Investigation into supply chain finance in the NHS

Department of Health & Social Care
Crown Commercial Service

REPORT

by the Comptroller and Auditor General

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What this investigation is about

1 This investigation examines Greensill Capital's involvement in the provision of two schemes to the NHS – firstly, supply chain finance – with particular focus on the Pharmacy Earlier Payment Scheme to pharmacy contractors; and secondly, the Employer Salary Advance Scheme which allowed NHS employees to access their earned salaries in advance of payday. The investigation also considers the impact of the failure of Greensill Capital in March 2021 on the government, taxpayers, and NHS organisations to which it provided its services.

2 The first scheme, known as the Pharmacy Earlier Payment Scheme (PEPS) was an arrangement administered by NHS Business Services Authority (NHSBSA) and contracted to Taulia Inc (a US based company – referred to as Taulia in this report) and its subcontractor Greensill Capital. PEPS enabled pharmacy contractors in England to be reimbursed for dispensing prescriptions earlier than the normal payment timetable by accessing private capital advanced by Greensill Capital, which Greensill Capital later collected from NHSBSA. The second scheme, known as Earnd and provided through Earnd UK (a company owned by Greensill Capital), was a salary advance scheme used by some NHS trusts in England. It allowed employees to receive a proportion of their earnings before payday without paying fees.

3 The failure of Greensill Capital in March 2021 has triggered several reviews and investigations.[1] On 16 April 2021 the Prime Minister commissioned Nigel Boardman to examine the development and use of supply chain finance by Greensill Capital in government.[2] This report was published on 22 July 2021 and recommendations were issued shortly afterwards.[3,4] The Treasury Select Committee held oral evidence sessions on 13 and 27 May 2021 and published a report on the lessons from Greensill Capital on 20 July 2021.[5] The Committee of Public Accounts held its own sessions on lessons from Greensill Capital on 22 April, 13 May and 22 July 2021. Witnesses at the evidence sessions included former Prime Minister, David Cameron and Lex Greensill, founder of Greensill Capital.

1 Comptroller and Auditor General, *Investigation into the British Business Bank's accreditation of Greensill Capital*, Session 2021-22, HC 301, National Audit Office, July 2021, paragraph 7. Available at: www.nao.org.uk/wp-content/uploads/2021/07/Investigation-into-the-British-Business-Banks-accreditation-of-Greensill-Capital.pdf

2 Cabinet Office, *Review into the Development and Use of Supply Chain Finance in Government – Terms of Reference*, April 2021. Available at: www.gov.uk/government/news/review-into-the-development-and-use-of-supply-chain-finance-in-government-terms-of-reference

3 Cabinet Office, *Review into the Development and Use of Supply Chain Finance (and Associated Schemes) in Government, Part 1: Report of the Facts*, July 2021. Available at: assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1018175/A_report_by_Nigel_Boardman_into_the_Development_and_Use_of_Supply_Chain_Finance__and_associated_schemes__related_to_Greensill_Capital_in_Government_-_Report_of_the_Facts.pdf

4 Cabinet Office, *Review into the Development and Use of Supply Chain Finance (and Associated Schemes) in Government, Part 2: Recommendations and Suggestions*, August 2021. Available at: assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1018176/A_report_by_Nigel_Boardman_into_the_Development_and_Use_of_Supply_Chain_Finance__and_associated_schemes__related_to_Greensill_Capital_in_Government_-_Recommendations_and_Suggestions.pdf

5 HC Treasury Committee, *Lessons from Greensill Capital,* Sixth Report of Session 2021-22, HC 151, July 2021. Available at: https://committees.parliament.uk/work/1193/lessons-from-greensill-capital/publications/

4 Following the hearings by the select committees, the Comptroller and Auditor General decided to examine Greensill Capital's involvement in supply chain finance for community pharmacies and NHS employees – given recent events and the Committee of Public Accounts' interest in this area.

5 Our audit approach has been to review documents and conduct interviews with government officials and senior members of NHS trusts, national bodies, and suppliers. The investigation concerns processes in England only; separate administrative arrangements apply in Northern Ireland, Scotland, and Wales.

6 The report does not seek to examine and report on the value for money of using supply chain finance or the two schemes.

Summary

7 Supply chain finance is a financial transaction whereby a lender finances a supplier on behalf of the customer. In this case, it allows the pharmacy (supplier) to be paid for prescriptions dispensed earlier than the NHS (customer) timescales in return for a fee or interest charge from the lender (Greensill Capital). Pharmacies paid interest and fees based on the value of their claim and the duration of financing. Similarly, for the salary advance scheme, Greensill Capital provided the employee with the salary advance on behalf of the NHS and claimed the money from the NHS following the monthly payroll run. While Greensill Capital did not charge for the salary advance scheme, some of its competitors, one of which has now taken over the Greensill Capital provision, charges both the employee and the employer.

