



REPORT TITLE: Supplier Early Payment Programme

Cabinet Date	22 nd December 2021
Cabinet Member	Cllr Lynden Stowe, Deputy Leader and Cabinet Member for Finance and Change
Key Decision	Yes
Purpose of Report	To get Cabinet approval to appoint Oxygen Finance to implement and manage a Supplier Early Payment programme.
Recommendations	<p>That Cabinet:</p> <ul style="list-style-type: none">• Approves, without further competition, the award of a call-off contract to the supplier known as Oxygen Finance Ltd for the supply of Early Payment Services under the NEPO 521 Framework Agreement (established in May 2020 by South Tyneside Council on behalf of NEPO (North East Procurement Organisation)) in accordance with the contract award criteria thereunder. The proposed call-off contract shall continue for a period of 5 years.
Reasons for recommendations	To implement a programme which allows suppliers to benefit from the cash flow advantages of early payment and in return the Council benefits from an early payment discount.

Resource Implications	<p>The initial fee of £30,000 would be funded from an existing budget within Corporate Resources. Oxygen Finance would then provide dedicated project management resource to implement the Early Payment Programme. (NEPO have created an Implementation Guide that is attached to this report).</p> <p>Any discounts generated from suppliers by this programme would then be split 60:40 whereby the Council will receive 60% of the discounts generated and Oxygen receive 40%.</p> <p>Oxygen have advised that they have interfaced with SAP at several other local authorities and typical costs elsewhere have been in the region of £10,000 - £20,000. This will be funded from an existing budget within Corporate Resources.</p> <p>There is also a minimum monthly service charge of £5,000 from six months of signing. This monthly service charge would only apply where Oxygen's share of discounts in the month is below that level – it is not anticipated that this will happen.</p> <p>From an initial review of our transparency information on payments to suppliers Oxygen Finance believe that, based on a total spend of £500m, it is estimated that up to £2.5m of savings could be achieved for Gloucestershire County Council over a 5-year term based on a 60:40 split of savings. The value of any savings will depend on the take up of this scheme – supplier participation in the scheme is discretionary so savings are difficult to estimate accurately.</p> <p>The effort required during the 4 to 6 month implementation phase is estimated to be equivalent to approximately 1 FTE – this will be met from existing resources within Corporate Resources.</p>
Background Documents	<p>None</p>
Statutory Authority	
Divisional Councillor(s)	<p>Countywide</p>
Officer	<p>Name: Paul Blacker, Director of Finance Tel. no: 01452 328999 Email: paul.blacker@gloucestershire.gov.uk</p>
Timeline	<ul style="list-style-type: none"> ▪ Approval is sought from Cabinet in December 2021 to proceed with the implementation of the Early Payment Programme. ▪ If approved, the Council will directly call off from the NEPO framework. ▪ The implementation plan will then be agreed and developed and typically this will be completed over a 4 to 6-month period. ▪ It is proposed therefore, that the target date for the Programme to be fully operational is the end of June 2022.

Background

1. Gloucestershire County Council has set out its ambitious plan in the 'Looking to the Future' strategy to achieve sustainable economic growth.
2. The implementation of a Supplier Early Payment Programme will assist with this objective by allowing suppliers to benefit from the cash flow advantages of early payment. This has the potential to inject significant amounts of liquidity into the local economy with additional revenue savings being generated by the Council which can be channelled into frontline services for the benefit of local residents.

What is an Early Payment Programme?

