

Leicester
City Council

WARDS AFFECTED
All

Audit & Risk Committee

28 June 2017

Invoice Payment Performance

Report of the Director of Finance

1. Purpose of Report

The purpose of this report is to provide Audit and Risk Committee with an overview of the timeliness of invoices payments the authority makes to its suppliers of goods and services.

2. Recommendations

Members of Audit and Risk Committee are asked to:

- Note the content of the report and the work undertaken to meet the Executive pledge to improve the payment terms for small local businesses.
- Note that future update reports will only be presented to the committee should invoice payment performance fall below acceptable standards.

3. Report

3.1 Background Information

The corporate exchequer team, part of the business service centre, are responsible for processing payments to suppliers of goods and services in accordance with the payment terms agreed with the supplier. Before ordering goods and services it is the responsibility of the cost centre manager to raise a purchase order. A purchase order is a commercial document issued by the buyer of goods or services to the seller, indicating types, quantities, and agreed prices for products or services.

When the goods or services are supplied the cost centre manager acknowledges this by 'receipting' the goods or services via the corporate finance system. The goods receipting process is a means of accepting the goods or services are fit for purpose and suitable in the sense that goods are not damaged and the quantity ordered is delivered, or the service is delivered to a satisfactory standard.

The next step is for the supplier to send an invoice and once this is received by the payments team the payment process can commence.

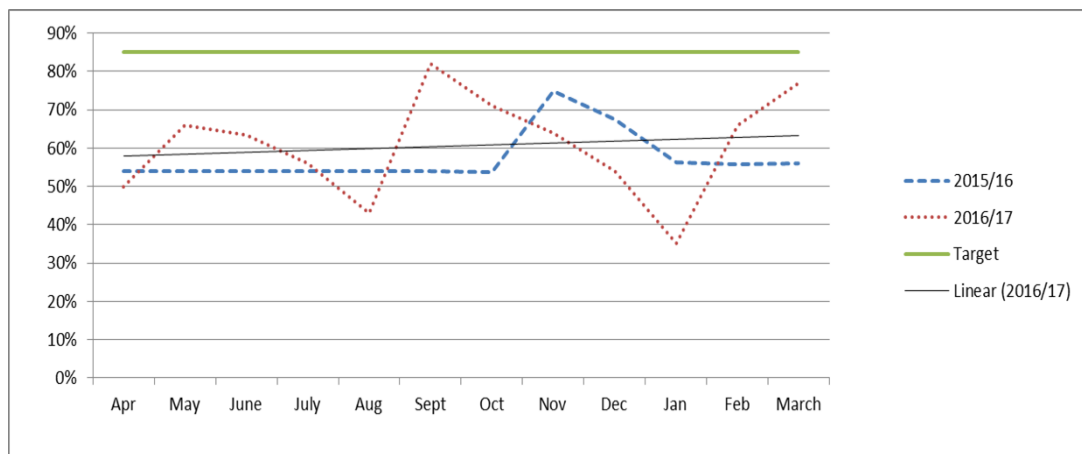
3.2 During the financial year 2016/2017 the authority made on average 8,400 payments per month which equates to a monthly spend of £43m.

4. Update since last report to Audit & Risk Committee in December 2016

4.1 Progress to meet the manifesto commitment to improve local small business payment terms continues to be monitored closely. The commitment reduced payment terms from 30 to 21 days meaning that those invoices get paid more quickly. The aim of this is to optimise cash flow for suppliers in our locality enhancing their financial stability.

4.2 The improved payment terms were introduced in October 2015 and affected some 765 suppliers at that time (identified by an “LE” postcode). The following table shows the percentage of payments made to small businesses within the new payment terms.

Payment Performance



4.3 As demonstrated above since payment terms were changed for small local businesses on average 61% of invoices are being paid on time. This has not increased since progress was reported back in November 2016 and is still below the overall target set for all supplier payments as detailed in **Appendix 1**. Although it should be noted that average payment terms are 30 days rather than 21 therefore we are not actually comparing like for like.

4.4 There was a drop in performance in January. This can be attributed in part to invoices being received late and past their due date over the Christmas period. However there was a marked improvement with 77% being paid within 21 days in April 2017, probably due at least in part to the focus on financial year end processes

4.5 **Why are invoices paid late?**

The reasons for late payments remain the same as reported back in December 2016.

- The delay in suppliers sending in their invoices for payment
- Invoices been sent to individual cost centre managers for payment then these having to be forwarded to the Business Service Centre (BSC) for the payment to be processed
- Some invoices being disputed and the need for resolution which in turn delays the payment
- The cost centre manager not raising a purchase order when ordering the goods or services from the supplier, again this delays payment
- The goods or services have not been signed off as 'receipted' by the cost centre manager.

4.6 **What are we doing to improve performance?**

Work continues to identify which invoices are paid late and challenging the relevant manager to establish why.

In March 2016 we wrote to all suppliers setting out how Leicester City Council is improving how it processes supplier invoices to meet its obligation to pay invoices within the agreed terms. The letter/email included how suppliers can assist in this.

We have escalated the reporting of invoices sent to the BSC late by providing all directors with a bi-monthly report identifying these and asking directors to ensure staff are reminded of their responsibility.

Cost centre managers are reminded on a regular basis of their responsibility in relation to ordering goods and services.

5. **Additional performance data**

Appendix 2 shows the total volume of all payments made each month over the past 4 financial years

Appendix 3 shows the total value of payments made each month over the past 4 financial years

6. **Finance Implications**

There are no significant financial implications arising for this report

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7. Legal Implications

There are no legal implications arising from this report but it should be noted that by making payment to local suppliers within 21 days the Council is meeting a higher standard than required under legislation.

