



Report of: Head of Business Support Centre

Report to: Director Resources and Housing

Date: 19th June 2020

Subject: Approval to tender for services and technology to deliver the automated processing of invoices

Are specific electoral wards affected? If yes, name(s) of ward(s):	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Has consultation been carried out?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Will the decision be open for call-in?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: Appendix number:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Summary

1. Main issues

- The objective of the Automated Invoice Processing Project is to transform and modernise the way in which the Council handles the end-to-end processing of supplier invoices. Currently, the Council's invoice management processes are excessively manual and reliant on outdated technology. The project seeks to deliver modern technology that will digitise and automate the processing of invoices across the Council, facilitating transformative business change. This will significantly reduce the amount of manual handling of invoices and enable a more effective, efficient, streamlined and responsive way of working.
- The implementation of this new system will promote and underpin immediate behavioural and business change within the Council and within schools. It is anticipated this will deliver financial and business change benefits to the Council, schools and suppliers over the life of the business case, but will also lay the foundations for larger and more significant benefits as part of the review and modernisation of the complete Purchase-to-Pay process and implementation of a new financial management system under the Core Business Transformation Programme.
- The new system will improve the Council's ability to promptly pay small and medium enterprises, critical to the local economy and more likely to be reliant on reliable

cash flow. This is particularly crucial at the current time and likely to be for some time to come.

- The project is looking to procure and implement a new solution by the end of 2020. Over a 5 year period, the estimated cashable savings are expected to be around £1,135,000, achieved through a reduction in staffing resource currently working in the central accounts payable function. Efficiencies will also be made outside of the central accounts payable function through service areas no longer physically handling, scanning and administering invoices prior to forwarding them to the central accounts payable function for payment. In addition, the project will increase opportunities to generate revenue through utilisation of early payment discount schemes
- A soft market test has been undertaken to provide broad indicative costs of potential solutions. Vendor costs are currently estimated at £710,000 over the 5 year business case. Wider project costs, including DIS resource, are also currently estimated and are dependent on market response and solutions proposed. The anticipated net saving over the 5 year period is calculated at £210,000.

2. Best Council Plan Implications (see the [latest version of the Best Council Plan](#))

- The Automated Invoice Processing Project will positively contribute to the Council's medium term financial strategy.
- Implementation of a solution for automatic invoice processing will enable the development of modern ways of working that align with the ambition in the Best Council Plan to be 'An Efficient, Enterprising and Healthy organisation' that is smaller in size but bigger in influence. Specifically, this project will contribute towards the KPI: Prompt payment of invoices against target in the Plan
- The Council's stated ambition is to build a 'Strong Economy, Compassionate City'. As a sizeable purchaser across the Leeds City region and beyond, the Council must consider its substantial moral and financial obligations to the local economy – particularly those SMEs whose reliance on cash flow is most at risk from payment delays.

3. Resource Implications

- Digitising the invoice system through this project will act as a pre-cursor and support the objectives of the Core Business Transformation Programme (CBTP), meaning we are better able to meet our prompt payment obligations and can accelerate cashable savings through the reduction in staffing resource required to process invoices several years prior to the introduction of CBTP. This project will also support business and process change in advance of CBTP, thereby facilitating the introduction of the financial management system replacement.
- A Project Board is in place with representation from key stakeholders including the Business Support Centre, Digital and Information Service (DIS) and Finance. Project management and strategic sourcing resource is in place to lead project and procurement activities.
- The business case considers a timescale of 5 years for the purpose of calculating estimated costs and savings. It also uses indicative figures based on information from the soft market test, informed DIS estimation of potential work required to

implement an external system, and expected reduction in staff within the central accounts payable team. The final costs and savings are dependent on the outcomes of the procurement exercise and the solution chosen to be implemented.

- It should be noted that the CBTP FMS replacement is currently scheduled to be implemented during year 3 (*) of the Automated Invoice Processing project. Market research has identified invoice management as a core module of many financial management systems and as such a flexible contractual approach of 3+1+1 years will be pursued to ensure the Council is able to achieve sustainable financial and business change benefits whilst ensuring best value is achieved for the public purse.
- The Automated Invoice Processing project will accelerate a portion of the anticipated financial and business change benefits of the CBTP and business cases across both programmes of work will be developed in parallel to ensure the alignment of costs and savings.
- Assuming the 5 year timeline as per full contract, the estimated costs and savings would be as follows:

	Year 0 2020/21 (£,000)	Year 1 2021/22 (£,000)	Year 2 2022/23 (£,000)	Year 3(*) 2023/24 (£,000)	Year 4 2024/25 (£,000)	Year 5 2025/26 (£,000)	Cumulative (£,000)
Cost							
Vendor Goods and Services	160	110	110	110	110	110	710
DIS Resource	50	33	33	33	33	33	215
Total Cost	210	143	143	143	143	143	925
Savings							
Staffing	0	(100)	(252.5)	(252.5)	(252.5)	(252.5)	(1,110)
Print	(2.3)	(4.6)	(4.6)	(4.6)	(4.6)	(4.6)	(25.3)
Total Savings	(2.3)	(104.6)	(257.1)	(257.1)	(257.1)	(257.1)	(1,135.3)
Net Cost (Saving)	207.7	38.4	(114.1)	(114.1)	(114.1)	(114.1)	(210.3)
Cashflow							
Funding – Invest to Save	(210)	0	0	0	0	0	(210)
Repayment – Invest to Save			52.5	52.5	52.5	52.5	210
Pension Cost Estimate (ELI)*	0	24	33	33	33	33	156

*The Pensions Costs are where staff are anticipated to apply to leave employment through the Council's Early Leavers Initiative. This would be a corporate decision rather than a direct cost of the business case. No applications are authorised at this stage and therefore it is an estimate as it could be that all staff are redeployed.

Recommendations

- It is recommended that the Director of Resources and Housing provides approval to proceed to tender for automated invoice processing services and technology for an initial period of 3 years with the option to extend for two further periods of 12 months with an estimated total contract value of up to £710,000.

1. Purpose of this report

- 1.1 The purpose of this report is to seek approval to proceed to tender for automated invoice processing services and technology for an initial period of 3 years with the option to extend for two further periods of 12 months.

2. Background information

- 2.1 Leeds City Council currently processes around 260,000 invoices annually on behalf of council services and schools. Of these, 221,000 (85%) are processed by the accounts payable team within the Business Support Centre. The work is excessively manual and utilises outdated technology. Input is undertaken directly into FMS.
- 2.2 The Council's current ways of processing invoices have not changed in a number of years and remain reliant on outdated technology and are vulnerable to both internal and external factors. This risk has been significantly heightened during the current Covid-19 pandemic where significant extra staffing resource has been required at short notice to ensure the Council has remained able to meet its payment obligations. The objective of the Automated Invoice Processing Project is to improve the way in which the Council handles the end-to-end processing of supplier invoices. The project seeks to significantly reduce the amount of manual handling and intervention required through the implementation of a system which will automate invoice processing across the Council.
- 2.3 The Council has undertaken a soft market test and has spoken to other local authorities who have undertaken the same improvement journey. We have found that there is a mature market with solutions for addressing the same issues that we face. Typically these solutions capture a digital image of the invoice, automate the extraction of data from paper and digital invoices and validate it against order and supplier data held in the main financial management system. They also include provision for the management of 'exceptions' where key information is not present or is incorrect on the invoice.
- 2.4 The procurement and implementation of a new system will promote and underpin behavioural and business process change within the Council and schools, both as an immediate benefit, but also in support of the Core Business Transformation Programme and the planned implementation of a new financial management system.

3. Main issues

- 3.1 Leeds City Council currently processes around 260,000 invoices annually on behalf of council services and schools. Of these, 221,000 (85%) are processed by the accounts payable team within the Business Support Centre.
- 3.2 This work is excessively manual and utilises outdated technology. As a result the function is vulnerable to any variation in processes or volumes. In addition, the process does not best support services and reporting is difficult. This leads to challenges around financial management and compliance with financial regulations and processes. These issues have been acutely highlighted during the Covid-19

outbreak during which excellent work has taken place to ensure invoices can continue to be processed as staff work from home, but has significantly increased the levels of staffing resource required to process the invoices.

- 3.3 A further example of this vulnerability is the limited visibility of our invoices and therefore the Council's outstanding financial obligations. It is not uncommon for invoices to enter the Council directly into services where management information is required by the service for business reporting, or because invoice information is required to raise an order because the cost was not known in advance, such as for vehicle repairs. The consequence of this is that the invoice may be in the Council for days or weeks, touched by numerous hands before it reaches the accounts payable team for input. This impacts the invoice management chain as it is harder to manage workloads and the risk of missing both optimum and prompt payment dates is significantly increased.
- The project team have undertaken research, including conversations with other Councils, to understand the modern approaches taken to address the challenges of operating large scale invoice processing operations and to identify the opportunities available to Leeds City Council. It is clear that the technology available to enable the management of invoices has progressed greatly and there is a sizeable market of suppliers able to support and deliver the digitisation and automation of invoice management. The efficiency and effectiveness of processes established around these systems stands in stark contrast to our current ways of working. Not only do they release the manual burden of invoice processing input, but they also improve the visibility of invoices at all stages to suppliers, services and accounts payable staff, allowing for a streamlined and flexible process with in-built query resolution options. The key benefits identified by the project include:
 - Assist with the Council's savings objectives through realising cashable savings and increasing opportunities to generate revenue through utilisation of early payment discount schemes
 - Provide an important first step in transforming the way invoice processing is undertaken across the Council, directly supporting the objectives of the Core Business Transformation Programme through aligned business and technological change
 - Improve compliance with prompt payment legislation to reduce the risk associated with late payments to suppliers
 - Ability to capture real-time business information, including data on outstanding financial liabilities, to inform decision making and improve processes across the Council
 - Increase the proportion of invoices processed in line with key corporate policies such as 'No Purchase Order, No Pay' and the Small Supplier Scheme.
 - Respond effectively to the climate emergency by minimising the environmental impact of its operations, such as through a reduction in paper invoices.
 - Non-cashable efficiencies arising from the reduction in the physical handling of paper invoices including the need to physically move paper invoices between offices through the use of LCC vehicles and drivers and to subsequently dispose of paper invoices through confidential waste services.