8 The Pharmacy Earlier Payment Scheme (PEPS) was introduced by the Department of Health & Social Care (the Department) in 2013 in order to improve cashflow to community pharmacies for the reimbursement of dispensing prescriptions. The normal payment timetable for NHS Business Services Authority (NHSBSA) is to settle claims up to two months in arrears. Under PEPS, pharmacies were paid one month earlier than normal through loans provided initially by Citibank (until 2018), and then by Greensill Capital, as subcontractor to Taulia Inc (a US based company – referred to as Taulia in this report). NHSBSA's call-off contract with Taulia, and its subcontractor Greensill, was awarded following Taulia's appointment to a single supplier framework agreement (the Supplier Early Payment Solution) created by the Crown Commercial Service (CCS).[6]

9 In July 2020, under the existing NHSBSA contract, the scheme changed to providing funding to pharmacies up to two months earlier than the normal payment timetable and up to one month in advance of the current month's dispensing of prescriptions. The failure of Greensill Capital in March 2021 resulted in the Department stepping in to instruct NHSBSA to reimburse pharmacies. It therefore made payments in advance of need, which Managing Public Money states should be "exceptional and should only be considered if a good value for money case for the Exchequer can be made".[7] NHSBSA sought and received approval from the Department and HM Treasury to make these payments, to ensure pharmacy reimbursement was not adversely affected.

6 We have described advance payments to pharmacies as loans as this is more widely understood than the terms 'receivables' and 'account receivable discounts' suggested by Taulia and Citibank respectively.

7 HM Treasury, *Managing Public Money*, June 2021, paragraph A4.8.5.

10 Between 2019 and 2021, Greensill Capital actively marketed a salary advance scheme called 'Earnd' to NHS trust employers and other central government bodies, as a free service that would allow employees to draw down a proportion of their earnings before payday. Greensill Capital told employers that the service was free as part of its corporate social responsibility agenda, and it sought to secure the NHS as a customer before commercialising Earnd in the private sector. Some NHS trusts contracted directly with Greensill Capital because the service was free and appeared to align with initiatives to support employees' financial wellbeing, and a small proportion of employees used the service in these NHS trusts. The failure of Greensill Capital in March resulted in some NHS trusts ceasing to offer salary advances, and others switching to offer a paid service available from an alternative provider.

Key findings

Supply chain finance for community pharmacies

11 The government did not undertake a separate procurement exercise for the original PEPS, which ran for five years, as the operation of the scheme was awarded to Citibank under a pre-existing contract with the Government Banking Service. Citibank had pitched the idea of introducing a supply chain finance scheme to government in 2011, and Lex Greensill participated as a senior employee of Citibank. The original PEPS was awarded to Citibank under an existing contract with the Government Banking Service and ran from April 2013 until 2018 (paragraph 2.13).

12 Lex Greensill advised the government on supply chain finance from 2012 to March 2017 and also founded Greensill Capital, which was a subcontractor to Taulia as part of its November 2017 bid to provide supply chain finance services to the public sector. Greensill Capital was incorporated in June 2012. Lex Greensill was a government adviser for supply chain finance in the Cabinet Office between 2012 and 2015. He continued to provide market and pricing advice to government on supply chain finance. He attended a key meeting in March 2017 which considered the setting up of a government framework agreement for supply chain finance. Following this meeting, CCS told us it engaged with market participants to inform the strategy for the framework and tendered for a supplier early payment solutions framework in November 2017. CCS also told us that it first became aware that Greensill Capital had been appointed as a subcontractor to Taulia when Taulia submitted its bid, and that it did not consider Lex Greensill's previous engagement with government sufficient grounds under the regulations to reject Taulia's bid. We have seen no evidence that there was any discussion of a potential conflict of interest in relation to Greensill Capital being appointed as a subcontractor for supply chain finance services, about which Lex Greensill had earlier provided advice (paragraphs 1.8, 2.12, 2.16 and 2.21).

13 There is no evidence that the predicted benefits and savings from introducing supply chain finance into pharmacy reimbursement processes in 2013 were realised. The Department's business case was approved by HM Treasury in December 2012. Based on advice provided by Lex Greensill, the Department assumed that the NHS could achieve savings of £100 million per year in pharmaceutical supplies through supply chain finance. The Department is unable to provide evidence of realised benefits (paragraphs 2.6, 2.8, 2.9 and 2.17 to 2.19).

