



Northern Ireland
Assembly

**COMMITTEE FOR
FINANCE AND PERSONNEL**

**OFFICIAL REPORT
(Hansard)**

**Enterprise Shared Services:
Account NI**

20 October 2010

NORTHERN IRELAND ASSEMBLY

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FINANCE AND PERSONNEL**

**Enterprise Shared Services:
Account NI**

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Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)

Mr Paul Frew

Mr Paul Girvan

Mr Simon Hamilton

Mr Daithí McKay

Mr Mitchel McLaughlin

Mr Adrian McQuillan

Mr Declan O'Loan

Ms Dawn Purvis

Witnesses:

Mr John Crosby) Department of Finance and Personnel

Ms Fiona Hamill)

Mr Paul Wickens)

The Chairperson (Ms J McCann):

I welcome Paul Wickens again; John Crosby, who is the chief executive of Account NI; and Fiona Hamill, who is the treasury officer of accounts. I invite you to make a short statement, because we will go to questions as soon as possible.

Mr Paul Wickens (Department of Finance and Personnel):

Account NI has been in full operational mode since November 2009, with all services operating effectively. In total, £4 billion has been paid to Northern Ireland Civil Service (NICS) suppliers since Account NI went live. Performance against the 10-day prompt payment target has improved in recent months. We also routinely achieve targets for the completion of bank reconciliations and closure of ledgers. We welcome the opportunity to discuss progress in Account NI and explore the matter of prompt payment with the Committee. Members will already know Fiona Hamill from central finance group, and my director of finance service is John Crosby. We are happy to answer your questions.

Mr O'Loan:

Paragraph 14 of your document says that:

“One of the challenges has been to get buy-in from Departments to the concepts of self service, commonality and shared ownership against a legacy of the autonomy and control offered by Departmental systems.”

I do not know what self service means; you might tell me. I found that piece of information very disturbing. It is key that the Departments work with you rather than against you. It sounds like duplicate systems are operating, which would be extremely wasteful. I would have thought that, by this stage, we would have got on to a stable place, as you were saying in relation to HR Connect, with Account NI. However, Account NI and its relationship with Departments does not seem to have got to a stable place.

Mr Wickens:

I reassure you that it has got to a stable place. We are working very closely with Departments in the same sort of governance structures that I mentioned in the previous session. Under the finance service board, we have a group of finance directors, so we work very closely with the finance directors' group. We also link to Fiona in the central finance group. Account NI is not just about us delivering a service; it is about working in partnership with the Departments and the suppliers in the system. There is a tripartite approach to those things. It is stable, which we can see from the measures that we are getting.

Mr John Crosby (Department of Finance and Personnel):

Account NI has introduced an element of self service, for example, for staff in the input of their own travel and subsistence claims and in the raising of requisitions and purchase orders online. Those are responsibilities that staff in business areas did not have before. Previously, they were handled by the finance division. There has been quite a seismic shift in the amount of online access that staff have to the accounting system and getting familiar with the requirements of it.

Mr O'Loan:

Paul, your answer did not seem to agree with the statement that you made in your report. I am sure that it would not be there without a very good reason. Can I just challenge you a bit more?

Mr Wickens:

The key areas that we are focusing on with Departments do not include the day-to-day use of the system. That is extremely effective. The two areas we focus on are the 10-day prompt payment and making sure that Departments and suppliers are working with us and doing the things that they need to do, and there is also the production of better-quality management information. We have the engine working very effectively.

With regard to Department behaviours, we have an education process to try to bring Departments with us to make sure that they are doing the right things. If we are trying to get things done within 10 days, Departments have to live up to certain responsibilities. That is the area that we continually focus on with them.

Mr O'Loan:

A lot of evidence suggests that the bigger problems with prompt payment are not with the central bodies or departmental structures that you are working with, but with what one might broadly call arm's-length bodies. There are current issues with health trusts, education and library boards,

district councils, and so on. Some of those are very outwith you, for example, district councils, but do you have the figures and records for departmental arm's-length bodies or agencies?

