

## PAYMENT OF EXTERNAL SUPPLIER INVOICES

### Key Contacts

<b>Name</b>	<b>Telephone</b>	<b>Email</b>
Payments General Enquiries	0121 464 7299	<a href="mailto:SchoolsPaymentEnquiries@birmingham.gov.uk">SchoolsPaymentEnquiries@birmingham.gov.uk</a>
	0121 675 8997 (For Bursars only )	

### Postal Address

Accounts Payable Section  
PO Box 10861  
Birmingham  
B4 7WR

## **Payments Procedures**

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## Payments Procedures

### 1 Purpose

- 1.1 The Accounts Payable Office is responsible for paying invoices for all purchases made by schools and internal departments within the education function with the exception of cheque book schools.
- 1.2 On receipt, all invoices received in the Accounts Payable Office are scanned, using an Optical Character Recognition Device (OCR). They are then processed through a computerised Purchasing and Payment System (Voyager). What this means is that payments can be processed "on line". This gives greater control in meeting supplier's terms and rectifying problems, thus reducing the number of queries received from suppliers.
- 1.3 As the OCR system uploads information directly from the Authorisation Slip it is essential that the information on the Slip is accurate.
- 1.4 It is essential that paperwork received in the Accounts Payable Office is correct and complies with financial regulations laid down by the Local Authority and HMRC
- 1.5 All invoices must be clearly date stamped as soon as they are received in schools.
- 1.6 Paperwork should not be held in schools but forwarded to the Accounts Payable Office as soon as possible.
- 1.7 The preferred method for submitting invoices to Accounts Payable is electronically by email

For more information on submitting invoices electronically, schools should contact Donna Bailey ([donna.e.bailey@birmingham.gov.uk](mailto:donna.e.bailey@birmingham.gov.uk)) or Permjit Mudara ([permjit.mudara@birmingham.gov.uk](mailto:permjit.mudara@birmingham.gov.uk))

- 1.8 For those schools without the technology to scan and email invoices, it is acceptable for invoices to continue to be sent by post to the address below. However, there will be a charge to reflect the additional admin costs associated with processing invoices by this method

Birmingham City Council  
Accounts Payable  
PO Box 10861  
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- 1.9 These guidelines and instructions have been put together in order to assist schools in the processing of invoices for payment and must be adhered to.

## 2 What Information is on an Invoice?

2.1 In order to process an invoice for payment, it is essential that the following information is shown: -

- a) Name and address of payee.
- b) Description of goods or service.
- c) Value of purchase.
- d) Document/Invoice number.
- e) Date and tax point.
- f) VAT registration number (if VAT is applicable).
- g) If VAT is applicable, VAT must be shown separately i.e. it is not acceptable to show price inclusive of VAT for purchases over £100.00.

For purchases under £100.00 schools may show the price inclusive of VAT, at the current rate. There should be proper documentation to support this.

- h) If related VAT is applicable, VAT must be shown separately i.e. it is not acceptable to show price inclusive of VAT for purchases over £100.00

For purchases under £100.00 schools may show the price inclusive of VAT, at the current rate. There should be proper documentation to support this

- i) Any invoice relating to construction or renovation of a building will fall into the scope of HMRC's Construction Industry Tax Scheme (CIS). Any such invoice must clearly show the company's Unique Tax Reference number (UTR) and National Insurance Number if a sole trader. It must also show the labour and materials breakdown to enable tax to be deducted correctly if applicable.

Failure to apply the Scheme correctly may result in financial penalties being imposed by HMRC

NB: UTR and VAT Registration Numbers are completely separate and should not be confused

- j) School Name and Address
- k) School Order Number

### 3 Copy Invoices

- 3.1 The Local Authority is reluctant to process payment on a copy invoice because of the possibility of duplicate payments. Some suppliers automatically send copy invoices if payment has not been received within a certain time and it would, therefore, be easy for duplicate payments to be made if rigorous checks were not carried out. Therefore Accounts Payable should be contacted before any copy invoice is forwarded for payment.
- 3.2 Occasionally, it is not possible to obtain an original invoice and therefore a copy should be requested.
- 3.3 It is essential, when paying a copy invoice, that it is clearly marked "original not received" and duly certified to that effect.
- 3.4 To alleviate the problem of duplicate payments, it is essential to ensure that the original invoice is not available.
- 3.5 Some suppliers are now paid by electronic file and invoices received by schools are for information only. Do not forward these invoices to Accounts Payable as they could result in a duplicate payment.
- 3.6 Internal Invoices from Birmingham City Council should be authorised for payment using the Internal Invoice Portal and should **not** be sent to Accounts Payable

### 4 Discounts

- 4.1 If a supplier offers a settlement discount, VAT must be calculated on the net amount and not on the gross amount, whether or not schools take advantage of the discount. The following example will explain: -

i) Incorrect Method

Goods	100.00
VAT @ 20 %	20.00
	120.00
Less 2.5% Discount for Payment within 14 days	<u>3.00</u>
	117.00

ii) Correct Method

Goods	100.00
Less 2.5% Discount for Payment within 14 days	<u>2.50</u>
	97.50

VAT @ 20%

19.50

117.00

Whilst the actual amount payable is the same, the total charge against the schools budget is less.

