



## Payments and Purchasing

02 December 2003

Report to City Council

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## Payments and Purchasing



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## Payments and Purchasing

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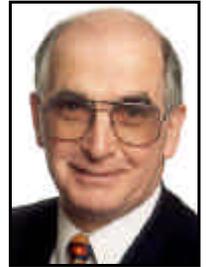


## Payments and Purchasing

# Preface

**By Councillor Len Gregory**

Chairman, Co-ordinating Overview and Scrutiny Committee



The necessity for the City Council to get things right first time, on time, every time applies every bit as much to ordering goods and services and to paying its suppliers as it does to delivering its own services. So I was greatly concerned to discover, on first becoming involved in this review, that in July last year the City Council had over 55,500 outstanding invoices to pay. During the period of this scrutiny investigation this figure was drastically reduced.

Scrutiny Committees work on the principle that our best work comes from looking at an issue that all Parties agree needs investigating, carrying out the review in a cross-party group and producing recommendations which have the support of all Parties. This particular review embodies that principle, as it began when my predecessor, Cllr Mike Olley, chaired the Co-ordinating O&S Committee. He shaped the review and carried out much of the investigation. When I became Chairman of the Committee, I could see that it was important to take the work forward to a clear conclusion.

This scrutiny has focused on a very technical subject. Of necessity, our final report has had to use specialised language. At the same time, our review has been very practical. As the report shows, several of the conclusions reached by Members early in the exercise have already been acted upon. Those further recommendations before the City Council will, I am confident, make further improvements in this area.

A handwritten signature in purple ink, reading "L. R. Gregory".



## Payments and Purchasing

# 1: Summary

- 1.1.1 The review of the City's purchasing and payments processes was commissioned to:-
- Review the introduction of the SAP Phase IV (GLAMIS) module for the purchasing of goods and services and the processing of the payment of invoices.
  - Review the centralisation of the Payments function.
  - Review the merger of the City Supplies Organisation and the Strategic Procurement Services Division to form Corporate Procurement Services.
- 1.1.2 It was necessary for the review to examine in depth many of the work processes and complex requirements involved with payments and purchasing, and which are essentially of a technical nature. A glossary is included at Appendix B to assist those reading the report.
- 1.1.3 The review was divided into two phases. Phase I covered those areas directly affecting Best Value Performance Indicator 8 (BVPI 8)– paying undisputed invoices within 30 days of receipt – as this was a particular area of concern.
- 1.1.4 Phase II covered the rest of the payments and purchasing process. During the period of the review there was a marked improvement in performance against BVPI 8. A number of recommendations have come out of the review, some of which have already been implemented. The implementation of additional recommendations will further improve performance in this area, as well as ensuring that the City makes best use of the corporate financial accounting system.
- 1.1.5 The examination of these key areas has resulted in a number of recommendations for improving the Payments and Purchasing functions. These have identified that departments should assign an Assistant Director as Procurement / Payments champion to drive compliance with current procedures and promote purchasing from corporate contracts and the use of the GLAMIS System.



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# 2: Summary of Recommendations

<b>Recommendation</b>	<b>Responsibility</b>	<b>Completion Date</b>
R1 The Strategic Director of Resources to agree targets for system use with Chief Officers and to produce monthly monitoring reports. A review of the use of surcharges to take place.	Strategic Director of Resources	December 2003
R2 System development required to alert orderer that a No Goods Received indicator has been input.	Head of Corporate Finance & Asset Management	December 2003
R3 Management Information produced for Departmental Managers to take responsibility for dealing with the quality issues of their staff.	Head of Corporate Finance & Asset Management	December 2003
R4 An Officer in each Department, at Assistant Director level, to be identified in each Department/Division to drive through change, maximise use of GLAMIS and improve quality of work.	Corporate Management Team Members	December 2003
R5 Feedback of GLAMIS Survey to the officers who took part in the survey and to make findings generally available. A follow-up GLAMIS User survey to be undertaken by July 2004.	Head of Corporate Procurement	December 2003 and July 2004
R6 Central Payments to review their communication/procedures and system interface to ensure they are customer-focussed.	Principal Manager, Central Payments & Pensions	December 2003



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<b>Recommendation</b>	<b>Responsibility</b>	<b>Completion Date</b>
R7	Review of the training programme for GLAMIS. Strategic Director of Resources	December 2003
R8	All suppliers issuing more than 2000 invoices per year to be contacted to discuss use of feeder-files. Head of Revenues and Payments	December 2003
R9	Discussions to take place with the Education Department to identify improvements to goods receipting in schools. Head of Revenues and Payments	December 2003
R10	User Group for suppliers and Members be established to ensure regular feedback on the level of service provision. Head of Corporate Procurement	December 2003
R11	All payments to appropriate suppliers to be made via BACS. Head of Revenues and Payments	July 2004
R12	Corporate Procurement Services to provide information on off-contract spending through the Procurement Cabinet Committee. Head of Corporate Procurement	December 2003
R13	Chief Officers to ensure that their departments continue to support the E-procurement Strategy and the project to provide an e-catalogue, available on a User-friendly 'front – end' to the system, should be pursued vigorously. Corporate Management Team Members	December 2004
R14	To maximise the investment made by the Council and Schools it would be most advantageous if any such school management system was capable, with development, of integration to GLAMIS for electronic payment processing, removing the need for payment slip printing for onward manual processing by the Payments Section. It is acknowledged that schools will continue to have the final decision on which system to adopt, in line with current statutory regulations and requirements. Therefore, it is recommended that schools be encouraged to adopt systems that are capable of integration with GLAMIS when they seek to replace their current IT management systems. Head of Corporate Procurement	December 2003



