

<b>Committee:</b>	<b>Date:</b>
Finance Committee	7 June 2016
<b>Subject:</b>	<b>Public</b>
Revisions to Purchase Order Exemptions Policy	
<b>Report of:</b>	<b>For Information</b>
The Chamberlain	
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## Summary

The report gives details of the annual updates made to the Procurement Purchase Order (PO) Exemptions Policy which became effective April 2015. The Policy outlines those categories of expenditure that are exempt from the requirement to raise a purchase order in advance of ordering of goods, works or services on behalf of the City of London and City of London Police. The update made to this policy reflects an annual review process and operational changes to this policy through work led by City Procurement to reduce exemptions which are no longer relevant or necessary.

The annual review has led to the removal of three existing exemption codes (detailed in paragraph 11) from the policy due to fact that costs relating to these exemptions after further exploration can be estimated with reasonable accuracy by the purchasing department and therefore a Purchase Order can be raised for these services.

The full policy, review summary and revised list of exemption codes, and updates can be viewed via the following link:

<http://democracy.cityoflondon.gov.uk/documents/s65085/PurchaseOrderExemptionPolicy.pdf>

## Recommendation

Members are asked to:

- a) Note the report and the updates to the PO Exemptions Policy to become effective from 1 July 2016.
- b) Note the removal of the three current exemptions from this policy as a part of this revision due the costs relating to these exemptions being able to be estimated with reasonable accuracy and therefore in each case it should be possible to raise a PO in advance for these services:
  - EX007 – Copyright
  - EX021 – Escrow agreements for software licenses
  - EX024 – School examination fees

## **Main Report**

### **Background**

1. The City of London Corporation's No PO No Pay Policy took effect on 1st April 2015. This policy means that any invoice received from a supplier that does not have a valid purchase order number will be returned to the supplier unpaid as the purchase has not been through a compliant approval process.
2. To support this regime, City Procurement introduced a Purchase Order Exemptions Policy. This exemption policy identifies items or particular categories of expenditure that do not require a supporting purchase order due to nature of the spend and/or the inability to raise a purchase order in advance. This is to ensure that prompt payment targets to suppliers are met and to minimise non-compliance levels within the Corporation.
3. Purchase orders are vital to the operations of the City in ensuring that all financial commitments are correctly recorded within the finance system, enabling budgetary controls to be maintained by management. Whilst it is possible, and also best practice, to raise a purchase order for all requirements, there are certain situations in which a particular item or category of expenditure will be exempt from this process due to its complexity.
4. The Policy also advises on payments that will not be processed through City Procurement's Accounts Payable section, with details on how such payments should be processed.
5. Officers, when placing orders with suppliers for PO exempt goods/works and services, will provide the supplier with a valid exemption code (e.g. EX012) to quote on their invoice instead of a PO number.
6. If a valid purchase order or exemption code is not quoted on the invoice it will be returned to the supplier. An exception to this will be made where the invoice is for rent, rates or utilities where City Procurement's Accounts Payable section are aware that the supplier will not be able to quote a PO number or exemption code. The Accounts Payable team will verify that the exemption code is relevant to all spend on receipt of the invoice and will seek the department's approval to pay before processing.
7. The Policy and Exemption List were reviewed by City Procurement as part of the annual audit provisioned for at its inception.
8. The resulting recommendations were then presented to the Procurement Steering Group (PSG) in April 2016. PSG approved the amendments to the Policy and Exemption List. The full Policy and proposed amendments can be viewed online at the following link:

<http://democracy.cityoflondon.gov.uk/documents/s65085/PurchaseOrderExemptionPolicy.pdf>

## **Exemption Volumes 2015/16**

9. In the recent year 35% of our overall total payment transactions of 88,000 processed by the Accounts Payable function were exempt from having a Purchase Order. The vast majority of these exemptions relate to Utility Bills (27%), Rates and Council Tax refunds (23%) and a range of Grants, Donations, Payment Requests and Benefits (36%). Only 14% of exempt payments relate to the PO Exemption codes related to goods and services.

## **Revisions to the Exemption Codes**

10. The majority of exemptions were ratified during the review as they continue to support prompt payment targets and no alternative payment solutions added value/are available.
11. The exemptions marked to be removed or with further extensions were found to be areas where a PO is possible and the departments are in a better place to undertake this work, or a corporate contact is being put in place.
12. In summary there has been 3 exemptions removed from the policy, as a part of this revision due the costs relating to these exemptions being able to be estimated with reasonable accuracy and therefore in each case it should be possible to raise a PO in advance for these services, these are:
  - a) EX007 – Copyright
  - b) EX021 – Escrow agreements for software licenses
  - c) EX024 – School examination fees
13. City Procurement has identified those departments affected by these proposed changes and will work closely with them to make sure there is a smooth transition.

## **Conclusions**

14. The Purchase Order Exemption Policy was developed to support a smooth implementation of the City's No PO No Pay Policy. With few exceptions these exemptions continue to support prompt payment targets and minimise non-compliance levels.
15. All exemptions will continue to be reviewed annually; however review periods of six or 12 months have been allocated to exemptions where a corporate contract is being developed or there are improvements to support the creation of purchase orders in the future. Where this is successful these items will be removed from the exemption list in future Policy versions.

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