

Public Document Pack

Late item for Scrutiny Board (Strategy and Resources) on 21 November 2016

Pages 1-10: Agenda item 11 – To receive a report from the Head of Business Improvement on the work being undertaken as part of the wider support services review, to improve how we work and save money.

This page is intentionally left blank



Report author: Jane Watson /
Shaun Fogarty

Tel: 0113 37 87904 / 0113 37
87893

Report of the Head of Business Improvement

Report to Resources and Strategy Scrutiny Board

Date: 14 November 2016

Subject: Improving Our Procure-to-Pay Process

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary of main issues

1. The purpose of this report is to inform the scrutiny board of work that is underway to simplify and standardise the council's procure-to-pay process, leading to cashable and non-cashable savings in staff time, better decision making from improved data, and reduced off-contract spend. This is all part of the wider support services review. The report clarifies which areas of the council's spend are in scope for this piece of work, and which areas are currently excluded.

2. The report sets out three main strands to the work:
 - Build on the success of the purchasing hubs that already exist in the council. This will standardise the way selected goods and services are purchased, save staff time in shopping around, and reduce off-contract spend

 - Improve the business intelligence that can be obtained from the council's main financial management system (FMS) and from a number of departmental computer systems that feed purchase data in to FMS. This will enable decisions to be made based on quality data, will better inform contract negotiations with suppliers, and will help us to maximise our buying power.

 - Develop a capability to accept electronic invoices from suppliers in preference to paper, leading to a reduction in our processing costs and even more prompt payment to suppliers. This presents opportunities for cashable prompt payment

savings from our big suppliers, and supports better cashflow for our small local suppliers.

Recommendations

Scrutiny board are asked to note and support the scope of the work, design principles and the agile method of delivery set out in this report.

1 Purpose of this report

- 1.1 To advise scrutiny of the work being undertaken as part of the wider support services review, to improve how we work and save money. This report focusses specifically on the procure to pay activity as requested, and outlines the objectives and proposed method of delivery for this work.

2 Background information

- 2.1 The council is currently undertaking a wide range of activity to simplify, standardise and share how we work to save money and improve outcomes. The work highlighted in this report is a key part of that agenda.
- 2.2 The business improvement hub has led internal consultation with a wide range of officers at various levels of seniority, including members of best council design team, to identify potential improvements to the way we purchase goods and services. These potential improvements have been distilled in to a set of design principles. This work is part of the core business systems review and is an enabler to the wider support services reviews. We will now take forward the design principles in to development and delivery.

3 Main issues

3.1 Design Principles

- 3.1.1 The business improvement hub, working with colleagues, will ensure that these principles are applied to our development and delivery work:
- Simplify, standardise and share
 - Get the best way of working for LCC. The improvements must lead to a truly standard way of working for all but must not remove the ability of services to operate efficiently
 - Manage exceptions. For example, spending off-contract would be seen as exceptional and would be carefully managed
 - Ensure we obtain best value for money for all spend in scope (see below for types of spend in scope)
 - Have a single agreed owner of the whole process (this does not mean re-organisation. The business process owner would be expected to have oversight of the process and to decide on any changes to it, but would not necessarily be in control of all the resources in every stage of the process)
 - Make the most of what we have. The council does not have a dedicated purchasing system. As part of this work we will take a look at dedicated purchasing systems that are on the market. However it is possible to make

improvements to the existing arrangements to derive some of the benefits of such a system.

- Remove bureaucracy where possible.
- Automate activity where possible.
- Work with suppliers. For example, ensure that suppliers only provide items that they are contracted to provide (this improves our on-contract spend performance)
- Digital by default
 - Minimise paper and automate where it makes sense. For example, move towards electronic invoicing
 - Improve business intelligence. For example, develop feeder systems to store contract information and transmit to FMS. Develop FMS to accept contract information from the feeder systems.
 - Future proof. Ensure that all improvements will work as the council re-organises itself to be smaller in size and bigger in influence.

3.2 Types of spend in scope

3.2.1 Not all of the council's spend will be included in the first part of this work. However the areas that are included comprise a significant amount of spend. The areas included are:

- All spend against third party commercial contracts
- Feeder systems where the spend goes against third party commercial contracts
- Payment cards that are used by officers whilst inside the council's buildings (spend made against "walking cards" will be excluded from this first part)
- Invoices that are received where we have no record of an order being made

3.2.2 All other spend is excluded from this first part of the work, although this could be rolled out wider at a future date once the benefits of this work are established. We will however liaise appropriately with lead officers in other areas (for example, Commissioning).

