

**PAYMENT OF SUPPLIERS WITHIN 10 DAYS**

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**1. EXECUTIVE SUMMARY**

- 1.1 The purpose of this report is to recommend changes to the payments processes to reduce the period of time taken to pay providers and suppliers from receipt of invoice.
- 1.2 The proposal is to achieve payment of SME suppliers and providers within 10 days of invoice receipt. The current performance target is 32 days.
- 1.3 This report outlines the volume of transactions processed by the Council and identifies a number of measures which are necessary to improve the payments cycle

**2. PAYMENTS ANALYSIS**

- 2.1 During 2007/08 the following performance was delivered:
  - a) 166,000 invoices were processed. This represents an average of 3,192 per week.
  - b) 6,000 suppliers and providers submitted invoices to the Council.
  - c) The total expenditure, excluding schools, was £139.3m.
  - d) The total expenditure with SME's, excluding schools, was £71.3m, 51.2% of the total.
  - e.) The number of invoices issued against electronic purchase orders was 37,426, 22.54% of all invoices received.
  - f.) The number of invoices processed for Schools was 36,379. This is an average of 700 per week and represents 21% of all invoices received.
  - g) 21% of invoices received are for less than £51.00 in value.
  - h) The performance in paying invoices within 32 days of receipt was 72.83% (including disputed transactions).

### 3. DEPARTMENTAL ACTIVITY

3.1 The percentage of invoices processed per department, is as follows:-

Children and Young People	31%
Adult Social Services	24%
Regeneration	16%
Corporate Services	13%
Technical Services	8%
Finance	8%

3.2 The following table details the speed of processing these invoices:

Department	% paid within 10 days	% paid within 32 days (Existing Target)	% paid greater than 32 days
Adult Social Services	31.21%	72.43%	27.57%
Corporate Services	17.48%	75.15%	24.85%
Children	27.95%	67.59%	32.41%
Finance	49.48%	89.23%	10.77%
Regeneration	4.96%	82.19%	17.81%
Technical Services	24.31%	81.70%	18.30%
Schools	1.95%	63.47%	36.53%
<b>Total Average</b>	<b>22.48%</b>	<b>76.01%</b>	<b>23.99%</b>

### 4. PROPOSAL TO PAY SUPPLIERS WITHIN 10 DAYS OF RECEIPT OF INVOICE

4.1. The Department for Business Enterprise and Regulatory Reform (BERR) announced on 21 October 2008 that the Government had committed to paying businesses within ten days and that BERR was speaking to the wider public sector to extend this commitment. The ten day target is currently a best practice guide designed as a direct response to the current economic position. A number of public sector organisations have voluntarily agreed to introduce similar arrangements.

4.2. In recognition of the impact on local authorities of the earlier payment of invoices, the Welsh Assembly Government has agreed to bring forward the dates of revenue support grant payments to help to mitigate the cash flow implications for local authorities in Wales. No such arrangement has been made in England.

### 5. ACTION PLAN TO PAY SUPPLIERS WITHIN 10 DAYS OF RECEIPT OF INVOICE

5.1 The Action Plan at Appendix 1 has been devised to facilitate the speedier processing of payments. Much of this action plan is dependent on changes to working practices in service departments. The Procurement Team is liaising with departmental staff to implement the Action Plan and its delivery.

5.2 The Corporate Improvement Group (CIG) has recently been informed that following an initial report in May 2008 consideration of the overall Procurement Co-ordination and Control is to be followed up with a report that examines the benefits of shifting resources and responsibilities for all purchasing coordination to the Procurement Team. It is anticipated that significant savings can be made through this initiative:

- More efficient use of the system through increased use of purchase ordering
- Fewer paper invoices
- Reduced transaction costs
- Fewer staff handling invoices
- Reduced number of suppliers

## **6. FINANCIAL AND STAFFING IMPLICATIONS**

6.1 It will be necessary to conduct a number of administrative tasks to facilitate the Action Plan. It is proposed to allocate a temporary team of two payments officers for six months, from within the current team, who have the appropriate skills and knowledge to implement this action plan. The cost of “back filling” these posts will be approximately £20,000 with other administration costs expected to total £10,000.

6.2 Support will also be required from all Departments. It has not been possible to estimate these costs but it is expected they will be contained within current resources.

6.3. The cash flow implications of targetting payment of SME invoices within 10 days instead of 32 days will be £140,000.

6.4 The introduction of file transfers within departments will result in changes to activities of those individuals who have responsibilities for batching and despatching invoices and may be viewed as additional tasks.

6.5 It is not yet possible to assess the savings that will result from centralising the purchasing co-ordination role. The savings arising from the efficiency of processes will be assessed as part of the overall Change Programme delivery.

## **7. EQUAL OPPORTUNITY IMPLICATIONS**

7.1. There are none arising directly from this report.

## **8. HUMAN RIGHTS IMPLICATIONS**

8.1. There are none arising directly from this report.

## **9. LOCAL AGENDA 21 IMPLICATIONS**

9.1. There are none arising directly from this report.

## **10. COMMUNITY SAFETY IMPLICATIONS**

10.1. There are none arising directly from this report.

## **11. PLANNING IMPLICATIONS**

11.1. There are none arising directly from this report.

## **12. LOCAL MEMBER SUPPORT IMPLICATIONS**

12.1. There are none arising directly from this report.

## **13. BACKGROUND PAPERS**

13.1 None were used in the production of this report.

## **14. RECOMMENDATIONS**

That

- (1) the Authority targets the payment of SME invoices in ten days at a cost of £170,000.
- (2) the measures proposed in this report be agreed as the appropriate means of achieving improvements to the payments process.
- (3) the staffing arrangements required to deliver this Action Plan be implemented immediately.

