

WIRRAL COUNCIL

CABINET

3 FEBRUARY 2011

SUBJECT	PROCUREMENT OF AN INVOICE AUTOMATION SYSTEM
WARD/S AFFECTED	ALL
REPORT OF	DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER	COUNCILLOR JEFF GREEN
KEY DECISION	YES

1. EXECUTIVE SUMMARY

- 1.1. This report provides Members with details of a proposal to automate invoice processing. This automation is dependent upon the procurement of the system detailed in the report.
- 1.2. In parallel to this project, the Procurement Unit continues to encourage the use of iProcurement to enable the new processes to bring greater efficiencies and service improvement.
- 1.3. This project centres on reducing costs, being able to manage all Council payments to suppliers and taking the Council from the lowest quartile in the national comparison of paying suppliers within 30 days.
- 1.4. The investment required involves the acquisition and implementation of a suitable solution from the tender details provided in the exempt appendix.
- 1.5. This investment is offset by the savings generated by a reduced staffing establishment and is an eligible case for support from the Efficiency Investment Budget.
- 1.6. Members are requested to agree the proposal and approve the use of the Efficiency Investment Budget to enable the project to be delivered. The licence and implementation costs are capital items and are proposed for inclusion in the capital programme.

2. RECOMMENDATIONS

- 2.1. That Cabinet agrees to the procurement of an invoice automation system from the lowest bidder as indicated in the appendix, at a cost of £165,626, to be added to the capital programme.
- 2.2. That the revenue cost of £27,975 be met from the Efficiency Investment Budget.
- 2.3. That a revenue saving of £45,000 be realised in 2011-12.
- 2.4. That the indicative additional revenue saving of £250,000 be realised as part of the business transformation project.

3. REASONS FOR RECOMMENDATIONS

- 3.1. The original Business Case for this project was presented and approved in June 2010 as a Finance Department change project. The following proposals exclude the processing of invoices on behalf of schools as these are being addressed by a separate efficiency initiative and have no direct revenue impact for the Council.
- 3.2. The proposal was the result of examining current practices and investigating the potential benefits of:-
- a Having all non-school invoices posted by suppliers directly to a single Payments Team address and cease the posting of invoices to and between departments for processing.
 - b Scanning all of these invoices using the existing corporate scanning facilities and the same staff who currently examine, collate and post invoices within the Finance Department.
 - c Receiving invoices electronically through email attachments into a single Payments Team inbox.
 - d Using a suitable, commercially proven application to automatically extract the requisite detail from the scanned image or electronic files and store it in the Corporate Repository.
 - e Having this system automatically match the extracted detail against orders in the iProcurement system and set up the supplier payment when these match.
 - f Having this system provide workflow, emails and routing to enable the Payments Team to deal with queries and manage payments. This would include directing issues to departments for receipting, coding and approval or suppliers for invoices where there is no purchase order quoted. This would replace the current use of emails and re-directed post which is a barrier to improvement, with a system that tracks progress of each invoice through to resolution.
 - g Providing accurate performance data from the instant of receipt of all invoices into the Council and so enable planned and measurable improvements to be managed.
- 3.3. The Business Case demonstrated that:-
- a On average over the two years studied, around 101,000 paper invoices were processed annually
 - 30,000 of these were the result of an iProcurement purchase order (PO).
 - A further 16,500 were given a PO by departments using iProcurement after the invoice was received.
 - 54,500 were free standing invoices that do not go through iProcurement.
 - b In addition to the 46,500 PO related invoices above, the Payments Team of 14 staff (12 FTE) also processes annually some 39,000 schools invoices and around 13,000 non-invoices such as expenses, urgent salary payments, emergency payments, treasury loans.

- 3.4. Business analysts from the Change Team evaluated the time taken for the various tasks against the proposed use of an invoice automation process and concluded the following:
- a That processing the 46,500 PO related invoices takes the Payments Team around 7,000 hours each year under the current method whilst the proposal would reduce this to around 2,200 hours.
 - b The proposal would re-direct all invoices into the Payments Team mailbox instead of across departments. Electronic workflow would be used for managing the coding and approval of free standing invoices and then these would be processed by the Team which would take them around 3,500 hours per year.
 - c The main conclusion drawn was that the Payments Team could process all 101,000 paper invoices and at the same time reduce the workload from 7,000 to 5,700 hours. The Payments Manager has assessed that these anticipated shifts in workload would enable her team to handle all invoices and release one full time post by August 2011 and a further post in March 2012. This assumes that the system is rolled out across all departments by April 2012.
 - d The impact of implementing this proposal across departments will be to stop the postal distribution of some 71,000 invoices. It will also reduce the processing time of free standing invoices by staff in departments to supplying codes and giving approval using electronic workflow. The analysis estimates that this will reduce the work load across departments by 16,400 hours, the equivalent of 11 staff.
 - e Any replacement of “free standing invoices” by goods ordered through iProcurement will bring about further efficiencies and also replace the need for departmental purchase coordinators if goods are catalogued. Any such savings would be in addition to the details shown here. The Payments Manager as part of the procurement process has seen where other organisations have a high rate of iProcurement orders which then enables the system to automatically match and pay 90% of the invoices without manual intervention. The manager therefore anticipates that further savings can be made as departments utilise the iProcurement system and move away from raising free standing invoices.
- 3.5. The non-financial benefits are:-
- a Improving the number of undisputed invoices paid within 30 days.
 - b Managing electronic processing enables non-office based working.
 - c Storage of paper invoices can cease and so reduce office requirements, handling and file maintenance. This has been done elsewhere to the satisfaction of the NAO and HMRC as regards audit and VAT evidence. European Audit requirements may mean the retention of documents where EU grants are involved.
 - d A single postal receipt point and email inbox enabling exact dating of invoice receipt.

