

# CIPFA CASE STUDY REPORT



**Oldham**  
Council

## Early Payment Programme



# About Oxygen Finance

Oxygen Finance is based on the core principle that spend is an organisation's greatest untapped asset.

Oxygen is an enabler for large corporates and public sector organisations, unlocking income from their spend and transforming procurement and accounts payable functions into revenue generators. Oxygen Finance's solution is different: it offers a complete, fully-resourced service to manage the programme on an industrial scale, underpinned by non-intrusive technology.

In addition to delivering a visible income stream, Oxygen Finance provides improved supplier cash flow and increased purchase-to-pay compliance, together with process efficiencies and enhanced management information.

## Background

Oldham Council is a metropolitan unitary local authority, with a total estimated population of 225,200<sup>1</sup>. Oldham is one of ten local authorities in the Greater Manchester region. It lies in the North East of Greater Manchester and covers an area of approximately 55 square miles (142 km sq). Oldham is continuing to improve, despite a challenging budget settlement. It is adopting new ways of working as a Co-operative Council - a process that is driving change to transform the Council's relationships with its residents, partners and communities. Oldham Council was awarded 'Most Improved Council' at the Local Government Chronicle Awards 2012.

Oxygen Finance is based on the core principle that spend is an organisation's greatest untapped asset. Oxygen is an enabler for corporate and public sector organisations, unlocking substantial income from their spend and transforming procurement and accounts payable functions into revenue generators. A key service is Oxygen's Early Payment Programme.

This case study has been prepared by the Chartered Institute of Public Finance and Accountancy ('CIPFA'), the world's only professional accountancy body to specialise in public services. We champion high performance in public services, translating our experience and insight into clear advice and practical services. This case study is based on information gathered through document review and interviews. The interviews were carried out with a cross section of stakeholders as follows:

### Oldham Council

- Charlie Parker, Chief Executive
- Emma Alexander, Executive Director Commercial Services (Project Executive Sponsor)
- Steven Mair, Borough Treasurer (Member of Project Steering Group)
- Steven Holden, Finance Manager (Financial Modeller/ Finance Systems Lead for the Project)
- Karen Lowes, Head of Procurement (Project Lead)
- Gaynor Gamble, Procurement Manager (Project Manager)

### Oxygen

- Ben Jackson, Chief Operating Officer
- Vicki Sloane, Project Manager

### Suppliers

- Dennis Eagle Ltd (manufacturer and supplier of refuse vehicles)
- Able Care (Oldham) Ltd (supplier of adult social care provision)

## The Challenge

Oldham has put great effort, drive and initiative into improving its financial management over the last few years, in the face of significant budget reductions arising from the growing public finance austerity programme. Oldham's savings reductions totalled £100 million from 2009/10 to 2012/13 and an additional £38 million of savings will still need to be made in order to meet the budget challenge for the next two years (2013-15).

Prompt payment is critical to the cash flow of every business, and especially to SMEs within the supply chain. The government estimates £37bn<sup>2</sup> of payments now being 'late', with many large organisations delaying payments routinely. Through the voluntary Prompt Payment Code, the Government is being urged to widen the scope of its campaign against late paying businesses to include public sector organisations. Over and above the issue of late payments, the current state of the economy is making trading conditions difficult for Oldham's suppliers. These factors include; reductions in Oldham's spend and that the traditional means of funding the cash flow gap (i.e. overdraft, bank loan etc.) are harder to obtain. Where funding is available, costs can be very high and often cannot be passed on to customers due to pressure to keep prices down.

**Roberto Moretti, Oxygen's CEO Europe** commented, "There is a lot of attention being made to the £37bn of late payments outstanding in the UK economy and no doubt the Government has undertaken detailed analysis of this. Our own analysis suggests that the GDP benefit of getting this liquidity into the UK economy could be in the region of 0.3% (coincidentally the same amount as the economy shrank in Q4 of 2012) with a resultant job increase of c180,000. By incentivising businesses to make early payment (through a rebate programme) then the benefits could potentially dwarf these numbers, substantial as they are."

Oldham is an innovator council; it has a desire to look at new ways of working and the transformation of service delivery across the Council.