3.3 Agile approach

- 3.3.1 An up-to-date “agile” approach will be taken to the work. We will use a core team of business improvement hub staff, working in partnership with relevant officers from corporate ICT services and from the business, to make improvements to the ways of working and to the computer systems much more rapidly than traditional approaches would allow. The team will always prioritise the delivery of whichever strand of the work gives the best value to the council – delivering rapid incremental improvements rather than waiting for a single “big bang” transformation. This approach has been proven in other organisations, for example the Home Office.
- 3.3.2 The resources required to do the work will come mainly from the business improvement hub, linking in with other officers and teams around the council as required. It is estimated that the equivalent of 5½ full-time officers will be engaged in this first part of the work.
- 3.3.3 The success of this approach depends on timely access to staff with relevant skills (for example, ICT technical officers). Some of the improvements are technical in nature, for example making changes to computer systems. Others are more concerned with making changes to the way that people work, meaning that we will communicate effectively to help affected staff through the changes.

3.4 Robust existing controls over spend

- 3.4.1 Before highlighting opportunities for improvement, it is important to note that the council already has a robust set of measures in place to help officers to spend money wisely and to prevent and detect fraud. We are aiming to improve on these. Some of the key ones are:
- Only authorised officers can access the council’s financial system to make orders
 - Two different officers are required to make and authorise any given order
 - Budget holders can readily see what money has been spent against their name
 - Procurement colleagues are automatically notified when an officer chooses not to use one of the council’s contracted suppliers
 - Internal audit colleagues are able to sample information about purchases to ensure that officers are sticking to the rules
 - Officers are required to adhere to various policies and procedures, including contract and financial procedure rules and codes of conduct.

3.5 Purchasing hubs

- 3.5.1 We will develop a number of purchasing hubs to handle the ordering of selected categories of goods and services. This approach has already proved successful in LCC in relation to stationary and travel. Each hub will be based around a defined procurement category or set of categories.
- 3.5.2 There are hundreds of officers who are able to raise and/or authorise orders in FMS. The system makes it impossible for any single person to raise and authorise the same order, and all of these officers are appropriately authorised to raise and/or authorise orders. However, feedback from the internal consultation suggests that there are opportunities to reduce the number of people who can raise and/or authorise orders in order to further increase control over spend, and to ensure that orders are raised in a more consistent manner. Presently, it is possible to mis-classify the goods and services that are being ordered due to the way the system has historically been set up. This makes it more difficult for our central PPPU team to identify spend against the different categories of contracts across all directorates and services. This in turn affects contract negotiations and hence value for money.
- 3.5.3 Centralising more categories of goods and services in to category hubs will lead to reduced off-contract spend. In tandem with this, we will develop standard classifications for common goods and services that all category hubs will use. This will lead to much more consistent business intelligence about our spend.
- 3.5.4 Removing the need for officers to make decisions (for example by shopping around to get the best price) will lead to staff time savings. It is not thought at this stage that these time savings will be cashable but staff can then utilise the time released for other priority work.

3.6 Procurement cards

- 3.6.1 There are in essence two types of procurement card (“pCard”) purchases – those made by officers while out of the office on council business and those made whilst in a council location. For the first part of this work we will concentrate on the pCard purchases made from council locations. We will undertake analysis to understand what proportion of these purchases can be moved in to the expanded category hubs. The category hubs will use pCards wherever appropriate, in order to cut down on invoice processing and to maximise the gains from the 1.026% rebate that the council benefits from on pCard transactions. This could lead to an overall reduction in the number of pCard holders.
- 3.6.2 We will seek to maximise the use of pCards as a method of payment wherever it makes sense. Where pCards are not appropriate, we will seek to ensure that orders are raised in a more standard way through the FMS system.

