



A Low Value Strategy for Procurement

Towards a Pan London Strategy

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A LOW VALUE STRATEGY FOR PROCUREMENT

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1. INTRODUCTION

This document has been prepared in response to the outcomes from the 2003/4 creditors data analysis, which showed that 32% of London Borough invoices were valued at less than £100, but only accounted for 1.2% of total expenditure. In many instances processing costs exceeded the value of the transactions and dealing with such transactions consumes valuable resources in councils as well as being inefficient for suppliers. Tackling this problem can be achieved through the adoption of a Low Value Strategy for Procurement that could be adopted on a pan-London basis.

The key issue for councils is to understand that this problem cannot simply be addressed by the use of technology. Each council is responsible for making its own decision on how it deploys technology, including e-Procurement. This strategy can be implemented regardless of current technology used or planned for future introduction.

For the purposes of ensuring that the Low Value Strategy for Procurement would be widely accepted and not conflict with other localised initiatives, the LCE has:

- Researched the availability of similar strategies in the public and private sector as well as through professional bodies (e.g. the Chartered Institute of Purchasing and Supply)
- Held a consultative workshop on 27th June, attended by representatives from over ten Boroughs
- Invited the views of both the workshop attendees and representatives from the Society of London Treasurers (SLT) as to the value of the Low Value Strategy for Procurement and the content of this document

While we are unable to provide a tailored business case for each individual Borough, we have provided check lists and references so that it can be done with minimum effort. The LCE can help directly with business case support where Boroughs have participated in our expenditure analysis.

The LCE would like to thank all those that participated in the workshop and document review process. A full list of participants at the workshop is at Appendix A.

Excluded from this document is:

- A commentary on the pros and cons of different technologies (including e-Procurement)
- Specific analysis of statistics for individual London Boroughs

2. WHAT IS A LOW VALUE STRATEGY

Local authorities procure a diverse range of goods and services. An average London borough spends around £250 million each financial year on externally sourced goods and services with each individual purchase having gone through a complete procurement cycle. This may have included developing a specification, identifying and qualifying potential suppliers, evaluating tender responses, placing contracts and orders, receiving and paying for goods and services and managing supplier and contract issues. A single purchase can involve many individuals across the council with processing costs varying by type of purchase and the approach taken. Procedures, particularly contract standing orders and financial regulations, can add to the processing costs and time by creating extra administration for officers.

A low value strategy acknowledges that the majority of purchases that a council makes are relatively low in value and that the cost to the council of processing these transactions often far outweighs the monetary value of the transaction. A low value strategy shows how the council will identify and manage the procurement cycle for these transactions, ensuring the most effective use of resources. Having a low value strategy in place will:

- Remove administration and increase productivity, especially for officers whose focus needs to be on service delivery and not administration
- Enable indirect savings to be made through a reduction in administration and paperwork, while still allowing probity to be maintained
- Enable direct savings to be made through removal of costs to suppliers and better adherence to negotiated best value for money contracts
- Enable better procurement planning and opportunity analysis, through the removal of many low value transactions
- Accelerate the return on investment into systems such as e-Procurement and purchasing cards
- Encourage standardisation on use of suppliers and procurement routes for routine purchases

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3. IS THERE A PROBLEM?

The following information is taken from a London borough for the 2004/5 financial year and has been used to illustrate the requirement for improved management of low value transactions. It is typical of all London boroughs and other single tier councils in the UK.

PROFILE

The council spends £212 million per annum with over 10,000 third party suppliers of goods, works and services. They process 142,000 invoices (over 184,000 invoice lines) with an average invoice value of less than £1,500.