Mr Wickens:

Yes, and we can provide a breakdown. We segment the figures by each customer, or client, by the level of prompt payment. The average for prompt payment last month was up to 82%. There is a variation across Departments and other bodies, and we can provide that to you.

Mr O'Loan:

Does that include health trusts and education and library boards?

Mr Wickens:

No, we are nothing to do with those.

Mr O'Loan:

Right, so you simply cannot offer us any information about those? That is a problem for us.

Mr Hamilton:

There is a marked improvement in the performance of a lot of Departments. There is almost too much information. You could pluck out every single one of them and ask various questions about why one has improved dramatically, and why one is not showing a sign of improvement at all. However, I want to ask an overall question. The report talks about 82% on average across the board being paid within the 10 days. Are the remaining 18% capable of being paid within 10 days? Is the fact that they are not thus a failing of the relevant Department, or are they not capable of being paid, and the problem lies at the suppliers' end? Have you taken those out? Is the 18% a failure within Government to pay within 10 days, or does it include those cases where you are not getting complete information from suppliers?

Mr Wickens:

It is all of the above.

Mr Crosby:

What we actually measure is those that we have paid. You cannot get the period that it is taking you to pay until the payment is made. There are dependencies with the supplier, the quality of the invoice, and where it is sent. There are then dependencies with Account NI in processing the invoices at the first stage. Invoices need to go to Departments for approval, and that goes out through workflow, so there are departmental dependencies on how quickly they approve those and whether at that point they can approve them — whether they match with a purchase order or not. There are a number of approvals and procedures all the way down the line, so invoices can be held up at any point.

Mr Wickens:

Believe me, the finance directors for each Department do jump into the details, and say: “Why has mine gone up this month?” or “Why has mine gone down?” so that we can understand that. We are focusing on two areas around that. We have quite a lot of high-volume, low-value transactions coming through, and we are trying to work on ways to advise the Departments and suppliers on how we could handle that differently.

For example, group billing. We get lots of individual mobile phone bills. It would be much easier for us to handle one large bill with a lot of line items. We may not get to that point, but we are certainly working with policymakers on how we could affect that and change the behaviour. We are looking at areas where we are doing too much work unnecessarily.

Mr Hamilton:

The Department for Regional Development (DRD) pays out a huge amount, around £20 million

each month, and has made dramatic improvements, now hitting 83% according to the latest figures. Other Departments have significantly less, but show no real sign of improvement. What do you do with those? With DRD spending £20 million, with so many invoices and so many contractors doing bits of work all over the place, you might expect it not to hit the higher levels, but it is now getting there. The Health Department, however, which has only £2 million to £2.5 million each month, has gone up in the past couple of months, but overall has been consistently quite low. What do you do to try to drive up its performance? If somebody spending £20 million is hitting a pretty high level, you would expect a Department with quite a low expenditure —

Mr Crosby:

The short answer to that is that we provide Departments with this table, and that puts pressure on them to see how they are performing. Account NI provides the same level of service to all Departments; we provide the same solution. That is one of the advantages and benefits of Account NI: everyone is now on the same system. These figures prove what can be achieved.

The other thing we do for Departments at the lower levels is to provide them with information on invoices in the workflow, so that they can see whether their invoices are, for example, escalating from one member of staff to another, and they can manage that from within.

The table reflects diversity in the nature of the Departments. It is much easier in some Departments to have invoices that match purchase orders. If you are purchasing something straightforward, like a desk and four chairs, you will get an invoice that will match it, whereas in, for example, Roads Service, the purchase order may be for a load of stones — it may not equate exactly to the invoice. There is a difference in the natures of invoices that Departments receive.

Mr Hamilton:

If the idea is to shame Departments, you might want to do it like a league table, with promotion

and relegation.

