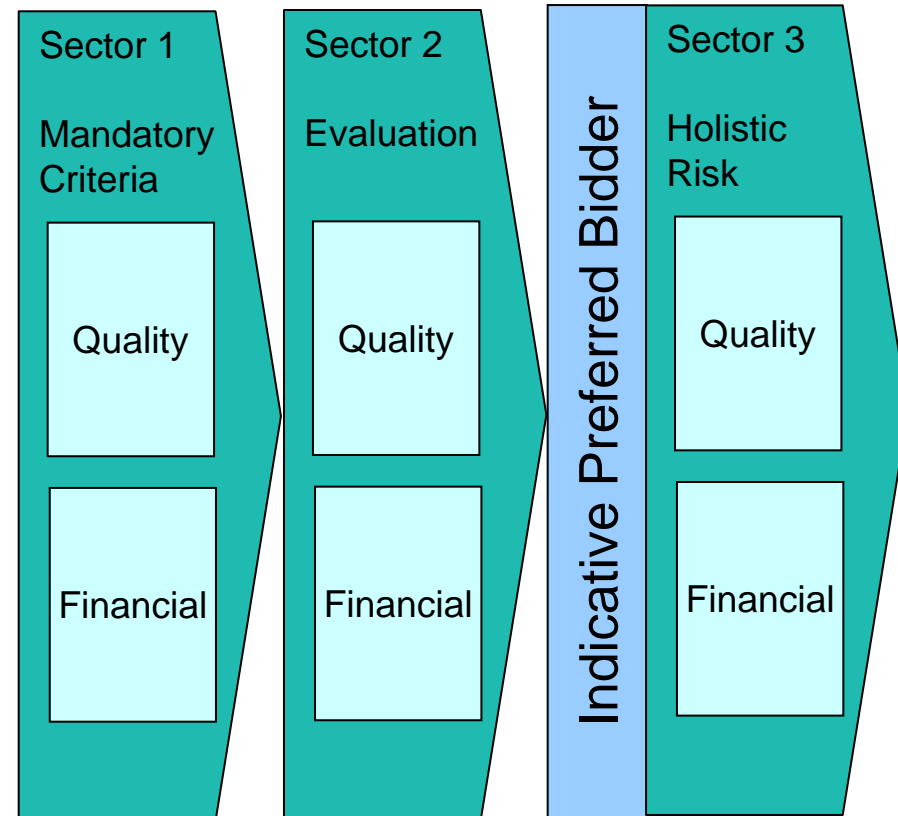
# Contract Award consider Financial Risk

At PQQ we indicate financial “strength” and feedback to bidders

At ITT we undertake “Sector 3” holistic risk assessment that consider:

- Financial Viability
- Key Ratio Analysis
- Management of growth
- Working Capital Management
- Funding Instruments

Categorised - RAG



# Financial Risk Assessment and Feedback

At PQQ we indicate financial “strength” and feedback to bidders

The assessment is based on normal financial ratios and trend analysis

Critically we look at managing business growth (turnover as proxy)

