

EAST RENFREWSHIRE COUNCIL

AUDIT AND SCRUTINY COMMITTEE

19 January 2017

Report by Head of Business Change & Revenues

INVOICE PAYMENTS IN EAST RENFREWSHIRE COUNCIL

**INTRODUCTION**

1. This paper aims to update the Audit and Scrutiny Committee on the improvements to the invoice processing arrangements within East Renfrewshire Council.

**BACKGROUND**

2. In recent years, the Council has had a position in the lower quartile of national performance for the percentage of invoices paid within 30 days. This has been reported to Members as part of regular performance updates.

3. There was an ongoing project to implement an Electronic Document Management System (EDMS) which would give departments visibility and tracking of their invoices, however progress had been impacted by a range of staffing issues.

4. To enable more of a project-focus on this important area, the Creditors team was transferred from the responsibility of Accountancy to the Corporate and Community Services Department (under the Head of Business Change and Revenues) in February 2016.

5. At that time there was a considerable backlog of invoices (over 4000) to be processed, some caused by the extra workload of the transition to EDMS itself. The Corporate Management Team's key areas of focus were to improve invoice processing; recover our position in the national rankings; and ensure that suppliers were paid on time.

6. It was recognised that the issues with invoice payments lie in processes and procedures right across the Council and did not rest solely within the control of the Creditors team. The CMT have been very much behind the drive to improve performance, with emphasis placed on adherence to the 'golden rules':

- No orders should be placed without a Purchase Order number and authorisation
- All orders should be goods receipted (GRN'd) on the system as soon as possible
- All invoices should be date-stamped on receipt (by the first person who receives them)
- Where possible, all invoices should be scanned and indexed on day of receipt or as close as possible to that
- All invoices should be paid within 30 days.

7. An interim manager was appointed to the team in February 2016, directly line managed by the Head of Service, with (at least) weekly project meetings to track progress and direct action/priorities. A permanent manager was then appointed in June 2016 following an assessment of staffing resources.

8. Initial priorities in February were around 3 project areas: a) recovery of the backlog; 2) implementation of EDMS and 3) development of proposals for e-invoicing. Updates are given below alongside detail on the broader project focus which is now being taken.

## **CURRENT POSITION**

### Backlog

9. There are approximately 50,000 invoices through the system in a year. At the time of transfer to Corporate and Community Services in February, there were 4,362 invoices we knew needed to be paid and it was difficult to assess how many of these were overdue. There were also a number of invoices in services which we had no knowledge of within our figures.

10. The project team has put a focus on getting much more data in place and this is demonstrating good progress on two fronts: a) preventing any new invoices tipping over the 30 day threshold; and b) reducing the older, dated invoices (which just create duplication and failure demand with progress chasing etc).

11. As at 12 December 2016 we had a more manageable 1,757 invoices on the system to be paid within 30 days. There were a further 861 'aged items' (over 30 days). This is good progress since March, when there were 1,937 'aged items'. We believe we have a full view of workload now and are targeting further reductions. (A further verbal update will be available on the day of the Committee in January 2017).

### National Performance Indicator

12. We have experienced issues with the national performance indicator (PI) on invoice payments, which forms part of the Local Government Benchmarking framework. Performance has been in the bottom quartile nationally. There are some real concerns that this indicator is not calculated on a like for like basis across councils and our own interpretation of the PI has been particularly stringent. There has been recent work on this nationally and the definition of the PI is likely to change for 2017/18.

13. We have received two Internal Audit reports since the transfer in February, both of which give considerable scope for tightening up systems, controls and compliance right across the Council and HSCP – these are now being taken forward with action plans in place and being tracked. The date-stamping of invoices on date of receipt has been highlighted as a particular issue of inconsistency across the Council.

14. There is also a real issue with invoices arriving at the Council well after the invoice date. Suppliers have recently been reminded not to engage in this practice.

15. Internal Audit concluded in August that the 2015/16 PI figure of 65.9%, reported to Cabinet earlier last summer, was unreliable. The fall-back position is to default to use of 'invoice date plus 2 days' as the basis of calculation. This gave an outturn of 57%, but is likely to have been unduly harsh as a representation of performance. We have not yet reported this to the Improvement Service as we do not believe that it gives an accurate representation of performance and it is not comparable to the way others report. It is my recommendation that a 'fail to report' is the best course of action for 2015/16.

