

# WIRRAL COUNCIL

## COUNCIL EXCELLENCE OVERVIEW AND SCRUTINY COMMITTEE

18 NOVEMBER 2010

### REPORT OF THE DIRECTOR OF FINANCE

#### CHEQUE USAGE

##### 1. EXECUTIVE SUMMARY

- 1.1. The Committee on 21 September 2010 agreed that an analysis of the use of cheques be produced with a view to reducing this usage and hence reducing costs.

##### 2. BACKGROUND

- 2.1 It has been the policy of the Council for a number of years to encourage payments, for such items as Council Tax, to be made using the Direct Debit facility. When making payments to suppliers of goods and services to the Council the Bankers' Automated Clearing System (BACS) is preferred. In addition, since implementing a revised banking contract in 2007, all employees are paid using the BACS process.
- 2.2 The Payments Council Board has agreed to set a target date of 31 October 2018 to close central cheque clearing. Over the next eight years the Payments Council will seek to promote and explain existing alternatives; and, where innovation and new options are required, to ensure that they are put in place. There will be a critical review in 2016 when the Payments Council will decide whether sufficient change has occurred against agreed published criteria, to press ahead to do away with cheques in 2018. According to the Payments Council "there are many more efficient ways of making payments than by paper in the 21st Century, and the time is ripe for the economy as a whole to reap the benefits of its replacement".
- 2.3 The following Table shows the number of payments made using BACS in 2009/10 and the current year to the end of September 2010.

Year	Bankers' Automated Clearing System (BACS)		Crossed Cheques	
	No of BACS	Amount £	No of CHQS	Amount £
2009/10 <i>Average Value</i>	81,259	518,613,910 <b>6,382</b>	15,398	17,413,229 <b>1,130</b>
2010/11 (April to September) <i>Average Value</i>	41,732	269,435,985 <b>6,456</b>	6,619	4,452,307 <b>672</b>

2.4 A number of points should be noted from the Table:

- In 2009/10 BACS payments were used 5.3 times more than cheque payments; this has risen to 6.3 in 2010/11
- The average payment value using BACS was 5.6 times greater than the cheques in 2009/10; this has risen to 9.6 times the value in 2010/11.
- It is estimated that the cost of producing and issuing a cheque can be as much as 10 times that of a payment through BACS.

### 3. **INITIATIVES TO REDUCE CHEQUE USAGE**

3.1 At this stage, it would not be possible to unilaterally enforce a move away from cheque payments: not everyone has a bank account, the alternative solution of a direct credit (BACS) is not preferred by some members of society, for example, The National Pensioners Convention is concerned about there being a paper alternative when cheques are phased out. This does not mean, however, that the Council should not be proactive in limiting the use of cheques.

3.2 The following are current actions being undertaken, not only to reduce the use of cheques but also to ensure that payments and processing systems are efficient:

- a. As a matter of course when a new supplier is engaged by the Council, the bank details are requested and payments made by BACS unless there is a reason for not using this system.
- b. From time to time those suppliers who are not paid by BACS are contacted with a view to obtaining their bank details and processing future payments through BACS.
- c. The use of "Payments (P) Cards" is being explored.
- d. There are various forms of P cards and some of these are more suited to transaction types than others:
  - i. Embedded P cards can be lodged into an electronic procurement system against electronic catalogues and potentially the more catalogues then the fewer manual invoices will be received. If embedded cards could be applied to existing catalogues then invoices would be reduced by about 9,000 per year and this would increase as more catalogues are added.
  - ii. Embedded P cards can also be used against non catalogue transactions and there is therefore the potential to remove at least 50% of the existing total of non catalogue and free standing invoices from manual processing (42,000 invoices)

- iii. Other P cards can be deployed into transaction types which are not suited to the creation of a purchase order which would include those transactions raised against Swift and Saffron.
- iv. There are approximately 2,000 transactions per month which are for less than £50 which could be targeted for P card technology.
- e. It has recently been agreed with a number of utility companies that an “electronic” billing arrangement will be instigated. The invoices for these companies are received as electronic files but were previously manual invoices and approximately 14,000 a year were processed. This approach is being further explored with other companies. In addition other electronic solutions, such as scanning invoices which takes out excessive handling of data, are being evaluated.

f. **Prepaid cards**

A prepaid card is a payment card issued by a bank. The paying organisation, such as a local authority, Government department or private sector company, advises the issuing bank of the value to be loaded onto the card and provides it to a payee. Without funds being loaded onto the card by the issuing bank on behalf of the paying organisation, it has no value.

Prepaid cards bring significant advantages for both external benefit payments and employee payments, such as staff payroll, pensions, petty cash and expenses, to meet a broad array of Government needs. These could include:

- reduction in transaction costs
- the ability to pool budgets
- audit trails for individual transactions
- better support for budget planning with increased access to data
- improved administrative efficiency e.g. eliminating the need for weekly mailings of cheques or vouchers
- guarantee payment, better payments information and communication, improving predictability and visibility over cash flow
- reputational advantage through adoption of efficient technology and improved service delivery.

- g A number of transactions are managed entirely outside of the electronic procurement system and are paper invoices which are coded, approved, and are processed manually into the accounts payable system. These “free standing” invoices represent approximately 52% of all those received from suppliers. Early analysis of these transactions indicates that a significant majority of these invoices should be managed within the procurement system and not processed as free standing. This forms part of the Change Programme.

**4. FINANCIAL AND STAFFING IMPLICATIONS**

- 4.1. A number of the initiatives highlighted above will have financial and staffing implications. As these elements are implemented further detail will become available.

**5. EQUAL OPPORTUNITIES IMPLICATIONS**

- 5.1. There are none arising directly from this report.

**6. COMMUNITY SAFETY IMPLICATIONS**

- 6.1. There are none arising directly from this report.

**7. LOCAL AGENDA 21 IMPLICATIONS**

- 7.1. There are none arising directly from this report.

**8. PLANNING IMPLICATIONS**

- 8.1. There are none arising directly from this report.

**9. ANTI-POVERTY IMPLICATIONS**

- 9.1. There are none arising directly from this report.

**10. HUMAN RIGHTS IMPLICATIONS**

- 10.1. There are none arising directly from this report.

**11. SOCIAL INCLUSION IMPLICATIONS**

- 11.1. There are none arising directly from this report.

**12. LOCAL MEMBER SUPPORT IMPLICATIONS**

- 12.1. There are no particular implications for any Member or Ward.

**13. BACKGROUND PAPERS**

- 13.1. Procurement Strategy – February 2010.

**14. RECOMMENDATION**

- 14.1. That the report be noted.

IAN COLEMAN  
DIRECTOR OF FINANCE.

FNCE/223/10