

# Finance and Resources Committee

2.00pm, Wednesday 13 May 2015

## Review of Payment Terms for Council Suppliers and Contractors

Item number 7.13  
Report number  
Executive/routine  
Wards

### Executive summary

The Council has a statutory obligation to pay invoices within 30 days of receipt. However, in 2009 central government and the Scottish Government asked Councils to 'aspire' to make payments to small/medium sized organisations (SMEs) within 10 days. At the request of the Council Leader, from February 2009 the Council undertook to improve payment terms to meet this 10 day target, wherever possible, for all suppliers.

These arrangements have benefited the business community in terms of their cash flow. However, paying invoices early has an impact on the Council's borrowing costs in terms of lost interest. It also reduces the opportunity to negotiate early settlement discounts when tendering new contracts or negotiating terms with existing suppliers.

There is an outstanding audit requirement to review this practice which was intended as a temporary initiative to assist businesses during a recession. Since May 2013, around 300 large suppliers were moved to the statutory 30 day terms. However, a policy decision is now required to revert to original payment terms of 30 days for all suppliers, including SMEs. This will bring the Council into line with the majority of other Councils in Scotland.

### Links

Coalition pledges P30  
Council outcomes C025  
Single Outcome Agreement

## Review of Payment Terms for Council Suppliers and Contractors

### Recommendations

---

- 1.1 It is recommended that the Finance and Resources Committee:
  - 1.1.1 agrees to revert to original payment terms for paying all non-discount suppliers and contractors, which is 30 days from receipt of an invoice;
  - 1.1.2 notes that agreed early payment arrangements already in place under certain contracts will remain; and
  - 1.1.3 notes that early payments will still be made in an emergency.

### Background

---

- 2.1 Since February 2009, the City of Edinburgh Council has cooperated with requests from central and Scottish Governments and the Scottish Federation of Small Businesses to pay invoices within 10 days, where possible, instead of the statutory 30 days. This was intended as a temporary measure to provide assistance to small businesses during the recession, although this Council originally opted to apply the 10 day target to all suppliers. There is an outstanding audit requirement to review this practice.
- 2.2 In doing so, the financial impact of paying invoices within 10 days has to be considered. These arrangements have benefited the business community in terms of their cash flow. However, paying invoices early has an impact on the Council's borrowing costs in terms of both lost interest and available cash reserves. It also reduces the opportunity to negotiate early settlement discounts when tendering new contract terms or negotiating with existing suppliers.
- 2.3 The Scottish Government target is still to pay invoices within 10 working days of their receipt for SMEs. However, this is just a target rather than a legal obligation. We appear to be one of the few local authorities in Scotland which has taken direct steps to meet this 10 day target.
- 2.4 If the Council were to review and revise its current practice of paying SMEs within 10 days, this would not be very different from the practices adopted by other authorities. A 2013 Freedom of Information request showed that the average amongst authorities was 39% paid within 10 days. The figure for the City of Edinburgh Council at that time was 70%. Other large Councils such as Glasgow, Fife and Aberdeen have not moved away from the 30 day statutory payment terms.

## Main report

---

### **Current Payment Processing Arrangements**

- 3.1 Since May 2013, the Council has reverted to 30 day payment terms for around 300 large suppliers. However, to date around 50% of all supplier/contractor payments are still processed within 10 days.

### **Early Settlement Discounts**

- 3.2 The 10 day payment initiative was never intended to be permanent and businesses have had six years of cash flow benefits to date. If the Council returns to 30 day payment terms for all suppliers and contractors, businesses will still be able to negotiate early payment terms in return for a discount on the amount payable.

### **Impact on Businesses**

- 3.3 The Council pays 95% of invoices within 30 days and is consistently one of the top performing Councils in Scotland in this regard.
- 3.4 In recent years, there have been improvements to payment processes which have benefited suppliers/contractors and which will continue:
- around 94% of payments are made by BACS direct to suppliers' bank accounts replacing manual cheques;
  - introduction of daily BACS payment runs; and
  - facility for emergency payments.
- 3.5 The Council aims to move to electronic invoicing in the future which will provide further opportunities to streamline the payment process.

## Measures of success

---

- 4.1 Cash flow and financial benefits by removing the strain of the financial amounts paid early by this Council.
- 4.2 Increase in early settlement discounts received when new contracts are finalised or existing contracts are renegotiated.

## Financial impact

---

- 5.1 If the Council reverts to 30 day payment terms, the cash flow benefit to the Council is estimated at £100,000 a year based on current low interest rates.
- 5.2 There is also the opportunity to negotiate early payment discounts with suppliers in return for payment in less than 30 days. Currently, the amount of discounts is very low because the Council is paying SMEs in 10 days. The financial benefits

which could accrue to the Council from this change are difficult to quantify, especially as the cost of borrowing for businesses is currently very low. However, there is evidence to suggest that some suppliers will offer small discounts to authorities who are willing to pay earlier than the standard agreed period as it can assist with their cash flow demands. Given the significant sums which the Council spends annually, it is recommended that the Council be afforded the opportunity to achieve any possible value from any agreed early payment.

## **Risk, policy, compliance and governance impact**

---

- 6.1 By reverting to 30 day payment terms for all suppliers, the Council will continue to meet its statutory obligations.
- 6.2 There is a risk that small business will complain about the change in practice. This will be mitigated by offering to pay invoices in less than 30 days in return for a discount.
- 6.3 Communications will be issued to suppliers and their response will be managed closely.

## **Equalities impact**

---

- 7.1 There are no direct equalities impacts arising from this report.

## **Sustainability impact**

---

- 8.1 There are no direct sustainability implications arising from this report.

## **Consultation and engagement**

---

- 9.1 Senior staff in Finance, Commercial and Procurement Services, and Payment Services were consulted about the content of this report.

## **Background reading/external references**

---

None.

### **Alastair D Maclean**

Director of Corporate Governance

Contact: Sally Griffiths, HR, Payroll and Payments Manager

## Links

---

<b>Coalition pledges</b>	P30 – Continue to maintain a sound financial position including long-term financial planning.
<b>Council outcomes</b>	CO25 – The Council has efficient and effective services that deliver on objectives
<b>Single Outcome Agreement</b>	
<b>Appendices</b>	