National Audit Office

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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Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

25 October 2021

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Investigations

We conduct investigations to establish the underlying facts in circumstances where concerns have been raised with us, or in response to intelligence that we have gathered through our wider work.

This investigation looks at Greensill Capital (UK) Limited's (Greensill Capital's) role in the provision of two schemes to the NHS – firstly, supply chain finance, with particular focus on the Pharmacy Earlier Payment Scheme; and secondly, the Employer Salary Advance Scheme. The investigation also looks at Greensill Capital's involvement and activities in the run-up to the contract award and the impact of the failure of the company in March 2021 on the NHS.

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The National Audit Office study team consisted of:

Liam Blanc, Jeremy Gostick, Rachel Kift and Lilian Ndianefo, under the direction of Matthew Rees and Robert White.

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

020 7798 7400

www.nao.org.uk

@NAOorguk

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).

Part One

Introduction

1.1 This section provides a timeline of key events and identifies the relevant organisations.

Timeline

1.2 **Figure 1** on pages 13 and 14 contains a timeline of key events relevant to this investigation and shows that Lex Greensill first advised government on supply chain finance 10 years ago and was appointed as a subcontractor to deliver the Pharmacy Earlier Payments Scheme (PEPS) in 2018. The timeline for Earnd spans a period of around 18 months. Appendix Two contains a more detailed timeline for the establishment of the Supplier Early Payment Solutions framework agreement.

Organisations relevant to this investigation

1.3 This investigation refers to some NHS trusts that implemented salary advance schemes. It also refers to various organisations including government departments, arm's-length bodies, and companies, as shown in **Figure 2** on page 15, and described below.

Government departments and arm's-length bodies

1.4 **The Department of Health & Social Care (the Department)** is responsible for health and social care and has overall oversight of NHS national bodies responsible for administering the scheme – including NHS Business Services Authority (NHSBSA) and other national bodies responsible for regulating NHS trusts. Monitor is the economic regulator for foundation trusts, the NHS Trust Development Authority oversees NHS trusts, and NHS Improvement (NHSI) is the umbrella body that oversees all NHS trusts, given it incorporates both of these statutory bodies. NHSI has been folded into NHS England (NHSE) in terms of its management structure and together both are referred to as NHSE&I.

Figure 1

Timeline of key events in the Pharmacy Earlier Payment Scheme (PEPS) and Earnd salary advance scheme

Supply chain finance has been used in the NHS since 2013. Greensill Capital's salary advance scheme was operated within the NHS for 18 months

Pharmacy Earlier Payment Scheme	Date	Employer Salary Advance Scheme
Appointment of Lex Greensill as senior adviser to government on supply chain finance.	Nov 2011	
Incorporation of Greensill Capital (UK) Limited.	Jul 2012	
Chief Secretary to the Treasury approves the Pharmacy Earlier Payment Scheme (PEPS), to be provided by Citibank through an existing Government Banking Service contract from April 2013, initially to 2016 (though eventually extended up to 2018).	Dec 2012	
Lex Greensill ceases to be supply chain finance adviser to the Cabinet Office.	Mar-2015	
Lex Greensill ceases to be Crown Representative.	Nov-2016	
Representatives of Cabinet Office and Department of Health & Social Care (the Department), advised by Lex Greensill, agreed to pursue the development of a framework for supply chain finance services.	Mar 2017	
Crown Commercial Service (CCS) publishes prior information notice, and commences an open procedure to establish a single supplier framework agreement to facilitate supply chain finance (including PEPS) and dynamic discounting services.	Jul 2017	
Legal correspondence from Taulia and Greensill Capital – complaining about the potential exclusion from the tender process.	Jan 2018	
Appointment of Taulia to a single supplier framework, and Greensill Capital as the key subcontractor.	Mar 2018	
Call-off contract between NHS Business Services Authorit (NHSBSA) and Taulia.	Apr 2018	
	May 2018	Incorporation of salary advance scheme provider – FreeUp Finance Limited. This company was later acquired by Greensill Capital.