Mr Crosby:

We provide Departments with the facts. There is information underpinning this table so that they can have more detail and see exactly what has gone on. The other thing that we do is provide information on how long invoices have taken to arrive with Account NI, how long it has taken us to scan the invoices and how long it has taken us to pay them at the end. However, the amount of information that is exclusively down to Account NI is limited. We take less than two days to get invoices from scan into the workflow. We take just over one day to get them finally paid once the approvals are in place. All the other time is mixed time between the Department and Account NI.

In any workflow situation, it is easy to pass on to the next person if you do not do what you are supposed to do right. Sometimes there is a little bit of pushing it on to the next person, but if you do not fix it at the first point, it will take the next person longer to process. Finding out where the time is spent is not an exact science.

Mr Wickens:

I take the point about the league table, but we are trying to work in partnership with the Departments. There is some implicit league-tabling, if you want to use that term. However, the strict measure of prompt timing is from receipt of a correctly rendered invoice. We are still working with Departments on that area to ensure that it is correctly rendered at the first point of contact. That is not always the case.

Ms Purvis:

All the Departments, except the Department of the Environment (DOE), had a bit of a dip in July, but the percentage meeting their targets increased by September. Is there a particular reason for

that pattern?

Mr Crosby:

There is nothing specific to DOE. It is worth mentioning that DOE was one of the last Departments to come on board. There is a difference between Departments that have been running the system for up to three years and those that have been using it for less than a year.

The improved performance has been slightly influenced by reduced volumes that we have seen over the summer period. We are not sure why that is. With the outcome of the spending review due today, Departments have been reluctant to initiate expenditure given that uncertainty. That has certainly helped us. Sometimes, it is simply the volume that we get from each Department and the way that they come in. It is really a queuing system. If they all come in on a Monday, it takes longer to get them through than if they come in sequentially through the week.

Ms Purvis:

We have some correspondence from Mr Ian Houston in which you talk about the additional investment in Account NI of some £900,000. What has been the return on that investment? We are still not meeting the 10-day prompt payment target. Is that sustainable?

Mr Crosby:

The return on that investment has been that we have made the best effort possible to maximise performance at the Account NI end. The Departments' performance for 2010 was 57%, so it has gone up considerably. We have put in resources of £300,000 to £400,000 per year. Whether that is sustainable in the longer term is really a matter for the outcome of the spending review and our available budget going forward. It may well be that it is not sustainable.

Mr Wickens:

When Account NI was first conceived, designed, built and tested, it was intended to meet the statutory obligation for 30 days, beyond which we have to pay interest to those suppliers that have not been paid within that time. The introduction of the 10-day target means that we have effectively had to implement manual workarounds to the IT system to force things through in a much shorter time. There is a question about whether it is worth spending £400,000 or £500,000 per year going forward to achieve the 10-day prompt payment target. We believe that that figure could be reduced as policy.

Ms Purvis:

Was sufficient flexibility not built into the system at the start to allow for a change in payment turnaround?

Mr Wickens:

It is fairly fundamental to the way that the process was designed. It was designed to allow electronic workflow. I suppose that the answer is that it was designed for 30 days. Ten days is totally different. The things you have to do to pay in 10 days are different from what you have to do to pay in 30 days.

Mr Crosby:

It is worth making the point that the system is designed to facilitate use of purchase orders and to have all expenditure approved in advance of an order going out the door, rather than, as has traditionally been the case, at the point of invoice receipt. We are trying to capture expenditure information at the earliest possible time and accrue information so that financial records are intact. That is the important thing. The system was not designed to be a payment engine it was designed to capture quality financial management information. That will be even more important going forward.

Ms Purvis:

You mentioned late payment. Our figures show that Departments are paying only 93% of invoices within the statutory 30-day period. We have evidence that, for example, Account NI's September figures show that 1,172 invoices were not paid within 30 days. Has that led to action by contractors? What has been the cost of late-payment interest to contractors?

