

Committee:		Date:
Finance Committee	For information	21 Oct 2014
Subject:		Public
City Procurement – Purchase orders and procurement waivers		
Report of:		For Information
The Chamberlain		
Summary		
<p>This report provides Members with an update on the compliance with the requirements to issue a purchase order and the steps that will be taken over the remainder of 2014/15 to increase the compliance in advance of implementing a firm policy of No PO, No Pay on 1st April 2015. Current level of compliance is 70% which is an ongoing improvement in performance. The focus will be on areas of the organisation where the biggest impact can be achieved.</p> <p>In addition, as required by the Procurement Regulations, this report gives the quarterly information relating to the number and value of waivers approved as well as the contract awards that have been signed off by the Chamberlain. The number of waivers increased from quarter 2 to quarter 3 however as monitoring only started from January 2014, it is too soon to identify a true trend. Steps have been put in place to capture the detail of the waivers to inform future sourcing decision and the establishment of further corporate contracts where applicable.</p>		
Recommendation		
Members are asked to receive and note the report		

Main Report

Background

1. At the September meeting of your committee, Members were clear that there was a need to improve the use of purchase orders before we implement a “no PO, No Pay2 regime. This will be done taking care that we do not compromise our good payment record or disadvantage small businesses for whom cashflow is an issue.

Current Position on Purchase Orders

2. Performance is monitored on a monthly basis, looking at the performance over the last 3 months. This takes account of the variations in volumes which some departments experience. As at the end of September, the overall

performance was running at 70% compliance with the requirements to issue a purchase order at the time of requisitioning an item or service.

3. A detailed breakdown by department is shown in Appendix 1 of this report. The volume of invoices has been included as just using a percentage can sometimes be misleading. It is easy for a department to be compliant when they only have a very few invoices under their control.
4. Most departments show an overall downward trend. Those with fewer numbers of invoices have a more erratic trend because just one less or one more purchase order can significantly affect their three month average.

Proposals to increase compliance

5. Achieving better compliance requires changes in behaviour of those placing orders and suppliers. Communications will be sent to suppliers again reinforcing the message that they must get a Purchase Order from the person placing the order and quote it on their invoices.
6. In some cases where the supplier is well known and they do not follow our instructions with regard to where to send an invoice or to quote the PO number, they will be contacted individually and asked to amend their invoice accordingly. This is already being done in a few test cases which so far have not had an adverse reaction.
7. The departmental performance statistics will be shared with this Committee and with Chief Officers so that it is clear where more work needs to be done. The new Head of Accounts Payable will be in post from the middle of November and he is keen to start personal interactions with departments to understand the issues that are precluding people from complying. He will be supported by members of the Business Enablement team once they are appointed and in post. The expectation is that they will be in post in late November or by the end of the calendar year.
8. Each department currently has a nominated contact to whom the statistics and the relevant detail are issued to enable them to follow up with individuals the reason why a PO was not raised or was raised after the receipt of the invoice. A member of the data team in City Procurement will in future be seeking feedback from that contact on the action that has been taken in the department to tackle the non-compliance. The effort will focus on the departments where there is still the biggest change required.
9. Regular reporting will be circulated to Chief Officers so that they can raise this as required with their senior management teams. In cases where there is not an improving trend, reports can be escalated to service committees.
10. Training for the upgrade to Oracle Release 12 includes refresher training on the procurement module and this opportunity will be taken to reinforce the required processes as well as the revised functions of the system.
11. In the longer term, progress towards electronic billing will force compliance but this will not be fully functional until 2015/16.

Waivers

12. This part of the report sets out the quarterly update on the approval of waivers. The following tables set out a summary of the total number and value for waivers in the year to date and the reasons for the waivers. The waivers under £50,000 are subject to Chief Officer approval with those above requiring the approval of the Chamberlain. The departmental breakdown is shown in Appendix 2.

Table 1- Waivers under £50,000

	Number	Value (£)	Average Value(£)
Q1	220	1,177,534	£5,352
Q2	138	828,861	£6,006
Q3	192	2,041,959	£10,635
Year to date	550	4,048,354	£7,361

Table 2 – Analysis of reasons for waivers

	Q1	Q2	Q3	Total
Officer's Preferred Supplier	120	66	97	283
Single Source Supplier	84	44	66	194
Not Stated / Other	5	23	24	52
Outside Corporate Contract	9	5	3	17
Extension of Contract	2	0	2	4
Total	220	138	192	550

Table 3 - Waivers over £50,000

	Number	Value (£)	Average Value(£)
Q1	0	0	0
Q2	3	277,000	£92,333
Q3	5	643,510	£128,702
Year to date	8	920,510	£115,064