Figure 1 *continued*

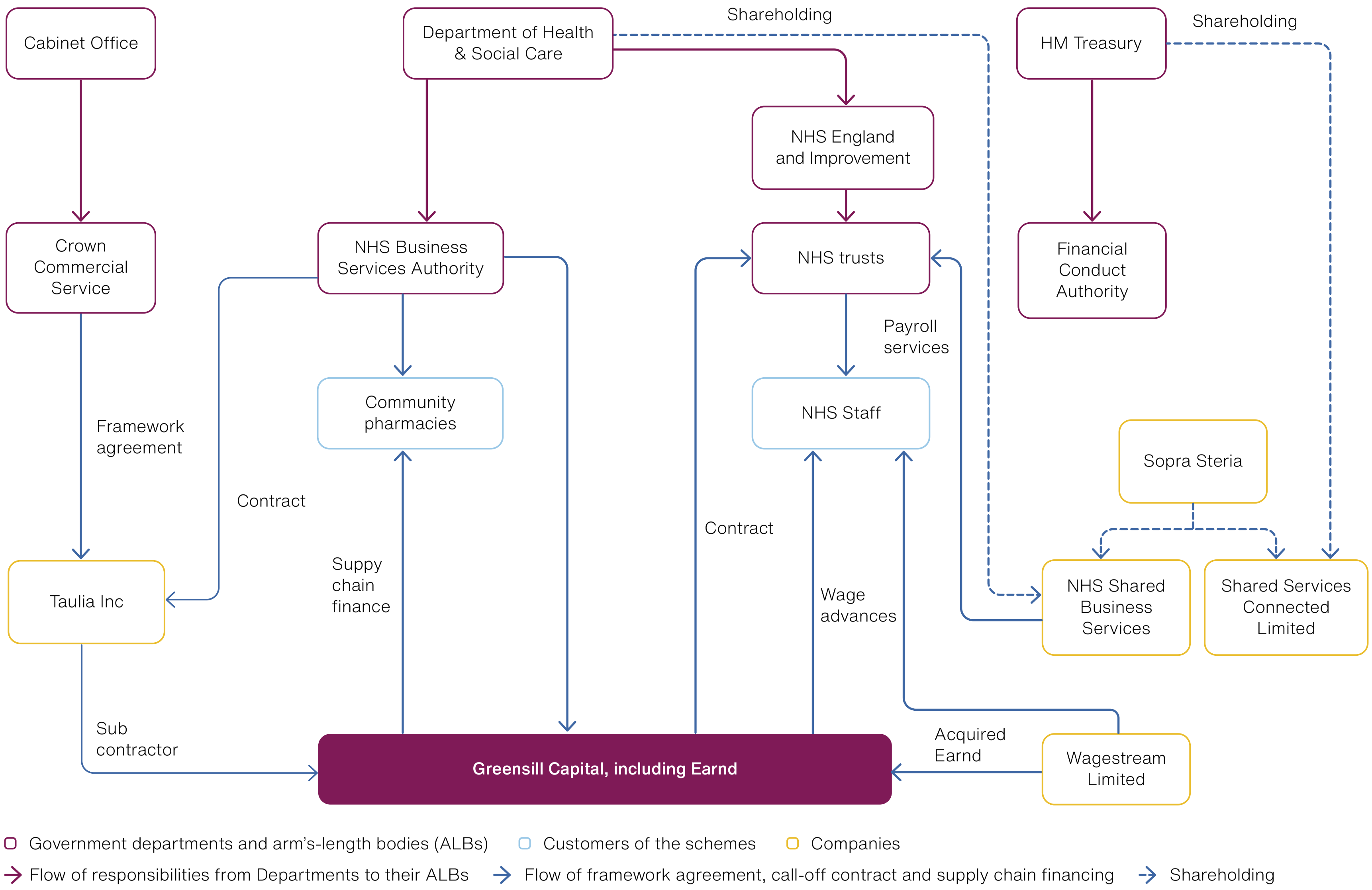
Timeline of key events in the Pharmacy Earlier Payment Scheme (PEPS) and Earnd salary advance scheme

Pharmacy Earlier Payment Scheme	Date	Employer Salary Advance Scheme
	Sep 2019	Greensill Capital meetings with Financial Conduct Authority (FCA), stating it had met with NHS leadership and the health minister to discuss offering salary advances in the NHS.
	Oct 2019	Greensill Capital acquires FreeUp Finance Limited and identified by Companies House as holding 75% or more of the new company.
	Feb 2020	A major London NHS trust pilots Greensill Capital's salary advance scheme.
	Apr 2020	FreeUp Finance Limited's name changed to Earnd (UK) Limited to align with the branding of Earnd Pty Ltd, a business operating in the same space as FreeUp but in Australia, which Greensill acquired in March 2020.
Pharmacy Earlier Payment Scheme arrangements change to provide around 60 days of credit, paid in advance of claim processing.	Jul 2020	FCA publishes views on salary advance schemes setting out benefits, risks, and mitigations.
CCS issues Prior Information Notice for a new supply chain finance framework agreement to commence in spring 2022.	Aug 2020	CCS publishes Prior Information Notice for supply chain finance framework including salary advance schemes.
	Nov 2020	Shared Services Connected Limited convenes 'customer board' to discuss supply chain finance in government.
	Dec 2020	HM Treasury writes to departments about salary advance schemes and establishes an approval process.
	Feb 2021	FCA publishes Woolard Review about unsecured credit.
Failure of Greensill Capital. At the request of the Department, NHSBSA assumes responsibility for funding community pharmacies issuing payments in advance, pending a new taxpayer funded arrangement.	Mar 2021	Failure of Greensill Capital. Earnd ceases to operate and Wagestream Limited acquires Earnd Australia, along with global trademarks and intellectual property and the rights to approach Earnd's customers in the UK.
NHSBSA terminates its call-off contract with Taulia.	Jun 2021	