Ms Fiona Hamill (Department of Finance and Personnel):

Obviously, where contractors consider that they have not been paid on time, remedies are available to them under the Late Payment of Commercial Debts Regulations 2002. That has led to settlements, and those figures are reported in Departments' accounts. They can certainly be extracted from Departments' accounts for Committees. That is how they are reported and published.

Ms Purvis:

The purpose of introducing the 10-day turnaround was because of the economic recession and to ensure that contractors, particularly smaller contractors, were able to survive. When you see that invoices are not even being paid within 30 days, that is cause for concern. Obviously, they may be larger contractors. I would be interested in whether they are, in fact, larger or smaller contractors because I am sure that at this time, the impact of that on some businesses is tragic.

Mr Wickens:

This is one of the dilemmas. Achievement of the 10-day prompt payment actually works against the 30-day payment. By focusing on the 10-day payment — while it does not mean that you take your eye off the ball for the 30-day prompt payment — you actually do things differently. Fundamentally, focusing on the 10-day payment goes against good practice.

With regard to the breakdown of the type and size of suppliers, one challenge is that we do not

have information on whether we are paying an SME or a large PLC. We actually do not seek to make a distinction. We aim to pay all. That comes across in GB as well. My colleagues also pay all suppliers. They cannot make a distinction between an SME and a PLC.

There is then the question about the flow-down of payment terms, because very often you find that the small fish at the end of the value chain are depending on the big suppliers getting paid. I have written to the Institute of Directors, the Confederation of British Industry and the Federation of Small Businesses to ask them what evidence there is to show how the smaller suppliers are paid by their members. I wrote to them in July and sent a reminder in September, but only the Institute of Directors has replied to say that it is working on it. I have not had a reply from the other two, so we do not know what the supply terms are.

In his recent report, Sir Philip Green questioned why the Government are bending over backwards to pay suppliers in a short space of time when organisations like his own are taking 45 days to do so. Between 45 and 50 days is the norm in the private sector, but we are focusing on 10 days.

Ms Purvis:

Is there a difference in the size of firms that are pursuing late-payment interest? I imagine that it would be more beneficial to smaller firms to pursue that, but they probably do not have the means to do so.

Mr Wickens:

We do not have that information to hand, but we can provide it.

Ms Hamill:

We can ask the Departments to advise us on that.

Mr McLaughlin:

I am interested in the flow-down. We have got the explanations about the change and the impact on your processing from a 30-day target to a 10-day target, but we are trying to ensure that we do not add to the difficulties of contractors. I am wondering why we are relying on things like the fair payment charter as opposed to a contractual obligation, even if it is modelled on the 30-day payment, which appears to be contractually possible. Why do we have that amount of flexibility when we know that it is causing difficulty at a local level?

Ms Hamill:

In large construction contracts, for example, Central Procurement Directorate (CPD) has put requirements within the standard terms and conditions that major contractors pay their subcontractors within 30 days to see the flow-down. That can be done by us with the big contracts, because it was an issue. It is very difficult for us to do that in the more routine purchasing of goods and services.

Mr McLaughlin:

What do you mean by “a large contract”? What is the threshold?

Ms Hamill:

The big construction contracts.

Mr McLaughlin:

Is it multi-millions, or over £1 million?

Ms Hamill:

It is in the advice from CPD, which I will forward to the Committee. It is now a standard part of those contracts that people must sign up to a commitment to pay their subsidiary providers. In

that area, a lot of the business that Account NI is covering is smaller, normal routine procurement. In those conditions, it is very hard to see how you could start to exercise terms and conditions that would force those principal suppliers to pay subcontractors, particularly where you are paying for utility services. How do you enforce a requirement on a large utility firm to pay its subcontractors? The majority of our money is going to large companies, and it is through the value chain that the money moves into the local economy. At a policy level, I do not know how we could enforce it.