- e Reduction in 71,000 invoices posted across departments. (Only 30,000 come directly to the Payments Team)
 - f Control of all invoices with the ability of the Call Centre to immediately deal with suppliers queries by accessing the system.
 - g Improved supplier satisfaction through exact and prompt responses to payment enquiries.
 - h Reduced risk of duplicate payment, lost or misplaced invoices.
 - i Immediate and accurate performance information.
 - j As invoices are held electronically, they can be viewed as required as part of administrative and audit requirements.
- 3.6. Overall, the potential of the system is that it could bring significant improvements in managing invoice processing, in a more efficient manner of handling of invoices and should improve supplier relations. The introduction of any new process will bring risks and these will be minimised through project management.

4. BACKGROUND AND KEY ISSUES

- 4.1. The procurement procedures have been followed and a price and quality model was determined and lodged with the Procurement Unit. The procurement procedure in this case has involved:-
- Advertisement in the Official Journal of the European Union,
 - Pre qualification questionnaires,
 - Tender submission,
 - On-site demonstrations,
 - Site visits to validate claims as appropriate,
 - Taking up references.
- 4.2. The valid tendered bids are detailed in the exempt Appendix and the successful supplier will be appointed subject to contract by the Director of Finance under delegation.

5. RELEVANT RISKS

- 5.1. The main risk is the failure of the project to deliver the benefits detailed in the business case. This risk is countered by the care taken in researching the business case, procuring a suitable solution, the adoption of corporate standards by management and staff throughout departments and having the Payments Team trained and supported through the changes.
- 5.2. An evaluation was conducted as to whether over time, paper invoices will be phased out and replaced by electronic or other methods that would render the proposal obsolete. This has been countered by having a solution that will process electronic invoices and the assessment that alternative methods such as e-Billing and future use of procurement cards may have an effect on the number of invoices, but not sufficient to displace the business case.
- 5.3. The proposal incurs a risk to industrial relations and this will be countered by suitable communications and management of change during implementation.

6. OTHER OPTIONS CONSIDERED

- 6.1. The development of the business case involved the consideration and evaluation of other options and concluded that the proposal contained in this report represented the best option in terms of investment and improvement.

7. CONSULTATION

- 7.1. No specific consultation has been undertaken with regard to this report.

8. IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

- 8.1. There are no direct implications arising from this report.

9. RESOURCE IMPLICATIONS

Finance

- 9.1. The system acquisition requires capital expenditure of £165,626 which can be funded from prudential borrowing at an annual revenue cost of £16,600
- 9.2. There is an annual maintenance cost of £27,975.
- 9.3. The total annual revenue cost of £44,600 can be met by the reduction of two posts in the Payments Team. Therefore this project can be considered as an invest to save/efficiency investment budget scheme.
- 9.4. There are additional savings of 11 posts in other departments, totalling about £250,000, to be realised as the system is implemented and departments adopt iProcurement and so reduce the number of free standing invoices.

ICT

- 9.5. This proposal will utilise a Council project team and work alongside the Readsoft implementation team. The project team will comprise ICT development officers, payments staff and will be led by the Chief Accountant (Systems and Central Services).
- 9.6. There is no additional ICT hardware required to enable this proposal.
- 9.7. The existing corporate scanning facilities have the capacity to absorb the additional workflow. As with any hardware, the machines are subject to refresh and the next generation of machines will bring improved image quality. This should in turn improve the accuracy of character recognition which will further improve the rate of automatic matching of invoices to orders.

Staffing

9.8. The Business Case estimated that the proposals, including replacing free standing invoices with iProcurement purchase orders, will reduce work load across all departments by 16,400 hours, the equivalent of 11 staff. The proposed system will have a widespread effect on methods of working affecting all departments which will need to be assessed as part of the business transformation project in the change programme.

9.9. As far as the impact on the work of the Payments Team is concerned it is anticipated that the revision to the approved staffing establishment will involve identifying the relevant skills required to under take the appropriate tasks.

10. LEGAL IMPLICATIONS

10.1. There are none arising directly from this report.

11. EQUALITIES IMPLICATIONS

11.1. An Equality Impact Assessment (EIA) was conducted and no specific issues arise directly from the report's proposals..

12. CARBON REDUCTION IMPLICATIONS

12.1. There are none arising directly from this report however, the proposal will enable suppliers to submit invoices electronically so reducing the consumption of paper and postal transfers.

13. PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1. There are none arising directly from this report.

FNCE/20/11

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APPENDICES

Exempt Appendix

REFERENCE MATERIAL / SUBJECT HISTORY

Council Meeting	Date
None	