Source: National Audit Office analysis

Figure 2
Organisations relevant to this investigation

A number of different departments, arm's-length bodies and companies were involved in the provision of supply chain finance in the NHS



Source: National Audit Office analysis

1.5 NHSBSA is an arm's-length body of the Department that delivers a range of services to the NHS in England and manages more than £35 billion of expenditure annually. NHSBSA reports that as a delivery organisation it is responsible for enacting the policy decisions of government. Amongst a range of platforms and services provided in support of the NHS and wider health and care system, it processes prescriptions, maintains the drug tariff, and collects data from invoices submitted by pharmacy contractors that are then used by the Department to run the medicines margin surveys which pays for NHS pharmaceutical services. NHSBSA also has responsibilities for paying NHS pensions and managing the commercial contract for the centralised Electronic Staff Record on behalf of most NHS employers in England.

1.6 The Cabinet Office is the government department responsible for central oversight of a range of commercial functions in government, including public procurement policy and the Crown Commercial Service (CCS). CCS is a trading fund and an executive agency of the Cabinet Office, which helps organisations across the public sector to purchase goods and services. In the year ended 31 March 2021, CCS's total income was £132.7 million, and expenditure was £76.9 million, delivering a surplus before other operating costs of £55.8 million (42%).

1.7 HM Treasury is the central finance department of government. It is the sponsor department for the Financial Conduct Authority (FCA). The FCA is responsible for regulation of consumer credit firms and authorisation of firms undertaking regulated activities.

Companies

1.8 Greensill Capital (UK) Limited was incorporated on 2 July 2012 and was part of a group of companies founded by Lex Greensill to provide supply chain finance. Other group companies include Greensill Capital (UK) Limited (company registration 08126173); Greensill Capital Management Company (UK) Limited (8037769); and Earnd (UK) Limited (11391391). Earnd (UK) Limited (Earnd) was founded on 31 May 2018 and acquired by Greensill Capital in October 2019 as part of its entry into the salary advance scheme market. Greensill Capital appointed administrators on 8 March 2021.

1.9 Taulia Inc is a US company headquartered in San Francisco and founded in 2009. It provides technology to support supply chain finance solutions. It was appointed by NHSBSA in 2018 to deliver PEPS via a call-off contract under the CCS framework agreement, for which Greensill Capital was its guarantor and key subcontractor, as the party providing funding for purchase of the pharmacy early payments.

1.10 Citibank is a financial institution headquartered in the US with international operations. Citibank provided supply chain finance for the pharmacy payment scheme between 2013 and 2018.

1.11 Sopra Steria is a French IT services company with a turnover of €4.3 billion (£3.7 billion) in 2020. In the first half of 2021 it generated 18% of group revenue in the UK and reported 8.7% operating profit margin. Sopra Steria is the largest shareholder in two companies that worked with Greensill Capital in relation to Earnd (identified in the following two paragraphs below). The UK government is also a shareholder of both.

1.12 NHS Shared Business Services Limited (NHS SBS) (Company Number 05280446), is a joint venture between the Department and Sopra Steria that was incorporated on 8 November 2004. Sopra Steria Limited holds 5,502 shares (50% plus one share) and the Secretary of State for Health owns 5,501 shares (50% less one share).[8] The Department is represented on the board of NHS SBS by a nominated company director. NHS SBS is the largest provider of payroll services to NHS trusts. In the year ended 31 December 2020, NHS SBS reported turnover of £83.2 million and operating profit of £9.5 million (11% profit margin).

1.13 Shared Services Connected Limited (SSCL) (Company Number 08460577) was incorporated on 25 March 2013. Sopra Steria holds 75% of the shares and the government holds 25%. The government is represented on the board of SSCL by a nominated company director. SSCL provides human resources, payroll and administration for government departments. In the year ended 31 December 2020, SSCL reported turnover of £219.3 million and operating profit of £26.8 million (12% profit margin). The National Audit Office has reported on the government's shared services strategy and referred to SSCL in its 2016 report.[9]

8 Originally this was a 50:50 joint venture between Xansa Limited and the Department. Following a series of mergers, Sopra Steria Limited became the commercial partner. On 1 January 2012, one additional share was issued to Sopra Steria Limited for a consideration of £3,600 (equivalent to a valuation of £39.6 million for 100% of the share capital of the company, before new money).

