REPORT TO:        **POLICY & RESOURCES COMMITTEE (27 September 2010)**

REPORT ON:        **DEVELOPMENT OF PURCHASE TO PAYMENT SYSTEMS**

REPORT BY:        **DIRECTOR OF FINANCE**

REPORT NO:        **590-2010**

## 1.0    PURPOSE OF REPORT

This report seeks approval for the business case supporting the investment necessary for the development of Purchase to Payment (P2P) systems and procedures within Dundee City Council.

## 2.0    RECOMMENDATION

It is recommended that approval be given for the purchase of the software and the development costs.

## 3.0    FINANCIAL IMPLICATIONS

3.1    The financial implication for this project are one off costs of £80,000 in 2010/11 and £5,000 in 2011/12 and 2012/13. The ongoing annual revenue costs of £12,451 will be funded from the Finance Department Revenue Budget in 2011/12 and future years. There will be compensating cash savings and efficiencies of £6,950 in 2010/11, £184,645 in 2011/12 and £213, 887 in 2012/13. The initial investment required will be funded from the Chief Executives Capital Plan provision.

## 4.0    MAIN TEXT

### 4.1    Review of Current Purchase to Payment Arrangements

4.1.1    The eProcurement System ("Authority Purchasing") was initially implemented, as part of the upgrading of corporate financial managements systems, in February 2008. While all departments use Authority Purchasing, there are still area's within the council where further progress can be made.

4.1.2    This project is a significant part of the **Changing for the Future** initiative, "Review of Procurement".

4.1.3    The Corporate Improvement Plan (Procurement) was recently approved by the Strategic Management Team. The main priorities of this project are to :-

- Complete the Roll Out of Authority Purchasing in relevant area's across the council
- Improve the efficiency and effectiveness of procurement procedures
- Continue the development of Authority Purchasing
- Improve the compliance with required procedures
- Develop the payment procedures to improve efficiency
- Review the organisation design of the procurement function

This business case relates to the development of Payment processes.

The **project to develop payment processes** matches a number of priorities listed in the Council Plan 2010 to 2012 very closely. These are summarised in the table below.

| Outcome | Council Plan Priority |
| --- | --- |
| Increased efficiency of Purchase to Payment processes. | Best Value |
| Reduce carbon footprint and contribute to sustainability objectives of the council. | Outcome 11 – Dundee will have a sustainable environment |
| Achievement of cash savings through compliance to corporate contracts. | Opportunities to contribute to budget savings required. |
| Increasing the delivery of services electronically. | Increased satisfaction with council services. Increased number of electronic transactions. |
| Engaging with the local business community to ensure effective and efficient methods of trading. | Outcome 1 – Protecting Jobs in Dundee |
| Review of organisation and design to ensure effective provision and provide opportunity to achieve savings. | Review of Service Delivery |

It is also expected that the successful implementation of these projects will have a positive impact on the Statutory Performance Indicators relating to the payment of suppliers.

4.1.4 All Departments within the council currently use the eProcurement system. However, the eProcurement system is not currently utilised to generate all relevant commitments or is used in departments to maximise the benefits available. The main areas where further work is required are identified below:-

- Bespoke Departmental Ordering Systems will be interfaced following agreement with supporting departments. The interface from the GVA Property Maintenance system is now operational.
- Review of Procurement procedures within the Social Work Department is currently underway and is expected to be completed in October 2010.
- Further decentralisation of the system to allow for effective financial control and efficient procedures is being pursued in several areas of the council.

4.1.5 The underlying objective of the development of the eProcurement system is the control of expenditure before an invoice is processed. Therefore, all relevant payments should relate to an originating requisition which is the subject of a full approval procedure.

It is clear that while all departments use the eProcurement system, there is still some way to go until the eProcurement system is fully rolled out across

the council in a way which maximises the benefits available. There is a need to define when that roll out is complete. It is intended that the proportion of payments, in number and value terms, that are matched to originating purchase orders for relevant invoices is used as an indicator of the achievement of this objective. From this you can see that while there is a significant volume of orders that have been issued, there is a much lower level of payments that have been matched to the originating order. This has implications for where and how the purchase to payment procedures are being used.