On larger purchases the difference will be quite substantial.

## **5 Forwarding Invoices for Payment – Non Cheque Book Schools**

5.1 All invoices must be clearly date stamped as soon as they are received in schools.

5.2 Once it is established that the document is a "bona fide" invoice, the following checks should be made before the invoice is processed for payment:

- The quantity and quality of the goods or services received have been checked
- Relevant entries have been made in the Inventory Record
- The Goods Received/Delivery Note is signed by the receiving officer
- A copy of the Goods Received/Delivery Note is retained on file with a copy of the order and a copy of the invoice

When these checks have been completed and the school is satisfied that the goods or services delivered are in accordance with the order the invoice can be processed and authorised for payment.

5.3 It is essential that exact details be forwarded to the Accounts Payable Office for payment. The following procedures must be followed.

- i) The document must be a valid invoice; i.e. not a delivery note, order, receipt, statement etc.
- j) If VAT is applicable and the total invoice is more than £100, VAT must be shown separately (see 2.1 g)

On the Authorisation Slip the correct VAT code should be quoted :

VR : 20 %

VL : 5 %

VZ : Zero Rated

VE : Exempt

- k) Authorisation Slips must exactly match the relevant invoice, i.e. payee name and address should match the invoice, the totals should be correct, and the authorisation slip should be certified and attached to the invoice.
- l) Only one authorisation slip can be accepted for each individual invoice, unless for a dual site. In this case the authorisation slip should be clearly marked “ Dual site please see 2<sup>nd</sup> Authorisation Slip “
- m) Should FMS/CMIS produce details other than that shown on the invoice, the Authorisation Slip must be amended, but Schools must ensure that any alterations are recorded to ensure that any major differences are reconcilable.
- n) Accounts Payable scan the invoice using an OCR device and use the information on the Authorisation Slip for processing the payment to the supplier.
- o) If payment is to be made into a Foreign Bank Account schools must submit on a Foreign Payment form with the FMS/CMIS Authorisation Slip and attach any supporting documentation such as an invoice.

N.B. The form is available from Accounts Payable. Email: [SchoolsPaymentenquiries@birmingham.gov.uk](mailto:SchoolsPaymentenquiries@birmingham.gov.uk) for a copy.

- p) If payment relates to expenses for staff the claim must be paid through the City's Payroll System (or through an external payroll provider if applicable), in line with HM Revenues and Customs guidelines.
- q) It is usual for the supplier to receive one cheque covering many invoices from different schools/establishments. This can include credits for other schools and establishments. The supplier will receive a remittance advice detailing all payments / credits to correctly allocate to individual accounts.
- r) Charges are received by the school via the weekly reconciliation interface file from Voyager. This will update FMS/CMIS with expenditure relating to all external invoices processed.
- s) If the charge exactly matches the information held on FMS/CMIS, it will automatically reconcile and update the schools accounts. Otherwise it will go into the schools suspense account for further investigation and manual reconciliation or correction.

## **6 Pro Forma Invoices**

- 6.1 On occasions schools are required to pay for goods or services prior to receiving an official VAT invoice from the supplier. An example of where this may occur is booking of hotels or booking of tickets/travel for school trips. In

these circumstances payment is made either on a Sundry Payments request form or using a suppliers "Pro Forma Invoice".

- 6.2 When a payment is made in these circumstances the total cost of the goods/service must be charged to schools budgets - including the VAT element.
- 6.3 On receipt of the genuine VAT invoice this must not be sent to Accounts Payable as there would be a risk of a duplicate payment. If there is a difference in cost requiring an adjustment, Accounts Payable can no longer carry out these adjustments, a new invoice (or credit note) for the **difference** in cost will be required to be processed. Schools can speak to their Schools Financial Services Finance Officer for advice on how to proceed

## 7 Sub Contractors

- 7.1 A sub-contractor is anyone that does the following work at a school: - building; repairs to building; plumbing; electrical works; painting and decorating; landscape gardening, etc.
- 7.2 A sub-contractor is a business or an individual which carries out construction work for the school. These sub-contractors come under the Construction Industry Scheme "CIS". The Scheme has strict regulations imposed by HMRC to ensure that any tax liable on the labour element of work carried out is correctly accounted for. This is administered by Accounts Payable and failure to do so can result in financial penalties.