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DIRECTOR OF FINANCE

FNCE/28/09

**APPENDIX 1**

**ACTION PLAN TO ACHIEVE THE PAYMENT TO SUPPLIERS WITHIN 10 DAYS OF RECEIPT OF INVOICE**

	<b>Action</b>	<b>Effect</b>	<b>Action By</b>	<b>Completion date</b>
1	Implement receipt and approval reminder features within Oracle procurement system	Unreceipted orders cause delays in invoice payments as the Payments Team cannot match invoices to purchase orders. This action will reduce the time spent on chasing departments to enter receipts enabling better use of resources for the processing of all transactions.	Procurement Team	March 2009
2	Re issue procedures to departments for the correct methods of transaction creation and management with strong emphasis on using the procurement system and receipting. Departments need to ensure that all invoices are stamped 'date received'	Many invoice processing delays come about by poor admin practices, such as non receipting and failure to use the procurement system to generate official purchase orders. This action will enable more invoices to be matched within central payments and fewer invoices going direct to departments which will reduce the risk of invoice loss or transition delays.	Procurement Team  Payments Team	Completed
3	Establish a key link officer in each department to coordinate payments issues	This will improve communication between the Payments Team and departments and will assist in departments taking appropriate ownership of payment delays.	Payments Team  Departments	Ongoing

	<b>Action</b>	<b>Effect</b>	<b>Action By</b>	<b>Completion date</b>
4	Develop and implement file transfer process within each department to avoid delays in the transition of paper invoices from departments to the Payments Team	The most significant cause of payment delays is the circulation of paper invoices around and between departments. This action will remove the requirement of departments to send invoices to the Payments Team, will provide an electronic record of all invoices received within departments, and will reduce the Payments Team time in processing payments.	Procurement Team  Payments Team  Departments	March 2009
5	Liaise with, and validate account information with all utility companies. Allocate and verify account details with departments. Implement electronic file transfer payments process with utility suppliers to reduce paper invoice volumes received by the Council	This action will remove paper invoices from the process making the validation and payments function entirely electronic. This will improve efficiency within the Payments Team. The Council currently successfully operates this scheme for BT transactions.	Procurement Team  Payments Team  Technical Services	June 2009
6	Instate a minimum order value of £50 for all office supplies to reduce the receipt of invoices for small value transactions	This action will reduce the number of invoices being received by the Council and will therefore improve efficiency within the Payments Team and departments	Procurement Team	March 2009
7	Initiate weekly league tables of departmental payment performance.	This action will assist the Council in identifying problem areas which can then be explored and resolved. This will also demonstrate the progress and achievements the Council has made. This information will be sent to "Link" and Chief officers	Procurement Team  Payments Team	March 2009

	Action	Effect	Action By	Completion date
8	Identify suppliers who transgress the requirement for invoices to include purchase order details and submission to the Payments Team only.	Invoices must display clear information about the authorisation of the transaction and PO reference number. Many invoices are received without this detail and can cause significant delays in identifying the source of the transaction to initiate the payments process. This action will improve efficiency within the Payments Team and departments and restrict the circulation of unidentified invoices. All invoices without an official purchase order reference shall be regarded as disputed.	Procurement Team  Payments Team	March 2009
9	Ensure that purchase orders are created <b>before</b> the receipt of invoices to prevent invoices being handled as receipt notes and enabling the Payments Team to match orders on receipt of invoice.	This is a widespread activity which provides poor control over the transaction process and violates contracts procedure rule 4.2. This action will <ul style="list-style-type: none"> <li>• increase the number of invoices with PO reference numbers,</li> <li>• ensure that suppliers charges are in accordance with pre agreed values, and</li> <li>• enable more invoices to be matched within the Payments Team and fewer invoices going direct to departments which will reduce the risk of invoice loss or transition delays.</li> </ul>	Procurement Team  Payments Team  Departments	April 2009
10	Explore potential for schools transactions to be submitted to payments as an electronic file from SIMS or as a separate file	Schools invoices represent a considerable proportion of all supplies and services transactions processed by the Payments Team. These processes are all manual and include significant collection and handling issues. This action would remove the requirement for Schools to send invoices to the Payments Team and will reduce the Payments Team time in processing payments.	Payments Team  CYPD	March 2009

	<b>Action</b>	<b>Effect</b>	<b>Action By</b>	<b>Completion date</b>
11	Identify and investigate options for improving mail collections from schools	The existing collection arrangement for school invoices is a single weekly Thursday service. This is not sufficiently frequent and the day they are collected may not be the most appropriate for minimising the payments cycle. This action may directly reduce the number of days in the process.	Procurement Team  Payments Team  CYPD	March 2009
12	Progress electronic procurement within schools via the Department for Children, Schools and Families OPEN project.	The OPEN system is an electronic procurement system which operates on a "marketplace" basis. This means that electronic invoicing capability is greatly enhanced. This action will <ul style="list-style-type: none"> <li>• provide a more efficient transaction process,</li> <li>• reduce errors</li> <li>• remove paper invoices from the payments cycle, and</li> <li>• more orders will be created using electronic catalogues which will improve the matching process</li> </ul>	Procurement Team  Payments Team  CYPD	October 2009
13	Develop methods of paying for goods and services by electronic means including P Cards, OCR Scanning, and Electronic Invoicing.	There are a number of electronic options for invoice processing; therefore there is a significant task in ensuring the most appropriate method for each type of transaction. This action will result in significant efficiencies in the payments process and will reduce the cost of operation. This action is part of the overall Change Programme	Procurement Team  Payments Team	September 2009
14	Review tolerance settings in electronic payments system	Tolerance levels allow flexibility of processing when invoice and order values are not precisely matched. This action will identify whether existing tolerance levels are appropriate and will scope improvement if tolerance settings are adjusted.	Payments Team	March 2009