

MANAGEMENT BOARD

PROMPT PAYMENT TARGETS

Note by the Director General of Resources

Purpose

1. To update the Management Board on the revised prompt payment target being adopted by government departments.

Action for the Board

2. The Board is invited to confirm that the House:
 - (i) Should align itself to the short-term prompt payment initiative being adopted by government departments;
 - (ii) Adopt an approach that achieves payment within 10 working days for around 80% of invoices at minimal cost and risk.

Consultation

3. The Departmental Business Managers have been consulted on these proposals.

Background

4. Revised guidance from the Department for Business, Enterprise and Regulatory Reform (see Appendix A) requires government organisations to pay suppliers, particularly Small and Medium Enterprises (SMEs), where practical within 10 working days of the receipt of an invoice. It further confirms that the standard terms and conditions for payments against government contracts remain at 30 days (both Houses also have a separate arrangement with the Metropolitan Police Service contract).

4. To safeguard the House from challenge and possible reputational damage, further work has been undertaken to review options for adopting a similar policy.

Current payment patterns

5. Existing practice ensures payments are made as close to the contractual due date as possible to make best use of public money. In national finance terms there would be a cost to the public purse of advancing payment (i.e. in effect the additional interest charge associated with accelerating public sector borrowing).

6. An analysis of payments made during November 2008 (see Appendix B) suggests that around 80% of invoices are authorised and available for payment within 10 working days. Advancing the payment of invoices would have a significant one-off impact on cash flow, which Appendix C suggests would be of the order of £0.7 million. The additional cost would appear against the net cash requirement only (i.e. it would not impact upon the resource outturn) and could easily be absorbed during 2008/09.

Options

7. Given the Government's willingness to bear an additional cost on the public purse in order to help businesses' cash flow, the House could accelerate payments in two ways:

(i) speeding up the approval process within departments and DR Accounts Payable; and/or

(ii) releasing payments from our system as soon as they are authorised rather than waiting until the contractual due date.

8. Option (i) has the advantage that departments approving payments are likely to have the best knowledge of the supplier or contractor - for example, whether they are an SME and/or have cash flow difficulties. Option (ii) has the advantage of being automatic and managed centrally in DR. It should be practical to meet the 10 day target in the majority of cases without the need to change departmental authorisation arrangements. But we do not hold information about the size of companies centrally nor of their current financial health, so applying this option would inevitably be somewhat indiscriminate, and would only provide a benefit where the authorisation process happened to have been completed in good time.

9. Given the temporary nature of the current government initiative we are not at this stage inclined to propose any more deep-rooted options such as amending the HAIS supplier database to adjust payment times for different suppliers depending on their size or need. This would be a resource intensive operation and carry the risk of introducing errors if the contract terms were inadvertently assigned to an incorrect period. This process would also have to be repeated to unwind any changes made at the end of the initiative, doubling the resource required and the associated risk.

Proposed way forward

10. I recommend that a combination of both Options (i) and (ii) are put in place at this point:

- first, BMDs should encourage authorisers in their departments to progress authorisations for any SMEs they can identify. Public sector organisations would be specifically excluded from this;
- secondly, authorised payments – other than to public sector organisations – would not be held back until the contracted due date.

Instead, Accounts Payable would override the default payment arrangements in HAIS to release authorised payments early.

A J Walker

Director General of Resources

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Appendix A

Prompt Payment Guidance for Public Sector Organisations**Prompt Payment - Guidance for Public Sector Organisations**

Date of Issue 12 December 2008

Version 1.0

Introduction

On the 8th October 2008 the Prime Minister committed Government organisations to speeding up the payments process, paying suppliers wherever possible within 10 days.

The standard terms and conditions in most HMG contracts and the legislative periods within the Late Payment of Commercial Debts (Interest) Act 1998 will remain at 30 days.

Key Points

There should be no reduction in the standard of financial control. Any revised processes should comply with the principles outlined in Managing Public Money, Box 4.4.

The aim of this HMG policy is to speed up cash flow from HMG to its suppliers, particularly SMEs. This means that:

- Efforts should be made to resolve all payment related disputes quickly. Suppliers should be informed as soon as possible if an invoice is in dispute and of the reason why a dispute has been raised.
- Although grants are excluded from the prompt payment initiative, organisations should ensure that all their payment processes, including those for grants, are as efficient as possible, particularly where SMEs are the recipients.
- Each organisation is responsible for communicating with its own suppliers to ensure that they understand the processes involved and know how to escalate issues if they arise.

Timing

The days will be counted from the date of receipt at the organisation's designated address.

Payment should arrive in the destination bank account on or before the 10th working day thereafter.

The target applies to valid invoices rendered to the correct address - organisations are responsible for making sure their own suppliers understand their criteria for these two conditions to be met.

Payment Methods

BACS should be the default method for making HMG payments to non-government suppliers.

GPC payments should be considered for low-value payments. Each organisation will need to conduct its own risk assessment to establish the limits within which GPC payments can be made. It should be noted that, although GPC payments are within two days on authorisation by the card issuer, there is no link to the date of receipt of an invoice and proving that the new payment target has been met is likely to be resource intensive.

Appendix B

**House of Commons
Transaction statistics for November 2008**

Transaction no count	2065
No. where 30 days prompt payment met	1972
% of total	95%
No. where 10 working days payment could have been met	1675
% of total	81%

Cash Flow impact of advancing payment due date

Month	Cash requirement - actual £'000	PLUS Value of payments accelerated into current month £'000	LESS Value of payments accelerated into preceding month £'000	Cash requirement - if 10 working day policy had been applied £'000	Net increase / (decrease) in cash requirement £'000
September	13,710	1,198	n/a	14,908	1,198
October	11,830	689	(1,198)	11,321	(509)
November	11,045	305	(689)	10,661	(384)
Average		731			

Source data: AGRESSO ledger - Payments made during final quarter 2008
Scenario: 10 working day payment policy adopted from 1st
September