INVOICES

Invoices received by the council fit into the following value bands:

Number of Invoices :	Count	Cumulative Volume	% Volume	Cumulative Volume	Value	Cumulative Spend	% Spend	Cumulative Spend
<£0	2,472				-4,142,319			
£0<=£45	26,897	26,897	19.3%		1,667,431	1,667,431	0.8%	
£0<=£100	50,251	50,251	36.1%		2,320,469	2,320,469	1.1%	
£0<=£500	99,974	99,974	71.8%	71.8%	14,861,364	14,861,364	6.9%	6.9%
£500 to £2K	29,003	128,977	20.8%	92.6%	27,378,695	42,240,059	12.7%	19.6%
£2K to £10K	7,917	136,894	5.7%	98.3%	33,402,757	75,642,816	15.5%	35.1%
£10K to £30K	1,561	138,455	1.1%	99.4%	26,432,252	102,075,068	12.3%	47.3%
£30K to £150K	651	139,106	0.5%	99.9%	40,999,432	143,074,500	19.0%	66.3%
£150K+	156	139,262	0.1%	100.0%	72,620,668	215,695,168	33.7%	100.0%
Totals (+ve invoices only)	139,262		100.00%		215,695,168		100.00%	

In summary, over 70% of invoices received are less than £500 in value and account for less than 7% of the overall spend.

If it is estimated that if the cost of processing an invoice in the council is £45 (the commonly accepted value taking account of all overheads), then almost a fifth of invoices that are received cost more to process than their actual monetary value.

Note that there will not be a one to one relationship between invoices and purchases (i.e. orders/contracts placed).

SUPPLIERS

53% of suppliers (5,693) generated a single invoice in the year. Of these, it is estimated that around 70% of these 'ad-hoc' suppliers are new to the council this year. Generally, only around 15% of these suppliers can be expected to be re-used in future years.

These 53% of suppliers are responsible for just 2% of the total spend and have an average invoice value of £754.

The following table shows that over half of these 'ad-hoc' suppliers generate invoices of less than £100 with 85% of them generating invoices of less than £500.

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Spend	No Suppliers / Invoices	Percentage	Total Spend	Average Invoice
<£0	89	2%	-9,831	-110
£0<=£45	1,625	29%	34,329	21
£0<=£100	3,132	55%	145,649	47
£0<=£500	4,831	85%	502,338	104
>£500	862	15%	3,789,614	4,396

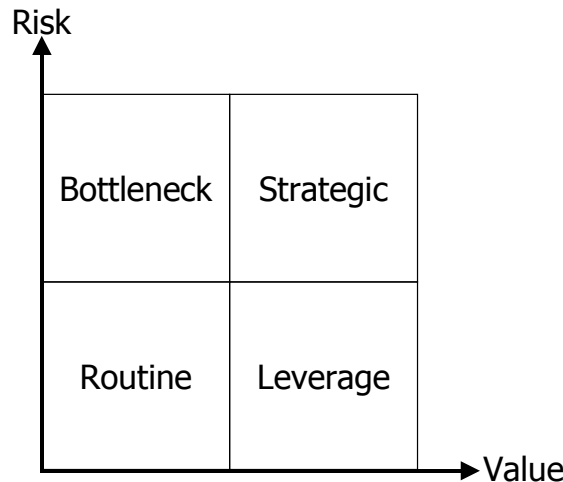
WHAT DO WE BUY?

The evidence shown above highlights two problems:

- There is a relatively high number of low value invoices received by the council in any one year
- Councils have a strong tendency to make low value purchases from suppliers who will only be used on an occasional basis (i.e. no relationship will be formed)

It is difficult to ascertain explicitly 'what' a council buys as opposed to 'whom' it is buying from as this type of procurement facing classification is rarely held. The closest we can get is by using the budget codes held in the finance system.















It is also helpful to plot spend categories against a risk/value matrix such as the one below.