Increasing levels of business increase risk profile

		Turnover Growth													
		1	2	3	4	5	6	7	8	9	10	11	12	13	14
034	Amber	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green	Green
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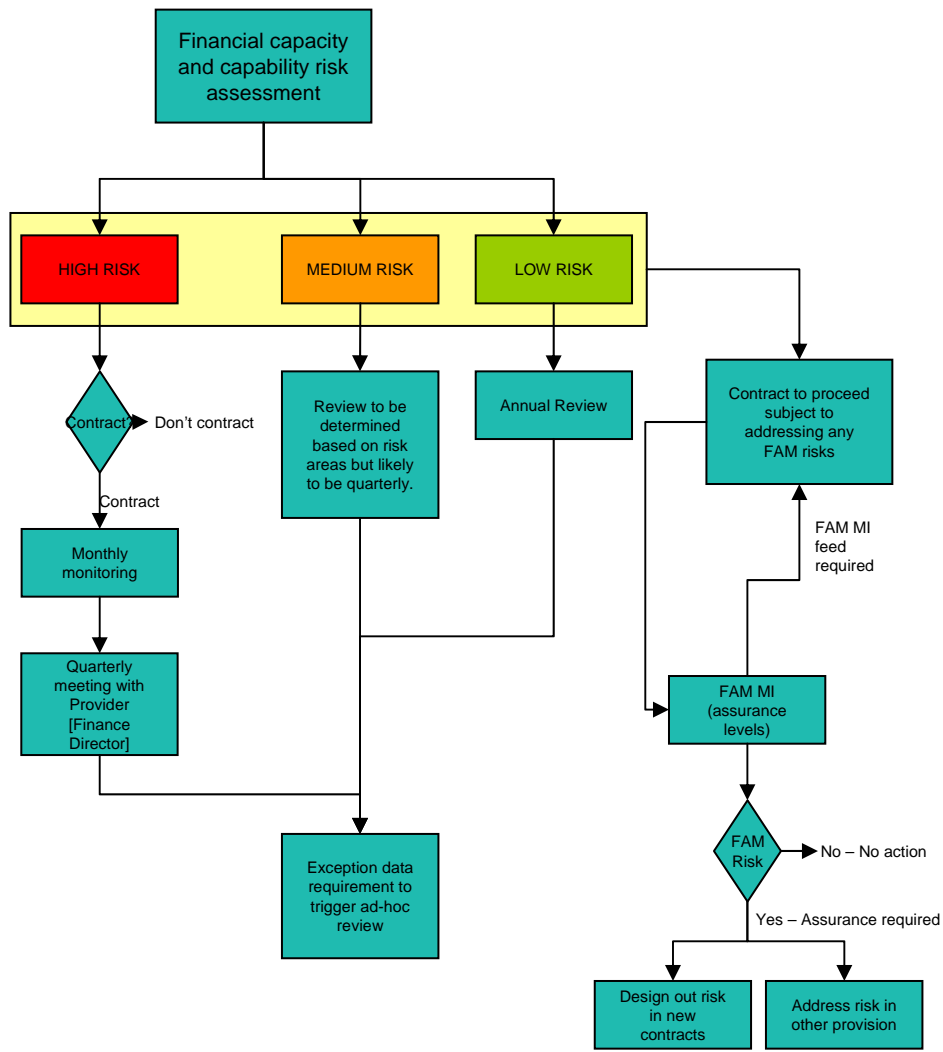
# Risk assessment informs decision making

May determine provider risk profile as RED

Provider may offer best value, innovation etc

May decide to contract anyway (entering agreement in full knowledge)

Risk drives decision making and the review process



# Undertaking an assessment

Initial assessment based on annual accounts;

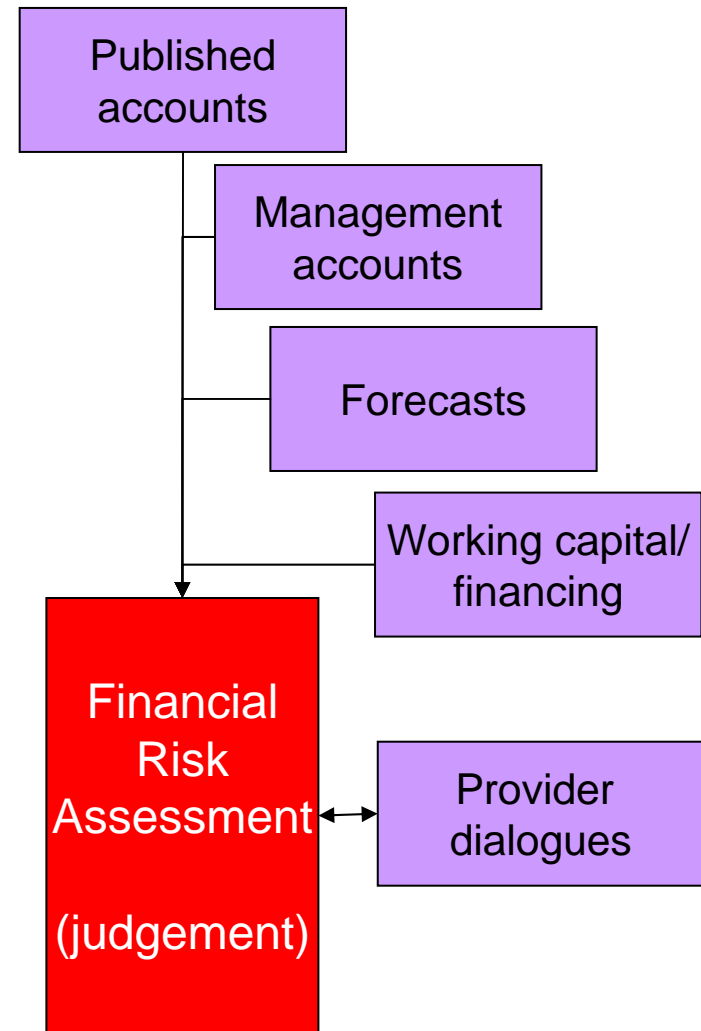
Build in dependency and displacement;