14 Greensill Capital supported Taulia's bid by providing supply chain financing for pharmacies, and by acting as Taulia's financial guarantor during the framework procurement, while Lex Greensill also intervened to support Taulia's legal correspondence when its bid was initially considered to have failed during the 2018 framework procurement process. Lex Greensill wrote to complain and threaten legal action when assessors excluded Taulia's bid on the grounds that it did not reach the minimum quality threshold score on a criterion about growth in the number of contracts and value of transactions. CCS rejected engagement with Lex Greensill on the grounds that it was inappropriate during a live procurement. CCS allowed for a standard 10-day standstill period to allow for challenges to the outcome of the process. No challenges were forthcoming and Taulia was eventually appointed as the sole supplier on the Supplier Early Payment Solutions framework (paragraphs 2.21 to 2.23 and Appendix Two).

15 The 2018 framework agreement related to two Supplier Early Payment Solutions – supply chain financing (which became PEPS) and 'dynamic discounting' which was used by local authorities. The selection of the successful bidder relied finally upon a price auction which attached a weighting to dynamic discounting that was almost double the weighting for the supply chain finance element. CCS expected £888 million combined transaction value through the framework in 2018-19, comprising PEPS spend of £828 million and £60 million of local authority dynamic discounting spend (a ratio of 93:7 in favour of PEPS). Despite the higher transaction value for supply chain finance the weighting applied to bids in the eAuction was 65:35 in favour of the dynamic discounting scheme, to incentivise bidders to offer the scheme to local authorities via the framework. At this final stage other criteria played no further role in the supplier selection (paragraphs 2.20, 2.22, 2.23 and Appendix Two).

16 Taulia's, and its subcontractor Greensill Capital's, price for the supply chain finance offering was higher than Citibank's bid, but its dynamic discounting charge was lower, resulting in Taulia winning the eAuction. The expected increase in new business for dynamic discounting never materialised. A cumulative transaction value of £3.32 billion of pharmacy loans passed through the framework during its lifetime (this represented a monthly capital requirement for the finance provider of about £144 million). CCS told us this was broadly in line with its expectations at the launch of the framework. Dynamic discounting used by local authorities, through the CCS framework, did not meet CCS's expectations and totalled £6.5 million (paragraphs 2.22, 2.23 and Appendix Two).

17 The anticipated levels of participation by community pharmacies in the scheme did not materialise. CCS and the Department estimated that 60% to 80% of pharmacies would enrol in PEPS by 2022-23. Fourteen percent of pharmacies participated in the scheme when Taulia and its subcontractor, Greensill Capital, took over PEPS in July 2018, and this remained broadly flat until June 2020. CCS charged a levy for the use of the framework to cover its operating costs and NHSBSA was also paid a share to cover development and administration costs. Taulia shared its fees with Greensill. CCS told us that the total charge incurred by participating pharmacies remained at the same level as under the previous scheme (paragraphs 2.18, 2.28 and Figures 5 and 6).

18 NHSBSA amended PEPS within the existing arrangements from July 2020 at the request of the Department. This amendment allowed pharmacies to obtain funds at the beginning of the month, prior to dispensing, thereby introducing a higher risk to the lender in the event of a pharmacy failing. The Department changed PEPS under the existing NHSBSA call-off contract in July 2020, providing access to loans with a duration of up to 60 days, which were issued up to one month before dispensing activity. The lender bore the additional risk of a pharmacy borrowing money at the start of the month but ceasing to trade before dispensing prescriptions in the month ahead. Following the change, participation increased by more than one-third and by March 2021 around one-fifth (2,170) of the community pharmacies in England were participants. The Department did not produce a business case for this change to PEPS because it considered that there were no taxpayer implications associated with the change to risk (paragraphs 2.25 to 2.28).

19 The combination of the collapse of Greensill Capital, and the need for government to step in to pay pharmacies, resulted in the Department making payments in advance of need under exceptional circumstances. NHSBSA learned that Greensill Capital could not fund the March 2021 payment to pharmacies and informed the Department. The Department instructed NHSBSA to make payments relating to predicted dispensing activity – resulting in payments being made to pharmacy contractors for prescriptions up to 30 days before dispensing. This is only permitted in exceptional circumstances under HM Treasury guidance set out in Managing Public Money. HM Treasury provided approval for these monthly payments, which resulted in an increase in cash requirements of £144 million. This represents an annual expense of around £144,000 based on current borrowing rates. Due to low participation and current low interest rates, the cost to taxpayers was minimal (paragraph 2.29 and Appendix Two).

20 No other finance provider was willing to take on the risks that Greensill Capital had assumed in its role as subcontractor, and the contract with Taulia was terminated by NHSBSA in June 2021 on instructions from the Department. Taulia was unable to find an alternative subcontractor willing to cover the risk of a pharmacy going bust after it had received payment for medicines yet to be dispensed (paragraph 2.30).