The following categories of spend have more than 500 invoices per year with an average invoice value of less than £500:

Category	Notes	Main Risk/Value Category	
Agency Salaries	Includes all temporary staff payments including supply teachers	Leverage	
Education Equipment		Routine	
Catering & Vending Provisions		Routine / Bottleneck	
Repair & Maintenance	Usually relatively high in value if related to housing stock	Strategic	
Care Packages	Care packages are generally large in overall value but can result in large numbers of lower value invoices (by person by week for example)	Strategic	

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Category	Notes	Main Risk/Value Category	
Teaching Materials and Consumables		Routine	
Stationery and Print		Routine	
Miscellaneous	A significant number of invoices will appear in generic categories such as this	Usually Routine	
Payments to Individuals	This can include decoration allowances, grants, refunds etc. and may not be easy to influence	Bottleneck	
Staff Advertising		Routine	
Clothing, Footwear and Uniforms		Routine	
Professional Fees		Strategic / Leverage	
Courses/Seminars	Often highly specialised	Bottleneck	
Transport		Routine / Bottleneck	
Books		Routine	
Electricity	Utility payments including telephones can account for a significant portion of a council's invoices	Leverage	
Gas		Leverage	
Telecoms		Leverage	
Postage, Stamps & Franking		Bottleneck	

These categories equate to 53% of total invoices received (11% of overall spend).

32 suppliers generate more than 500 invoices in a year AND have an average invoice value of less than £500. This equates to 28% of invoices and less than 4% of overall spend.

Nearly 70% of suppliers are responsible for the invoices in just 24 categories (i.e. those where the average invoice is just £318) accounting for 43% of invoices. These are the categories that are likely to include the ad-hoc, low-value purchases.

IN SUMMARY:

- Low value purchases and invoices are not necessarily *routine* purchases
- A number of strategies and solutions will be needed to appropriately address the issue (i.e. one size doesn't fit all)
- Focusing on a small number of procurement categories and suppliers can result in significant improvements in a short timescale

4. OPTIONS FOR MANAGING LOW VALUE

There are a number of approaches, techniques and solutions that can be taken to manage low value purchases and invoices more effectively. We have already established that 'low value' purchases and invoices can be found across the whole of the procurement portfolio and it is therefore important that a council's strategy is defined to incorporate good procurement practice across the board. This will invariably mean that several of the options listed below will be required.

The business case and benefits for each solution listed below have been extensively covered in other documents (see Section 7). Rather than replicate this we have concentrated here on outlining the benefits and appropriateness of each solution to low value purchases and the key issues that a council will face in implementing them.

4.1 BUSINESS SOLUTIONS

Solution	Notes on Usage	Issues
Roles & Responsibilities	<p>Reviewing roles and responsibilities is essential to the success of the strategy. Identifying the individuals involved and sensitively managing the changes to their roles will ensure success. Reducing the number of individuals who 'buy' directly will provide a network for communication, training and ultimately non-compliance measures.</p> <p>Identifying lead 'buyers' and supplier relationship/contract managers will lead to improvements in administration and the identification of further contract management / improvement opportunities.</p>	<p>Ad hoc purchasing can be a significant overhead in some organisations, particularly where it is for low value routine items. The objective should be to either remove this task where no value is added to the work or ensure that where it is essential the work is automated.</p>
Centralising Budgets	<p>Centralising budgets for some categories can be an ideal way of introducing better control and removing administration. Longer term it can also provide savings and opportunities based on the increased focus.</p> <p>Spend can either be allocated based on pre-determined percentages or can be allocated based on information on usage if this is available.</p> <p>Centralising budgets is ideal for low value, low risk categories that have little or no impact on service delivery. Cross-departmental user groups can be implemented to discuss issues with suppliers and/or the process.</p>	<p>There can be resistance from service departments to the perceived loss of budget.</p>
Authorisation / Financial Limits	<p>A significant amount of administration can be removed from the upstream stages for low value purchases by reviewing the use of financial limits. A number of points should be considered:</p> <ul style="list-style-type: none"> ▪ Are the limits set for obtaining quotations and tenders realistic and risk based and will the savings achieved be greater than the cost of making them? ▪ Do limits vary by department, category, skill levels of individuals? ▪ Are there separate hierarchies in place for commitments as opposed to expenditure ensuring separation of duties? 	<p>Many councils often do not up rate their financial limits to reflect the profile of their business. While competition needs to be encouraged, thought needs to be given to the cost of undertaking the work for both officers and participating suppliers.</p>

