

<b>Part A - For General Release</b>	
<b>REPORT TO:</b>	<b>CABINET MEMBER FOR FINANCE AND TREASURY 19/01/2015</b>
<b>AGENDA ITEM:</b>	<b>Background document</b>
<b>SUBJECT:</b>	<b>Contract Award for Supplier Early Payment Programme</b>
<b>LEAD OFFICER:</b>	<b>Richard Simpson, Director of Finance and Assets and S151 Officer</b>
<b>CABINET MEMBER:</b>	<b>Cllr Hall Cabinet Member for Finance and Treasury</b>
<b>WARDS:</b>	<b>All</b>
<p><b>CORPORATE PRIORITY/POLICY CONTEXT:</b> This work aims to support the London Borough of Croydon's journey in undertaking significant and complex transformational change to build the future organisation that is streamlined, effective and efficient. It will provide a regular income stream over the contract term and improve transactional efficiency, process transparency and adherence to purchase to pay best practice.</p>	
<p><b>AMBITIOUS FOR CROYDON &amp; WHY ARE WE DOING THIS:</b></p> <p>Finance and Change- Using the Council's buying power it is possible to capitalise on its commercial relationships with suppliers by proposing a programme of value adding offers to third party providers, which will improve provider relationships and reduce transactional costs for the Council and providers.</p>	
<p><b>FINANCIAL IMPACT SUMMARY-</b> Payments to the provider are based on gainshare of the rebates from third party suppliers for early payment of invoices.</p>	
<p><b>KEY DECISION REFERENCE NO.:</b> 35/14/FT</p> <p>This is a Key Decision as defined in the Council's Constitution. The decision may be implemented from 1300 hours on the 5th working day after it is made, unless the decision is referred to the Scrutiny &amp; Strategic Overview Committee by the requisite number of Councillors.</p>	

## **1. RECOMMENDATIONS**

The Cabinet Member for Finance and Treasury, in consultation with the Leader of the Council is recommended to approve the award of a contract for the provision of a Supplier Early Payment Programme to Oxygen Finance Ltd for a term of 5 years at an initial total contract value of £1.5million, with delegated authority to the Director of Strategy, Commissioning Procurement and Performance to agree an increase to £2 million;

- 1.1 Note that in the event of such an increase being approved this will be reported to a subsequent meeting of Cabinet.

## **2. EXECUTIVE SUMMARY**

- 2.1 The purpose of this report is to recommend the award of a contract to the Oxygen Finance Ltd as per the terms detailed in this report.
- 2.2 The Early Payment Programme (EPP) works by offering to pay suppliers of goods and services to the Council in advance of their standard contracted payment terms of 30 days in return for a small percentage rebate of the invoiced amount.
- 2.3 The EPP will support the Councils economic regeneration objectives, by offering small suppliers the benefit of early payment without a rebate being taken from the invoiced amount.
- 2.4 The provider and Council officers have undertaken a detailed assessment to determine the income opportunity to run an EPP.
- 2.5 The EPP forms part of the commercial transformation programme, one of the key themes of the Croydon Challenge.
- 2.6 The EPP opportunity assessment undertaken by the provider and reviewed by the Council has identified that the Council can generate a possible net income of between £1.2 and £1.5 million over the five-year contract term.
- 2.7 There are also efficiency and process benefits through a focus on good practice of paying suppliers in a timely fashion and the implementation of e-invoicing saving time and cost to the Council and its third party suppliers.

### 3. DETAIL

- 3.1 The contract will be called off as detailed in paragraph 3.4 of this report
- 3.2 The procurement strategy was approved by the CCB on 06/10/2014- CCB ref CCB0942/14-15.
- 3.3 Following a full assessment , see paragraph 2.6, and presentation of the business case of the potential opportunity the steering group are satisfied that the Provider's offer meets the Councils requirements.