4.1.6    The eProcurement Development plan has the following main work streams:-
- Extend the current system to ensure capture of all relevant commitments.
- Review and develop procurement procedures to enhance the efficiency and effectiveness exercised over purchasing, prior to a commitment being made.
- Development of purchase to payment procedures to reduce the number of transactions and reduce the number requiring manual processing.
- Development of Management Information to satisfy all procurement and other reporting requirements
- Development of Training Facilities to ensure that all staff are trained in required procedures.

## 4.2    ANALYSIS OF SPEND

4.2.1    During the financial year 2009/10, council staff processed 121,142 invoices with a value of £150.7m from 4,145 suppliers. 52.6% (63,739) of those invoices have a value of less than £100 which represents 1.6% (£2.41m) of council expenditure. Around 26% (31,500) of invoices cost more to process than the value of the invoice. 80.8% (97,952) invoices have a value of less than £500 which represents 6.9% (£10.33m) of council expenditure.

4.2.2    More than 40.1% of all transactions are with a supplier that has a postcode starting with DD. 92% (3,805) of all suppliers provide less than 50 invoices annually with 71% (2,953) providing less than 10 invoices annually. The top 60 suppliers, listed in descending order of number of invoices, account for 50% of all invoices provided to the council.

4.2.3    75.8% of invoices (91,804) are processed directly within the Creditors Module of Authority Financials by 144 members of staff across the council. In addition, each transaction will be approved on the system by at least one other person. 24.2% (29,339) of payments are processed in departmental systems which provide a feeder file to Authority Financials. This mainly affects Dundee Contract Services and parts of Waste Management. All payments are made via the Creditors Module of Authority Financials.

4.2.4    During 2009/10, approximately 26,000 purchase orders were processed via the Authority Purchasing System with a value of £13m. There are currently more than 1,100 users of the Authority Purchasing system based in 260 locations around the council. Nearly 80% of all orders are issued by e-mail to suppliers. From over 4,000 purchasing suppliers, 62 have catalogues on the purchasing system.

4.2.5    There is a generic purchase to payment procedure across the council, although there may be specific departmental variations depending upon the

circumstances. Generally, the process is originated with a requisition, which is converted into a purchase order following approval. Receipt of goods and services is evidenced support for payment. Currently when an invoice is received it is matched with the originating order and goods receipt note (GRN). Upon receipt of an invoice, there is a separate approval of the invoice which is then processed manually within the Authority Financials before payment is made to the supplier.

4.2.6   Currently, approximately 20% of all invoices processed manually on Authority Financials are matched to an originating Purchase Order. If an invoice is not matched this could be due to no purchase order available on the system for matching to or the invoice has been processed without matching to the originating order.

4.2.7   A Lean approach to this process would eliminate paper based, manual processes and reduce duplication, including computer keystrokes, to a minimum and reduce non value adding processes.

4.3   **CORPORATE IMPROVEMENT PLAN (PROCUREMENT)**

4.3.1   **Strategy**

The objectives of developing the Purchase to Payment procedures include:-
- Increasing Process Efficiency
- Improving Control

In order to increase process efficiency, this project examines ways to
- Reduce the number of invoices being processed
- Minimise the manual or paper based element of processing
- Liaise with suppliers on mutual benefits

Controls will be improved developing the system to:-
- Force certain kinds of actions
- Restrict access to system functions and
- Provide alerters and reminders of required actions
- Improve the access to management information available

These objectives can be achieved in a number of ways, including:-
- Consolidated Billing
- Government Procurement Card
- Self Billing
- Intelligent Scanning and Automatic Matching
- e-Invoicing

Some progress has already been achieved in reducing the number of invoices processed and improving the efficiency involved in invoice processing. Invoices for photocopiers and phone payments have moved to a consolidated bill. The implementation of the Authority Purchasing system has enabled the matching process for relevant invoices to be significantly simplified.