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Solution	Notes on Usage	Issues
Framework Agreements	<p>Ideally framework arrangements, preferred supplier agreements and approved supplier lists should be in place for the majority of low value purchases. These arrangements should be publicised on the council's intranet along with the approved procurement routes for commonly purchased items and services.</p> <p>Using contracts from Office of Government Commerce (OGC) and OGC buying solutions (OGCbs), London Contacts and Supplies Group (LCSG), Procurement Agency for Essex (PAE) or others can provide quick and effective coverage with a small amount of resource requirements. It will also help free up resources that can be targeted at higher value / risk services.</p>	<p>Councils do not always have the capacity to put contracts into place, or the information to hand to identify where contracts are needed.</p> <p>There is sometime a reluctance to use contracts where the terms and conditions have been negotiated by another public sector body</p>
Standing Orders and Financial Regulations and Non-Compliance	<p>Internal procedures must be revised to reflect the new risk based approach to low value purchases and the automation of invoices.</p> <p>A non-compliance strategy can help by identifying the types of non-compliance that may occur along with the action that will be taken.</p>	<p>See Pan London Strategy on Removing the Barriers to Collaborative working.</p>
Audit	<p>The Audit Team play an important role in managing low value purchases. Their role is to ensure value for money and effective use of resources in addition to compliance.</p>	<p>Auditors often get an unfair press and should be involved in identifying areas of inefficiency and validating retrospective checking.</p>

4.2 TECHNOLOGY SOLUTIONS

Solution	Notes on Usage	Issues
Purchasing Cards	<p>P-Cards are an ideal solution for ad-hoc, low-value purchases as they empower individuals to make their own choices, shorten lead times, reduce administration (including supplier maintenance) while providing clear audit trails and comprehensive management information.</p> <p>Lodging a p-card with preferred suppliers (such as catering providers or building maintenance suppliers) can reduce the requirement for alternative solutions for these high volume purchases without having to provide cards to each individual who makes the purchase.</p> <p>Consider centralising budgets (see above) to avoid the administration of allocating individual costs.</p>	<p>Ensure that the administration savings are made and that administration is not just moved further along the procurement cycle.</p> <p>Do not forget that the Government Purchasing Card (GPC) is free of charge to adopt and has been working successfully for seven years.</p> <p>When a P-card pilot fails it is invariably because people fail to remove paper based processes such as manually coding statements and reapportioning costs to low levels.</p>

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Solution	Notes on Usage	Issues
Buying Online	Buying online directly from preferred suppliers where there are clear terms and conditions in place and the invoicing process has been thoroughly thought through is an ideal way to empower employees, reduce administration and encourage adherence to contracts.	<p>Ensure that the invoice/payment process has been considered including the application of discounts and other terms and conditions.</p> <p>Insist on supplier statements (electronic) to support trend analysis.</p> <p>Depending on the facilities provided by the supplier it may or may not be difficult to allocate budget codes to each transaction. Consider centralising budgets (see above).</p>
Market Places / e-Procurement	<p>Automating the order process for ad-hoc purchases is ideal, but must be combined with a sensible approach to authorisation. Is it appropriate to authorise low value purchases made against framework contracts for regular purchases for example? In some instances councils use a pre-authorisation for such purchases.</p> <p>Market Places and e-Procurement are only appropriate for order related purchases. Often, high volume invoices are the result of non-order related purchases such as utilities or as a result of a request made through an operational system such as a housing management or social services.</p>	Can be difficult to make a business case for investment unless direct cashable savings can be found.
Use of Finance Systems	<p>Most corporate finance systems have procurement functionality that is often never implemented or poorly implemented. Consider:</p> <ul style="list-style-type: none"> ▪ Use of purchase ordering modules or ad-hoc order placement ▪ Implementation of workflow rules by department, procurement category and value ▪ Use of goods/services receipting (and auto receipting based on trigger dates) ▪ Invoice matching with automatic approval based on tolerances ▪ Receipt of electronic invoices ▪ Payments by direct debit ▪ Use of 'sundry' suppliers 	
Self Billing	<p>HMCE accepts self-billing as an alternative to invoicing and most financial software packages support it. Self billing is an ideal solution when:</p> <ul style="list-style-type: none"> ▪ You have a strong relationship with the supplier, ▪ You are confident about agreed prices, and ▪ You have agreed an approach for resolving issues. 	Retrospective audit procedures need to be put in place and random checks carried out to ensure probity remains.