Mr McLaughlin:

If the policy is to apply this right down through the food chain and it is a contractual obligation, it can be enforced at some level. That does not necessarily imply that the Department has to follow the food chain. It does not necessarily imply that the Department has to follow that food chain. The contractors and the subcontractors would have legal protections and entitlements and could insist that the obligation was enforced and delivered at that level. If that has not been considered, is it possible to establish whether people are considering those measures?

We are getting a very consistent pattern of reports from those subcontractors who are experiencing difficulty. The charter of fair treatment does not seem to work or solve the problem; the complaints continue. We have to do more.

Ms Hamill:

I will take the Committee's concern to CPD and ask for its advice.

Mr McLaughlin:

That will be fine.

Declan was asking about the arm's-length bodies. It was not clear to me whether Account NI is tracking the performance of arm's-length bodies.

Mr Crosby:

We are not. We provide and compile figures for only those organisations that are on Account NI and which pay through Account NI. That is the only role that we have; that is our remit.

Mr McLaughlin:

I can appreciate that you might think that that is quite enough. However, a significant amount of the programme spend is delivered through quangos and arm's-length bodies — £8.9 billion in total. It appears that if we rely on the current arrangement, the profile of the application of public funding will be quite narrow. There may not be any noticeable impact for operators whose point of contact is some sort of arm's-length body that does not subscribe to what the Department does.

Mr Wickens:

We provide services to 13% of the public sector. That 13% comprises the NICS Departments and the arm's-length bodies. In some cases, we are contractually prohibited from providing services to other organisations because of the way the procurement was done. It is impossible for us to take any responsibility or ownership for those organisations. We are seeking to continue to grow our customer base. Account NI is working actively with the Department of Justice, as a new Department, to see how it could be joining. We are bringing on the Driver and Vehicle Agency. We are seeking to bring on other organisations. We can take responsibility for those that join the club, as it were, and report back to them. Other than that, it is definitely outside the remit of Account NI as a delivery organisation.

Ms Hamill:

In February, the Finance Minister wrote to ministerial colleagues and asked them to consider the

matter and to seek assurances from their Departments, agencies and the wider public sector organisations for which they were responsible that all appropriate action was being taken. That is at the wider level.

Mr McLaughlin:

The fact that so much of the spend is outside the remit and even the projected remit of Account NI raises fairly fundamental issues. Then, of course, we come back to the performance statistics of the Departments; some of them are so far behind counterpart organisations elsewhere. In the broad scheme of things, it seems that we may not be delivering as much support to indigenous and small and medium-sized enterprises as we think.

Mr Wickens:

I will give you an example. I maintain a close contact with the chief executive of the regional Business Services Organisation in the Health Department. It has started the procurement of a system equivalent to Account NI. It will be taking responsibility for its prompt payment through the systems and services that it provides. I take your point, but it is definitely outside of our remit.

Mr McLaughlin:

We might want to follow that one up.

Mr Frew:

I support the fair payment charter or any such model. I believe that the biggest problem in the construction industry is not the lack of work, but the prompt payment of contractors. That is the major problem in the construction industry, because it is hard for a subcontractor to put pressure on a contractor to pay up. You talk about the norm. It might be the average, but anecdotal evidence suggests that the norm is that it can go on for long periods with large amounts of money at stake. If they get payment, it is a small fraction of what they should have received. There is a

major problem there. I believe that it is right to take that pressure away from subcontractors, because the only real strong argument that they can use is the fact that they can lift their labour off the job. That becomes very embarrassing for everyone: the client, the contractor and the subcontractor. It is a model of best practice that the project manager focuses on that. He can ask about prompt payment at meetings. I think that that is vital. It takes the onus off the subcontractor and the people who deserve and need that money. How can we, as a body, encourage that throughout the wider construction industry, which is purely in the private sector and away from government bodies? How can we encourage that best-practice model?