**4.4   COSTS AND BENEFITS OF OPTIONS AVAILABLE**

4.4.1   **Options Available**

The main options identified are:-
- Development  of Purchase to Pay process or
- Buying a managed service.

4.4.2   **Managed Service**

The main options identified include utilising a managed service to provide an e-invoicing solution. This essentially involves an intermediary providing the services to improve efficiency for the council, by implementing a scanning and e-invoicing solution. Initial discussions have been held with the one service provider regarding the service they provide. This would cost approximately £70,000 on an annual basis for this service. In addition, there would be a residual workload associated with transactions where an initial match to an existing commitment was not successfully completed.   This proportion is anticipated to be higher during the early period of the implementation.

Due to excessive level of recurring annual costs, this option is not considered further in this analysis.

4.4.3   **Development of Existing Systems**

There are a number of options for continuing the development for existing council systems. CIVICA, in response to user demand, have prepared a package of improvements to client Purchase to Payments procedures. Discussions with CIVICA, demonstration of processes and visits to other councils have provided evidence of the successful implementation of these initiatives at other Authority Financials sites. The package or some of its individual elements, provide a number of seamless alternatives to receiving a paper invoice.  A summary of each of the options is identified in Appendix 1. The costs and benefits are identified in Appendix 2.

In initial discussions with key suppliers, all have indicated an openness to discuss options for developing opportunities for developing how transactions are processed. Where there is a corporate or collaborative contract in place, most suppliers are able to proceed with some form of transaction automation in the near future.

Consideration has been given to each of the options within the planned development. It is possible to pursue each element of the development individually and while many of the benefits will remain, the choice of seamless process providing opportunities to maximise the benefits from supplier interaction will be lost. The e-invoicing option will be the most efficient but will affect the smallest number of suppliers. Self Billing and the Supplier Portal will provide a significant benefit of interest to local suppliers and contractors. The Intelligent scanning option is accessible for all suppliers. Authority Web and Contract Monitoring support the process of deriving value from process. Therefore, these options are best viewed as part of a complete solution.

4.4.4 **Costs of Development**

CIVICA have prepared an offer for the development of the options identified above. The offer is a fixed price for the successful implementation of the solutions. The current offer is time limited until 30th September. After this date, some of the costs may increase. The costs for each of the options are summarised in the table below.

| One-Off Costs | Financial Year | | |
| --- | --- | --- | --- |
| | 2010/11 | 2011/12 | 2012/13 |
| | £ | £ | £ |
| eInvoicing | 9,925 | 0 | 0 |
| Intelligent Scanning | 31,285 | 0 | 0 |
| Self Billing/Supplier Portal | 16,895 | 0 | 0 |
| Procurement Card | 2,955 | 0 | 0 |
| Authority Web | 11,970 | 0 | 0 |
| Contract Monitoring | 6,970 | 0 | 0 |
| Additional Development days | | 5,000 | 5,000 |
| Total | 80,000 | 5,000 | 5,000 |

In addition to the costs of development and software, there is an additional annual licence fee of £12,451.

4.4.5 **Benefits of Development**

Although the initial costs of investment are significant, they provide the opportunity to achieve significant savings from completion of the developments in the future. The result will be a seamless Purchase to Payment process which is both efficient and effective, eliminating duplication and is wholly electronic. The main benefits are identified in the table below and more fully explained in Appendix 3;-

| | Financial Year | | |
| --- | --- | --- | --- |
| | 2010/11 | 2011/12 | 2012/13 |
| | £ | £ | £ |
| eInvoicing | 0 | 14,326 | 28,652 |
| Intelligent Scanning | 0 | 96,755 | 96,755 |
| Self Billing/Supplier Portal | 0 | 59,664 | 74,580 |
| Procurement Card | 6,950 | 13,900 | 13,900 |
| Authority Web | 0 | 0 | 0 |
| Contract Monitoring | 0 | 0 | 0 |
| | 6,950 | 184,645 | 213,887 |

The benefit calculations are based on process times for invoice receipt; approval and processing on Creditors (see Appendix 1). Times of process are based on some staff involved and extrapolated across the invoice population. Invoices processed in departmental feeder systems (e.g. Dundee Contract Services, Waste Management) have been excluded as those systems will not be included in the initial developments. The results assume a 70 percent success rate for matched invoices with resulting approval being achieved via electronic approval. Government Procurement Card transaction

at the level of 5,000 per annum are assumed and also include a cash saving of the annual fee for current Departmental Credit Cards.