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<b>Recommendation</b>	<b>Responsibility</b>	<b>Completion Date</b>	
R15	The appropriate Cabinet Member to consider progress made on implementing the above recommendations every six months and take any necessary corrective action. These reports subsequently to be made available to the Co-ordinating O&S Committee.	Deputy Leader (for recommendations R1 to R13) Cabinet Member for Education (for recommendation R14)	First reports due June 2004

The following actions have also been implemented during the period of the review to ensure that improvements in service provision were delivered as quickly as possible:

- The Strategic Director of Resources has identified a 'Change Manager' to work with staff in Departments/Directorates to increase the level of GLAMIS use.
- A Dispute Team has been set up in Central Payments as an interim measure to deal with queries on payments 'held up' due to quality issues.
- Corporate Procurement Services has made users aware of corporate contracts and is undertaking monitoring of off-contract spending.
- All suppliers issuing over 10 invoices each year to the City Council have been approached to be paid via the BACS system and to receive remittances via e-mail.



## 3: Introduction

### 3.1 Reasons for the review

- 3.1.1 The processes used by Birmingham City Council to procure and pay for goods and services have undergone significant changes since 2001. These changes include:-
- The introduction of the SAP Phase IV (GLAMIS) module for purchasing and paying for goods and services.
  - The centralisation of the Payments Team.
  - The merger of the City Supplies Organisation and Strategic Procurement Services to form Corporate Procurement Services.
- 3.1.2 These changes took place as a response to the need to modernise the functions highlighted by:
- The crosscutting 'Money' Best Value review.
  - The Byatt Review of Local Government Procurement in England.
  - The Government's 'Implementing Electronic Governance' agenda.
  - E-procurement and procurement modernisation papers from Government Departments.
- 3.1.3 There is a common thread to the modernisation agenda and that is the capability of new systems and processes to reduce costs, time taken and bureaucracy related to purchasing, and paying for, goods and services.
- 3.1.4 This, in the future, (2003/2004) could mean the introduction of:
- Purchase cards for small value goods.
  - Consolidated billing of supplier invoices.
  - E-tendering.
  - E-enabled transactions (ordering, invoicing, payments



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and remittance advice including maximising payments by BACS).

### 3.2 Issues for Resolution:

- 3.2.1 The merger of both the City Supplies Organisation (CSO) and Strategic Procurement Services (SPS) to form the new Corporate Procurement Services (CPS) has led to the end of their previous role in raising and processing orders on behalf of Departments. This will lead to speedier and less bureaucratic ordering by purchasing directly from suppliers. (However some external organisations, schools, voluntary organisations, still use CPS to place orders on their behalf). The previous system had many disadvantages, for example:-
- 3.2.2 An individual would write out a requisition order that was sent in the internal mail to their central administration point. The order was then approved and passed to a clerk to process and enter onto the purchase order payments system (POPS). However, if the order was complex (or the clerk had a backlog of work) the written requisition with explanatory notes would then be sent to CSO in the internal post. An average of 10 days would be taken before it reached CSO - providing there were no problems.
- 3.2.3 The removal of this third party (CSO) and the new payments system (with incorporated workflow) modernises this slower process. However, the introduction of the new system has not been unproblematic.
- 3.2.4 For example:
- Some Glamis Users have continued to use Corporate Procurement Services to process orders.
  - Suppliers have accepted paper or telephone orders from Glamis Users, but have also received a system-generated order, resulting in two deliveries of the same goods.
  - A significant payments backlog was inherited by the new Central Payments Team, which increased during 2002.
  - Glamis Users incorrectly completing GLAMIS orders creating further problems throughout the process.
  - Glamis Users directly placing orders but using Corporate Procurement Services as a "go between" to suppliers rather than speaking to the suppliers direct.
  - Suppliers being confused as to whether or not GLAMIS-



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generated orders are the only official orders to use.

- The closure of Dollman Street stores (part of CSO) has increased the number of separate orders being placed and, therefore, the number of invoices received.

3.2.5 These problems have resulted in:

- Duplicate orders.
- Slow delivery of goods.
- Suppliers not being paid as appropriate.
- Central Payments and Corporate Procurement Services dealing with queries due to input errors on orders.
- Suppliers putting the City Council on 'stop' (i.e. refusing to supply further goods) due to non-payment.

3.2.6 Work has been done to remove these problems (both internal and external), and this includes:

- A Procurement Manual has been introduced which guides users through the ordering process.
- Central Payments have removed their backlog and have installed a new structure to process invoices.
- Central Payments staff have been used to follow up outstanding queries on orders with the departmental orderer.
- Discussions are on-going with suppliers to resolve specific problems raised.

3.2.7 The review was intended to ascertain if the changes in practice have bedded in across the City Council and whether the problem areas have been addressed, as well as identifying areas where efficiency and effectiveness could be improved.

3.2.8 At the start of the Scrutiny exercise a scoping table was generated to show the possible outcomes and methodology to be used. An updated table including actions completed is attached at Appendix A.