As regards the league table that has been talked about, when we look at some of our big hitters, we see that some of them do better than others. DRD, which is probably one of the most important Departments that interacts with the construction industry, seems to have done terribly in April to June but has recovered immensely in July to September. In the first league table, it is broken into “core” and “roads”, but that that is not the case in the other league table. Is that a sleight of hand? Did we unfairly ask them to do something that other Departments have not done? There is quite a difference; DRD roads was the one that showed concern. There is £11 million there in those three months that had not been paid within 10 days. Was that £11 million paid within 30 days? The Department has recovered, so I will qualify my comments. Has the fact that it has bunched the two items together skewed the figure slightly? I see that DRD core does not have a great amount of money, but has that skewed its figures to make it look better than it really is?

Mr Wickens:

In terms of what we can do about the construction industry, you have prompted me to think that I should write to the Construction Industry Federation (CIF) as well as to the three other organisations. I am wondering why I have not had a reply in such a long period. Is there a driver impetus in any part of the private sector to take up the challenge of prompt payment? The drive is very much in the opposite direction, and I am very aware of the anecdotes about the construction industry and am quite happy to write to the CIF and ask the same question so that we can at least establish an evidence base on that.

Mr Crosby:

At the outset of Account NI, DRD and Roads Service were to come in as separate entities. In the process of migration, they decided to come in as one and to manage the project jointly. Therefore, for different reasons, the figures are sometimes presented separately and sometimes together. There is certainly no sleight of hand to cover those up. At a departmental level, the figures for DRD as a whole are still the figures for the Department, and the Department is our customer. The figures reflect the complexity of the business that Roads Service is in, where purchasing procurement, receipt of goods and matching of invoices with purchase orders are some of the most complex, largest and significant issues that we have. DRD was one of the last Departments to come on. The figures are a reflection of embedding new systems and processes and the direction of invoices. However, as you said, the figures have come up and, in September, are sitting at 83%, which is just above the overall average. That is a very encouraging sign.

Mr Frew:

One of our other big hitters is the Department of Agriculture and Rural Development (DARD). Can you explain its figures for me? Again, it has improved greatly; is there any reason for the figures in April to June?

Mr Crosby:

Last year, we had funding difficulties, and Account NI's funding position on transfers from Departments was resolved only in January or February. It is only since then that we have been able to put the resources in at our end. DARD was one of the last Departments to come one, and it has one of the more complex requirements through invoice processing. It has things like agriculture colleges and quite a variety of spend; it is not just an admin Department like some of the smaller ones that came on first. It is just a reflection of the nature, extent and diversity of that Department. In fact, it is quite a small proportion of DARD's spend. Most of DARD's spend goes on the single farm payment, which is completely outside these figures.

Mr Frew:

Mitchel commented that the fair payment charter does not seem to be working, but it has only been in place since March. Is that right?

Ms Hamill:

In respect of construction contracts?

Mr Frew:

Yes. The charter has only been in place since March, so it is a bit unfair to comment on it.

Mr Crosby:

The difficulty with the charter is that it only applies to new contracts. A lot of contracts under which people, including some of your constituents, are operating have been in place for years. Therefore, influencing that piece is the bigger challenge, and there is no direct way that we can control what private firms do in terms of paying subcontractors.

Mr Frew:

I agree.

Mr Crosby:

We are not in that mix.

The Chairperson:

I noted your comments to Mitchel and Declan about arm's-length bodies. Is there any sort of discussion going on where that remit could be extended to include those arm's-length bodies?

Mr Wickens:

Yes. In fact, as recently as yesterday afternoon, my senior management team had a workshop on how we can increase the number of customers and what additional services we could potentially provide. That is at a very early stage, but we have commenced an ideas generation process in respect of that.

The Chairperson:

We will want to monitor the progress on that, so we will be in contact with you. Thank you very much for coming along.