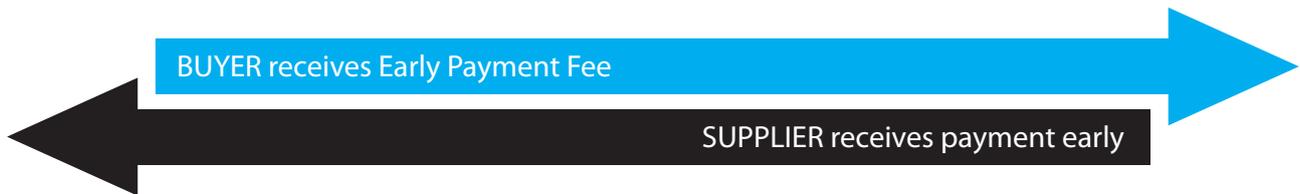
1 ONS Mid-2011 Population Estimates

2 Figure from BACS Payment Processing

So how is Oldham innovating to meet both its significant budget reductions and the corporate social responsibility of prompt payment to its suppliers?

## The Journey

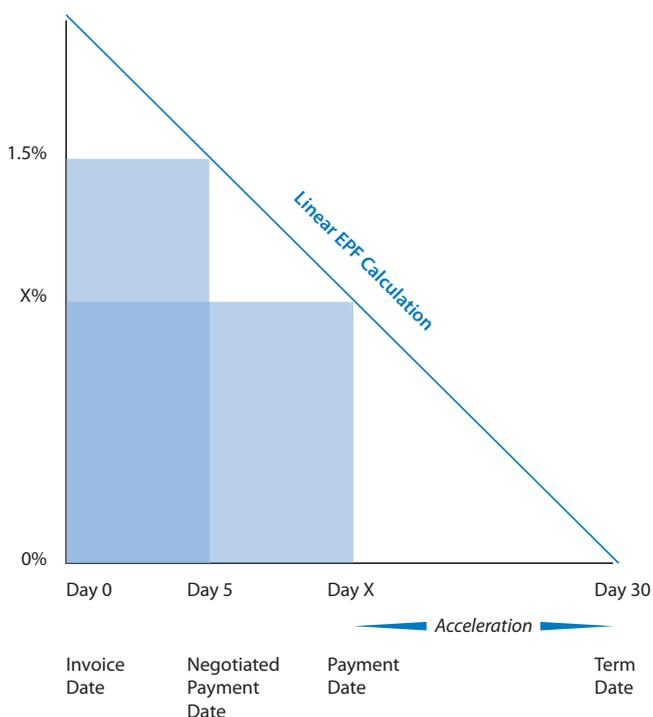
Oldham Council commenced its initial discussions with Oxygen Finance in early 2011, concerning Oxygen's Early Payment Programme ('EPP'). The EPP enables buyers (in this case Oldham) to accelerate payment (to Day 5 payment terms from invoice date, as opposed to typical 30-day term) to their suppliers in exchange for an Early Payment Fee ('EPF'). The EPF is deducted from the supplier invoice at the point of payment and repatriated to the buying organisation, providing a significant additional income stream.



The EPP is a voluntary programme, which allows suppliers to opt in or out. The added benefits of the EPP would be the improvement in compliance to Procure to Pay ('P2P') good practices (i.e. adherence to P2P policies, process acceleration and improvement) and additional management information, which would lead to efficiencies. Suppliers would benefit from improved cash flow in exchange for an EPF at an agreed rate. The suppliers in turn can pay their suppliers within the agreed payment terms, thereby improving the effect through each tier of the supply chain.

**Charlie Parker** commented, *"Businesses have told us cash flow is a problem, so with the Early Payment Programme we are attempting to help with that. We are putting money back into the local economy without taxpayers picking up the burden."*

Oldham had to make a 'buy or make' decision; whilst the concept was not new (early payment clauses in contracts and discounting in ERP's exist today). Oxygen's EPP solution was different; it was offered as a complete service to manage the programme on an industrial scale (fully resourced with capable technology underpinning the solution). There is a focus on payment performance (EPF is based on a sliding scale; the actual EPF percentage applied to each invoice will reflect how close to Day 5 the invoice is actually paid) and the EPF is repatriated to the Council.



**Emma Alexander** commented, *“Oldham was attracted by the EPF being a discrete income stream as opposed to traditional procurement savings, which can be less transparent to realise, measure and monitor.”*

Oxygen's EPP solution has had little exposure in the public sector (limited to NHS) and was untried and untested in local government. Oldham dismissed the 'make' option on the basis that, although the concept of accelerating payment to suppliers in exchange for an EPF is relatively simple, in reality the complexity of the assessment and implementation of the solution would be significant, requiring substantial resources and expertise to optimise outcomes.

