



**Audit and Risk Management Committee**  
**27 January 2020**

<b>REPORT TITLE:</b>	<b>Spend Freeze Programme NO PO NO Pay Compliance</b>
<b>REPORT OF:</b>	<b>Director of Finance &amp; Investment and Head of Commercial Procurement</b>

**REPORT SUMMARY**

This report provides information to the Audit & Risk Management Committee in relation to the active work programme that is focussed on reviewing compliance with the Council's Spend Freeze Programme and No Po NO Pay Policy.

**RECOMMENDATION**

Members note the report.

## **SUPPORTING INFORMATION**

### **1.0 REASONS FOR REPORT**

- 1.1 To provide the members with an overview of progress against the spend freeze programme.
- 1.2 To provide the Members with assurance that the Council is taking appropriate measures to ensure that an effective NO PO NO PAY Policy is applied and monitored.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 No other options considered.

### **3.0 BACKGROUND INFORMATION**

- 3.1 The spending freeze programme report was presented to members at the previous meeting on the 18<sup>th</sup> November by the Director of Finance and Investment which summarised the progress of the spend freeze which was implemented in October 2019.
- 3.2 The aim of the spend freeze is to target discretionary expenditure and cease spending as much as possible to eradicate the call on Council reserves.
- 3.3 The Council faces the risk of a significant in-year overspend. If this is not mitigated the Councils' general balances could be depleted to an extent that takes them below the agreed minimum level, which is not financially sustainable.
- 3.4 The imposing of a spending freeze in 2019-20 is being introduced to rectify this untenable financial position. It is considered prudent to act early rather than leave corrective action to the last minute.
- 3.5 All staff have been communicated this through the intranet and staff briefings. This exercise is not designed to get in the way of business critical expenditure. It is not about creating a huge unwieldy bureaucracy. What this means in practice is that all expenditure is frozen unless it is on the exception list or it has agreement from an officer group which includes the Chief Executive and the Director of Finance and Investment. The Spending freeze will continue for as long as is necessary to control the overspend. Weekly random sampling will be undertaken and any unauthorised spend will be reported to the Senior Leadership Team (SLT).
- 3.6 It should be made clear that activities supporting spend freeze may not be quantified in one robust "savings" figure, as this would be a comparison to what "would have" been spent, which cannot be recorded.
- 3.7 The wider financial impact of spending freeze will be demonstrated across the Directorates in Quarter 3 Revenue Reporting as a reduction to the budget gap.

3.8 The procurement compliance report was also presented at the previous meeting by the Head of Procurement which included a section regarding progress of the Purchase orders (POs) and No PO no Pay policy.

#### 4.0 Spending freeze

4.1 Further to the verbal update provided to the Audit & Risk Management Committee on 18 November 2019, a spending freeze remains in force. Purchase orders approved have continued to be monitored and a system generated report has recently been created to facilitate this process. The following information is available from the most recent review:

- 607 purchase orders reviewed, value £2,692k
- 81 PO approvers included in the review
- 465 purchase order data as returned by officers to clarify the reason for the spend, and where appropriate, the reason for using a retrospective order.
- There is an escalation process in place for officers who have not responded to the request for information

4.2 Instances of non-compliance are being addressed with individual PO approvers, their manager and SLT.

Table 1: Critical Spend Areas

<i><b>Reason for Spend</b></i>	<b>Purchase Orders</b>	<b>Value</b>
1. Other	219	£ 790,836
2. Schools related spend	68	£ 689,126
3. Spend funded by specific grant or partnership agreements	16	£ 25,898
4. Traded Services, e.g. with schools	19	£ 22,142
5. Monthly/weekly staff salary	3	£ 608
6. Staff travel & subsistence for vital services only	0	£ -
7. Staff car loans	0	£ -
8. Members expenses (travel, etc.)	0	£ -
9. Childrens placements and support packages	4	£ 525
10. Adult placements and individualised support	0	£ -
11. Housing Benefits	0	£ -
12. Council Tax and NNDR refunds; NNDR to the national pool	0	£ -
13. Utility costs – gas, electric, water	1	£ 833
14. Hardware & software maintenance contracts	2	£ 186,014
15. Consumables critical to the business e.g. for Health and Safety purposes	23	£ 6,270
16. Any business critical ICT equipment expenditure	6	£ 37,991
17. Precepts & PFI payments	2	£ 645
18. Interest on cash flow activities	1	£ 46
19. Legal Counsel in agreed cases	1	£ 4,600
20. Annual contracts e.g. payroll, commissioned contractual services	5	£ 30,479
21. Health & Safety works	27	£ 40,091
22. Constituency budgets	7	£ 3,375
Info not Provided	61	£ 47,259
	<b>465</b>	<b>£ 1,886,738</b>

4.3 Within the “Other” category, just 16 items represented 75% of the costs. All of these items were either essential maintenance for highways or public health contractual arrangements, which are ring-fenced funding.

#### 4.4 Retrospective Orders

- 90 instances of retrospective orders identified from the system generated report. 23 items of which, no information has been provided by officers
- Of the 67 items (£150k) we received a response for 13 items made up £113k (75%)
- The key reasons for using a retrospective order were either administrative errors or because the value of the order was unknown at the time of requiring the work, usually due to an emergency / sensitive situation.