9 Comptroller and Auditor General, *Shared Service Centres*, 2016-17, HC 16, National Audit Office, May 2016. Available at: www.nao.org.uk/wp-content/uploads/2016/05/Shared-services-centres.pdf

1.14 Wagestream Limited (Company Number 11173225) provides financial services to its customers including budgeting and Earned Wage Access (or salary advance). The company entered the market in 2018 and lists a number of NHS employers on its website as customers. The company has raised capital from financial charities, impact funds and venture capital investors and reported net assets of £0.5 million at 31 December 2020. Its turnover is not available due to its size and, therefore, reporting exemptions. On 22 March 2021, after the appointment of Greensill Capital's administrators, Wagestream Limited acquired Earnd Australia – the original 'Earnd' business. It also paid £86,000 for the rights to use Earnd trademarks and intellectual property globally, including the UK, through the Earnd UK business, which was separately created through the acquisition by Greensill Capital of a UK provider – FreeUp Finance Limited. The deal also meant Wagestream was, along with any other provider, eligible to discuss its services with NHS trusts previously using the Earnd UK service.

Part Two

Supply chain finance for community pharmacies

2.1 This section sets out why and how government introduced supply chain finance into the process for reimbursing community pharmacies for dispensing NHS prescriptions in England in 2013. It also outlines how government established a framework agreement to deliver supply chain finance in 2018; made significant changes in 2020; and what happened when Greensill Capital failed in 2021.

The role of community pharmacies in the dispensing and reimbursement process for NHS prescriptions in England

2.2 Community pharmacies provide services to the NHS via the Community Pharmacy Contractual Framework (CPCF or Contractual Framework) – the subject of negotiations between the Department of Health & Social Care (the Department), NHS England & Improvement (NHSE&I), and the Pharmaceutical Services Negotiating Committee (PSNC), which represents pharmacies.[10] The number of community pharmacies in England increased by 10% between 2008-09 and 2018-19 to 11,539, and then declined by 3% to 11,236 by May 2021.[11] The PSNC estimated that NHS income represents 85% to 95% of turnover for a typical pharmacy.[12]

2.3 In 2019-20 the Contractual Framework included fees and allowances of £1.792 billion (paid by NHS England) and a medicine margin of £800 million (paid by clinical commissioning groups as part of drug costs). The margin is the difference between the purchase price paid by pharmacies for the items they dispense and the amount that they are reimbursed by NHS Business Services Authority (NHSBSA) and is reassessed annually using survey techniques. According to a Cost of Service Inquiry report produced by PricewaterhouseCoopers in July 2011, the target medicine margin was £500 million in 2009-10.[13]

2.4 NHSBSA is responsible for processing prescriptions and calculates the reimbursement due to community pharmacies for their dispensing activities, determined by the Drug Tariff. In 2020-21, NHSBSA processed more than 1 billion prescription items with a total price of £8.4 billion.

10 Department of Health & Social Care, The Community Pharmacy Contractual Framework for 2019/20 to 2023/24: supporting delivery for the NHS Long Term Plan, July 2019. Available at: www.gov.uk/government/publications/community-pharmacy-contractual-framework-2019-to-2024
11 Data for pharmacy contractors in May 2021.
12 Note: this represents a per-pharmacy average of £159,000 fees and allowances and £71,000 medicine margin, based on 11,236 pharmacies in May 2021.
13 PwC, *Cost of Service Inquiry for Community Pharmacy*, June 2011. Available at: https://psnc.org.uk/wp-content/uploads/2021/09/COSI-Report-FINAL.pdf

2.5 Around 90% of NHS prescription items are dispensed to patients who are exempt from charges. Pharmacies receive payment for all dispensed medicines through reimbursements by NHSBSA. All prescriptions dispensed during a particular month are submitted by the 5th of the following month. This equates to around 40 million prescription forms per month. NHSBSA takes 30 days to process, price and calculate the reimbursements due to each individual pharmacy and provides initial reimbursement for their NHS prescriptions.

2.6 Due to the time needed by NHSBSA to process all prescriptions, there is a time lag between pharmacy contractors purchasing and dispensing medicines to fulfil NHS prescriptions and the NHS reimbursing them for the dispensed medicines (see **Figure 3**). For example, for prescriptions which pharmacy contractors dispense in January, they receive an advance payment on, or around, 1 March. This advance payment is based on the average item value for prescriptions dispensed in December multiplied by the number of items dispensed in January. The true reimbursement for January's prescriptions is known at the end of March, when January's Drug Tariff prices are used. The difference between what was paid as an advance payment and what is the true reimbursement, is paid (or subtracted) from the payment made on, or around, 1 April (this is known as the reconciliation payment). Prior to 2013, NHSBSA made advance payment to pharmacies of 80% of what was estimated to be due for January at the beginning of March, plus a reconciling payment at the beginning of April representing the balance of what was owed for January. This meant that pharmacies required working capital to fund the remaining 20% that they owed to wholesale suppliers for a further month. Since 2013, the advance payment issued by NHSBSA has been set at 100%.