The main benefits of these improvements include:-
- Creation of a paper-lite electronic process that supports the introduction of the CeRDMS system and the move to Dundee House.
- Reduces the number of invoices to be received.
- Reduces process time by eliminating duplication, transferring data electronically and automating processes to focus on value adding activity
- The council will be able to actively engage with suppliers, in the local and wider community, to develop mutual benefits through use of Self Billing arrangements and the Supplier Portal.
- Provides direct access to transaction details for managers, budget holders and staff through out the council.
- Reduces storage  and printing costs
- Provides an opportunity to achieve efficiency gains and reduce expenditure from invoice processing procedures.
- Authority Web allows the development of workflows affecting all parts of the Authority Financials. In addition it will provide a solution to access problems to the Authority Financials from other sites and provide additional capacity for existing VPN licences
- Allows a more efficient and effective response to suppliers and internal queries regarding transactions.

## 5.0    CONCLUSION

5.1    The benefits identified within this report are significant and affect all departments within the council. The payback period for the initial investment is anticipated to be less than 6 months.

## 6.0    POLICY IMPLICATIONS

6.1    This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty and Equality Impact Assessment.

There are no major implications.

## 7.0    CONSULTATION

7.1    The Chief Executive, Depute Chief Executive (Support Services) and the Head of Information Technology have been consulted on the terms of this report.

## 8.0    BACKGROUND PAPERS

8.1    Report 441-2010 Changing for the Future


Marjory M Stewart
Director of Finance                              Date:  15th September 2010

**Summarised Options for P2P Development**                                                                                                **Appendix 1**

| Option | Description | Comments | Red Inv | Inc Eff | Impr Con | Sup p Ben |
|---|---|---|---|---|---|---|
| Government Procurement Card (GPC) | GPC was initially launched in 1997. Similar to a credit card, it allows improved control and limitation on use. Improved management information will available regarding spend details. Payment made to supplier by Bank. Monthly electronic statement provided by Bank which is reconciled to committed transactions automatically. | • Suited to low value transactions and some services.<br>• Can result in additional charges for supplier compensated for by improved cash flow.<br>• Significantly more efficient.<br>• Can increase compliance to contracts.<br>• may lose some line item detail of purchase commitment. | Yes | Limited | Yes | Yes |
| e-Invoicing | Supplier invoice submitted electronically rather than on paper, to DMZ with controlled transfer to council networks. Should be matched to approved commitments automatically. | • Requires e-capable suppliers.<br>• Suited to Punch out sites with capability. | No | Yes | Yes | Yes |
| Self Billing/ Supplier Portal | Payment made to supplier based on the commitment that has been raised. Supplier may access portal to confirm payment. Complies with HMRC guidelines. | • May be suited to High volume low value items where no purchase card is used. | Yes | Yes | Yes | Yes |
| Intelligent Scanning | Paper supplier invoice is scanned, interpreted and registered on system automatically by software. Maybe auto matched to commitment on procurement system. Strong link to CeRDMS system | • Can significantly increase efficiency.<br>• Workflow required if no receipted commitment available for matching.<br>• Minimises manual intervention. | No | Yes | Yes | No |
| Consolidated Invoicing | Negotiate with supplier to issue a monthly statement rather than individual invoices. | • May be complicated to reconcile.<br>• Limited System development required | Yes | Pos | Yes | No |