From the 1st April 2007 the registration cards and tax certificates for the Scheme were replaced with a new verification system to ensure that when a contractor first engages and pays a subcontractor, the contractor is told whether to pay the subcontractor in full or make a deduction from the payment. If a subcontractor is found not to have been verified Accounts Payable will contact HMRC.

Before payment can be made, a sub-contractor must be verified with HMRC.

The sub-contractor must supply their Unique Tax Reference (UTR) number and either company registration number, and National Insurance Number if a sole trader, for Accounts Payable to verify with HMRC. Failure for this to be shown when the invoice is submitted to Accounts Payable will result in a delay in payment

If the sub contractor has any queries they can contact HMRC Sub-contractors Helpline on 0845 366 7899.

- 7.3 A sub-contractor employed to undertake building works must have adequate liability cover in case persons are injured or have their property damaged or destroyed through work being carried out in a negligent or unsafe manner.

- 7.4 Schools should ensure that they have sight of a contractor's Public Liability Certificate before work commences and that it has been seen.
- 7.5 Sub-contractors' invoices under £100 may be paid through petty cash providing that a Tax Exemption certificate is produced. However wherever possible an official order should be produced.
- 7.6 Schools that operate their own bank accounts can choose to administer the Scheme, on behalf of the Local Authority, in respect of construction work undertaken at those schools. The local tax office and the Local Authority will be able to give advice on whether a school's arrangements bring it within scope of this provision. Where the school operates the Scheme, it will need to do so on the same basis as any other contractor. HMRC will be keeping this arrangement under review to ensure that schools operate the Scheme correctly.

## 8 Payments to Employees and Self Employed Individual.

- 8.1 It is important to establish the actual relationship between the school and individuals undertaking work for the school. In other words, if the individual is being offered employment, all payments **must** be made through the Council's payroll system in order that appropriate statutory deductions of Income Tax and National Insurance contributions can be made. Schools that have their own payroll arrangements must ensure that payments are made through Pay as You Earn [PAYE].
- 8.2 Alternatively, if the individual is not being offered employment, the school must be satisfied that the terms of the agreement between the school and the worker are clear and that payment to the individual can be made without deduction of Income Tax and National Insurance Contributions.
- 8.3 There is no single satisfactory test that can conclusively decide whether a worker is employed or self-employed. It is necessary to consider a number of factors or "tests" before making a decision. HMRC have developed a tool (an Employment Status Indicator or ESI) to help determine whether a worker is employed or self-employed. The following "tests" are the key questions in the ESI:

### 8.3 Employed

As a general guide, if the answer is "yes" to all of the following questions, then the worker is probably an employee:

- Do they have to do the work themselves?
- Can someone tell them what to do, where to carry out the work or when/how to do it?
- Are they required to work a set amount of hours?
- Can someone move them from task to task?
- Are they paid by the hour, day, week or month?

- Can they get paid overtime or bonus?

#### 8.4 Self-Employed

If the answer is “yes” to all of the following questions, it will usually mean the worker is self-employed:

- Can they hire someone to do the work or engage helpers at their own expense?
- Do they risk their own money in the business?
- Do they provide the main items of equipment they need to do the job?
- Do they agree to do a job for a fixed price regardless of how long the job may take?
- Can they decide what work to do, how and when to do it and where?
- Do they regularly work for a number of different people?
- Do they have to correct unsatisfactory work in their own time & at their own expense?

#### 8.5 Intermediary Companies – IR35

With effect from 6<sup>th</sup> April 2017, HMRC have issued new legislation – IR35 which is also known as ‘intermediaries legislation’. This is a set of rules that can affect Tax and National Insurance contributions if schools engage someone through an intermediary.

The intermediary can be:

- A limited company
- A service or personal service company (PSC)
- A partnership

A check of the workers’ status must be carried out by the employing body by HMRC’s ESS test to identify if the worker should pay Tax and National Insurance contributions through the payroll for the engagement. See the link in 8.6

If payment is required through the payroll the invoice should be submitted electronically to [IR35.Payments@birmingham.gov.uk](mailto:IR35.Payments@birmingham.gov.uk)

If payment is required to be made by invoice schools should submit in the normal way.