Oldham considered all the associated risks and mitigations and came to the conclusion that it was worth going through the assessment phase to obtain a business case, in order to understand the financial and non-financial benefits for the Council and its suppliers.

**Steven Mair** commented, *“Oldham is an innovator council with a desire to look at new ideas. An influence on our decision was that an external partner would provide a key driver and focus for improving the P2P processes and generating a new income stream.”*

A decision was made to procure the work on behalf of the Association of Greater Manchester Authorities (AGMA)<sup>3</sup> and, following procurement rules, a notice was placed in the Official Journal of the European Union (‘OJEU’). To substantiate the uniqueness of Oxygen's EPP solution, only one other organisation responded to the OJEU notice. This organisation was discounted because their solution was based on the traditional factoring model.

**So what happened next?**

## The Discovery

The contract and commercial arrangements between Oldham and Oxygen were discussed and finalised in late 2011. Oldham's finance, procurement and legal staff were heavily involved in these discussions, which had the added complexity of involving Unity Partnership (a joint venture between Oldham Council and Mouchel, which delivers some aspects of the P2P process). Oxygen took a flexible approach with the commercial arrangements to ensure that all parties were satisfied and incentivised.

**Steven Mair** commented, *“With well-established treasury management practices, Oldham was in a position to finance the early payments, as opposed to third party financing being provided by banks.”*

As a consequence, this arrangement was reflected in Oldham's share of EPF income (in effect compensating Oldham for loss of investment income and potential additional borrowing costs). In addition, Oxygen and Oldham's percentage share of the EPF income was negotiated to ensure that the weighted average percentage of the EPF was low enough to incentive suppliers to sign up to the programme (i.e. better to get a smaller percentage of something as opposed to a bigger percentage of nothing). The percentage income share also reflected Oldham's decision to provide upfront investment into the solution.

Oxygen adopted a robust, methodical and effective approach to deliver the EPP solution. The programme was phased into sequential logical pieces of work; mobilise, assessment, implementation and operation. Each phase supported by work streams of activity; programme management, process and change, technology and supplier on-boarding<sup>4</sup>. Each of the work streams was allocated a project lead from Oxygen, who was supported by additional subject matter experts. The project leaders reported to a management group that comprised of project managers from Oxygen and Oldham and finance and procurement professionals. A steering group took overall responsibility for the project. Other project support was provided by Oldham's finance, IT, procurement and departmental staff, as well as Unity Partnership. Roles and responsibilities were clearly defined and communicated.

**Karen Lowes** commented, *“The calibre and level of Oxygen resources was very good in terms of knowledge and skills associated with P2P, procurement and project management.”*

<sup>3</sup> This meant that other authorities who are members of AGMA could sign up to using Oxygen's EPP solution without repeating the procurement process

<sup>4</sup> Supplier on-boarding is the process of getting existing suppliers transacting within the EPP

## The Solution

The EPP was untried and untested in local government, therefore the assessment phase was a crucial activity in deciding whether the project would progress to the implementation phase. If the business case did not stack up, then both parties could have walked away at that point. The assessment phase lasted 8 weeks and had the following objectives:

- To establish the 'As-Is' situation with regard to technology, existing relevant P2P processes (including process mapping and documentation), current payment and performance metrics, and the baseline financials;
- To define the 'To Be' solution incorporating, people, technology, processes and suppliers;
- To prove an attractive Business Case for Early Payment; and
- To deliver the assessment report covering solution, financials, plans, change (i.e. process re-engineering), risk assessments, resourcing and supplier on-boarding approach

A key part of the assessment phase was to estimate the spend that was in scope of the EPP (known as 'addressable spend') and assess the level of supplier appetite for the EPF. The estimated addressable spend was determined through a detailed interrogation of the total goods and services spend. In the context of local government not all spend is appropriate for the EPP solution and this necessitated the removal of non-addressable spend i.e. capital, schools, housing benefits, payments to individuals, payments to other public sector bodies, Oldham's housing association, and an adjustment for reductions in projected budget forecasts.

