

**REPORT TO: BEST VALUE SUB-COMMITTEE – 11 SEPTEMBER 2000**

**REPORT ON: FINANCE DEPARTMENT PURCHASE LEDGER SECTION  
BEST VALUE REPORT 1999/2000**

**REPORT BY: CHIEF EXECUTIVE**

**REPORT NO: 576-2000**

**1 PURPOSE OF REPORT**

This report is the result of a Best Value Review into the Finance Department Purchase Ledger Section. This section controls all payments to suppliers for the Authority.

**2 RECOMMENDATIONS**

It is recommended that the Committee:

- 2.1 agrees that the Finance Department Purchase Ledger Section, having implemented the changes outlined in Section 12(d) of the report, continue to control all payments to suppliers for the authority.
- 2.2 agrees the Director of Finance's continuous improvement proposals as outlined in Section 13 of this report with particular emphasis on:
  - i maximising the payment of suppliers by BACS.
  - ii review of the management information provided.
  - iii training of department staff.

**3 FINANCIAL IMPLICATIONS**

This review accounts for 2% of the Finance Department's Revenue Budget at a budget cost examined of £174,000.

This review accounts for 10% of Finance Department's Best Value Reviews in 1999/2000.

**4 LOCAL AGENDA 21 IMPLICATIONS**

None

**5 EQUAL OPPORTUNITIES**

None

## 6 DEFINITION OF SERVICE REVIEWED

- i Payment of all Council suppliers is a centralised Finance function administered by the Purchase Ledger Section whose principal responsibilities are:
- Processing the payment of outstanding purchase invoices.
  - Maintaining and developing the Purchase Ledger system.
  - Maintaining all sub-contractor records.
  - Providing support and assistance to all Council Departments in supplier payment matters.
  - Reconciling differences identified within the Purchase Ledger and General Ledger on a daily basis.
  - Producing regular information as specified by the Director of Finance, eg Performance Indicators.
  - General supplier enquiries.
- ii The maintenance of the Council Purchase Order system and the input of the majority of supplier invoices is a decentralised function and controlled by individual departments. This has been excluded from this review as departmental staff carry out a variety of tasks and are not necessarily 100% devoted to working on purchase order and/or the input of suppliers invoices.
- iii The staffing establishment within the centralised Finance function consists of:
- |                                 |           |
|---------------------------------|-----------|
| 1 Purchase Ledger Controller    | AP5 - PO4 |
| 1 Administration Officer        | AP2       |
| 2 Full Time Clerical Assistants | GS1 - GS3 |

The Director of Finance has been closely monitoring the staffing requirement throughout this review and since July 2000 this Section has been operating with 3 staff, one of the Clerical Assistants having been re-assigned to another Section. This arrangement will be kept under review and, if appropriate, a change of establishment will be recommended in due course.

## 7 JUSTIFICATION FOR REVIEWING THIS SERVICE

The payment of suppliers is a key corporate function carried out for all departments with clearly set targets for achievement and as such it is important to ensure that the work is carried out as efficiently and cost effectively as possible.

## 8 REVIEW METHODOLOGY

### 8.1 The review team was made up of the following members:

Team Leader:	S Swann, Team Leader, Personnel and Management Services
Departmental Lead Officer:	D McIntosh, Senior Financial Services Officer
Finance Department Members:	A Forbes, Purchase Ledger Controller J Dempster, Administration Assistant P Owen, Principal Accountant, Central Support Team

8.2 Having established the critical success factors by means of consultation, the review team compared the Council's current performance by way of market testing, a benchmarking study and option appraisal prior to determining the recommendations detailed in this report. Inter Authority comparison was made possible by virtue of the Council's membership of the Institute of Public Finance Benchmarking Club on Purchasing.

## 9 CRITICAL SUCCESS FACTORS

### 9.1 Stakeholders

The following stakeholders were identified:

- all Council Departments
- External Bodies (Tay Road Bridge, Tayside Police Joint Board, Dundee Contemporary Arts, Tayside Valuation Board)

### 9.2 Consultation

All stakeholders were invited to complete a questionnaire ranking various factors and commenting on the Purchase Ledger Section's performance against these. The main results are listed in para 10. A copy of the questionnaire is attached as Appendix A.