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### 3.3 Method of Investigation

- 3.3.1 The investigation was undertaken by a Working Group of the Co-ordinating Overview and Scrutiny Committee. The group was chaired initially by Councillor Mike Olley. The group members were Councillor Peter Howard and Councillor Michael Wilkes. The membership changed in August 2003 to include Councillors Len Gregory and Hugh McCallion, as Chairman and Vice-Chairman respectively, and Councillor Ken Hardeman.
- 3.3.2 A number of reports were provided by officers from the Central Payments and Central Procurement functions, which set out the background to the issues discussed and the current policies within which the functions were working.
- 3.3.3 Departmental representatives gave evidence to the Working Group on their own experience of current systems and policies. These representatives came from Departmental Finance functions in addition to front line staff who use the system to order goods.
- 3.3.4 Procurement Officers from two authorities – Bristol and Leeds, which have been awarded 'pathfinder' status - also gave separate presentations on the approach to procurement within their own authorities.
- 3.3.5 Representatives from supplier organisations attended to give their own views on the service provided by the City Council.
- 3.3.6 A Consultant was employed to undertake a short review of the payments process within the Social Services Department. The outcomes of this work were reported to the Working Group.



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# 4: Findings

## 4.1 Background:

- 4.1.1 The Co-ordinating Overview and Scrutiny Working Group recognised that an improvement to the Payments and Purchasing functions would only result if the City made best use of the GLAMIS System.
- 4.1.2 By the end of 2002 particular difficulties were apparent with the period of time it was taking the City to pay its invoices. The Best Value Performance Indicator (BVPI 8) expects all undisputed invoices to be paid within 30 days. The Council's target for 2002/03 was, therefore at 100% to be paid within 30 days. However, the difficulty of achieving this is shown by the top quartile of Metropolitan Authorities being at 90%, although Birmingham's performance was lagging down at less than 60% of invoices being paid within the 30 days target. Therefore, a more realistic target for 2003/04 was set by the City Council on 1<sup>st</sup> July 2003 at 80% and the second quarter's results show that the City is currently achieving this target. The agreed targets for future years are:
- 2004/05 83 - 87%
  - 2005/06 88 - 93%
- 4.1.3 Nevertheless, the City has a responsibility to large and small businesses alike and is striving to pay 100% of undisputed invoices within 30 days in order to provide a good service. In addition, recently introduced legislation gives the right to suppliers to charge interest where payment is delayed beyond 30 days.



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4.1.4 The number of invoices awaiting payment in the Central Payments Team is shown below:-

Date	No of Outstanding Invoices
July 2002	55,595
August 2002	46,312
September 2002	54,029
October 2002	53,953
November 2002	43,961
December 2002	52,180
January 2003	45,319
February 2003	19,012
March 2003	17,463
April 2003	8,430
May 2003	6,712
June 2003	5,701
July 2003	3,162
August 2003	5,046
September 2003	1,720
October 2003	5,640

**Fig. 1:** Outstanding Invoices, by month

*Central Payments Team*

4.1.5 In 2002/3 the City Council spent £96.8m using GLAMIS. This includes £70m of off-contract spend.

4.1.6 Corporate Procurement's targets to drive down costs for procurement and utilities for 2003/2004 include:-

- £2.25m savings in 2003/4.
- A reduction in off-contract spend of 5%.

4.1.7 The review identified that there needed to be a number of policy and operational changes to ensure that the City was operating as efficiently and as effectively as possible and was able to meet the targets set. The findings of the review are set out below in the three following areas –

- Use of the SAP IV (GLAMIS) System.
- Payments processes.
- Procurement processes.



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### 4.2 Use of the SAP IV (GLAMIS) System

#### Maximising use of the SAP IV (GLAMIS) System

- 4.2.1 The review focused on how the City Council can make best use of the opportunities presented by GLAMIS including:
- Identifying the fundamental changes in central and departmental procedures that are required in the current system to gain maximum benefits.
  - Establishing the extent of GLAMIS availability and usage.
  - Establishing how much of this usage is correct (correct orders inputted as a percentage of orders placed).
  - Finding out where and why Departments are experiencing delays with orders/payments placed directly.
- 4.2.2 The System provides that where goods or services are ordered through GLAMIS, the orderer's user profile will contain the appropriate authorisation levels and the expenditure code of the purchase will be logged within the System. At this point a commitment will be made within that budget-holder's accounts. The order is sent directly to the Supplier and the subsequent invoice is sent directly to Central Payments for payment. Provided that the invoice and order match, payment is then made.
- 4.2.3 However, at present, only 17% of invoices submitted to the City Council for payment are derived from purchase orders made through the GLAMIS System. It is apparent that there is a significant under-usage of the System. The City should be using the GLAMIS System for 60% of orders.
- 4.2.4 Schools use the Schools Integrated Management System (SIMS) for ordering and accounting purposes and are necessarily outside of GLAMIS. Their invoices relate to approximately 40% of orders.
- 4.2.5 The statutory returns required from schools to meet DfES Consistent Financial Reporting (CFR) as part of the DfES Management Information Strategy (MIS) means that any software supplier for schools finance must be members of the DfES 'Interoperability Group.' The application must be able to receive and transmit financial data in the standard required for all data transfer. Also schools Management Information Systems deal with more than financial elements alone and are critical to the operation both of the school and the management of the learning process.
- 4.2.6 GLAMIS has for some time fed schools' systems for reconciliation



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of local accounts in schools with the central ledger. However, to maximise the investment made by both Corporate Finance and Schools it would be most advantageous if any such school management system were capable, with development, of integration to GLAMIS for electronic payment processing removing the need for payment slip printing for onward manual processing by Payments Section.

