

Committee(s)	Dated:
Procurement Sub Committee	7 November 2018
Subject: Action Plan to Improve 10-Day Payment Performance	Public
Report of: The Chamberlain	For Information
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Summary

The report informs Members of City Procurement's plan to improve 10-day payment performance, which mainly relates to the payment of invoices from small to medium enterprises (SMEs). This is due to sustained period of non-achievement against our Key Performance Indicators, to date we have been paying on average 80% of invoices within 10 days against a target of 85%.

The Action Plan details the following interventions:

- a. Establish new rules in AP mailbox to prioritise SME invoices.
- b. Add the SME flag on a supplier to the Expected Receipts report to help departments prioritise the receipting of SME purchase orders (POs).
- c. Give priority to SME invoices when chasing invoices on hold.
- d. Send an email to all staff who receive confirm receipt notifications, reminding them of the importance of receipting POs in a timely manner.
- e. Send an email to all departmental business managers reminding them of the importance of getting suppliers to email invoices directly to AP.
- f. Continue working to eradicate paper invoices.
- g. Target low performing departments and analyse their invoices to identify the cause of their late payments and take preventative action.

This report provides more detail on the action plan interventions and updates on the implementation of the action plan as well as any initial impact of the new interventions.

Members are asked to:

- Note the paper and the action plan.

Main Report

Background

1. The Accounts Payable (AP) function within City Procurement has a target to pay 85% of invoices from SMEs within 10 calendar days of receiving an invoice. The target was reduced to 85% from 88% at the start of the current financial year, as the 88% target had proved unattainable over previous years, due to a number of challenges. However, we have subsequently not been able to meet the 85% target this financial year.

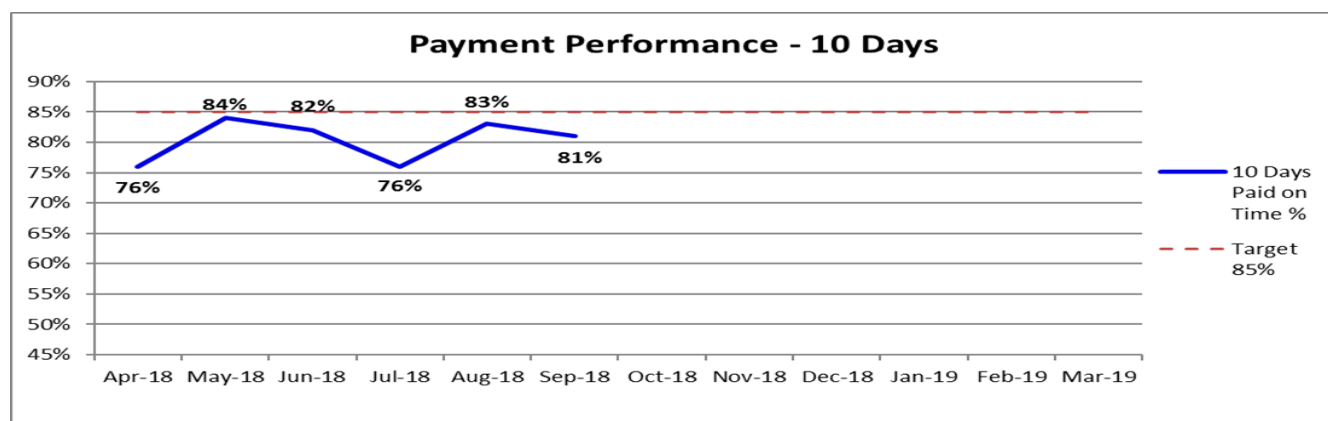
Main contributory factors of failure to achieve target

2. Firstly, the performance is measured by calendar days, which means that if an invoice is received from an SME on a Friday, we only have 6 working days to make the payment, due to the 2 weekends, and if any Bank Holidays fall within the 10-day period, working days are obviously reduced further.
3. Secondly, to meet the 10-day target, we have set ourselves the goal of inputting invoices to the Oracle system within 2 working days of an invoice arriving (this has to be working days, because we are not here to input on weekends and Bank Holidays). Heavy inflows of invoices at certain times of the month and temporary reductions in AP staff resource due to leave or illness can delay the time it takes to input invoices to the Oracle system. The average time to input for Q1 and Q2 of the current financial year was 3.3 working days.
4. Thirdly, invoices submitted by suppliers to departments before being forwarded to AP, instead of being emailed by suppliers directly to AP immediately cause a delay.
5. Furthermore, paper invoices that need to be scanned before they can be input increase our likelihood of not hitting a 10-day turnaround.
6. Lastly, and perhaps most importantly, we are reliant on internal stakeholders in departments to receipt purchase orders (POs) and approve PO-exempt invoices and price variances in a timely manner, which would ideally be within 3 working days if we are to meet our 10-day target. Even though the relevant internal stakeholder is sent an automatic confirm receipt or approval email, from which he/she can take the appropriate action without logging into the system, we have found that the greatest single reason for invoices being paid late is due to inaction or delayed action on the part of these officers.