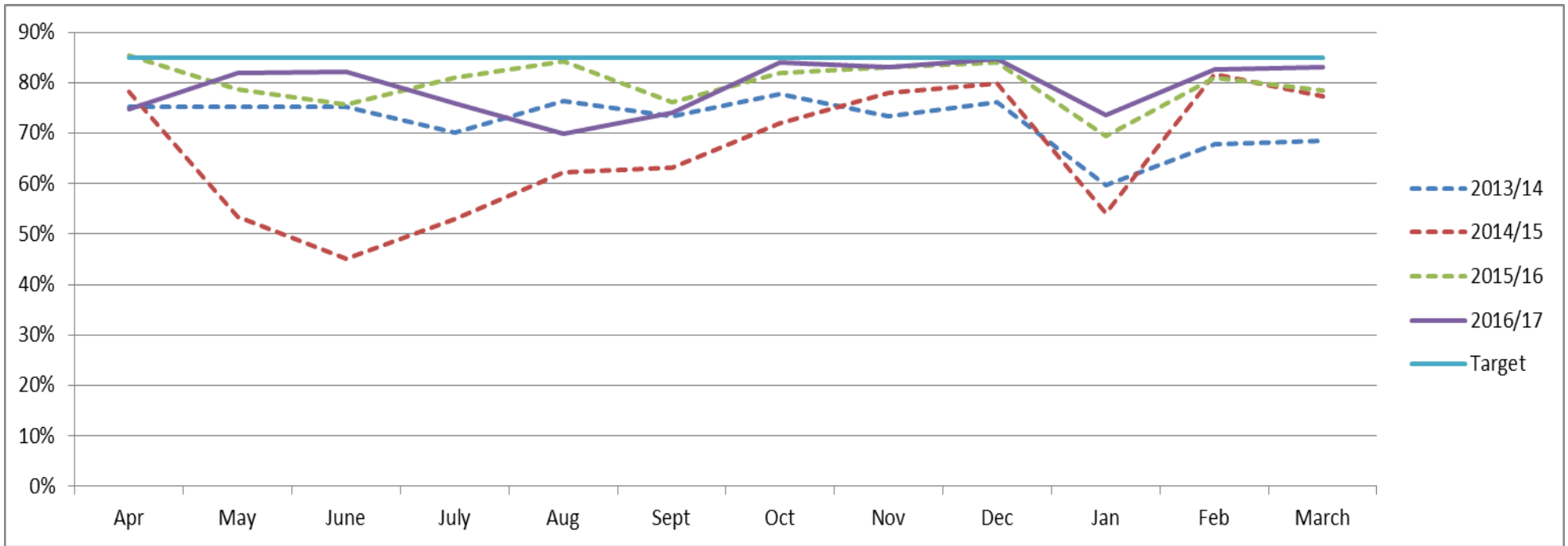
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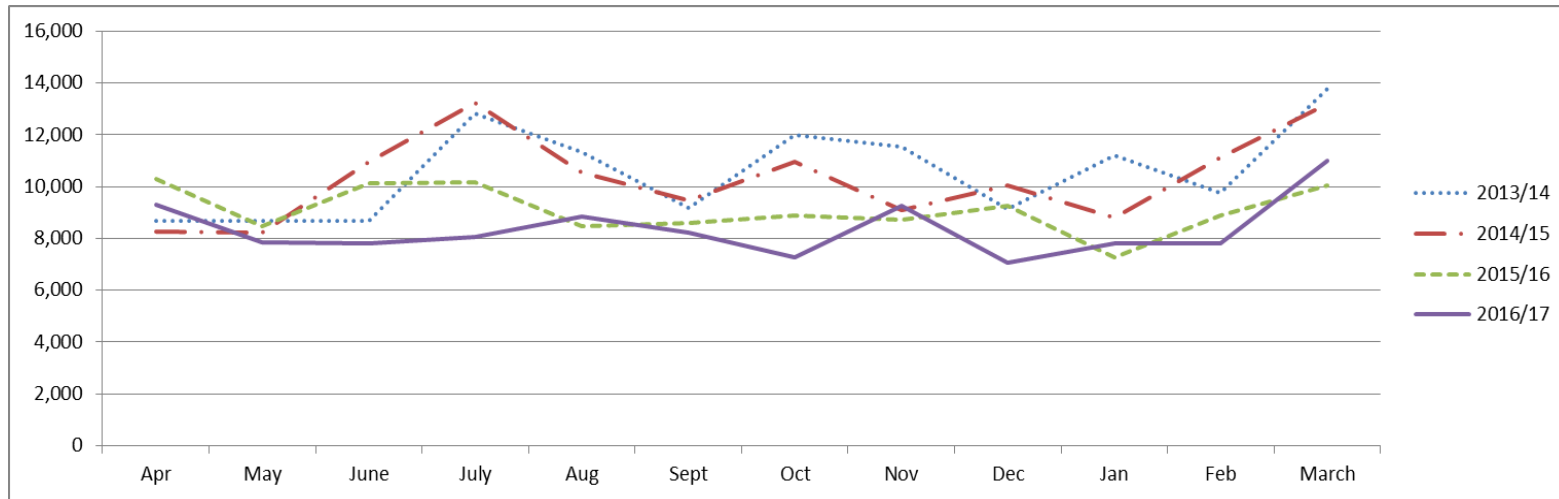
Appendix 1

% of Invoices Paid on Time (all suppliers)



Appendix 2

Volume of Payment Requests



Appendix 3

Value of Payments