The business case has identified the following high-level opportunities:

- 3.3.1 Generate income through Early Payment Rebates (EPR) from suppliers in return for the Early Payment of their invoices.
  - 3.3.2 Deliver further efficiencies and improvements in Croydon's Purchase to Pay (P2P) processes and its supplier relationship management activities; see paragraphs 3.6 and 3.7 below.
- 3.4 The contract will be called off of a single supplier framework agreement let on behalf of UK Government by Northumberland Council. This is an OJEU compliant route to market and complies with the Councils Contracts and Tender Regulations.
  - 3.5 The commercial model for Croydon Council is based on the Net Programme Earnings as outlined in figure 1

Figure 1

<u>Net Programme Earnings</u>	
£0 - £1,500,000	
£1,500,000 - £3,000,000	
£3,000,000 +	

The contract also includes an opportunity for the Council to increase its gainshare through the combined spend through other London Councils, allowing Croydon to achieve the highest income possible over the life of the contract:

- 3.6 There are a number of additional business process benefits from adopting the EPP. It allows the Council to improve its transactional effectiveness when paying third party suppliers, improves supplier relationships and meets the Councils strategic objectives for economic development within the borough, as small suppliers can join the programme and benefit from early payment of their invoices without the need to offer the Council a rebate.
- 3.7 A further benefit is the option of implementing e-invoicing for suppliers who take part in the programme. This service is offered at no additional cost and can be extended to suppliers not signed up to the programme. Other Councils who have implemented the programme and other efficacy initiatives have been able to make resource savings in the longer term.

#### 4. CONSULTATION

- 4.1 Consultation with officers in Finance, Procurement and Legal with regard to the scope and future contract management / performance was undertaken. The outcome of which has been accounted for in the contract.

### 5 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

#### 5.1 Revenue and Capital consequences of report recommendations

	Current year	Medium Term Financial Strategy – 3 year forecast					
	2014/15	2015/16	2016/17	2017/18	Remainder	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	
<b>Revenue Budget available</b>							
Expenditure	-	-	-	-	-	-	
Income	-	-	-	-	-	-	
<b>Effect of decision from report</b>							
Expenditure	20	119	236	278	738	<b>1,391</b>	
Income	-	(135)	(498)	(588)	(1,563)	<b>(2,784)</b>	

<b>Remaining budget</b>	20	(16)	(262)	(310)	(825)	<b>(1,393)</b>		

5.2 The Revenue consequences shows the financial implication for the year, rather than the incremental impact which is usually shown in the table.

The Income is the total rebate received by the Council from Suppliers who sign up to the Early Payment Programme.

The Expenditure is made up of Oxygen’s service fee, based on agreed percentage gainshare, and costs for e-invoicing for suppliers who do not sign up to the Early Payment Programme.

5.3 The effect of the decision: The budget implications for the award of this contract show that net income of £1.393m over the course of the 5 year contract is likely.

5.4.Future Savings / Efficiencies: The anticipated net income generation for this contract over the five-year term is £1.2 and £1.5 million.

**(Approved by: Dianne Ellender Department Head of Finance)**

**6. COMMENTS OF THE COUNCIL SOLICITOR AND MONITORING OFFICER**

6.1 The Council Solicitor comments that there are no additional legal considerations beyond those detailed in the public report.

**(Approved by: Gabriel MacGregor, Head of Corporate Law on behalf of the Council Solicitor & Monitoring Officer)**

**7. HUMAN RESOURCES IMPACT**

7.1 There are no Human Resources impacts for this report

Approved by: Hansa Bharadia on behalf of the Director of Human Resources

**8. EQUALITIES IMPACT**

8.1 There are no equalities impacts arising from this report.

**9. ENVIRONMENTAL IMPACT**

9.1 There are no environmental impacts arising from this report.

**10. CRIME AND DISORDER REDUCTION IMPACT**

10.1 There are no crime and disorder impacts arising from this report

## **11. REASONS FOR RECOMMENDATIONS/PROPOSED DECISION**

11.1 The award of the contract to Oxygen Finance Ltd is recommended, as it will allow the Council to generate much needed income over the period of the contract. The contract will also facilitate significant process improvements in its finance function, improve relationships with its contracted suppliers and support economic regeneration.

11.2 If the EPP is more successful than forecast from the assessment, then there may be requirement to increase the value of the contract to a maximum of £2million. Due to the gainshare nature of the contract, any increase in the contract value will be more than offset by additional income.

## **12. OPTIONS CONSIDERED AND REJECTED**

12.1 The option not to award the contract to Oxygen Finance Ltd was considered. This option was rejected as the Council would miss the opportunity to realise significant income generation.

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### **BACKGROUND PAPERS - LOCAL GOVERNMENT ACT 1972**

Business Case – Exempt