

# Implementing an early payment programme: Should you go it alone?

OXYGEN  
FINANCE

INCOME. SOCIAL VALUE. EFFICIENCY.

With ongoing government cuts, councils are increasingly recognising the opportunities available to them from implementing an early payment programme and Heads of Procurement are being asked to evaluate whether to draw on the expertise of an outside provider or rely on internal resource.

Procurement heavyweight Terry Brewer has evaluated in detail the viability of implementing an early payment programme both through a self-build route and by partnering with a specialist early payment provider. Here Terry offers his own valuable insights into 6 key considerations that councils face when making this choice.

## A focus on value

In its simplest form, an early payment programme is just a means to capture the early payment discounts or rebates already being offered proactively by your suppliers. But there's a lot more on the table...

- Streamlining purchase-to-pay (P2P) makes councils more efficient and reduces the risk of late payment penalties under updated legislation. Done alongside an early payment programme, this offers an opportunity to expand the level of rebates that can be generated, by accelerating invoice approval times without forgoing control
- But why stop there? We all know that cash is king for your supply chain and hundreds of your suppliers would value early payment. Proactively engaging with suppliers to offer early payment across your supply chain yields a step change in the level of rebates that the council can realise and maximises social value creation
- Manual calculations can be onerous, even when reconciling a low volume of early payment rebates. Leveraging technology to automate and manage the rebate process can both free up staff time and deliver valuable insight into P2P performance that supercharges the drive for process improvement

### Terry Brewer, Harrow Council Divisional Director Commercial, Contracts and Procurement

Terry provides the leadership and management of commercial activity and procurement at Harrow Council and also oversees Procurement for Brent Council.

He currently Chairs the London Heads of Procurement Network and sits on the London Procurement Strategy Board. He is Deputy Chair of the Local Government Association's National Advisory Group for Procurement, Deputy Chair of the Society of Procurement Officers in Local Government (SOPO) and is the National Category Procurement lead for ICT.

Terry is a Fellow of the Chartered Institute of Purchasing and Supply and holds an MBA from the Open University.



# The challenges to an in-house approach to implementation

*“A third party provider, implementing a structured approach against a pre-agreed timeline, provides the impetus to deliver an early payment programme in a short timeframe.”*

## **Validating the business case with robust benchmarks**

“Without previous experience or extensive sampling to test suppliers’ appetite to offer rebates in exchange for early payment (which itself can muddy the waters before a programme is even launched), benchmarking and projecting results is a real challenge. Predicting numbers of suppliers signing up and even the number of invoices the council could pay early are a step into the unknown. These are critical variables in building a business case with enough confidence to put to senior management.”

## **Resourcing the supplier engagement activity in a lean organisation**

“The volume of work required, first in spend analysis and then engaging with and signing up the 100s of suppliers is not to be underestimated. Additionally, without the marketing materials to promote and actively sell early payment to suppliers in face-to-face meetings and via marketing campaigns, these need to be created from scratch. Meanwhile the “selling” required in this activity is not typically consistent with the skillset of staff available. Overall, it became clear to me that we could not find staff internally to handle this kind of labour-intensive activity given constrained resources.”

## **Avoiding the rebate management process becoming a labour-intensive, manual activity, by leveraging technology**

“Without capable and scalable rebate management technology, the council is left with the cumbersome and error-prone solution of setting up suppliers and managing rebate calculations and reconciliations manually. It makes it practically impossible to include suppliers requiring more complex rebate solutions but also brings with it huge challenges in terms of manual VAT and CIS reconciliation, debit note production and remittance advice adjustment. Additionally, without a specialised technology solution, visibility into P2P effectiveness, early payment achieved and rebates generated makes it hard to demonstrate the success of the programme and consequently to use this as a catalyst to ensure continued performance.”

*“Overall, it become clear to me that we could not find staff internally to handle this kind of labour-intensive activity given constrained resources.”*

## **Embedding and maintaining best practice in P2P throughout the council, to actually accelerate payments**

“Without specialised resource, bringing experience of P2P process mapping and the project management expertise to undertake the transformation required, it’s a challenge to achieve a step-change in payment speed and therefore maximise rebates. A third party provider, implementing a structured approach against a pre-agreed timeline, provides the impetus to deliver an early payment programme in a short timeframe. Going externally also ensures the latest developments are constantly built in over time and performance is maintained.”

## **Ensuring continued compliance with legislation and contracts**

“The different legal forms of supplier contract each need specific attention in the context of early payment- otherwise their nuances can exclude them from the scope of an early payment programme. For example, specialised approaches are required for Construction and Social Care suppliers. Likewise, embedding early payment terms into the council’s tendering and contracting activities needs expertise and legal guidance. A further challenge comes in ensuring compliance with the transparency requirements under Reg. 113 of the Public Contracts Regulations 2015, addressing late payment reporting. Each of these issues brings its own hurdles that councils can either address from scratch or can overcome by using third party experts.”

## **Managing external messaging to avoid the risk of negative perceptions**

“Messaging to suppliers needs to be really carefully managed, to clearly articulate programme benefits across the supply base, maximising uptake and avoiding negative supplier perceptions. We decided a tried and tested engagement approach, carefully crafted marketing materials and media, would be essential to implementing a successful early payment programme.”

## **In conclusion: What are the savings if you go it alone?**

“You might be able to avoid incurring charges from a third party early payment provider, but can you reliably generate the equivalent gross revenue by implementing internally? What is the overall cost comparison? Both revenues and costs form part of a robust business case and should be considered in unison, not in isolation. Third party providers who are prepared to link their earnings to revenues generated will obviously produce a more robust and reliable business case and if they can demonstrate rebate generation from existing programmes, this will also act as a more reliable guide.”