4.2.7 Ultimately though, schools will continue to have the final decision on which system to adopt, in line with current statutory regulations and requirements.

4.2.8 Where orders are not placed through the GLAMIS system, the procedure is that the supplier will submit the invoice to the school, site or other workplace location for receipting, coding and certification purposes. The invoice is then submitted to Central Payments to enter the information onto the System to effect payment. Clearly, there is more inherent scope for delay in this procedure and this contributes to the City Council failing to attain BVPI targets.

4.2.9 The Working Group initiated a survey of GLAMIS users, which highlighted that a majority of staff found the System difficult to use. A piece of work commissioned outside of this review identified that there were a number of barriers to using the System including:-

- Lack of training.
- Reliability of access to the System via remote means.
- Understanding the coding structures used within GLAMIS.
- Lack of a user-friendly interface.

**The Working Group recommended that the Strategic Director of Resources appoint a 'Change Manager' for a six month period. This was promptly actioned, and the Change Manager has started to work with staff in each Department / Directorate to:-**

- **Identify barriers to System use in each Department.**
- **Work with Resources Directorate staff to 'breakdown' the barriers.**
- **Agree targets for System use within individual Departments.**
- **Monitor System use against targets set.**
- **Report regularly on System use to Chief Officers.**
- **Identify requirements for a user-friendly interface.**

**To maximise the investment made by the Council and Schools it**



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would be most advantageous if any such school management system was capable, with development, of integration to GLAMIS for electronic payment processing, removing the need for payment slip printing for onward manual processing by the Payments Section. It is acknowledged that schools will continue to have the final decision on which system to adopt, in line with current statutory regulations and requirements. Therefore, it is recommended that schools be encouraged to adopt systems that are capable of integration with GLAMIS when they seek to replace their current IT management systems.

### Using the GLAMIS System correctly

- 4.2.10 The review identified that there were a number of stages in the process where departmental staff were not following procedures leading to under-performance against BVPI8.

### Input of Goods Received Notices (GRN)

- 4.2.11 The review identified that, where an order had been properly effected, with the invoice going directly to the Central Payments section and having being entered correctly and quickly, the supplier would not receive their payment because the System requires the input of a 'goods received' indicator to make the payment automatically.
- 4.2.12 The 'Goods Received' indicator must be input by the orderer when the goods are received, and it is apparent that this task is not always undertaken.

### Mismatches in quality, quantity and price

- 4.2.13 Automatic payment will also be withheld where there is a mismatch between the prices, quality and quantity of the item ordered and that shown on the invoice. This is a quality issue, which needs to be addressed within Departments by the managers responsible for staff ordering goods and also within the Central Payments function where there is a responsibility for the input of information at that point in the process.
- 4.2.14 The Working Group recommend that a number of actions are taken to ensure that these fundamental parts of the process are undertaken correctly.

**A development to the GLAMIS System is implemented to alert the orderer that there is no Goods Received Notice (GRN) when an invoice has been received.**

**As an interim measure, a "Dispute Team" has been placed within the Central Payments section, using current resources, to contact**



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orderers where payment is being "delayed" due to non-input of a GRN, or where there is a price, quantity or quality mismatch, to resolve the issue promptly.

Central Payments will actively identify blocked payments in the System and liaise with Departments to resolve these issues within the required timescales. Departments must respond to these queries within agreed timescales.

That management information is produced to allow departmental managers to take responsibility for ensuring that quality issues are discussed with the staff involved.

Chief Officers should ensure that their Department's Goods Received procedures are complied with, and that staff are fully aware and trained in current procedures. An Assistant Director in each Department will be nominated as a point of contact to ensure this takes place.

### GLAMIS User Survey

4.2.15 As part of this review the Scrutiny Review Group were keen to find out the experience of officers who use the GLAMIS System for payments and purchasing on a regular basis. This was done by conducting a GLAMIS User Survey. This has presented the Group with a valuable cross section of views from users. However, it is important to note that 151 returns only represents 8% of the 1878 GLAMIS user population. A higher return would give the Group a higher degree of confidence that this gives a representative picture of most users' experience.

4.2.16 It is recognised that there have been problems with extending the use of the GLAMIS system throughout the Council across a diverse range of users and their requirements. The survey indicated that:-

- Users have found the GLAMIS System complex to use and would benefit from a simpler design more suited to lower usage.
- There was some confusion over the use of Family Codes by some users due to a lack of understanding in how to use them correctly.
- Most users found the CPS catalogue easy to use. However, some complained about the difficulties they encountered when trying to find items, and the quality of indexing.
- The payments functions of GLAMIS were rated by users as 'poor,' although the survey was undertaken during a



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particularly difficult phase – see 5.1.

- The GLAMIS Help Desk give the majority of support to order users and their service was rated by most as 'good.'
- Users will contact suppliers directly and whilst this is acceptable, it is difficult to ensure users will not take part in maverick purchasing whilst contracted suppliers already exist.