### 9.3 Critical Success Factors

As a result of the consultation process, the following Critical Success Factors were determined in descending order of importance:

- Services provided in an acceptable timescale
- Clear and practical advice, assistance and solutions offered
- Staff understand problems/issues in departments
- Services provided at an acceptable cost

## 10 PERFORMANCE REVIEW

i Based on current results the Critical Success Factors (CSF), Performance Indicators (PI) and Current Performance are shown below:

CSF	PI	Current Performance
1 Services provided in an acceptable timescale	% of invoices paid within the agreed time	93
	% of users satisfied with service timescales	91
2 Clear and practical advice, assistance and solutions offered	% of users satisfied with the advice, assistance and solutions offered	92
3 Staff who understand the issues you face	% of users satisfied that staff understand the issues	95
4 Services provided at acceptable cost	Cost per invoice	Details in audit file
	% of users satisfied with service costs	88

It is important to note that the Performance Indicators specified relate to the central Purchase Ledger function within the Finance Department only.

- ii As in many cases staff within other departments perform a variety of tasks including Payroll, Sales Ledger and general administrative/clerical duties in addition to Purchase Ledger work the level of understanding of the system is not good resulting in regular correction of entries within Finance. Further departmental training will be required to overcome this.
- iii The internal costs charged to the Purchase Ledger Section were reviewed and this included a significant recharge for Banking and Computer Services. This will be the subject of further review to establish if any potential savings are available. A detailed breakdown of costs is contained in the Audit File.
- iv Staff in the Finance Department complete time/work allocation sheets to enable central costs to be recharged correctly. Currently the Purchase Ledger staff allocate all costs to the Purchase Ledger Section. As the workload changes a further reallocation will be required to ensure that only the true time spent on payment of creditors will be charged to the Section.

## 11 RESULTS OF COMPARISONS

### a External Comparisons

It proved extremely difficult to find any external agency that could provide a similar service to the Council. However, following an internet enquiry, one company was found and guideline figures established. The detailed calculations within the Audit File confirm the Authority is receiving value for money when compared to this external private sector organisation.

### b Local Government Comparisons

#### i Payment of Invoices

Reference is made to Report 284/1998 which approved the policy whereby the City Council will pay local businesses or the local branches of national businesses within 14 days of the date of invoice/certificate. The Director of Finance was instructed to monitor the operation of the policy and report back to the Finance Committee. It was noted at the time of approval of the policy that a new computer system was being implemented and the creditors policy would take a few months before it became fully effective. In the period April 1999 to January 2000 the City Council has paid 70.3% of local businesses and the local branches of national businesses within 14 days of invoice/certificate. As the financial system accounts for invoices paid within 10 days and 20 days, the 70.3% is a pro rata figure. The proportion of invoices from local businesses paid within 20 days amounted to 87%.

Each year, the Accounts Commission publish a range of information to show how well Councils are providing their services and how they compare with other Councils. With regard to the payment of invoices, the indicator compared by the Accounts Commission was the percentage of invoices paid within 30 days or other agreed time.

The Accounts Commission 1998/99 Statutory Performance Indicators show that Dundee City Council paid 82% of all invoices within 30 days compared to 65% in 1997/98. The City Council improved its placing in the league table from 23rd to 3rd equal out of the 32 Councils. For Scotland as a whole, the average

percentage paid within 30 days for both 1997/98 and 1998/99 was 70%, with the highest percentage in 1998/99 being 86% and the lowest 44%.

The City Council payment of creditors performance indicator has continued to improve. For the period April 1999 to January 2000 the percentage of all creditors paid within 30 days has been calculated at 93.5%.

In order to increase administrative efficiency and economy both for the City Council and its suppliers, considerable efforts have been made to transfer suppliers from cheque payment onto the Bank Automated Clearing System (BACS). Payment by BACS ensures that the amount due to the supplier is paid direct into their bank account. This avoids the production and posting of cheques and the consequent delay whilst the supplier arranges to bank the cheque.

The City Council has approximately 70.3% of its suppliers paid by BACS and further transfers are anticipated in the near future after having recently issued 3,300 letters requesting transfer.

In addition, the City Council now offers, for those creditors paid by BACS, a facility whereby remittance advices are faxed to them. This ensures the creditor receives this information promptly, but importantly reduces the Council expenditure on postage.

- ii The Council is a member of the Institute of Public Finance Creditor Payments Benchmarking Club. This Club is currently benchmarking the costs of all Scottish Authorities and the final results are awaited.
- iii The English Authorities Benchmarking Club has produced information and the City Council's costs compare favourably with the English average.

## 12 **OPTIONS APPRAISAL**

The review considered the following options:

### a **Maintain Status Quo**

The current Purchase Ledger system relies heavily on decentralised input with only the payments function being centralised. Although the user satisfaction is high and the overall costs lower than most other Authorities there is still room for improvement.

