



Report of: Head of Business Support Centre

Report to: Chief Officer Financial Services

Date: 16/10/2020

Subject: Contract Award – DN476680 – ITS201326a Automated Invoice Processing Solution.

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 type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, access to information procedure rule number: 10.4 (3) Appendix number: 1	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No

Summary

1 Main issues

- The Director of Resources and Housing approved the commencement of a procurement exercise (Key Decision ref: D51015) for the provision of an Automated Invoice Processing solution on 19th June 2020.
- Following a procurement exercise run in accordance with both the Council's Contracts Procedure Rules and the EU Public Contract Regulations, this report seeks approval to award a contract for the provision of an Automated Invoice Processing solution to Kefron Ltd for a period of three (3) years with the option to extend for further periods up to a maximum of twenty-four (24) months.
- The Council is seeking to procure an Automated Invoice Processing Solution comprising the provision of Scanning Services ("the Services") together with a cloud based software system ("the System") to improve the way in which it handles the end-to-end processing of supplier invoices, with the aim of significantly reducing the amount of manual handling in its Business Support Centre.

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.
- The requirement was tendered in the context of significant financial savings that the Council are required to make in light of continuing reduced funding from central government.

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 procurement, informed DIS estimation of potential work required to implement an external system, and expected reduction in staff within the central accounts payable team.
- 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 has been 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.

- A full procurement process has been undertaken in order to ensure that the council obtains best value for money.
- The price submitted by Kefron Limited is compatible with estimates identified in the business case and, accordingly, the key decision to approve commencement of the procurement along with the registered commitment of invest to save funding to deliver an automated invoice processing solution.

Recommendations

In line with Contract Procedure Rule (CPR) 18, the Chief Officer Financial Services is requested to approve the award of a Service Contract to **Kefron Limited** for a period of three (3) years with an option to extend for up to 24 months if necessary, for the provision of an Automated Invoice Processing solution for the initial period 4th November 2020 to 3rd November 2023 at a total estimated cost of £463,052.

1. Purpose of this report

- 1.1 Following the evaluation of tenders received for the provision of an Automated Invoice Processing solution, this report seeks approval to award a contract to Kefron Limited, 53 Park West Road, Dublin 12, D12 F8RK.

2. Background information

- 2.1 The Council processes approximately 260,000 invoices annually. Of those, around 221,000 are processed centrally by the accounts payable team on behalf of Council services (132,000) and schools (88,000) fall within scope of this project.
- 2.2 Approximately 70% of invoices are received electronically via email, typically as a PDF but also as other file types such as Jpegs. The remaining 30% are received as paper. There is some variation in these figures as Council services may originally receive an invoice electronically before printing and posting via internal mail to the accounts payable team. This work is excessively manual and utilises outdated technology.
- 2.3 The 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, considerations and reasons for contract award

- 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, at times, 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.

3.4 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

3.5 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.

- 3.6 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. 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.
- 3.7 The evaluation panel comprised of:
- Head of Business Change (Shared Services), Resources & Housing
 - Head of Digital Change, Resources & Housing
 - Assistant Head – Financial Services, Resources & Housing
 - Project Manager, Resources & Housing
 - QA/Taxation, Billing & Creditors Manager, Resources & Housing
 - Solution Architect, Resources & Housing
- 3.8 In total, 11 tenderers submitted a response to the Council’s Invitation to Tender (ITT), which was conducted in accordance with both the Council’s Contracts Procedure Rules and the EU Public Contract Regulations. The ITT was published on the Yorkshire & Humberside procurement portal YORtender and advertised in the Official Journal of the European Union
- 3.9 7 of the 11 tenderers were not evaluated as they failed to meet the minimum threshold requirements for the Standard Selection Questionnaire.
- 3.10 The 4 tenders received which successfully passed the initial Standard Selection Questionnaire evaluation stage were then evaluated on both quality and price.
- 3.11 The maximum points available for quality was 600 and the scoring for the overall evaluation of the Quality section was as follows:

Method Statement	Assessment Method	Maximum Points Available
Question 1	PASS/FAIL	n/a
Question 2	Scored	70
Question 3	Scored	20
Question 4	Scored	70
Question 5	Scored	20
Question 6	Scored	70
Question 7	Scored	20

Method Statement	Assessment Method	Maximum Points Available
Question 8	Scored	70
Question 9	Scored	40
Question 10	Scored	20
Question 11	Scored	50
Question 12	Scored	20
Question 13	Scored	20
Question 14	Scored	50
Question 15	Scored	40
Question 16	Scored	10
Question 17	Scored	10
Question 18	PASS/FAIL	n/a
Question 19	PASS/FAIL	n/a
Question 20	PASS/FAIL	n/a

- 3.12 The points available for each method statement were related to how important that method statement was to the overall delivery of the contract.
- 3.13 The maximum points available for price was 400.
- 3.14 For this tender, the price calculation was based on the tenderer with the lowest total price achieving the highest score available for price and the other tenders a reduced score based on calculating the percentage difference between them and the lowest price and deducting this percentage from the maximum score available.
- 3.15 The Council has chosen not to divide this procurement into lots. We are seeking to appoint a single supplier who can offer a fully managed service (scanning and software system for processing invoices). Separate lots were considered but the conclusion was that the scope of requirements and inter-dependency of processes involved make it impractical and uneconomical. It would, therefore, not be appropriate to divide these requirements into lots.
- 3.16 The overall price and quality scores for all tenderers can be found in Confidential Appendix 1 which illustrates that Kefron Limited were the highest scoring tenderer based on quality/price combination.

4 Corporate considerations

4.1 Consultation and engagement

- 4.1.1 Consultation with key stakeholders was undertaken when the particular procurement route was chosen including:
- Chief Digital and Information Officer
 - Chief Officer – Financial Services

- Head of Business Support Centre
- ICT Strategic Sourcing Manager

No consultation has taken place with key stakeholders as to whether the contract should be awarded to the winning bidder or not as this is determined by the evaluation of the tenders received.

- 4.1.2 Key stakeholders are engaged through the Automated Invoice Processing project Board.
- 4.1.3 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 The supply of an effective Automated Invoice Processing solution requires a supplier who will work with Leeds City Council to gain efficiencies in the current processes – for example: improved processing, removing potential manual handling errors and better workflows.
- 4.4.2 A full procurement process has been undertaken in order to ensure that the council obtains best value for money.
- 4.4.3 The price submitted by Kefron Limited to deliver the outcomes required for this project is considered to represent value for money as they were the most economically advantageous tender.
- 4.4.4 Appropriate governance steps have been followed with the business case supported at a number of fora. Following presentation to the Financial Performance Group and Best Council Design Team agreement was reached to commit Invest to Save funding to the implementation and delivery of an automated invoice processing solution.

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

- 4.5.1 In line with the Council's constitution the Director - Resources & Housing, is authorised to make the decision to award this contract to Kefron Limited.
- 4.5.2 The information contained in **Confidential Appendix 1** is considered confidential as this includes a detailed breakdown of tenderers scores and prices.
- 4.5.3 The procurement followed the Open Procedure of the EU Public Contract Regulations 2015 and a notice was advertised in the Official Journal of the European Union.
- 4.5.4 In addition, the procurement was advertised on the Council's tendering website, YORtender.co.uk and the Government Contracts Finder website.
- 4.5.5 In accordance with the Public Contract Regulations 2015, a standstill period will be observed before awarding the contract.

4.6 Risk management

- 4.6.1 The contract risk will be managed by an appointed contract manager who will implement a contract management plan.
- 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 Following conclusion of the procurement exercise the evaluation panel were confident that the successful tenderer has demonstrated its ability to meet the Council's requirements and represents value for money.

6 Recommendations

- 6.1 In line with Contract Procedure Rule (CPR) 18, the Chief Officer Financial Services is requested to approve the award of a Service Contract to Kefron Limited for a period of three (3) years with an option to extend for up to 24 months if necessary, for the provision of an Automated Invoice Processing solution for the initial period 4th November 2020 to 3rd November 2023 at a total estimated cost of £463,052.