Introduction of a supply chain finance scheme for community pharmacies

What is supply chain finance?

2.7 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).

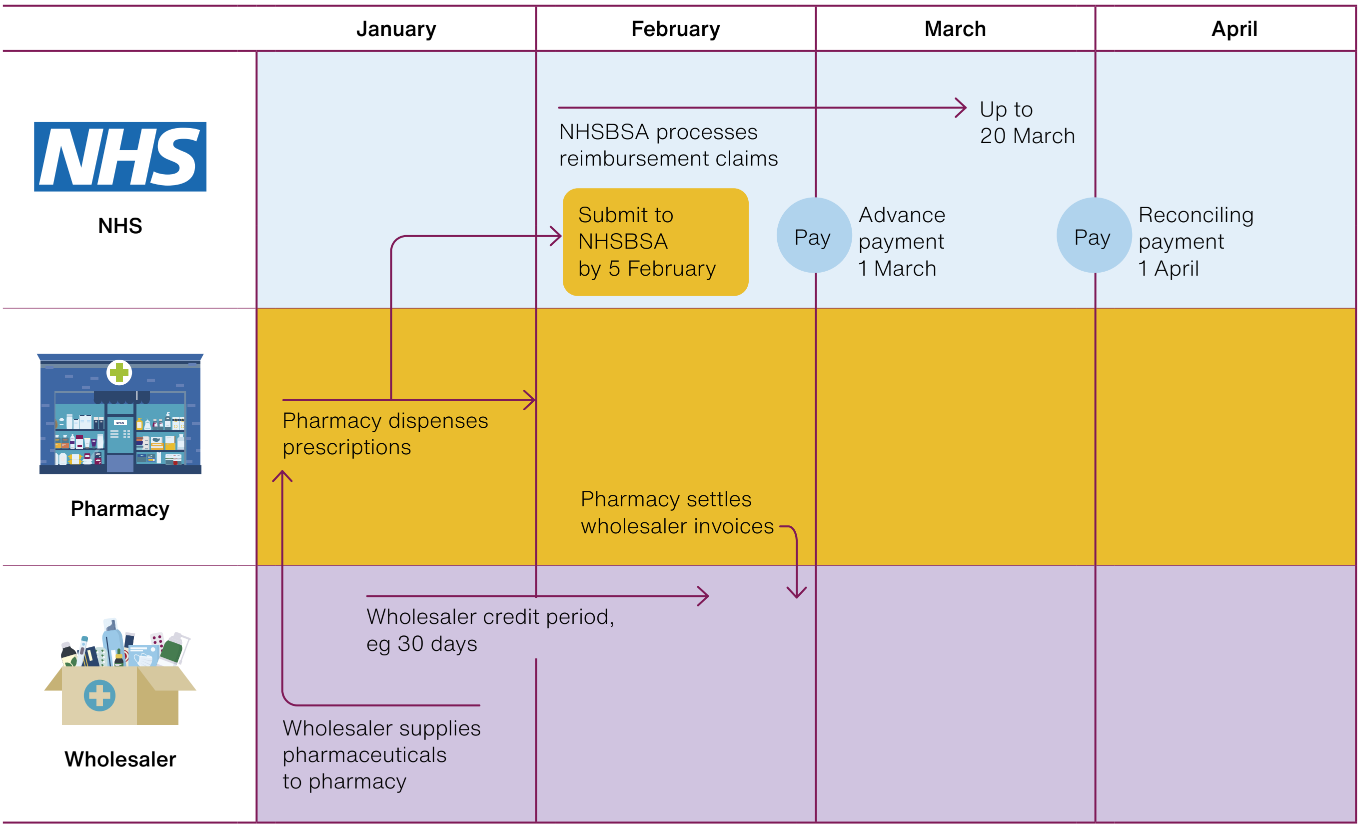
Rationale for introduction of supply chain finance into the pharmacy sector

2.8 In 2012, the Department finalised a two-part business case for changes to pharmacy payments. The first part was to increase the advance payment to pharmacies from 80% to 100% of estimated prescribing activity. According to the business case this "would remove the working capital requirement (currently estimated at £14.5m) and, subject to agreement, this element can then be removed from pharmacy remuneration". The second part of the business case was to introduce a voluntary supply chain finance scheme, using a private sector partner.