13. The number of waivers is higher in quarter 3 than it was in quarter 2 however it is difficult to know if this is a genuine increase or if quarter 2 reflected the summer holiday period. As this is the first calendar year that waivers have been monitored in this way trends will not be obvious until further data has been collected and analysed.
14. The most common reason for waivers is that officers are choosing a preferred supplier. If there is not a corporate contract with these suppliers, the purchase order is automatically redirected to the buying team in City Procurement for two reasons. Firstly it can be reviewed to ensure that there is no existing corporate arrangement and secondly so that information can be collated to enable contracts to be set up if the purchase is going to be required on an ongoing basis thus achieving better value overall. Single source suppliers are also reviewed in the same way.

15. There is also a requirement to report the number of contract awards approved by the Chamberlain to this Committee. These are shown in the following table.

Table 4 – Contract Awards signed off by Chamberlain

Department / Contract Title	No. of Contract Awards	Value of Contract
<i>Culture, Heritage and Libraries</i> Tower Bridge Events Management	1	£1,811,088
<i>Economic Development</i> Ready to Supply the City	1	£280,000
<i>Chamberlains - Risk and Insurance</i> Insurance and Insurance Services for combined liability (Employers and Public Liability)	1	£759,714
Total	3	£2,850,802

16. The analysis shows an increase in the volume of waivers from Q2 to Q3, which may be because Q2 included the summer period. It is still difficult to see a trend however with the additional scrutiny that is being given to such waivers and the development of a longer term sourcing programme, it is expected that the numbers will decline in the next few quarters.
17. More work will be done where waivers are requested to go to preferred suppliers to understand how the business needs can be met whilst improving our approach to category management.

Conclusion

18. Whilst there is some progress in compliance with the need to raise purchase orders, the remain part of 2014/15 will be spent engaging with departments and supplier to ensure that the firm line on No PO, No Pay can be put into place from 1st April.

Appendices

- Appendix 1 – Analysis by department of purchase order compliance
- Appendix 2 – Analysis of waivers

Suzanne Jones

Business Support Director

T: 0207 332 1280

E: suzanne.jones@cityoflondon.gov.uk

APPENDIX 1

Non-Compliance Trend Chart By Department May 14 to September 14							
Departments & Sub-Divisions	Non-compliant invoices as a % Mar 14 - May 14	Non-compliant invoices as a % April 14 - June 14	Non-compliant invoices as a % May 14 - July 14	Non-compliant invoices as a % June 14 - Aug 14	Non-compliant invoices as a % July 14 - Sept 14	Total no of Invoices per Dept - July 14 to September 14 (Excluding exempt invoices)	Department Non - Compliant Trend (Comparison of last 2 months)
TCO (Town Clerks Occupational Health)	0%	0%	1%	1%	100%	1	▲
TCB (Town Clerks City Bridge Trust)	63%	67%	23%	14%	66%	29	▲
MAN (Mansion House)	74%	79%	81%	77%	62%	141	▼
GSM (Guildhall School of Music & Drama)	59%	63%	79%	85%	55%	742	▼
BBC (Barbican Centre)	54%	54%	53%	49%	45%	1681	▼
MCM (London Central Markets)	25%	34%	40%	48%	43%	40	▼
CLG (Girls School)	40%	43%	40%	34%	37%	306	▲
CLS (Boy's School)	44%	41%	38%	34%	37%	306	▲
CSB (DCCS Barbican Estate)	42%	39%	30%	29%	37%	90	▲
CHL (Culture, Heritage & Libraries) inc Libraries & Tower Bridge	34%	42%	53%	50%	34%	683	▼
CSF (DCCS Families & Young People)	57%	59%	38%	26%	33%	178	▲
MKT (Markets)	39%	40%	40%	32%	30%	258	▼
POL (City of London Police)	43%	44%	41%	34%	30%	962	▼
TCK (Town Clerks)	43%	51%	73%	63%	28%	198	▼
REM (Remembrancer's)	30%	39%	40%	35%	26%	58	▼
MBG (Billingsgate Market)	29%	37%	35%	33%	24%	147	▼
CSA (DCCS Adults Services)	42%	36%	41%	33%	24%	416	▼
SOL (Comptroller & City Solicitors)	49%	55%	47%	42%	24%	89	▼
TCP (Town Clerks Public Relations)	28%	70%	33%	25%	21%	67	▼
CHA (Chamberlains)	26%	25%	24%	23%	20%	451	▼
CSH (DCCS Housing)	32%	29%	19%	16%	19%	381	▲
OSD (Open Spaces)	22%	26%	25%	23%	19%	788	▼
CLF (Freemen's School)	29%	32%	30%	29%	18%	361	▼
TCT (Town Clerks Central Training)	24%	19%	32%	25%	17%	64	▼
ENV (Built Environment)	19%	23%	18%	15%	17%	697	▲
TCC (Town Clerks Security & Contingency Planning)	15%	17%	10%	8%	15%	26	▲
TCU (Town Clerks Economic Development)	19%	20%	16%	11%	15%	80	▲
SVY (City Surveyors)	19%	18%	18%	13%	15%	1103	▲
MSP (Spitalfields Market)	27%	34%	32%	33%	14%	44	▼
CCC (Central Criminal Court)	23%	15%	16%	11%	12%	57	▲
TCS (Town Clerks Printing & Stationery)	5%	10%	6%	6%	4%	141	▼
COL (All Departments)	38%	40%	38%	34%	30%	10585	▼