Performance this year to date

7. Our 10-day SME invoice payment performance for the first six months of the current financial year was 80%, compared to the target of 85%, and we have not managed to hit the target in any single month during Q1 and Q2. However, we have exceeded 80% in 4 out of those 6 months, with a high of 84% in May.

Figure A – 10-Day SME Payment Performance Trend (Target 85%)



Action plan to improve payment performance

8. An action plan has been drawn up to mitigate some of the issues and aim to improve our performance in a sustained manner in the coming months. The planned interventions are as follows:
9. Establish new rules in AP mailbox to prioritise SME invoices.
 - **Actions taken to date:** New rules set up in AP mailbox to prioritise SME invoices, to give them the best possible chance of being paid within 10 days. This was set up in September for the top 30 SMEs by invoice volume and top 30 SMEs by late payments to trial it, and we are intending to expand the scope of the rules beyond these 60 suppliers by the end of December.
 - **Impact to date (or projected):** Looking at the volumes for these 60 suppliers and their payment performance for April to August 2018, this action could potentially improve the overall performance by approximately 3%.
10. Add the SME flag on a supplier to the Expected Receipts report to help departments prioritise the receipting of SME purchase orders (POs).
 - **Actions taken to date:** We are working with the Oracle Team to see if we can add the SME flag.
 - **Impact to date (or projected):** If Departments run the report regularly and review SME orders as a priority, ensuring receipts are actioned promptly, this action could potentially increase the overall figure by approximately 5%.
11. Give priority to SME invoices when chasing invoices on hold.
 - **Actions taken to date:** We currently chase invoices on hold, but do not prioritise invoices from SMEs, because we do not yet have an SME indicator on the Invoices on Hold report, so are working with the Oracle Team to see if we can add one.
 - **Impact to date (or projected):** If the SME flag can be added to the Invoices on Hold report and we issue it weekly and appropriate action is taken by the Departments, we expect to see a positive impact, but it is difficult to estimate the potential improvement. We should have a good idea of the projected impact by the end of January 2019.
12. Send an email to all staff who receive confirm receipt notifications, reminding them of the importance of receipting POs in a timely manner.
 - **Actions taken to date:** None – email to be issued in October.
 - **Impact to date (or projected):** In concert with point 10, this action could potentially increase the overall figure by approximately 5%.
13. Send an email to all departmental business managers reminding them of the importance of getting suppliers to email invoices directly to AP.
 - **Actions taken to date:** None – email to be issued in October.
 - **Impact to date (or projected):** About 20% of SME invoices currently go directly to Departments. If we can eradicate this practice, these invoices would be input much sooner, increasing the chance that they will be paid

on time, but this is still dependent on Departments taking other action promptly, e.g. PO receipting.

- 14.** Continue working to eradicate paper invoices. Most, if not all, SMEs and even sole-traders should have the ability nowadays to email invoices to us. Readily available software packages and smartphone apps like QuickBooks, Quicken and FreshBooks provide this capability as standard.
- **Actions taken to date:** We have reduced incoming paper invoices from 23% in April 2015 to just 4% in September 2018 through targeted communications with suppliers.
 - **Impact to date (or projected):** If we can completely eradicate paper invoices from SMEs, invoices would be input much sooner, due to the removal of postal delivery and scanning, increasing the chance that they will be paid on time, but this is still dependent on Departments taking other action promptly, e.g. PO receipting.
- 15.** Target low performing departments and analyse their invoices to identify the cause of their late payments and take preventative action.
- **Actions taken to date:** This is an extremely labour-intensive task, as we will have to manually investigate each late transaction and decide on the factor(s) that caused the invoice to be paid late.
 - **Impact to date (or projected):** Looking at the figures for September, if we could improve two of the worst performing Departments to the point where they are meeting the target, the overall figure would improve by 3%.

Conclusion

- 16.** As the first step in the plan (setting up rules in the AP mailbox) was only taken part way through September, it is too early at the time of writing to determine whether it has been effective. However, the cumulative impact of the plan that we are implementing, along with technological advancements that we are working on, like e-invoicing and AP file uploads, could potentially see us exceeding the 10-day payment performance target of 85% before the end of the current financial year.

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