4.2.17 The work being undertaken by the Change Manager will further address the issues raised through the survey. The barriers to efficient System use will be examined and an action plan drawn up to effect the necessary changes.

4.2.18 The Procurement, Payment and Systems teams are meeting on a regular basis to find solutions to some of the problems identified. To date this has led to a number of improvements in making management information available leading to further enhancements in the GLAMIS System and its use.

4.2.19 The review group was shown how it is intended to improve the 'front end' of GLAMIS. There is no doubt that GLAMIS has been bewildering to some officers and has not been straightforward to use, particularly for those who do not use it on a regular basis. The review group was impressed with the changes that were outlined, and once they are implemented they should making a telling difference.

4.2.20 In addition to the points raised above it is recommended that:

**Corporate Procurement feed back the results of the Scrutiny exercise to those officers who participated in the GLAMIS User Survey, and make available to users generally, through an appropriate medium. A follow-up survey will be undertaken by Corporate Procurement in 12 months time to provide an update on the use of GLAMIS, and any payment and procurement issues.**

**Corporate Procurement Services has made all purchasers aware of corporate contracts, and monitoring is undertaken to establish which Departments are purchasing goods and services off-contract.**

**The communication, procedural and System interfaces between users and Central Payments to be reviewed to ensure they are 'customer focussed,' and enable the resolution of queries and the efficient processing of invoices.**

**Training users to the right level of skill is essential to make ordering and payments as efficient as possible. A review of the training programme and course availability to take place.**



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### 4.3 Payments Issues:

#### Experiences of main suppliers dealing with the Council

- 4.3.1 Representatives from two of our major suppliers, Blakemores and Lyreco, attended a Scrutiny Review Group meeting to express their views on the service they were receiving.
- 4.3.2 The review highlighted the experiences of the City Council's suppliers and the effects of poor payment performance on each organisation. One of the factors that made resolution difficult was a lack of communication and the difficulties suppliers had in identifying the right Council contacts.
- 4.3.3 Blakemores were experiencing difficulties due to the high number of invoices they were issuing to the City Council and they were asked if they would be able to submit their invoices via electronic feeder files. They also had a problem with goods receipting when early morning deliveries were made to schools.
- 4.3.4 The Working Group recommended that:
- Arrangements be pursued with Blakemores as to the implementation of an electronic feeder file method for the transmission of their invoices.**
- That all suppliers issuing the City Council with more than 2000 invoices each year be contacted to discuss the efficacy of issuing invoices via an electronic feeder file. If successful, this process to be extended.**
- Discussions to be held with the Education Department to identify improvements to local procedural arrangements for the goods receipting of purchases from Blakemores at schools.**
- That an informal user group for suppliers, with Council Member involvement, be established. This would enable contractors to raise any problems concerning payments or procurement, and for Members to be aware of these. The group to be referred to on the Council's website, on purchase orders, financial documents and within contracts.**
- 4.3.5 The two suppliers who attended the review were pleased with the outcome. It is however true to say that both suppliers had experienced a number of problems in receiving prompt payment. The problems were as a result of the inherent problems in the System described in this report. The major improvement in paying invoices (shown at 5.1) during the period of the review was a major contribution to an increase in satisfaction.



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- 4.3.6 The City Council's suppliers acknowledged this improvement and made arrangements for their own payments to be made by electronic means (feeder files – Blakemores) and for a more direct liaison to take place on disputed and unpaid invoices (Lyreco).
- 4.3.7 Both suppliers found the attention given by the Scrutiny Review to be helpful in resolving outstanding payments issues, as illustrated by the following quotes:
- 'The current situation with the 90 day debt is that it has been cleared... I would like to take this opportunity in thanking the Committee in getting this organised.'*
- Michael Legge (Lyreco)**
- 'It was agreed that we would transfer from cheque payment to BACS – Already Actioned... Mike Parry – Central Payments IT Manager has already made contact with our Matt Johnson to initialise electronic invoicing... We are very happy with the ongoing situation...'*
- Jo Collins (A.F.Blakemore)**
- 4.3.8 The suppliers acknowledged that talking directly with Council Members had helped to improve the situation and welcomed the idea of an informal supplier/Council Member liaison group.

### Payment by BACS

- 4.3.9 In addition to increasing the number of payments made within 30 days of the invoice date, the Scrutiny Review Group also identified that many suppliers were currently being paid by cheque rather than by Direct Bank Credit (BACS). Those suppliers that were being paid by BACS were still receiving remittance advice information via the post.
- 4.3.10 The Working Group recommended that a targeted mailshot campaign be undertaken to all suppliers to identify bank details and e-mail addresses to ensure that payments and remittance advice could be made electronically in future.
- 4.3.11 It was also recommended that payment and remittance advice by electronic means would become the City's main method of payment once all suppliers had been contacted.

