

**Committee:** Scrutiny 2  
**Date:** 6 July 2005  
**Agenda Item:** 4  
**Title:** Performance Indicator for Paying Invoices  
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### **Summary**

- 1 This report is in response to the failure to achieve the national target for prompt payment of invoices for goods and services. It looks at the causes for the lower than targeted performance and ways planned to improve that performance.

### **Background**

- 2 Best Value Performance Indicator 8 (BV 8) is a national performance indicator introduced during the early years of local government performance indicators. It has as its rationale the idea that councils should be able to pay businesses within one month for goods and services properly received. This is often considered even more important for small businesses, where cash flow is such an important issue.
- 3 For several years the national target for performance on this indicator has been 100%, as it is considered that 30 days should be ample time to pay invoices. However, no council had achieved this target by the end of 2003/04, the last year for which comparable figures are yet easily available. The top quartile performance of councils at that time was 96.74%.
- 4 The Council processes around 18,000 invoices per annum.

### **Uttlesford's Performance**

- 5 The Council's performance against this indicator was 91.79% on 2003/04 and 93.78% during 2004/05. This improvement was partly due to the new Financial Management System and its facility to arrange the release of cheques in time to meet the 30-day limit. However, the implementation of the system, in July 2004 also caused some delays for the first few months, and this limited the improvement being sought.
- 6 A key point to emphasise is that the prompt payment of invoices requires a corporate effort. The 30 days available to pay starts when the invoice is received in the Council, not within Financial Services, or based on the invoice date. Although Financial Services actually make the payment, the maximum amount of time needed there, even if an

invoice just misses one of the twice-weekly run is 5 days, leaving another 25 days for earlier stages.

- 7 The second point to stress is that disputed, and therefore probably delayed invoices should not affect the Council's performance. The government's definition and measurement criteria allow services to attach a note to any invoices which have been delayed as a result of a dispute. This then delays the start of the 30-day period, meaning that the target timescale should not be breached. It is believed however that some services need reminding about this, so it will feature in the improvement plan outlined below.

### **Summary of reasons for current performance shortfall**

- 8 It is hard to be sure what the causes are for the performance shortfall, but the following reasons seem likely:
- a) Lack of priority given to invoice processing within services
  - b) Lack of priority given to invoice authorisation by senior or middle management
  - c) The current practice of inputting into the Financial Management System the date of the invoice, rather than the date it was received. This is done to ensure that terms of trade of contractors, typically 'payment within 30 days of invoice date' are met, but at the margins, where processing elsewhere in the Council has been delayed, may be denying the Council the extra few days grace allowed by the performance indicator for receipt of the invoice
  - d) Possible under-use of the 'in-dispute mechanism'
  - e) Occasional delays on the part of suppliers in submitting invoices that they have already prepared and dated. This only becomes a factor due to the practice outlined under (c) above of the Council inputting the date of the invoice, rather than the received date
- 9 Of these reasons, a and b are considered to be the most significant factor. Reason c would only cost 2-3 days, leaving, at worst, 27 days for processing, and therefore, ignoring the time taken in Financial Services, at least 22 days within services. It is hard to see why, with the spending really committed at the ordering rather than invoicing stage, so many invoices can take that long to process and authorise.

### **Improvement Plan**

- 10 This consists of:
- a) The issuing of a guidance leaflet explaining the importance of paying invoices promptly, with offers of help on any practical problems, and more details of the 'in dispute' mechanism
  - b) The re-issuing or reminder of the existence of stamps to allow disputed invoices to be annotated as 'in dispute'

- c) Consideration of changing the logging of invoices to recording the date received, rather than the date of the invoice, which may occasionally help
- d) Use of reports from the Financial Management System to identify which services are delaying invoices, and one to one follow ups with staff involved to ascertain reasons
- e) Longer-term, a move towards electronic invoice authorisation and payment methods

RECOMMENDED That Scrutiny 2 Committee note the reasons for the current shortfall in performance and the proposed improvement plan.

Background papers: Best Value Performance Plan 2005/06, reports from Financial Management System