**Karen Lowes** commented, *"The key to the success or otherwise of the EPP solution would be Oldham suppliers' appetite for the programme and the benefits they gained from the programme (i.e. improved cash flow) in exchange for an EPF. Suppliers needed to be comfortable with the EPP concept."*

To gauge their appetite a sample of 67 suppliers were approached to determine the forecast uptake and the EPF they would be prepared to rebate from their invoices. Based on the supplier feedback (coupled with identification of suppliers without potential to accelerate their payment terms and suppliers on immediate payment terms), an assumed percentage of addressable spend of c51% that could be adopted within the EPP solution was estimated. This resulted in an estimated spend of £73m that was included in the EPP business case and a weighted average EPF of c1.5%. The business case estimated that the EPP would generate £2m<sup>5</sup> income for Oldham over a 4-year period. As a result it was envisaged that Oldham would make revenue savings resulting from the EPP solution and also make efficiency savings that together would help transform its P2P process whilst contributing realisable savings to the Authority.

In addition to the potential for a significant new income stream from the EPP, the assessment also identified a number of potential areas to improve Oldham's P2P compliance, process efficiency and management information, for example; process acceleration through a decrease in the number of retrospective purchase orders ('PO') raised, centralised receipt of invoices, reduction in how long it takes to approve and/or transfer an invoice for payment, increase in the number and amount (£) of invoices paid to agreed payment terms, and the introduction of e-invoicing. The assessment also highlighted that many of Oldham's invoices appeared not to have been paid on standard 30-day payment terms i.e. either earlier<sup>6</sup> or later than the standard 30-day payment terms for a number of reasons which needed review. Based on the evidence contained in the assessment report, Oldham elected to proceed with the implementation and operation of the EPP solution.

**So how did they do it?**

<sup>5</sup> Includes treasury return

<sup>6</sup> Suppliers being paid earlier were assessed on a case by case basis to determine whether the payment term could be altered i.e. was there a reason for the earlier payment date or was this an invoice processing error



There is no such thing as a perfect implementation of any complex product or solution and the EPP was no exception. The important factor was the way in which any problems were handled and resolved. Oxygen and Oldham took a proactive and pragmatic approach to resolving issues. For example, the capital spend was re-examined by Oldham's finance section and advice sought to include capital spend as addressable spend. The inclusion of capital spend would increase the potential addressable spend for the EPP significantly. Following advice, capital spend was included in addressable spend. This decision was taken on the basis that there are in effect two separate transactions; an invoice value for the work done and a treasury management transaction arising when the invoice gets paid. The EPF was classed as a treasury management transaction and hence can be classified as income.

The Construction Industry Scheme ('CIS') is a further example in which changes were required to ensure fit and proper processes were in place to provide the information for CIS compliance. The Oxygen technology is being developed to ensure that the correct information is transferred to Oldham. These changes are being carried out in consultation with HM Revenue and Customs ('HMRC').

**Gaynor Gamble** commented, *"Arguably the most important aspect of the implementation and operation of the EPP was supplier on-boarding. Oxygen had dedicated, skilled resources to contact existing suppliers."*

Supplier engagement was critical; in the context of local government there is no 'premium' of the EPP solution, in contrast to the private sector, where suppliers may not get paid due to a business ceasing trading. An initial approach was defined and agreed with the steering group and procurement team. The Oxygen resources had an understanding of the Council's commercial relationship with the suppliers (i.e. spend / term / T&C's / contract performance), educated suppliers on the benefits of the EPP, managed the change (through training, communications and support), and handed over to Oldham (business as usual) team(s). The programme caters for a variety of invoice durations i.e. ad-hoc, weekly, monthly. The only criteria for joining the programme was that the supplier has to be paid by BACS and agree to transact electronically in the future (opening the door for future e-invoicing initiatives).

Oxygen had meetings with each of Oldham's category managers to go through categories/ suppliers to validate supplier segmentation carried out in the assessment phase, set EPF targets for each category of supply and agree the approach by supplier. The initial approach to suppliers, based on explaining the concept of the EPP, was reassessed following a slower than expected take-up. The revised approach, based on a defined offer i.e. proposing an EPF percentage, had a positive impact on the number of suppliers joining the EPP. Suppliers were assured that joining the EPP was voluntary, there were no service charges/ joining fees and if they didn't join the programme, this would not affect their relationship with the Council.

Supplier briefing packs and a supplier agreement were created. The agreement is a separate (from the Oldham supply contract) contractual document between Oldham and the supplier. It covers details of the parties to the contract (Oldham and the supplier), operative provisions, EPF schedule and rules regarding the arrangement.