**Central Payments conducted a major exercise to identify the BACS details of all regular suppliers who are not currently paid in this way. The same exercise identified e-mail addresses for suppliers to effect the issue of remittance advices by electronic means. Once the data has been captured, the City will only pay the majority of suppliers using BACS.**



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### 4.4 Procurement Issues:

#### 'Off Contract' Spending

- 4.4.1 The Scrutiny Review Group was made aware that when a contracted supplier puts the Council on 'hold,' departments might source supplies from elsewhere in the interim. Although this was understandable, departments did not always revert back to the contracted supplier once the issue was resolved.
- 4.4.2 On May 9<sup>th</sup> Lyreco and CPS held a meeting to discuss the current stationery contract. Analysis of current customers revealed that in the 6 months prior to the report 830 users had stopped placing orders with Lyreco. A possible conclusion from this is that a number of departments are using off-contract suppliers to meet their stationery needs. Furthermore, the report identified that through the re-education of orderers the increase of the average order value from £54 to £63 will lead to a reduction of over 2,550 orders to process. If we could get the average order value to the £95 level this would see a reduction of over 7,700 orders.
- 4.4.3 A recent example of non-contracted spend involved the purchase of toner cartridges by a department which spent £158 (+71%) over and above the contract arrangement.
- 4.4.4 A corporate contract for the provision of temporary secretarial and administrative staff was awarded to Kelly Services and Extra Personnel. As a result of close monitoring and management there has been a marked increase in the use of this contract as opposed to departments using ad hoc arrangements. Current forecasts predict an annual expenditure of £4m. The corporate contract rates are cheaper than normal commercial rates and are therefore saving the Council £1.2m pa.
- 4.4.5 However, non-contracted agency staff orders placed in April 2003 were still reported as £350k (taken from a report provided to the Chair of the Overview and Scrutiny Committee – Councillor Mike Olley). This figure includes the procurement of technical staff not currently covered by contract agreements.
- 4.4.6 The Scrutiny Members stressed that when the Cabinet approved committee reports for corporate contracts there was an expectation that departments would use them and not continue with any other arrangements. There is a temptation to compare products solely on price and not take in to consideration other quality issues and, recognising the fact that corporate contracts support the Council's policy framework, equalities and sustainability priorities. For example, failure of the recent frozen



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food contract due to departments making their own arrangements, led to the company withdrawing as a result of a loss of business.

- 4.4.7 Bristol City Council's procurement strategy states that where an employee is aware of and ignores a corporate contract, they receive a warning. Subsequent offences result in a disciplinary process. Bristol CC supported this approach, because they saw it as imperative to reduce costs and the workload of processing staff.

**Chief Officers must ensure their departments maximise the use of the GLAMIS system to realise the benefits of this corporate system. A Process Change Manager has been appointed for a limited period to work with departmental representatives to identify the barriers to change in the medium to long term. All budget holders must ensure that the GLAMIS system is being fully utilised to effect order and payment for goods and services. Targets have been set and progress in this area will be monitored.**

**It is recommended that the Process Change Manager should work closely with Corporate Procurement Services (CPS). A higher rate of GLAMIS usage will increase the ability of CPS to aggregate supplies and take advantage of economies of scale and better pricing.**

**CPS will provide information on off-contract purchasing through its updates on Saving Principle Team reports and reports to the Procurement Cabinet Committee.**

### **To identify modernisation areas to improve payments and invoice processing for the Council and Suppliers**

- 4.4.8 The Scrutiny Working Group heard on a number of occasions of the benefits of E-Procurement and Purchase Cards. Audit, Corporate Procurement and external 'Pathfinder' authorities made a number of presentations.
- 4.4.9 Birmingham City Council already has an E-Procurement Strategy and is piloting Purchase Cards within schools and some key Departments, demonstrating its commitment to meeting the Government's Implementing e-Government (IEG) targets.
- 4.4.10 The electronic catalogue project forms one part of the e-procurement agenda but it represents the best return on investment in that it addresses both business and user needs and will encourage greater use of the System.
- 4.4.11 There are a number of ways in which the e-Catalogue will generate savings: -



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- Through reducing the order process time. This saving is estimated at an average of around 30 minutes per order.
- Fewer mistakes in the ordering process, due to the reduced amount of manual input required.
- Improved On-Contract spend – By making the *right way* to purchase goods the *easy way* to purchase, it should reduce the amount of off-contract maverick spend. A recent study by Best Value Procurement (carried out for Newham and Brent) showed that savings on items such as stationery were between 38% and 74%.
- Improved contractual arrangements with suppliers – through being able to demonstrate that we will be doing business using automated processes with less room for human error (and time-wasting). This should allow suppliers to trade more efficiently and more competitively. Although it is difficult to quantify this margin of saving, the amount most often quoted for this e-Procurement saving is 5%.
- Savings in terms of support and training. Currently training on SAP/Ordering takes 2½ days, whereas no more than a day is envisaged for training on the new e-Catalogue. (A selling point of the e-Catalogue is that it is easy to use – so by definition training will be minimal).

**Chief Officers and their departments must continue to support the E-Procurement Strategy. In addition, that the Purchasing Card Pilot be extended to include more departments with the aim of reducing 'off-contract' spending and the associated paperwork involved with high volume, low value purchases. The project to provide an e-catalogue, available on a User-friendly 'front-end' to the system, should be pursued vigorously.**



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# 5: Conclusion

- 5.1.1 The City Council has purchased a major strategic accounting tool in the GLAMIS System. The System will allow the City Council to make efficiency, and therefore cost, savings if used correctly. The System is not currently being used appropriately for purchase of goods and services and this has contributed to the under performance of the City Council against BVPI8.
- 5.1.2 The full and effective implementation of this Corporate System requires the co-operation and involvement of officers in Directorates/Departments as well as within the Resources Directorate. It is essential that officers take responsibility for the proper use of this System.