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Solution	Notes on Usage	Issues
Invoice Consolidation	<p>Asking suppliers to consolidate say a month's spend onto a single invoice can dramatically reduce invoice numbers, however it should only be considered where:</p> <ul style="list-style-type: none"> ▪ You have agreed an approach for resolving issues ▪ You are not losing valuable management information ▪ The invoice can be approved by a single person (as opposed to having to be passed around the organisation) 	<p>Invoice consolidation is also beneficial for suppliers as it removes the need to progress chase. Always make certain suppliers are paid by BACS (or equivalent) as a standard term of trading.</p>
Contracts Register	<p>An online list of contracts and preferred suppliers along with the approved procurement routes for regular purchases will encourage adherence to contracts and internal procedures. It is also critical in supporting any non-compliance action.</p>	
Management Information	<p>Detailed spend information is not only a pre-requisite for defining the low value strategy, but it is essential if you are going to have the confidence to 'let go' of the day to day transactions and manage compliance issues. Ensure that spend data is available for:</p> <ul style="list-style-type: none"> ▪ Purchasing card trends ▪ Audit purposes ▪ Benchmarking (previous periods, between departments etc.) ▪ Exception reporting (such as misuse of contracts) 	<p>Data is held in disparate systems (finance, e-Procurement, suppliers own, purchasing cards, operational systems)</p> <p>Decision processes are not usually logged (i.e. reasons for exceptions)</p> <p>Contract references are rarely held making off-contract spend difficult to identify</p>
E-Auctions / E-Tenders	<p>The efficiencies gained by automating the upstream aspects of the procurement life-cycle can enable us to have the capacity to implement more contracts and frameworks.</p> <p>These solutions can be cost effective, as they require no interfaces with corporate systems.</p>	<p>e-Auctions are only suitable for categories that are easily definable, have a reasonable number of potential suppliers and where there is a significant level of spend.</p> <p>Do not underestimate the pre-work that is required to have a successful e-Auction.</p>

5. HOW TO MAKE IT HAPPEN

Clearly, it will take time for Boroughs to develop and fully implement a strategy for the effective management of their low value transactions. This section provides some suggests a way forward for councils that will enable a strategy to be developed over time through educating and involving stakeholders and delivering some quick wins.

- Understand your spend

Having a clear understanding of where the low value transactions exist will enable you to identify where changes need to be made and will support prioritisation and planning. It will also provide the business case for making changes and will be critical for gaining senior management and member support.

- Define appropriate procurement routes

Using the spend analysis, identify a few (no more than 5) procurement routes for low value transactions. This will include solution options and authorisation requirements and will take into account all phases of the procurement life cycle from identification of need to payment and audit.

- Liaising with buyers and suppliers

Your spend analysis should tell you who is doing the buying (i.e. which departments/services). The individuals in these areas may already have ideas about how to make buying low value items more efficient. Suppliers will have preferred methods and may already have tried them with other organisations. Identifying category and supplier relationship managers in service areas will support the change and make it happen.

- Stakeholder analysis

Identifying and managing stakeholder interests from IT, audit, legal, finance and departments will help to identify who has positive and negative interests in the strategy. Understanding these will enable a risk register to be drawn up and may will provide additional drivers and supporters for the change.