- Provide modern, effective and flexible technology and processes to respond to challenges such as Covid-19 by increasing the ability to work remotely through a reduced reliance on place-based technology.
- Enable services and schools to spend more time delivering core activities and less time handling invoices

3.4 The Automated Invoice Processing Project has also sought to approach this programme of work with consideration of the broader scope of the Core Business Transformation Programme in which the wider Procure-to-Pay process is being reviewed in advance of the implementation of a new financial management system. The Automated Invoice Processing Project will lay part of the groundwork for that programme of change, bringing in new, modern ways of working that support key Council policies such as 'No Purchase Order, No Pay', and accelerating savings and business change benefits that we would not otherwise anticipate seeing for a number of years.

3.5 In addition to this, the project has identified opportunities to increase revenue and reduce financial risk. Specifically, the automated identification and processing of specific supplier invoices will give us greater options to on-board a higher volume of suppliers who wish to participate in the faster payments discount scheme which can deliver a dedicated revenue stream. Conversely, by developing a greater Council-wide oversight of our invoices and their current status, the Council will be better placed to improve our prompt payment performance and therefore reduce the potential risk of financial liabilities arising from late payments.

4. Corporate considerations

4.1 Consultation and engagement

4.1.1 Key stakeholders are engaged through the Automated Invoice Processing project Board.

4.1.2 The Board regularly reports to the Core Business Transformation Programme

4.2 Equality and diversity / cohesion and integration

4.2.1 There are no issues relevant to Equality and Diversity/Cohesion and Integration with this decision.

4.3 Council policies and the Best Council Plan

4.3.1 The automation of invoice processing will support Council Policies and Best Council Plan objectives.

4.3.2 Specifically, it will help deliver 'An Efficient, Enterprising and Healthy Organisation' and a strong economy within a compassionate city

Climate Emergency

4.3.3 A reduction in outdated and manual processes will reduce printing requirements across the council and have a significant positive environmental impact. Printing of invoices and associated emails and documents totals 400,000 pages per year which is equivalent to 47 trees. The resulting environmental waste arising from the

work includes 3,454kg of greenhouse gases, 96,197 litres of waste water and 1,148kg of solid waste.

4.4 Resources, procurement and value for money

- 4.4.1 As part of the contract award a requirement to provide full market benchmarking will be included to ensure full transparency on cost.
- 4.4.2 A compliant tender will be undertaken to ensure value for money, which will be benchmarked against current provision costs.

4.5 Legal implications, access to information, and call-in

- 4.5.1 This is a Key Decision and is eligible for call-in as expenditure under the contract and will exceed £500k.
- 4.5.2 The procurement of the contract will be conducted in accordance with the Public Contract Regulations 2015.

4.6 Risk management

- 4.6.1 The procurement process and risk will be managed by the DIS Strategic Sourcing team.
- 4.6.2 The contract agreement will be managed by an appointed contract manager in line with the contract management plans and any risks which are highlighted through the term of the contract will be managed and mitigated through regular account management/supplier review meetings.
- 4.6.3 Broader project risks are captured within the project risk register and regularly reviewed by the Automated Invoicing Project Board.

5. Conclusions

- 5.1 The existing arrangements for the processing of Council and school invoices are excessively manual, resource intensive and vulnerable to both internal and external variables which could impact processes and volumes. An automated invoicing solution, as implemented by local authorities facing similar challenges, represents a value for money approach that aligns closely to the Core Business Transformation Programme objectives as well as wider Council Policies and Best Council Plan objectives.

6. Recommendations

- 6.1.1 It is recommended that the Director of Resources and Housing provides approval to proceed to tender for automated invoice processing services and technology for an initial period of 3 years with the option to extend for two further periods of 12 months with an estimated total contract value of up to £710,000.

7. Background documents¹

¹ The background documents listed in this section are available to download from the council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

7.1 None