### b **Outsource the Purchase Ledger Functions**

- i Outsourcing the entire purchasing function
- ii Outsourcing the payment to supplier function

Both options were discounted as not being financially viable. (See audit file for details).

### c **Degree of Centralisation**

Examine each department's Purchase function to ascertain whether this may be more cost effectively delivered either by centralising within Finance Department or decentralising the payments function.



Informal discussions with departments suggested that the close relationship of the ordering system, control of delivery and budgetary issues lead them to the desire to maintain the current system. Decentralisation of the Payments Function would lead to additional costs due to the increased number of payments required. Currently, the system makes one payment to a supplier for services to various departments. In addition, payment terms could not be guaranteed.

These options have been discounted as there is a clear requirement for departments to retain direct control of their individual expenditure budgets and a central need to ensure suppliers are paid timeously and cost effectively.

**d Maintain Status Quo with Improvements**

Review the current staffing establishment, systems, allocation of time and overheads.

**Summary of Option Appraisals**

The review concludes that Option (d) provides best value to Dundee City Council both in financial and qualitative terms although the overall costs will require to be the subject of continuous review.

**13 CONTINUOUS IMPROVEMENT PROPOSALS**

The following continuous improvement proposals have been identified and related to the Critical Success Factors where appropriate.

**Costs**

The following measures are aimed at reducing the costs of the Purchase Ledger service:

- a The Payment of Suppliers by utilising the Bank Automated Clearing System (BACS) instead of cheques has the effect of both speeding up payments and reducing costs to the Council. A target has been set for 2000/01 of having 88% of permanent suppliers paid in this manner against a current level of 70%.
- b The methods of allocating costs against the Purchase Ledger Section will be reviewed and a Monthly Trading Statement implemented in 2000/01. A target reduction of 5% of total cost of the Section has been set for 2000/01.
- c The Scottish Benchmarking Club will shortly produce its final report. It is proposed to examine it and determine whether further improvements to our own system or costs can be made.

**All Critical Success Factors**

An annual survey of customers will be carried out to monitor performance on the indicators developed for this review, with a view to maintaining/improving levels of satisfaction.

**Other Issues**

- a Management reports are presently produced by the Finance Team for Central Finance use. It is proposed to review and refine these reports and development of departmental control reports is highlighted as an area of improvement within 2000/2001.
- b At present most of the controls over purchase orders and input for payment of supplier invoices are executed by departments. This is an area where it is considered that operational improvements can be made within departments targeting further training from Finance staff. A training programme will be implemented in 2000/01.

**14 CONSULTATION**

Departments, external users and the Director of Finance were consulted, as appropriate, throughout the course of this review.

**15 BACKGROUND PAPERS**

Best Value Submission to the Scottish Secretary of State for Scotland - December 1997  
Policy & Resources Committee - 11 December 1997

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Chief Executive



**FINANCE DEPARTMENT PURCHASE LEDGER**

**BEST VALUE REVIEW QUESTIONNAIRE**

**Critical Success Factors**

*To help us to ensure that we focus our attention on the elements of our service that are most important to you, please rank the following factors, with 1 being the most important and 4 being the least important.*

**Factor**

**Ranking**

Services provided in an acceptable timescale

Services provided at an acceptable cost

Clear and practical advice, assistance and solutions offered

Staff understand the issues you face

*Please add and rank any other factors that are important to you*

**Your Views on the Services****Please tick the appropriate box for each question**

	Agree Strongly	Agree	Disagree	Disagree Strongly	No Basis for Comment
1 Finance Dept Purchase Ledger Section provide the following services in an acceptable timescale					
i Creation of or amendments to suppliers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii Suppliers paid	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iii Payment amendments when requested are carried out	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iv Processing of Sundry Payments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
v Provision of training, response to queries etc	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Purchase Ledger Section provide services at an acceptable cost.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Purchase Ledger Section -					
i Provide adequate training where requested	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
ii Provide clear and practical advice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
iii Display a clear knowledge of systems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Staff understand issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

***Please add any comments or suggestions you wish to make in respect of the range or quality of services provided by Purchase Ledger Section***

***(Optional) Name \_\_\_\_\_ Designation \_\_\_\_\_***

***We are interested in your views, whether you wish to remain anonymous or not, but it will help us if we can relate your responses in this questionnaire to the work we have done for you. We may also wish to contact you for clarification or more details of any ideas or concerns you raise.***

***Thank you for completing the questionnaire.***

***Please return it to D McIntosh, Senior Financial Services Officer by 11 October 1999***