# Appendix 1: Updated Review Scoping Table

Outcomes of the Review		Phase	Methodology	Proposed Implementation/Action	Committee Minutes Ref / Page	Complete Status
1	To discover how the Council can make best use of the opportunities presented by GLAMIS: including	Phase I	Discussions with officers on how the System can support key Council objectives including the Procurement Strategy	Live demonstration of the GLAMIS System for ordering and paying an invoice, including reporting on issues or problems	Page 3	23.1.03
a)	Identifying the fundamental changes in central and departmental procedures that are required in the current system to gain maximum benefits	Phase I	Discussion with officers	Reportage from key stakeholders: Corporate Procurement Services, Central Payments, Corporate Finance, SAP Financial Development Team, Report on Social Services Process Mapping		Continuous  See 1d
		Phase I		Identify purchase / support / licensing costs, and savings in the use of GLAMIS	Appendix 2	23.1.03

Outcomes of the Review		Phase	Methodology	Proposed Implementation/Action	Committee Minutes Ref / Page	Complete Status
b)	To establish the extent of GLAMIS availability and usage	Phase I	Financial Systems to establish	Report from SAP Support	Appendix 7a	23.1.03
c)	To establish how much of this usage is correct (correct orders inputted as a percentage of orders placed)	Phase I	GLAMIS Reports on correct use  Desktop analysis review	SAP Financial Development team to provide summary report  Analysis / review of disputed invoices (Identify common suppliers, depts)	Appendix 7b	23.1.03
		Phase I	Discuss with officers the introduction, training and ordering procedures in GLAMIS including future System developments	Report from SAP team as above	Appendix 7b	23.1.03
d)	To find out where and why Departments are experiencing delays with orders/payments placed directly	Phase I	GLAMIS reports where relevant. Distribution of questionnaire to junior and regular GLAMIS users	Surveys to orderers in Departments  Report on Social Services Process Mapping	-  3vi	7.5.03  12.3.03

<b>Outcomes of the Review</b>	<b>Phase</b>	<b>Methodology</b>	<b>Proposed Implementation/Action</b>	<b>Committee Minutes Ref / Page</b>	<b>Complete Status</b>
	Phase I		Reportage from key Departments: Environmental and Consumer Services, Social Services, Transportation	ii & iii	21.2.03
Establish impact if all suppliers were to sue the Authority for late payments	Phase I	Desktop analysis.		23.1.03 Update due	Appendix 6a/b 7.5.03
<b>2</b> To establish a means of regularly recording and monitoring the total and marginal costs of producing an invoice, and the average cost of an order	Phase II	Use of graduate placement  Analysis of GLAMIS report on average order value	Action by Central Payments  To be provided by CPS	Draft Report 5.3  23.1.03	7.5.03  Appendix 8a/b
<b>3</b> To identify blockages and solutions to adopting corporate system	Phase I	Discuss with relevant officers	As detailed in 1a and 1d		On-going
<b>4</b> To find out from main suppliers their experiences of dealing with the Council	Phase II	Discuss with relevant suppliers	Discussion with key suppliers: Blakemores (food distributors), Lyreco (office supplies) and a smaller supplier	i ii Update due	26.3.03 26.3.03 7.5.03

Outcomes of the Review		Phase	Methodology	Proposed Implementation/Action	Committee Minutes Ref / Page	Complete Status
5	To find out how disputed invoices are dealt with at present and how the process can be improved	Phase II	Explore with relevant managers the problem with existing practices and highlight policy and practice changes	Central Payments to give presentation	Appendix 5	23.1.03
6	To identify modernisation areas to improve payments and invoice processing for the Council and Suppliers	Phase II	Detailed discussion with relevant officers a possible programme for the introduction of purchase cards	Presentation of benefits of e-based payments and order systems by Leeds Council as a pathfinder authority. Contact Bristol City Council's Head of Audit about a presentation on identifying and managing risks of e-systems. Assistant Director to raise with District Audit re external advice. Briefing Paper on Procurement Cards	Pg 8  Pg 10 ii  iii	12.3.03  12.3.03 26.3.03  26.3.03
		Phase II	- Consolidated billing - Increased BACS transactions and review services provided to outside organisations	Analysis of interest in BACS by Assistant Director of Corporate Finance and Asset Management	Appendix 4	23.1.03

Outcomes of the Review	Phase	Methodology	Proposed Implementation/Action	Committee Minutes Ref / Page	Complete Status	
		Phase II	Independent overview from external computer software expert on e-procurement	Refer to Briefing Paper on Procurement Cards	ii	26.3.03