3.7 Business intelligence

- 3.7.1 The procure-to-pay information that is reported from FMS is adequate to meet our obligations and to provide basic insight in to the process. However there are opportunities to make it less time-consuming for officers to produce, as well as making it more useful and more accurate.
- 3.7.2 We will work with a cross-section of officers to understand what information is required from the procure-to-pay process. An initial workshop with best council design team members is planned for 29 November 2016. We will hold further workshops with other groups of staff over the coming period. We will incorporate the information requirements in to our computer systems where possible. We will also build a process “dashboard” that displays key information about the process in a single suite of reports.
- 3.7.3 We will build on work already undertaken by procurement colleagues to understand what changes can be made to our feeder systems in order to capture contract information and pass it in to FMS. It will be necessary to make changes to FMS in order to accept the contract information from the feeder systems. We will use expertise from within the business improvement hub and from corporate ICT services to do this work. It must be noted that the swift and agile realisation of this work depends on access to skilled officers within ICT services who are in some cases already allocated to other important work.

3.8 Electronic invoicing

- 3.8.1 The business support centre process around 250,000 invoices per year. This requires the equivalent of 12 full-time staff. We receive a large number of invoices that require special additional processing. Some of these “query” invoices are received where we have no record of making an order. We must then spend officer time investigating what has happened before we can make payment.
- 3.8.2 We have the technical fundamentals in place to be able to receive electronic invoice data from suppliers and place it directly in to FMS for checking and payment as appropriate. We will develop this fundamental capability and work with our largest invoicers in terms of the number of invoices sent. Our aim will be to reduce the amount of paper that flows round the process. This could lead to cashable staff time savings. There is also a possibility of improving our speed of payment. PPPU could negotiate prompt payment discounts with suppliers more confidently if our processes were even quicker (that is, electronic). Initial work already undertaken by PPPU with a sample group of suppliers showed that suppliers are often open to the idea of prompt-payment discounts.
- 3.8.3 For smaller suppliers, we would seek to provide a technically simpler way for them to send invoices electronically (perhaps by eMailing them to us). This will support our local suppliers and help with their cashflow. PPPU have already run a

number of successful workshops with our smaller local suppliers to demonstrate how to use free software to send their invoices by eMail. This will be developed as part of the work.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 There has been wide consultation across the council to ensure stakeholders have been involved throughout the prioritisation, design and delivery. Members have also been updated where appropriate.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 All our work considers equality, diversity, cohesion and integration issues arising. Whilst this is limited because of the nature of the work, this will support a better way of working for all staff and suppliers.

4.3 Council Policies and Best Council Plan

4.3.1 This supports the council's efficient and enterprising agenda set out in the Best Council Plan. Simplifying and standardising the purchasing of goods and services will support the council value of spending money wisely. Moving to a digital by default approach so we automate processes where it makes business sense, will help the council with its stated ambitions to move towards a more digital future.

4.4 Resources and Value for Money

4.4.1 This report details work that is ongoing with the business improvement hub in order to support the council in spending money wisely. This work will also support the support services reviews.

4.4.2 Staff time will be saved across the procure-to-pay process. This applies to a number of steps in the process, including:

- Ordering: Officers will not need to spend so much time shopping around for what they perceive to be the best deal. All requests for selected categories will be handled by the category hubs, removing decision making from the ordering officer. The FMS system will be locked down to prevent most officers making off-contract purchases. Where such purchases are a business requirement, they will be handled by a managed exception process
- Making payment: Our top 10 suppliers, in terms of the number of invoices they send us, account for 20% of all the invoices we receive. By working with these

suppliers and developing our in-house computer systems, we will shift to electronic invoicing, which will remove paper from the process and save officer time plus we will seek to secure early payment benefits from our biggest suppliers.

- Reporting and intelligence: Having data that is more accurate and easier to make use of will save officer time in terms of taking data out of FMS and manipulating it in spreadsheets. Reducing off-contract spend will enable the council to maximise its buying power.

4.4.3 Standardising the way that people work will enable us to respond to future organisational changes much more quickly.

4.4.4 Moving to an up-to-date agile way of working, will enable the council to build its digital skills and apply them to other areas

4.4.5 Making sure that pCards are used appropriately will enable the council to benefit from gains from rebates as well as to avoid invoice processing costs.

4.4.6 It is estimated that the equivalent of 5½ full-time officers from the business improvement hub will be involved in this first phase of the work, linking in with other officers and teams around the council as appropriate.

4.5 Legal Implications, Access to Information and Call In

4.5.1 The work proposed will allow greater transparency and accuracy in figures requested through freedom of information requests. There are no other legal implications arising from this report.

4.6 Recommendations

4.6.1 Scrutiny board are asked to note and support the scope of the work, design principles and the agile method of delivery set out in this report.

4.7 Background documents

4.7.1 None

This page is intentionally left blank