- Identify quick wins

Identifying and delivering low risk quick wins are essential in building confidence internally. There may already be categories where strong contracts and relationships are in place where controls can be relaxed in favour of spot checks or post-audits. Quick wins will usually not involve major changes to systems but may be as simple as authorising a handful of individuals to buy online from a preferred supplier without requiring a signed requisition.

- Reviewing and resolving issues; identifying further candidates and ongoing improvements

The action plan associated with the strategy should include opportunities for all stakeholders to comment on the changes and provide suggestions for improvements. Ongoing spend analysis will continue to show where further improvements are necessary.

6. MANAGEMENT ISSUES

This section highlights the organisational, cultural, stakeholder issues that a council would face in trying to implement its low value strategy.

USE OF INVOICES

Invoices are often used for purposes other than simply a request for payment. This can include the provision of management information such as vehicle, client or job details and the triggering of a goods/services receipt decision (did I actually receive this?). Often the receipt of an invoice is the first time that a budget holder becomes aware of a commitment ever being made.

The invoice is considered an important control point and these issues should be fully understood and managed before the invoice processes are changed

USE OF CONTRACTS

Ideally, contracts, framework arrangements and preferred supplier agreements will be in place for the majority of low value purchases a council makes with the benefits and procurement routes associated with these easily available across the council. This will make it easier to develop solutions with suppliers and will reduce risk as terms and conditions will have been pre-agreed. However, putting contracts in place takes time and resource.

The council should consider implementing contracts made by other organisations such as neighbouring authorities, the London Contracts and Supplies Group (LCSG) or the OGC for tactical purchases.

SELLING THE BENEFITS

One of the biggest challenges that a council faces will be getting individuals to let go of the low value purchases in order to focus on the higher risk purchases. There will be a tendency to replace the administration and perceived loss of control that has been removed with administration somewhere else (reconciling purchasing card statements for example) thus negating benefits and introducing bad will.

It is important to gain the support of Members and senior management in addition to colleagues in audit and finance. This is best achieved through evidence and where possible the quantification of savings. It is critical to the implementation of your strategy that you begin with understanding your spend profile so that you can:

- Provide the evidence that an alternative approach to low value purchases will benefit the council
- Identify and prioritise candidates (suppliers, categories and departments) for improvement
- Enable the mapping of appropriate solutions (both business and technological)
- Enable efficiency savings to be estimated

Determining the cost of acquisition can be difficult. Ideally, you should consider all phases of the

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procurement life-cycle and the total cost of ownership of the goods/services. As a compromise, estimating costs/timescales for a few of the main procurement routes may be the only option.

MEASURING SUCCESS

It is important to set critical success factors for all of the goals in the strategy and not just performance indicators based on the number of invoices. Surveys of the impact on individuals will be extremely useful especially if you can do an early benchmark highlighting the issues.

Reducing invoice numbers is not necessarily an indication of success. Increased invoice numbers but with full automation is just as acceptable.

Performance indicators should be set around:

- Levels of satisfaction
- Number of purchase orders and invoices fully automated
- Exceptions generated (price mismatches etc.)
- Adherence to contract or preferred supplier agreements
- Removal of duplicate suppliers
- Reduction in ad-hoc supplier creation (bearing in mind that supplier base rationalisation is not appropriate for all types of purchase)
- Evidence of non-compliance

7. USEFUL SOURCES OF INFORMATION

The following websites and documents provide useful additional information on this subject.

- National e-Procurement Project Guidance Notes (see www.nepp.org.uk) including:
 - Workflow and Authorisation
 - Procurement Spend Analysis
 - Optimising Procure to Pay
 - Internal Barriers to e-Procurement Adoption
 - Desktop Guide to e-Procurement - Purchase Cards
- Office of Government Commerce – [eProcurement in Action](#) (see www.ogc.gov.uk)
- Office of Government Commerce – [The UK Government Purchase Card Programme](#), (see www.ogc.gov.uk)

APPENDIX A – LIST OF CONTRIBUTORS

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