Quarter 3 Waiver Statistics

**Table 1 - Number of waivers by department for year to date (analysed by quarter)
Under £50,000**

Department	Total year to date	Q1	Q2	Q3
Barbican	115	45	24	46
City of London Police	107	40	39	28
Freeman's School	31	8	8	15
GSMD	53	27	11	15
Town Clerks	31	8	8	15
Culture, Heritage & Libraries	41	22	7	12
Community and Children's Services	32	12	9	11
City Surveyors	20	5	6	9
Built Environment	16	7	1	8
Chamberlain's	17	5	6	6
COL School	17	5	6	6
COL School for Girls	9	3	1	5
Markets	16	10	1	5
Mansion House	8	5	0	3
Open Spaces	25	13	9	3
Remembrancer's	7	2	2	3
Comptroller and City Solicitor	2	0	0	2
Central Criminal Courts	3	3	0	0
Grand Total	550	220	138	192

**Table 2 - Value of waivers by department for year to date (analysed by quarter)
Under £50,000**

Department	Total £	Q1 £	Q2 £	Q3 £
City of London Police	913,537	161,458	353,461	398,618
Barbican	674,136	197,542	117,365	359,229
Built Environment	403,171	110,364	3,000	289,807
Freeman's School	217,632	15,597	40,789	161,246
Community and Children's Services	318,597	114,703	54,073	149,821
City Surveyors	165,064	16,638	21,720	126,705
Town Clerks	271,404	127,372	22,867	121,165
Culture, Heritage & Libraries	300,829	160,324	31,196	109,309
GSMD	274,017	82,950	87,066	104,000
COL School	111,276	17,223	24,770	69,283
COL School for Girls	54,355	5,264	3,636	45,455
Chamberlain's	72,287	9,220	27,360	35,706
Markets	63,676	31,009	3,639	29,028
Remembrancer's	25,139	3,940	4,665	16,535
Mansion House	50,351	39,315	0	11,036
Open Spaces	105,357	62,891	33,254	9,212
Comptroller and City Solicitor	5,804	0	0	5,804
Central Criminal Courts	21,723	21,723	0	0
Grand Total	4,048,354	1,177,534	828,861	2,041,959

Table 3 – Average value of waivers (under £50,000)

	Q1	Q2	Q3
Number of Waivers	220	138	192
Waiver Value	£1,177,534	£828,861	£2,041,959
Average Value	£5,352	£6,006	£10,635

Table 4 – Reason for waiver by department (under £50,000)

	Q1	Q2	Q3	Total
Officers Preferred Supplier	120	66	97	283
Single Source Supplier	84	44	66	194
Other	5	23	24	52
Outside Corporate Contract	9	5	3	17
Extension of Contract	2	0	2	4
Total	220	138	192	550

Table 5 – Number of waivers by department (over £50,000)

Department	Q1	Q2	Q3	Total
Built Environment	0	1	1	2
City of London Police	0	1	1	2
Barbican	0	0	1	1
Chamberlain's	0	1	0	1
Open Spaces	0	0	1	1
GSMD	0	0	1	1
Total	0	3	5	8

Table 6 – Value of waivers by department (over £50,000)

Department	Q1	Q2	Q3	Total
	£	£	£	£
Chamberlain's		90,000	0	90,000
Built Environment		25,000	125,945	150,945
City of London Police		162,000	101,735	263,735
Barbican		0	58,000	58,000
Open Spaces		0	201,134	201,134
GSMD		0	156,696	156,696
Total	0	277,000	643,510	920,510

Table 7 – Number of waivers by department (over £50,000)

	Q1	Q2	Q3	Total
Waiver Number	0	3	5	8
Wavier Value	£0	£277,000	£643,510	£920,510
Average	£0	£92,333	£128,702	£115,064