

DERBYSHIRE COUNTY COUNCIL

CABINET

21 November 2019

Joint Report of the Executive Director, Commissioning, Communities and Policy and the Director of Finance & ICT

**SUPPLIER EARLY PAYMENT DISCOUNT SCHEME
(CORPORATE SERVICES)**

1 Purpose of the Report

To provide details of the intention to procure an early payment discount scheme to be offered to suppliers of the Council who submit invoices for payment in respect of goods and services.

2 Information and Analysis

The scheme will enable the Council to achieve greater efficiencies around procurement activities and reduce ordering and invoice processing costs. It is also likely to provide a cost-reduction stream for re-investment into further process improvements helping to meet the Council's budget reduction targets. An added benefit is that it will allow us to develop better relationships with suppliers, improve their cash flow, contributing to a better trading position allowing benefits to be passed to their employees and the local economy.

Since the introduction of SAP in 2010 the Council has consistently improved its prompt payment to suppliers, now resulting in 93% of invoices being paid within 30 days. In order to achieve this level of performance numerous system and process improvements have taken place which have developed and improved the Council's ordering and payment cycles. These include greater use of purchase orders, scanned images in conjunction with electronic workflows, invoice consolidation and tolerances.

An early payment discount scheme works by our suppliers signing up to a voluntary agreement whereby they offer us a percentage discount, usually somewhere between 0.25% and 2% of invoice value in return for us making payment of their invoices sooner than the agreed contractual payment terms, this leads to payment generally within 10 to 20 days.

The Council's annual commercial spend is in the region of £450 million, so there is the potential to achieve further discounts beyond the estimated £200,000 already achieved by the current contractual negotiation processes. Initial headline spend figures would suggest a high potential rebate but not all

commercial spend will be in scope, such as supplier valuation payments, Adult Care and Childrens Services suppliers and utility company invoices. We currently maintain approximately 25,000 vendor accounts which include 15,000 commercial vendors.

Like many other Councils we have explored the possibility of carrying out a supplier engagement and discount scheme internally. Given the large volumes and dedicated on-going support required to achieve a successful scheme with no guarantee of generating additional income it would require a large upfront and continuing investment of internal resource. Its success could only be measured in the medium to long term, three to five years, which explains why public bodies have had little success and a reluctance to embark on such a scheme of their own accord.

Over recent years external third party providers have entered the market with various offerings. These providers would undertake the supplier engagement on our behalf and ensure the on-going systems and arrangements are in place to achieve a successful scheme for the supplier and the Council. It is the intention that a third party provider will be appointed from a non-DCC framework. In return for this they take a percentage of any new discounts achieved, usually in the region of around 50%. Each scheme varies with different focusses on different aspects of the supply chain with varying degrees of support and investment from the provider.

A number of other Councils and public bodies have entered into such arrangements and achieved successful outcomes. The main reason for the third party success is that they are focused on the task, and have developed an approach over time, and of course being in a position where they will only receive reward based upon results contributes to a positive outcome.

Cumbria County Council have had an early payment discount scheme in place for over 5 years and as a result are now achieving a £1million gross cost reduction stream along with improved supplier relationships and internal processes. Other Councils are achieving financial success although not perhaps on the same scale as Cumbria, as it will depend on the dynamics of each council's supplier base in relation to the services it provides in house and their current level of performance. The worse a payment function is currently the greater the ability to drive cost-reductions.

Given that Derbyshire has a prompt payment history of making the vast majority of payments within 30 days this may limit the potential for some suppliers to offer further discounts for earlier payment. Taking a cautious approach, based upon on an initial evaluation of our supplier spend and broad assumptions around take up, loss of cash flow and internal resource costs to facilitate and operate the scheme it is still envisaged that we could capture gross savings in the region of £100,000 each year.

The focus for Derbyshire would not be purely for financial gain as greater savings and efficiencies would be captured around improved processes and systems. An external provider would assist with this as a prerequisite of implementing and supporting an early payment discount scheme. Examples would include the availability of an invoice portal facility where suppliers would submit their invoices electronically which would enforce compliance around purchase orders and invoicing. This will in turn provide improved visibility of spend and identify areas for further focus.

It is expected that engagement with an external provider will give access to valuable experience and the impetus required to support and adopt a transformational change programme around procuring, ordering and payment processes. This approach concurs with the review and re-alignment of financial and procurement functions which is about to commence across the Council, and expected to deliver further savings and efficiencies for the whole organisation. It is accepted that any cultural change of this nature will take several years to reach maturity and achieve the desired efficiencies for both the contractor and the Council, so it is expected that any contractual arrangement will be a long term commitment as pay back on the investment will not begin to take place until the later years of the contract. It is therefore essential that all Departmental Officers and Teams are committed to the programme and the required operational changes that may need to be introduced.

The next step will be to engage further with the market to explore options and decide which third party provider products would be more compatible with the Council's current and future requirements. After which, in accordance with the Public Procurement Regulations 2015 and the Council's Financial Regulations and Procurement Protocols a business case will be prepared recommending entering into a contractual arrangement with a provider to begin engagement and implementation during 2020.

3 Financial Considerations

A Supplier Early Payment Discount Scheme is designed to generate a dedicated cost reduction stream for both the Council and the provider. It will take into account any internal resource costs and any upfront and/or on-going support provider costs. Based upon an initial evaluation it is anticipated that the Council will receive gross income in the region of £500,000 over a five year period with the majority of this generated in the latter years of the contractual arrangement. There is likely to be a minimum spend whichever scheme we sign up to and a portion of the rebate will be retained by the early payment provider as their payment.

Costs and income are not easily quantifiable as they will be dependent upon the success of the programme but the risk is low in that financial reward will be based upon results. Other financial benefits will be forthcoming as a result of improved internal processes and processing costs. Any additional resource

costs will be met from the discount income received with the surplus re-invested back into the process for further improvements.

4 Legal Considerations

As the procurement has not been included in the Departmental Service Plan for 2019-20, Cabinet approval to commence the procurement process is required. The procurement and the appointment of a third party provider must be conducted in accordance with the Public Procurement Regulations 2015 and the Council's Financial Regulations and Standing Orders in Relation to Contracts.

5 Social Value Considerations

A Supplier Early Payment Discount Scheme will provide added benefits to local business in that it will allow us to build better relationships with local suppliers, improve their cash flow, contributing to a better trading position which will be passed onto their employees and the local economy, benefitting the local community.

6 Other Considerations

In preparing this report the relevance of the following factors has been considered: prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

7 Background Papers

Papers held in Exchequer Section, Room 142, County Hall.

8 Key Decision

No.

9 Is it necessary to waive the call-in period?

No.

10 Officer's Recommendations

- (i) That Cabinet approves the procurement of an external third party provider to implement and deliver a supplier early payment discount scheme.
- (ii) That Cabinet approves the re-investment of supplier discount income for further process and system improvements, contributing to budget reduction targets.

- (iii) That Cabinet approves a transformational change programme around procuring, ordering and payment processes as part of a finance review across the Council.

EMMA ALEXANDER
Executive Director
Commissioning, Communities and Policy

PETER HANDFORD
Director of Finance & ICT