#### 5.0 No PO No Pay

5.1 The no PO no pay policy was introduced with effect from the 1<sup>st</sup> April 2019 and a progress report was presented to Audit & Risk Management Committee at the previous meeting, this is a further update on matters in relation to the measures being applied to address non-compliance.

5.2 Free standing invoice analysis for the period 1<sup>st</sup> April to 31<sup>st</sup> December 2019 is as follows:

<b>Department / Service</b>	<b>Total</b>
Childrens' Services	3218
Transport	747
Economic Development and Housing	693
Public Health	158
All other departments and services	3511
<b>Full total</b>	<b>8327</b>

5.3 Included within the previous report was a record of freestanding invoices of 9271 which we now know included volumes of invoices from the council's agency staff provider Matrix which are in fact received electronically and are therefore not considered as free standing and have been excluded from this analysis.

5.4 Retrospective or 'dummy' order (RPO) analysis for the period 1<sup>st</sup> April to 30<sup>th</sup> September was reported at the last meeting as 3485 by volume and £20.7m by value.

5.5 Further RPO analysis has been conducted to ensure that the most active services have been captured.

Department	Service	Proportion
Delivery	Community Services	37%
Business Management	Change and Org Design	3%
Childrens' Services	Early Help	4%
Childrens' Services	Social Care	3%
Business Management	Finance	5%
Delivery Services	Highways	11%
Economic and Housing	Housing	1%
Economic and Housing	Major Growth and Housing Delivery	2%
Childrens' Services	Modernisation and Support	4%
Delivery Services	Place	27%
Childrens' Services	Schools Commissioning	3%

- 5.6 Workshops have been delivered across the authority with approximately 155 managers and purchasers attending. These will be followed in January by further "Training and Fact Finding" Workshops to address the two priority areas of retrospective purchase orders and freestanding invoices (invoices received without an associated purchase order). The purpose of this is to ensure business continuity, whilst reinforcing the compliance requirements and how it can benefit the council. Ongoing work will also include induction materials for new starters and in-year refresher opportunities.
- 5.7 In December, approximately 5,000 emails were issued to suppliers confirming the Council's no PO no pay policy and requesting that all invoices are submitted direct to the accounts payable team in order to facilitate timely processing.
- 5.8 There are priority areas in relation to PO and invoice processing, which continue to be monitored, including:
- Freestanding Invoices – orders placed outside of the PO system exposes the council to poor value for money from:
    - Maverick spend (spend outside of existing contracts)
    - Fragmented spend (independent spend by departments for similar categories of goods and services which are also maverick)
    - Disaggregated spend (spend on goods and services by individual departments which are frequent and low value to remain below the £5k threshold for obtaining quotations)

- Retrospective orders, which expose the council to poor value for money and maverick spend, with the Council paying against an invoice value not a pre-approved PO value

## **6.0 FINANCIAL IMPLICATIONS**

- 6.1 The aim of the spending freeze is to eliminate non-essential spend and therefore positively impact on the Council's forecast position for 2019/20.
- 6.2 There are no direct financial implications to this report, however the subject matter has close links to financial activity that will be affected as part of the ongoing review processes.
- 6.3 The No PO No Pay programme is expected to minimise or eliminate exposure to maverick spend and improve value for money from existing and new contracts.

## **7.0 LEGAL IMPLICATIONS**

- 7.1 There are none arising from this report.

## **8.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

- 8.1 It's likely that the review processes being undertaken will have staffing and ICT resource implications – the movement away from standalone invoice processing within specific directorates to all processing being done by accounts payable staff only, is one such example. The implications on staff will form part of the individual review processes and any ICT requirements to provide better control environments will form part of the standard project planning activity, which will be consulted on as necessary.

## **9.0 RELEVANT RISKS**

- 9.1 This report is focussed on activity that is being undertaken to minimise risk to the Council. A number of changes to processes are envisaged and there is an inherent risk that operational activity could be negatively impacted. To minimise the likelihood of this occurring, a consultative approach is being adopted to ensure business continuity is facilitated throughout the change processes.
- 9.2 There is a risk that control environments are circumvented/ignored – this report highlights specific activities and groups that operate to review and eliminates such instances (Internal Audit, Corporate Governance Group, Compliance Review Group, etc.) and any revised policies and procedures will incorporate management review processes that will be designed to provide full assurance to activities.
- 9.3 There is a risk that insufficient resources are available to review and implement processes, procedures and control environments deemed suitable for the Council in a timely fashion. A phased approach is being taken to individual review areas to allow individual projects to be undertaken and completed as quickly as possible, utilising the resources that are available in a challenging economic environment, whilst delivering business as usual activity concurrently.

## 10.0 ENGAGEMENT/CONSULTATION

10.1 Engagement with relevant departments will be undertaken to ensure all revised policies and procedures are communicated council wide and implications of non-compliance made known and acted upon where necessary.

## 11.0 EQUALITY IMPLICATIONS

11.1 There are none arising from this report.

## 12.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

12.1 There are no environment / climate implications arising as a direct result of this report. Climate implications in relation to specific projects and programmes will be included through future reporting arrangements.

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## APPENDICES

None

## BACKGROUND PAPERS

### SUBJECT HISTORY (last 3 years)

Council Meeting	Date
<b>Audit and Risk management Committee:</b> <b>SPENDING FREEZE</b> <b>CORPORATE RISK MANAGEMENT UPDATE</b> <b>PROCUREMENT UPDATE</b>	<b>18/11/2019</b>