Figure 3

NHS normal timescales to reimburse pharmacies for prescriptions (up to November 2021)

Under the normal payment arrangements, a pharmacy would have to wait until 1 April to be fully reimbursed for the prescriptions it issued in January



Notes

1 This is the payment timetable for non-PEPS contractors.

2 For prescriptions dispensed in January, NHS Business Services Authority (NHSBSA) makes an advance payment in March based on the number of prescriptions in January and historic costs of items, with a reconciling payment made at the beginning of April.

Source: National Audit Office analysis of NHS Business Services Authority data

2.9 The Department considered that the introduction of supply chain finance could enable suppliers to secure earlier settlement discounts from their wholesalers, which would be reflected in the medicine margin survey and thereby deliver savings to the NHS. The Department noted that any such savings could not be directly differentiated from the impact of other procurement activity. Nevertheless, the Department's business case targeted annual savings of £100 million in pharmacy margins through early payment settlements with drug manufacturers, based on advice supplied by Lex Greensill in his capacity as government adviser. The Department told us that it is unable to quantify the savings from early payment scheme to pharmacies. HM Treasury remained unconvinced that there was market failure or that government needed to be involved but approved the business case in December 2012.

Participation of pharmacies in supply chain finance schemes between 2013 and 2021

2.10 Between April 2013, when the Pharmacy Earlier Payments Scheme (PEPS) was first introduced, and March 2021 when Greensill Capital collapsed, community pharmacies in England were able to opt into a supply chain finance scheme. **Figure 4** shows how the number of participating pharmacies and the average monthly value per pharmacy has changed since 2013. In 2020-21 the average monthly value of supply chain finance paid by Greensill Capital was £117 million, approximately £63,500 per pharmacy.

2.11 The distribution of participating pharmacies in 2021 shows that 'medium sized multiples' represent 48% of participants, whereas independents and small chains (of one to five pharmacies) were less involved (see **Figure 5** on page 24).

The setting up and operation of the Pharmacy Earlier Payment and Estimated Earlier Pharmacy Payment Schemes

The 2013 Pharmacy Earlier Payment Scheme

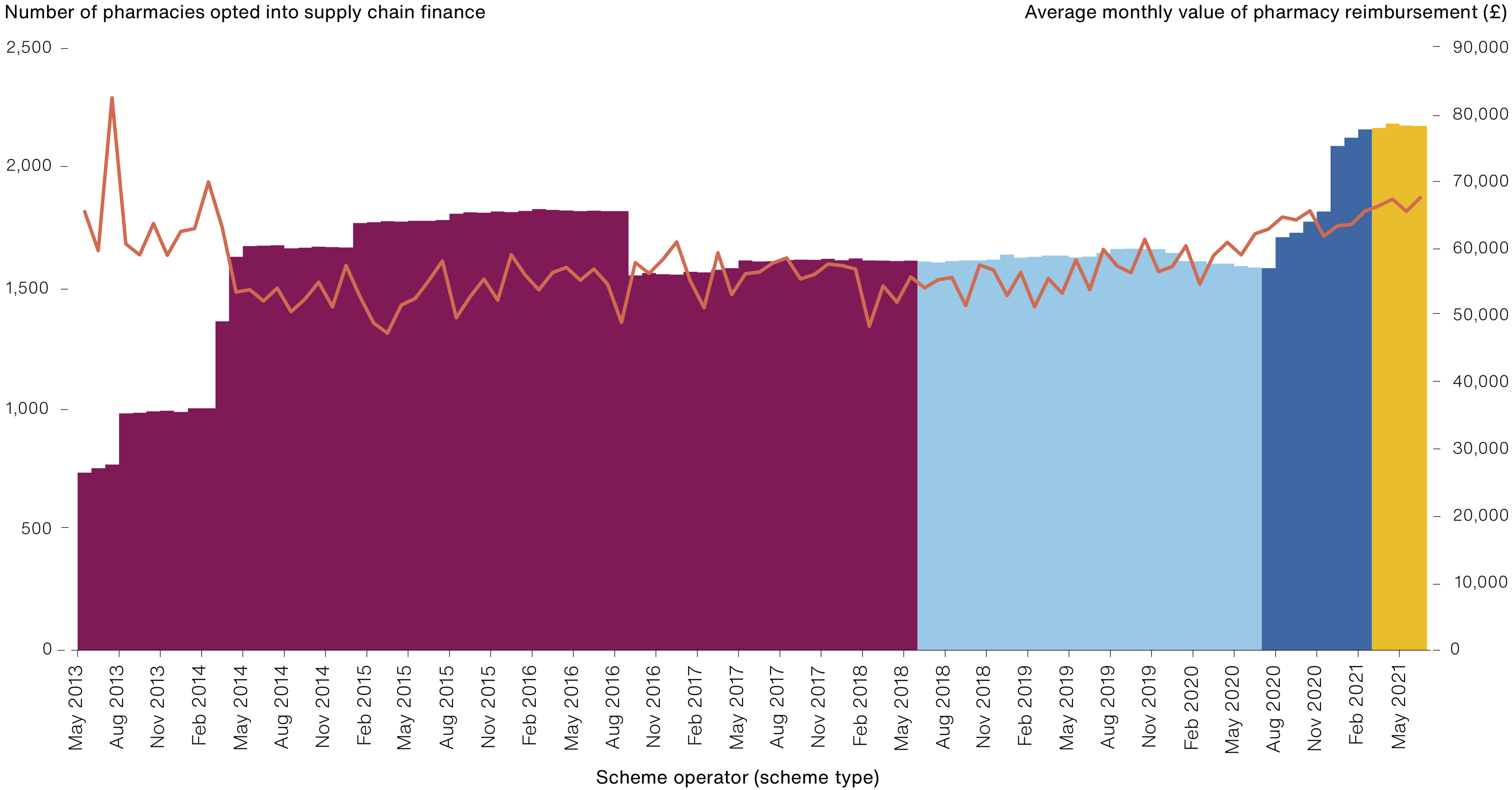
2.12 Citibank approached the Cabinet Office about the opportunities for using supply chain finance in government, including the NHS, on several occasions in 2010 and 2011. Lex Greensill was central to this pitch as a Citibank employee (at managing director level). Citibank told us that the approaches were unsuccessful. Lex Greensill left Citibank in 2011 and was appointed as supply chain finance adviser to government in November 2011. The government subsequently renewed its interest in supply chain finance and the NHSBSA board considered the use of supply chain finance in July 2012.