To date 132 suppliers have been on-boarded and are benefiting from improved cash flow. The supplier on-boarding recognises that each set of supplier circumstances will be different. Hence EPF percentages range up to 2.5%, with the negotiated percentage reflecting the benefit of the programme to the supplier. The actual EPF paid will depend on payment performance i.e. how many days early an invoice is actually paid (based on a sliding scale – see figure 2). Oxygen and Oldham are working to maximise EPFs within the agreed principles of the programme.

Supplier on-boarding knowledge and skills of Oxygen are being transferred to enable Oldham to discuss the EPP with new suppliers and agree the EPF percentage, thereby increasing the benefits for all parties. Indeed this is now part of the standard tendering approach.

The feedback from suppliers regarding the EPP has been positive, with little negative publicity.

**Able Care (Oldham) Ltd** commented, *"The EPP is non-invasive, with invoices raised as normal with no process or system changes being required; Oldham calculates the EPF and deducts this from the approved invoice amount and, along with the payment, the Council issues the supplier with a debit note to the value of the EPF. The sliding scale of the EPF percentage provides a real incentive to accelerate payments that benefits both Able Care and the Council."*

**Dennis Eagle Ltd** said, *"The EPP provides improved cash flow benefits to our business, particularly when there are certain pinch points during the year that create a strain on cash flow for a short period of time. The improved cash flow gives the business the ability to maintain our supplier payments and therefore deliver our products and services on time to customers, helping to keep within facilities of the banks (i.e. overdraft) and create an added focus on cash flow management – as opposed to the general focus being solely on profit."*

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The suppliers liked the non-financial benefits of the EPP solution, for example: the central contact point to send all invoices, which makes suppliers' administration easier and streamlines invoice processing. Whilst not seen as a primary benefit of the EPP, **Dennis Eagle** commented, *"The programme helps to reduce the level of bank overdraft to varying degrees."*

The EPP has had added benefits for Oldham over and above the projected significant income stream. For example management information has improved through Oxygen's development of a P2P dashboard and forum that give visibility and monitoring of process trends and compliance, and initiatives have been set up to improve and drive process efficiency i.e. e-invoicing.

The areas that are being monitored and improvements delivered include:

#### Process Acceleration (KPIs):

- **Retrospective PO** (The % (in both £ and volume) of POs with a PO date after the invoice date)<sup>8</sup>;
- **Approve PO** (based on agreed No PO No Pay exemptions being excluded from the data);
- **PO Coverage** (The % in both £ and volume) of spend for which a PO has been raised);
- **Transfer Invoice** (The number of days between the invoice issue date and the date the invoice is registered in Agresso);
- **Approve Invoice** (The number of days between the invoice registration date and the date the invoice is approved for payment); and
- **Payment to Term** (The % in both £ and volume) of invoices paid on or before the term date).

#### Process Improvement Initiatives Delivered:

- Implement a 'No PO, No Pay' policy for all identified spend;
- Rationalise supplier base;
- Central receipt of invoices;
- Daily procurement approvals;
- eInvoicing (to be delivered);
- EPP invoice prioritisation; and
- Reduce PO exemptions.

So what are the results and benefits achieved at Oldham so far?

## The Results

Oxygen and Oldham are working hard behind the scenes to optimise the discrete income stream, and compliance to P2P policies/procedures through process acceleration and improvements to ensure accuracy, efficiency and reliability.

Through a genuine acceleration of payment terms, additional income is being derived every day for Oldham, based on 132 on-boarded suppliers representing spend of c£30m (£73m target). The expectation is that additional income will be achieved through the EPF and adopting different approaches to P2P compliance which will produce cashable efficiencies, for example e-invoicing.

**Emma Alexander** commented, *"Oldham had tried to improve P2P processes in the past but with varying success. Oxygen has given us the impetus, and added capacity, skills and knowledge to improve P2P compliance and management information through a planned programme of work looking at end-to-end processes. We have progressed from not knowing what the P2P problems are to knowing what the problems are, through Oxygen exposing where the issues exist and making the required changes to achieve process acceleration and improvements."*

The EPP solution has raised the profile and focus of P2P processes across the Council and delivered structured user training on the more efficient and effective use of Agresso.

The focus on management information to drive compliance has provided tangible improvements for example, the increase in the % of spend for which a PO has been raised (by value) and the decrease in the number of days between the invoice issue date and the date the invoice is registered in Agresso.