21 The Department intends to introduce a revised payment timetable for all pharmacies in November 2021, which will reduce the normal payment timetable by 20 days. Since March 2021 NHSBSA has continue to pre-fund pharmacies that were opted into PEPS. The last such payment will be made in October 2021, and from November 2021 pharmacies will start transitioning to a revised payment timetable that requires pharmacies to submit claims electronically by the 5th of the following month, in order to be reimbursed by NHSBSA in four working days (paragraph 2.31).

Salary advance schemes for NHS employees

22 Employer Salary Advance Schemes (ESAS, or salary advance schemes) are not regulated by the Financial Conduct Authority (FCA). These salary advance schemes are digital services that link an employer payroll process to an employee smartphone app to offer advances of accrued earnings from a finance provider before payday. They do not usually involve the provision of credit or other credit-related regulated activities and are not regulated by the FCA. In July 2020 the FCA published a statement setting out its views on the benefits and risks of salary advance schemes and how to mitigate these risks. In February 2021, the FCA published a report by Chris Woolard that recommended that scheme providers and employers develop a code of good practice for salary advance schemes. The FCA told us it planned no further interventions for the sector (Appendix Three).

23 The salary advance scheme was actively marketed to NHS trusts by Greensill Capital. From October 2019, Greensill Capital marketed its salary advance scheme, Earnd, to NHS trusts at zero cost to employers or employees. Representatives of Greensill Capital often attended NHS group meetings of trust leadership and senior management to pitch the service. Greensill Capital explained that providing a free alternative to high-cost loans for NHS employees was an act of corporate social responsibility (paragraphs 3.11 to 3.15).

24 Greensill Capital considered that a track record for Earnd with NHS employers would convince private sector employers to engage on a commercial basis. Greensill Capital also proposed other supply chain finance solutions to NHS trusts, but we are not aware of any NHS trusts that took this forward (paragraphs 3.16 and 3.17).

25 NHS trusts told us that they implemented the scheme on the basis that it would improve financial wellbeing for employees. We identified seven NHS trusts that implemented Earnd. These NHS trusts thought that salary advance schemes could help support employees' financial wellbeing. Greensill Capital's free service made it more attractive than alternatives and some said it was not their policy to charge employees for access to their salary (paragraphs 3.7, 3.14 and 3.30).

26 There was limited employee uptake of the schemes in the NHS trusts we spoke to. Our sample of NHS trusts indicated that between 1.3% and 10% of staff have used salary advance schemes; active users typically drew down between £25 and £84 per transaction; and the most common number of transactions per active user was two to five per month (paragraph 3.25 and Figure 9).

27 The Department's policy is that individual NHS trusts are responsible for deciding whether or not to offer salary advance schemes to their employees. The Department told us that its policy position on salary advance schemes is that their use is a matter for individual NHS trusts and for that reason it would not provide advice or guidance to NHS trusts on the schemes. The Department also stated that NHS trusts were best placed to decide how different pay flexibilities, such as salary advance schemes, fit with their overall reward strategies (paragraphs 3.9 and 3.10).

28 Government advised departments not to implement salary advance schemes, but this advice was not cascaded to the Department's arm's-length bodies (ALBs). Guidance issued by Civil Service Human Resources in December 2020 to accounting officers reminded them that novel financing arrangements, including salary advance schemes, required caution, and needed departmental accounting officer and HM Treasury approvals. We have seen evidence that some departments declined approaches by Greensill Capital to subscribe to its salary advance scheme, but it appears they may not all have cascaded this information to their ALBs. The Department told us that, owing to an oversight, it cascaded guidance to its ALBs only recently. It also told us that as NHS trusts are not ALBs of the Department it would not be normal practice to disseminate this advice to the NHS (paragraphs 3.31 to 3.33).

29 The failure of Greensill Capital resulted in some NHS trusts switching to a paid for salary advance scheme. When Greensill Capital failed in March 2021, the Earnd UK business (formerly FreeUp Finance Limited) ceased to operate. Wagestream, an existing market participant, which provides various wellbeing services (including Earned Wage Access, also known as salary advance) acquired Earnd Australia, along with global trademarks and intellectual property and the rights to approach Earnd's customers in the UK. Wagestream charges for its services – typically an implementation sum or annual software fee to the employer, as well as £1.75 per transaction which is either subsidised by the employer or paid by the employee. Some NHS trusts have switched to this provider, thereby incurring costs where previously they received the service for free (paragraphs 1.14, 3.34 and 3.35).