2.13 The government did not undertake a separate procurement for the PEPS, as the service would be provided from April 2013 through Citibank's existing sterling money transmission contract with the Government Banking Service. The agreement expired in March 2016 but was twice extended as the government considered what it should do next.

Figure 4

Community pharmacy participation in supply chain finance schemes 2013–2021

The average number of pharmacies that participated in supply chain finance schemes was around 1,600, with the number rising to more than 2,000 after the scheme was updated in July 2020



Notes

1 Citibank: 2013–2018.

2 Taulia and its subcontractor Greensill: 2018–2020 (Pharmacy Earlier Payment Scheme), 2020-21 (Estimated Earlier Pharmacy Payment Scheme).

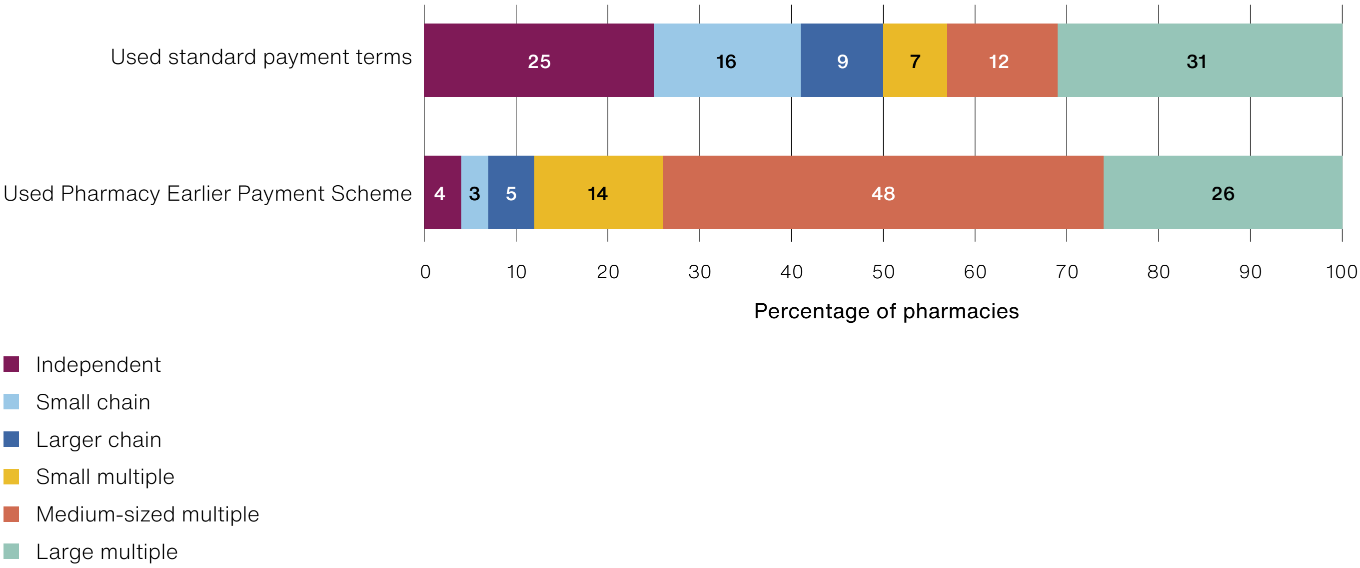
3 NHS Business Services Authority: 2021 to date.