| | | | | | | |
|---|---|---|---|---|---|---|
| Authority Web | Authority Web is zero-footprint technology enabling all levels and roles access to financial data. Authority Web provides a access to Authority Financials and a greater variety of functions together with task manager, alerter functionality and dashboards. | • Essential for the provision of alerters and reminders relating to active transactions.<br>• Enables workflows to be established for appropriate processes<br>• Provides web based access to Authority Financials<br>• Does not include e-budgeting model.<br>• Highly desirable when implementing the Intelligent Scanning Options | No | Yes | Yes | No |
| Contract Monitoring Module | Contract Monitoring is a separate module within Authority Purchasing which has been developed as part of the future plan for the system in response to demand from clients. Although not essential to the P2P process, there are significant and fundamental benefits in contract compliance, operation of a contracts register and provision of management information about contract performance, monitoring and control. | • Can provide a step change in how compliance to corporate contracts can be achieved.<br>• Can provide a Contracts Register<br>• Provides a range of detailed tailored reports on contract performance<br>• Aid to contract management | No | Yes | Yes | No |

**COSTS AND BENEFITS OF DEVELOPMENT OPTIONS** APPENDIX 2

| Option and Description | Costs | Benefits |
|---|---|---|
| **e-Invoicing**<br>Supplier invoice submitted electronically rather than on paper. Should be matched to approved commitment. Files received in DMZ outside corporate firewall and then transferred into network for matching and approval. | cXML Channel £5,000<br>Annual Licence Fee £950<br>Development (5 days) £4,925<br><br>Additional Development days likely to be required. | • No paper invoices to process.<br>• Invoice data populated automatically.<br>• Automatic matching to order.<br>• No loss of line item detail.<br>• Line item detail matched.<br>• Suppliers don't print and send invoices.<br>• Several suppliers capable now. Will become more widely available.<br>• Creates opportunity for future processing.<br>• Benefit of centralisation |
| **Intelligent Scanning**<br>Paper invoices are converted into an electronic invoice for subsequent matching and approval. Invoices are matched to 17 fields of data for verification. | Software £21,240<br>Annual Licence Fee £4,151<br>Development (10) £10, 047 | • No impact on Supplier<br>• Relevant to all suppliers<br>• Reduced process time via automation<br>• Easier to achieve cash benefits through centralisation. |
| **Self Billing/ Supplier Portal**<br>HMRC approved self billing arrangement is agreed with supplier. This is provided within the current system. Supplier Portal is derived from the process where a supplier facing website (portal) is made available which gives the supplier access to review there transactions. It may be possible to "flip" an order into an electronic invoice. | Software £10,000<br>Annual Licence Fee £1,950<br>Development (7 days) £6,895 | • Supplier benefits of improved cash flow and process efficiency (i.e. no invoice to provide)<br>• No paper invoice to approve or process. Invoice may be created if required<br>• Increased visibility of valid transactions.<br>• Engagement with local business community<br>• No invoices to process |

| | | | |
|---|---|---|---|
| **Government Procurement Card**<br>Purchasing Card which allows controls and limitation on use at point of sale. Payment made to supplier by Bank. Monthly file provided by Bank which is reconciled to automatically to committed transactions. | Development | £2,955 | • No invoice to process<br>• Replacement of existing Credit Cards<br>• (Saving of £2,700 on annual fee)<br>• Approval of online transactions<br>• Commitment Accounting<br>• Automated matching with bank files. |
| **Authority Web**<br>Web based landing page for Authority Financials providing access to Financials functionality via browser across the council. Specifically includes access to alerters (via reports, e-mail or text) to refine authorisation, scheduling and escalation workflows. | Software<br>Annual Licence Fee<br>Development | £10,000<br>£3,600<br>£1,970 | • Support for accurate processing through use of "alerters "<br>• Provides access to wider benefits for other modules (excludes e-budgeting).<br>• Overcomes network access issues as web based Reduce the need for VPN licences)<br>• Will enable seamless Purchase to Payment process |
| **Contract Monitoring**<br>Enabling contracts to be defined in Authority Purchasing, linking transactions to a specific contract and allows monitoring of performance | Software<br>Annual Licence Fee<br>Development | £5,000<br>£1,950<br>£1,800 | • Improved management information<br>• Improved control over transactions<br>• Act as contract register.<br>• Contract Milestones and metrics<br>• Route to improved compliance |