<sup>8</sup> Based on agreed 'No PO No Pay' exemptions being excluded from the data

**The EPP solution has also generated other benefits for Oldham and its suppliers, for example:**

- The review and correction of supplier payment terms to comply with the contract terms. Oldham is now at the stage to enforce the contract terms;
- Increase supplier engagement through meeting to discuss the EPP and relaying any unconnected supplier concerns back to the relevant category manager to resolve;
- Dedicated email address where EPP invoices may be sent and dedicated PO Box for EPP invoices received by post leading to an increase in the percentage of invoices paid on or before the term date;
- Prioritised processing for EPP invoices, leading to an increase in the percentage of invoices paid on or before the term date;
- Council training to increase process awareness and compliance;
- Consolidate supplier base leading to benefits for administration, the EPP and value for money;
- Helps to contribute to Social Value<sup>9</sup> and Co-operative, Commissioning and Procurement<sup>10</sup> approach within Oldham's procurement processes;
- Permissions in Agresso set up properly to ensure process compliance; and
- Use of current suppliers in category lists leading to improved value for money.

**The median cost of processing an invoice<sup>11</sup> for different types of local authority is as follows.**

Unitary – Shire Authorities	£1.63
Unitary – London Metropolitan Authorities	£3.04
Unitary – Non-London Metropolitan Authorities	£1.82
Welsh Unitary Authorities	£1.68
Scottish Unitary Authorities	£2.16
All Unitary Authorities	£1.77
All County Authorities	£1.42
All District Authorities	£4.15

Oxygen estimates that they would eliminate 60%-70% of processing effort on each invoice through improvement initiatives such as eInvoicing.



Oldham would endorse the EPP solution in principle based on the smooth implementation and overall benefits of the EPP solution i.e. visible additional income stream, improved supplier cash flow, increased P2P compliance and improved management information.

**Charlie Parker** commented, *“The project went live on time and is estimated could save the Council £2m. We have also received praise and support from many of the participating suppliers and more are looking to join the programme. The Council is saving money while at the same time supporting our suppliers. The project team is now embarking on phase 2 looking to further optimise the P2P process, delivering efficiencies – and potentially more revenues – through more effective operations.”*

Oldham and Oxygen have proven a simple concept works, benefiting Oldham and its suppliers. Oxygen managed the complexity associated with implementation. The EPP solution was previously untried and untested in local government and therefore it has been a learning experience for both Oldham and Oxygen in terms of what can and cannot be achieved in a local authority. For example, local authorities may be in a position to finance the early payments themselves as is the case at Oldham, it has also identified which spend types appropriate for the EPP solution. Working together the combined team has also determined processes to comply with the CIS, allowing more spend to be captured within the programme. The team has also adopted approaches to supplier on-boarding.

**Emma Alexander** concluded, *“There is little doubt that other local authorities can gain the benefits of the solutions and pitfalls that Oldham and Oxygen came across, to realise the benefits of Oxygen's EPP solution.”* These solutions include a fully documented approach, methods and tools, aids and templates.

## How to get more information

For more information on the Early Payment Programme contact:

**Roberto Moretti, CEO Europe, Oxygen Finance**

e: [roberto.moretti@oxygen-finance.com](mailto:roberto.moretti@oxygen-finance.com) | t: 020 7355 7768

[www.oxygen-finance.com](http://www.oxygen-finance.com)

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9 Social value seeks to maximise the added social and economic benefits that Oldham can secure when they purchase goods and services

10 Co-operative Commissioning and Procurement is about getting the greatest possible economic and social return on every pound spent from the public purse in Oldham. This means looking beyond the price of each individual contract and looking at how Oldham can deliver extra benefits to the borough when Oldham procures goods and services.

11 Based on 2011-12 data from CIPFA's creditors benchmarking club. Cost includes the following core functions: supplier masterfile maintenance, input from feeder systems, payment, information & records, administration of CIS, input of invoices to creditors system, checks before payment, and checks and error handling after payment

## Contact Oxygen Finance

Contact Oxygen Finance to learn how our programmes can deliver tangible results for your organisation.

### Europe

Oxygen Finance Limited, 25 Park Lane, London W1K 1RA, UK

**Telephone:** +44 (0)207 355 7783 | **Email:** [info@oxygen-finance.com](mailto:info@oxygen-finance.com)

### Americas

Oxygen Finance Americas, 3701 Sacramento Street #436, San Francisco, CA 94118, USA

**Telephone:** +1 866 515 3860 | **Email:** [info@oxygen-finance.com](mailto:info@oxygen-finance.com)

[www.oxygen-finance.com](http://www.oxygen-finance.com)