3. An Early Payment Programme will enable our external suppliers, who choose to participate, to be paid earlier than their contracted payments terms, in exchange for an early payment discount.
4. The Early Payment Programme works on the following principles:
 - Existing supplier payment terms can be replaced with incentivised, accelerated payment terms.
 - The acceleration is the difference between the contracted payment term and revised payment terms agreed under this programme.
 - Participating suppliers are paid early, typically between 10 and 20 days from the invoice receipt date in exchange for an early payment discount.
 - The early payment discount is calculated on each individual invoice and the discount is determined by actual early payment performance,
 - Suppliers are not required to sign-up or participate in the programme as it is entirely voluntary, and they will not be disadvantaged in any way by not signing up as their existing contract will remain in place and will continue to operate.
 - To support the local economy, small & micro local businesses will be paid ahead of contracted payment terms without charge. A 'FreePay' solution will be introduced, allowing eligible small & micro businesses in Gloucestershire to receive payment of invoices earlier than contracted terms, without any early payment discount applied. The criteria for FreePay eligibility will be determined by the Council during implementation but will be based on the Companies House definition of small businesses.

Why Oxygen Finance

5. Following an open OJEU tender process, NEPO awarded a single-supplier Regional Framework for the Implementation and Operation of an Early Payment Programme to Oxygen Finance Ltd (reference NEPO521). This framework is available to any local authority to call off and the procurement was led by South Tyneside Council on behalf of NEPO.
6. Oxygen Finance Ltd are a clear market leader with a significant local authority client base and a unique service offering. Approximately 50 other councils are already using their services, including several large Counties such as Cumbria, Warwickshire, Lancashire & Essex. They also have private sector and NHS clients.

Why is the proposal being put forward?

7. A Supplier Early Payment Programme in Gloucestershire is expected to yield a number of benefits to engaged suppliers, to the Council and to the wider economy.
8. Benefits for suppliers / local economy include:
 - Improved liquidity and better cash flow certainty.
 - Local small & micro businesses will be able to benefit from 'FreePay' at no cost.
 - Fully automated solution to reduce time and administrative effort.
9. Benefits for the Council include:
 - Contributes toward social value goals by improving cash flow for local businesses and enabling investment in the local economy.
 - Support with supply chain stability as the economy recovers from the Covid pandemic.
 - More efficient and effective Purchase to Pay (P2P) processes.
 - Encouragement for suppliers to help drive best practice (e.g. eInvoicing) and compliance (e.g. no PO/ no pay policy).
 - Improved management information regarding payment performance.
 - Risk mitigation against late payment and adherence to Government legislation and directives.
 - Over the medium term the programme will generate a net return (after implementation costs) that can be reinvested into the delivery of front-line services.

Options

10. **Do Nothing** – suppliers will continue to be paid in accordance with contractual payment terms and would not be given the opportunity to benefit from the improved cash flow available from opting into this scheme. The Council would not achieve the financial savings as a result of supplier discounts.
11. **Introduce a similar scheme without the input of an external firm** – the Council does not have the necessary skills, resources or experience to introduce such a programme without external assistance. Evidence from other Councils is that partnering with an external provider significantly increases the quality of the programme, maximises the savings that can be achieved and improves the speed of implementation.
12. **Use another firm to partner with** – the Council have been unable to identify any other supplier who has the knowledge and breadth of relevant experience that Oxygen can provide when implementing an Early Payment Programme.
13. The officer recommendation is to appoint Oxygen Finance Limited using the NEPO 521 Early Payment Services Framework. This is a single supplier framework that is available to all Local Authorities in the UK.

What changes to existing practices will be required?

14. To build a successful Early Payment programme, key success criteria have been identified and the Council would be contractually obliged to ensure certain practices are followed. Some of these may require a change to existing practices. The main principles include:
- The Programme should be offered to the widest possible population of suppliers.
 - To ensure that the programme treats all suppliers consistently, all new contracts should be agreed on a 30-day payment term (the Council's current standard terms) and suppliers seeking accelerated payment should only be given the opportunity if they participate in the early payment programme.
 - Early payment provisions will need to be embedded into all future tenders across the agreed categories.
 - To adopt a policy of no early payment, or similar, negotiations with suppliers will be undertaken by contract managers outside of this programme.
 - Payment terms in the finance system for existing and new contracts will need to be a standard 30-day term in line with relevant legislation (unless for genuine reasons the contract term for specifically identified contracts have to be shorter than the standard term).
 - Daily payment runs are maintained.
 - Invoice due date will be calculated from the date an invoice is received into the centralised invoice receipt point. This aligns with current legislation and prompt payment reporting requirements.
 - In line with the social value commitment, the Council will need to agree which suppliers are eligible for the 'FreePay' solution. (Definition being businesses with turnover below £5.6m / less than 50 employees, whose primary business base is within the geographical boundaries of Gloucestershire).