## Appendix 2: Glossary

<b>Advice Note</b>	Document giving a description of the goods/service, quantity involved, method of transport and date of despatch. The intention is that it should be in the hands of the receiver before the goods themselves.
<b>Aggregation</b>	The combination of two or more contracts of a similar nature to form one larger, more economical contract.
<b>Call-Off Contracts</b>	Contract for indefinite amount of goods e.g. 'sugar as requested during 2002', as and when required. If the buyer does not place any orders there will be no breach.
<b>Conditions of Contract</b>	This document defines all the contractual matters the successful tenderer must comply with such as insurances, payment procedures, programme/delivery times, default procedures, financial recompense due if there is a failure in the delivery of the service, TUPE, etc.
<b>Contractors</b>	Any individual or organisation that arranges to supply goods, services or carry out works.
<b>Corporate Contracts</b>	Contracts set up on behalf of the whole Council rather than individual Departments, e.g. building cleaning.
<b>CPS</b>	Corporate Procurement Services.
<b>Designated Ordering Point (DOP)</b>	A person with direct access to GLAMIS who provides procurement support to colleagues who do not, e.g. processing orders and invoices.
<b>DFO</b>	Departmental Finance Officer.
<b>DOP</b>	See Designated Ordering Point.
<b>E-catalogue</b>	An electronic version of a paper catalogue enabling products and services to be selected and ordered electronically via GLAMIS.
<b>E-government</b>	Electronic public services delivered via the Internet.



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<b>E-procurement</b>	The electronic acquisition of goods and services including processes from the identification of a need to purchase to the payment for these purchases including post contract/payment activities such as contract management, supplier management and development. This would mean a link between the Internet and GLAMIS, both for ordering and payments.
<b>Family Codes</b>	These are general material codes for use when placing an order on GLAMIS. There are two types, either contract family codes or non-contract family codes.
<b>Feeder File</b>	It is a file of data that is generated by one system, which is passed to and processed by another. For example: GLAMIS - produces a file, which is fed to MIS2 - MIS2 raises internal invoices.
<b>Gateway</b>	A form of project management that examines key decisions in the procurement process independently from the project team charged with tendering a service/supplies.
<b>GLAMIS</b>	General Ledger and Management Information System. As well as being the Council's general ledger it is also the Council's official ordering system. It must be used for all ordering of goods and services. It is a 'bought in' IT package which covers all aspects of processing orders, recording goods received and payment of invoices. A detailed training manual is available to support users. This system will allow the Council to know what it is spending its money on and provide essential management information.
<b>IEG</b>	Implementing Electronic Government. For more information see the Office of the Deputy Prime Minister's <b>Implementing Electronic Government Statements 2002, Draft Guidance at <a href="http://www.local-regions.odpm.gov.uk">www.local-regions.odpm.gov.uk</a></b>
<b>Incorporated Workflow</b>	The functionality of GLAMIS allows the automation of manual or disparate tasks connected to order placing, delivery confirmation, authorising, invoice payment.
<b>Invitation to Tender</b>	This document will typically include instructions to tenderers, tender statement, collusive tendering statement, any requirements for a bond or guarantee, bank references, insurances, etc. Tenderers will have to complete and return this document by the due return date in order for their bid to be considered.
<b>Material Code</b>	e.g. 600000010. The codes given to all services and items in the Birmingham City Supplies catalogue or to corporate contracts. You will need this to place an order on the GLAMIS



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	<p>System. These codes can also be found through GLAMIS search facilities.</p>
<b>MIS2</b>	<p>The current system used to collect Sundry Debt for the City.</p>
<b>Off-Contract Spend</b>	<p>Expenditure with suppliers who are not party to a formal contract to supply goods or services with the City Council. Management Information figures can be affected by the misuse of ordering procedures.</p>
<b>Open Order</b>	<p>If you are unsure of 'how much' of a service you want, e.g. you may be using a temping agency to supply a typist for a week but not sure if you need that typist for a further two weeks you need to create an open order with your chosen vendor. GLAMIS will show a unit price of 1p, you can over type this with the actual costs or add the amount when you have agreed or resolved it.</p>
<b>Procurement</b>	<p>The process of obtaining supplies, services and construction works spanning the life cycle of the asset or service contract.</p>
<b>Procurement Cards</b>	<p>Designed for small purchases to promote purchasing efficiency, flexibility, and convenience. Monthly bank statements sent to designated officers who reconcile the detailed transactions (what purchased, where, when, price and purchaser) with purchase records, who then process any corrections.</p>
<b>Procurement Strategy</b>	<p>Focuses on the high-level policy issues the Council must address. The Strategy is available to organisations and people outside the Council as it is important that our contractors and the wider private and public sectors understand the direction of procurement in the City Council.</p>
<b>SAP</b>	<p>The SAP R/3 System is a large enterprise resource planning system, which is used by major organisations worldwide to manage their resources in an integrated manner. BCC purchased the SAP R/3 System as its new General Ledger and Management Information System (GLAMIS). The company's official name is 'SAP Aktiengesellschaft', and is based in Walldorf, Germany.</p>
<b>Specification</b>	<p>A clear definition of the standards and parameters of the service and/or supplies required, following consultation with service users and stakeholders. All services and supplies to be purchased shall be in accordance with, or exceed, the respective European Specification or where no European Specification exists, the respective British Technical Specification (Standing Order No 13).</p>
<b>SPT</b>	<p>Savings Principal Team.</p>



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### **Standing Orders**

Rules and regulations that control Council tendering.

### **Tender Documents**

Tender documents should clearly state what the Council's requirements are and enable the services and/or supplies to be accurately priced (Standing Order No 9). Corporate Procurement Services can provide standard sets of documents for use for in a variety of procurement situations.

### **Vendor**

GLAMIS term for supplier or contractor, i.e. who you are buying your goods or services from.