Analysis of up-to-date management accounts;

Year end forecasts;

Working Capital management;

Provider dialogues



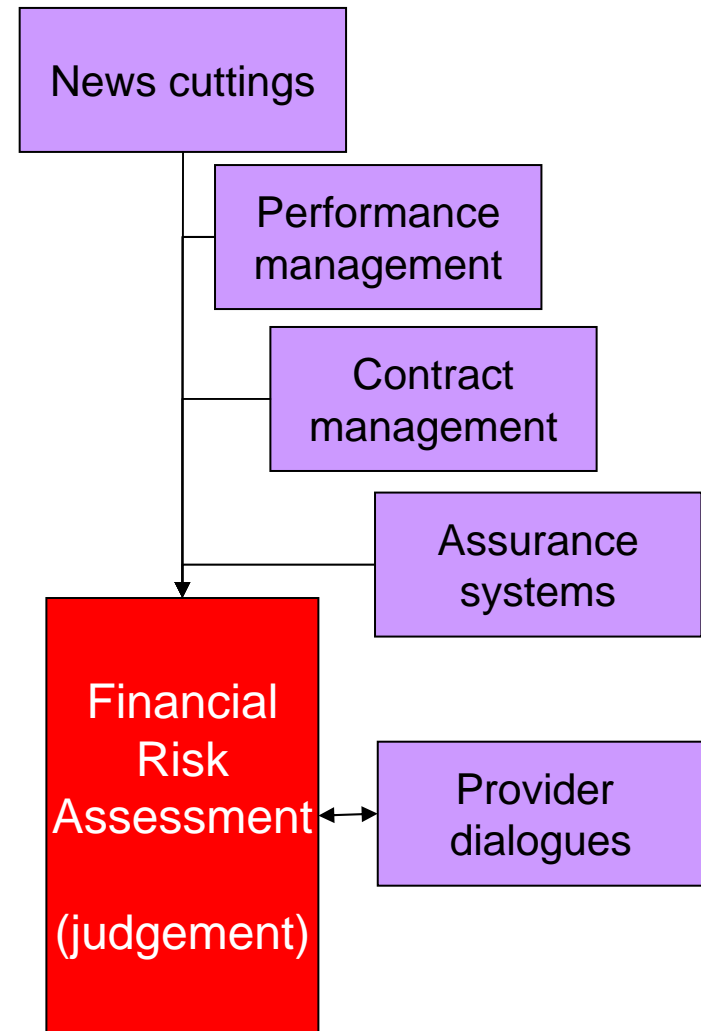
# Maintaining the assessment

The assessment needs to be maintained

Key to good information are the relationships:

- Category/contract managers
- Providers (yourselves)
- Sub-contractors

Develop and understand the data sources



# How do we undertake the assessment?

- Developed a model to calculate ratios (including Z Score)
- Model used to rank organisations and developing sector benchmarks
- Model generates reports but need to be put into context (intelligence)
- Evidence to support assertions
- Need to consider absolutes and critically trends
- Use judgement to overlay context (e.g. new cuttings)
- Assign account manager to work with the company
- Seek to manage expectations
- Overlay performance information
- Identify sources of information
- **Build a relationship with providers**

# What's next?

- Complete the assessment of the supply base (around 450 organisations)
- Review dependency risk – is it good or bad?
- Consider how we get better line of sight on non-DWP business
- Consider the supply chain risks and risk management strategy
- Develop sector benchmarks
- **Work with financiers**
- **Assess market capacity and capability -> commercial strategies**
- **Manage expectations**

# What can you do?

Critically DWP needs to better understand you and your business and you need to help us.

Examples:

- Organisational changes – mergers
- Liquidity – share issue, sale of assets
- Restructuring – redundancies or recruitment
- Financing – factoring, loans, prompt payment
- Capacity – managing growth (wider than finance)
- Risk Management – supply chain management