Implementation and Programme Management

15. Oxygen has guidance and templates for all project deliverables and the activities are split across four different workstreams. Each of the four workstreams require a lead from the Council and this typically involves representation from the following areas:
- Procurement / Category Management
 - Accounts Payable
 - Technology / Finance Systems
 - Communications
16. The programme then moves into the service management phase, where Oxygen Finance continue to support the running of programme for the contract term.
17. It is envisaged that the Programme would be implemented and managed through the established Procurement Transformation Board and would be governed by a steering group with representatives from both the Council & Oxygen Finance with regular meetings continue throughout the life of the contract to ensure continuous growth and improvement. Oxygen Finance will continue to offer support throughout the life of the contract to ensure continuous growth and improvement.

Financial Implications

18. Under the terms of the NEPO Framework, there are two gainshare arrangements that can be adopted with Oxygen Finance Ltd:
 - 50:50, whereby the discounts generated from suppliers are split on an equal basis between the Council & Oxygen – No upfront costs are payable.
 - 60:40, whereby the Council will receive 60% of the discounts generated and Oxygen receive 40% - A one off contribution of £50,000 is payable up front. (*Note – Oxygen have already been deployed by the Council to provide some process improvement support at a cost of £20,000 and it has been agreed that this will be deducted from the aforementioned £50,000 contribution).
19. The recommendation therefore is to opt for the 60:40 gainshare agreement.
20. There is also a minimum monthly service charge of £5,000 from six months of signing. This monthly service charge would only apply where Oxygen's share of discounts in the month is below that level.
21. The Council also need to consider any additional development / integration costs associated with interfacing to our financial system, SAP. Oxygen have advised that they have interfaced with SAP at several other local authorities and typical costs elsewhere have been in the region of £10,000 - £20,000.
22. Based on experience at Councils elsewhere Oxygen believe that a significant number of Gloucestershire suppliers will sign up to this Early Payment Programmes and that several of our existing suppliers have already signed up to this programme at other Councils.
23. From a review of our transparency information on payments to suppliers Oxygen Finance believe that, based on a total spend of £500 million, it is estimated that up to £500k per annum of bottom-line savings could be achieved for Gloucestershire County Council over a 5-year term of the proposed contract.
24. To ensure maximum take up there will need to be a Communication Strategy designed to promote the programme amongst the Council's existing supplier base outlining the detail of the scheme and encouraging participation – which is optional.

Risks

25. The programme requires input from both Oxygen and GCC employees so there is a risk that insufficient resources will be made available during the implementation phase which will impact of the quality and timeliness of the solution. This risk will be mitigated by the steering group that will develop and monitor a detailed implementation plan – this group will consist of Oxygen and GCC representatives.
26. Once implemented the scheme will be optional so the main risk is lack of take up which will result in a lower level of savings or the Council being charged £5k per

month. This risk can be mitigated by having an effective communication strategy to promote take up of the scheme.

Climate change implications

27. None

Equality implications

28. None

29. Has an Equalities Impact Assessment (EIA) been completed? No

Data Protection Impact Assessment (DPIA) implications

30. None

Social value implications

31. By giving suppliers the opportunity to improve their cash flow this programme can contribute to the development and post-COVID recovery of the local and national economy.

32. A '**FreePay**' solution will be introduced, allowing eligible small & micro businesses in Gloucestershire to receive payment of invoices earlier than contracted terms, without any early payment discount applied.

Consultation feedback

33. Suppliers will not be compelled to sign up to this programme so no consultation has taken place.