Schools should email [IR35.Payments@birmingham.gov.uk](mailto:IR35.Payments@birmingham.gov.uk) if they are unsure whether the legislation applies, or refer to the guidance on the Schools HR Portal.

- 8.5 HMRC may impose financial penalties for non-compliance with PAYE regulations. These are in addition to settlement of any underpayment of Tax/NIC.

Any invoice submitted to Accounts Payable will assume to have been checked for the correct payment method

More information is available at [www.hmrc.gov.uk/calcs/esi.htm](http://www.hmrc.gov.uk/calcs/esi.htm) and [www.gov.uk/guidance/check-employment-status-for-tax](http://www.gov.uk/guidance/check-employment-status-for-tax)

## 9 Processing of Utility Invoices

- 9.1 Due to the enormous volume of invoices paid to suppliers of gas, electricity, telephones, etc. cheques and invoices sometimes cross in transit.
- 9.2 Should an account be received with a brought forward balance, under no circumstances should this amount be paid. The brought forward amount (including any credits) must be crossed out and the total bill amended to the current charges. Should your records show that the brought forward balance has not been previously paid then a separate invoice must be obtained for the outstanding amount

N.B. Any credits should reduce the amount of the next periods' bill.

- 9.3 Because of VAT regulations, we are unable to pay on a reminder.
- 9.4 Some utility suppliers are now paid by electronic file and invoices received are for information only. Do not forward these invoices to Accounts Payable as they could result in a duplicate payment.

## 10 Surcharge for Late Payments

- 10.1 A number of suppliers include a surcharge in the total value of their invoices. As long as payment is made, within the supplier's terms, the surcharge can be deducted, as there is no VAT element in the surcharge.

eg	Goods	100.00
	VAT	<u>17.50</u>
		117.50
	Surcharge	<u>20.00</u>
	Total	137.50
	Deduct Surcharge	20.00
	Payment	<u>117.50</u>

eg	Goods	100.00
	Surcharge	20.00
	VAT	<u>17.50</u>
		137.50
	Deduct Surcharge	20.00
		<u>117.50</u>

- 10.2 Birmingham City Council has produced a Payments Charter, which stipulates that payments to suppliers should be made within 30 days of receipt of invoice, unless contract terms state otherwise.

## 11 Division of Duties

- 11.1 It is vital that a proper system of control is implemented that requires a satisfactory division of duties to be in place for the placement, receipt and payment of goods and services in schools.

- 11.2 The basic requirements include:

- The person raising the order should not be the person authorising the order.
- The person who certifies the paper copy of the order should also authorise the order on FMS/CMIS
- The person authorising the payment should not be the person who has authorised the order.
- The person who signs the payment authorisation slip should also authorise the invoice on FMS/CMIS.
- The person who authorises the payment should not be the person who has certified the receipt of goods and services, or completion of the work concerned.

- 11.3 Where it is not possible to separate these duties, arrangements must be agreed, in advance and in writing, with Schools Financial Services.

## 12 Hints and Tips

- 12.1 Details on the Authorisation Slip must **exactly** match the invoice.
- 12.2 Only one Authorisation Slip is allowed per invoice (except for dual sites).
- 12.3 Do **not** use highlighter pens to highlight any part of the authorisation slip or invoice as the OCR device will not be able to read the information.

- 12.4 Payments to other City Departments/Sections or other non-cheque book schools cannot be dealt with by the external invoice process. These must be paid either by internal invoice (using the Internal Invoice Portal) or by Voyager journal transfer of funds which are dealt with by Schools Financial Services.
- 12.5 Payments to foreign suppliers are made via a different process which will require additional information. Before processing foreign invoices obtain advice from Accounts Payable on either 675 8997 or by email to [schoolpaymentenquiries@birmingham.gov.uk](mailto:schoolpaymentenquiries@birmingham.gov.uk)
- 12.6 Processing invoices for construction industry suppliers – The City is required by HMRC to verify with them whether any suppliers we pay (in relation to the labour element of construction work) is liable to tax deduction. To help speed up the verification process, advise the supplier that they must clearly quote a labour/materials breakdown on their invoices. The invoice must also show their Unique Tax Reference or National Insurance Number if they are a sole trader.
- 12.7 Do not give suppliers the telephone number or email address for Accounts Payable that has been specifically set up for school staff only, as this reduces your ability to contact Accounts Payable easily.
- 12.8 To reduce payment enquiries BCC can give access to suppliers so they can view their own account through the Supplier Portal. They will be able to view payments made or those that are awaiting the next payment run. More information, including how to sign up for this service, can be found at [www.birmingham.go.uk/supplier-portal](http://www.birmingham.go.uk/supplier-portal)