16. Unfortunately the timing of the Internal Audit in August 2016 meant that the first half of 2016/17 data was also unreliable for the same reasons. Using 'invoice date plus 2 days' methodology, the unaudited performance at mid-year point was 62.9%. The aim is to focus on improving performance for the latter months of 2016/17 in an effort to bring up the average, but there is no doubt that 2016/17 performance will also be affected by this issue. Unaudited performance for the last few months has shown some improvement (October 2016 was 75.7%, November 71.5%, December 77.3% - these figures exclude the Trust). We are keeping a close eye on this as the year progresses. The PI will continue to be affected until we can clear the backlog of aged invoices.

### Projects

17. Our invoice payments improvement programme is now split into 7 projects with weekly progress meetings chaired by the Head of Service and reported regularly to CMT. The projects are:

<b>Project</b>	<b>Aim/Progress</b>
a) Recovery of backlog	Aim to ensure that no new invoices go over 30 day target and that the backlog of old invoices is managed down. See para 11 above for progress.
b) Roll-out of information at Work (EDMS)	Aim to roll out EDMS system across all departments so that they can see their invoices and action queries or authorise etc. This was precursor to centralisation of invoices to Creditors. This project is now ahead of schedule for implementation with all departments (incl. schools and Trust) due for completion by end-December 2016 – initial deadline was March 2017.
c) Creation of a council-wide invoice payment 'production line'	Aim is to ensure that departments have the data available to 'act on the system' and make any necessary improvements. Each week departments are now sent details of outstanding invoice queries (incl. the aged invoices) and details of invoices at risk of missing the 30 day payment timeframe. A phonecall then takes place each week with key contacts to discuss and escalate any key issues. This system was introduced in November 2016 and is working well and having a positive impact on performance.
d) Centralisation of invoice delivery to the Creditors team	<p>Aim is to ensure that suppliers send ALL council invoices <u>direct</u> to the Creditors team. This will prevent invoices being passed between offices; lost; inconsistently date-stamped etc. Creditors have committed to scanning all invoices into EDMS within a maximum of 2 days of receipt so that departments have full visibility and can undertake the necessary authorisations/ queries. The scanned date will be the date used for calculation of the PI.</p> <p>Suppliers were written to mid-December with a view to commencing this arrangement mid-January 2017. Suppliers have been advised that, to be processed, all invoices MUST be sent direct to Creditors and contain the purchase order number. This is a critical step in improving invoice payment</p>

	times. We expect it to take some time for suppliers to adjust to this change so there is a need to build some flexibility in for the months ahead and note that this will not be an immediate fix to the PI situation.
e) Implementation of other initiatives	There are a range of background projects also being undertaken to improve performance reporting and to create interfaces to other council systems that purchase goods or services such as servitor for housing – these are on track but not critical.
f) Full review of Purchase to Pay (P2P) processes	Working with the Procurement team (and linked to the broader review of financial systems that is currently ongoing), a full P2P workflow process review has been completed from placing an order to payment of invoices. This has identified a number of opportunities for improvement particularly around IT system development and potential reductions in invoices though greater use of purchase cards. A report will be taken to CMT/MAP Board early in 2017 to make recommendations.
g) E-invoicing	<p>A recent EU Directive on Electronic Invoicing mandated that all Government organisations (including councils) comply and implement e-invoicing before 27 November 2019. This directive is applicable to suppliers awarded a contract conducted under EU procurement legislation.</p> <p>A goal of our invoice projects is to reduce manual keying of invoices by implementing e-invoicing for what is termed Category A/B suppliers (National and Scotland Excel contracts). The Scottish Government will also consider Cat C (local suppliers) on a case by case basis. Typically if a supplier is used across the public sector and raises 250+ invoices per annum then the Scottish Government will look to bring them onto e-invoicing.</p> <p>We have recently carried out an option appraisal and agreed to move forward with the Scottish Government's approach to e-invoicing given the benefits available to the Council to move at this early stage.</p>

## CONCLUSION

18. This report has given an overview of the detailed work being undertaken with the goal of improving the payment of invoices by East Renfrewshire Council. Amongst the key benefits, this work will centralise delivery of invoices to one section in the Council therefore improving control, transparency and turnaround times; it will introduce greater control and checking (thereby meeting Audit recommendations); it will reduce invoices (via e-invoicing and greater use of purchase cards); it will automate more of the processing and reduce scope for error through re-keying; and above all, it will lead to quicker payment of invoices.

19. There is no doubt that this programme of work has been more complex than expected and progress has been slower than we would have hoped. It is clear however from the table above that real progress is now being made and we aim to see improved figures as we get closer towards the end of the financial year.

## **RECOMMENDATION**

20. It is recommended that the Committee considers the report.

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