Source: National Audit Office analysis of NHS Business Services Authority data

Figure 5

Analysis of pharmacy participation in the Pharmacy Earlier Payment Scheme (PEPS) by cohort

The major users of PEPS were medium and large multiples



Note

1 Number of branches per category of pharmacies: Independent: 1; small chain 2–5; larger chain 6–20; small multiple 21–100; medium sized multiple: 101–500; large multiple: 500+.

Source: Department of Health & Social Care

2.14 Following submission of valid claims by pharmacies, the 2013 PEPS made payments to pharmacies in two tranches. Depending on the date when pharmacies submitted their claims, payments were made either after eight days, or after 12 days compared with the normal payment cycle of 30 days, with pharmacies paying interest on the value of their claim over the 22 days of credit (see **Figure 6**) or 18 days of credit for the latter tranche. The number of pharmacies participating in PEPS stood at 1,615 (14% of all pharmacies) by the time the Citibank contract ended in June 2018.

Figure 6

Timing of prescription payments for participants in the Pharmacy Earlier Payment Scheme (PEPS) compared with the standard reimbursement process

Pharmacies that opted into PEPS received funds earlier than the normal payment timetable

Process	Duration of pharmacy financing and illustrative cost	Pharmacy	Role of NHSBSA	Lender
Normal payment terms for pharmacies outside early payment schemes	May require pharmacy to obtain up to 60 days of working capital, depending on wholesaler payment terms.	Submit prescriptions by 5th day of the month following dispensing. Receive 'advance' payment at start of month two. Receive reconciliation payment at start of month three.	Process claims for reimbursement of prescriptions dispensed by pharmacies. Reimburse the pharmacy via an advance payment based on estimated prescribing value. Complete review of claims and make reconciling adjustment.	N/A
Pharmacy Earlier Payment Scheme (PEPS)	22 days. £21.70 per £60,000 monthly dispensing activity. Equivalent to 0.04% of invoice value.[1]	Submit prescriptions by 5th day of the month following dispensing. Receive payment eight days later, some 22 days earlier than the normal timetable for the advance payment.	Process claims for reimbursement of prescriptions dispensed by pharmacies. Make advance payment and apply reconciling adjustments. Repay the finance provider.	Provide a loan to the pharmacy eight days after end of month one. Recover loan from NHSBSA at end of month two.
Estimated Earlier Pharmacy Payment Scheme (EEPPS)	60 days. £59.18 per £60,000 monthly dispensing activity. Equivalent to 0.1% of invoice value.[1]	Pharmacy receives payment on day one of month one for prescriptions to be dispensed during that month.	Process claims for reimbursement of prescriptions dispensed by pharmacies. Make advance payment and apply reconciling adjustments. Repay the finance provider.	Provide loan to pharmacy up to one month before dispensing. Recover loan from NHSBSA at end of month two.
Failure of Greensill: interim arrangements	60 days.	Pharmacy receives payment on day one of month one for prescriptions to be dispensed during that month.	Prepay pharmacy up to 30 days before dispensing. Other activities as above.	N/A
New arrangement from 1 November 2021[2]	N/A	Submit claims by 5th of the month following dispensing.	Issue advance payment four business days later, ie 20 days earlier than the normal payment timescale. Other activities as above.	N/A

Notes

1 Assumption: LIBOR (London Interbank Offered Rate; essentially the UK's base interest rate) of 0.1% applies in all examples.

2 A new payment timetable will be available to non-PEPS pharmacy contractors from November (for October prescriptions); and PEPS pharmacy contractors from December (for November prescriptions). The transitional arrangement applies to PEPS participant pharmacies until April 2022 (for March 2022 prescriptions).

Source: National Audit Office analysis of NHS Business Services Authority data and information from the Department of Health & Social Care

The 2018 Supplier Early Payment Solutions framework agreement

2.15 This section summarises key aspects of the appointment of Taulia and Greensill, as contractor and subcontractor respectively, for the continued provision of supply chain finance from April 2018 through the new Supplier Early Payment Solutions framework set up by the Crown Commercial Service (CCS). Appendix Two contains more details about the timeline of events.

Case for continuation of the PEPS through supply chain financing

2.16 At a meeting in March 2017, attended by the permanent secretary of the Cabinet Office, the government chief commercial officer, the crown representative for banking, the Department's director of group financial management, and Lex Greensill, it was agreed that CCS would create a framework agreement to be used by the whole public sector for supply chain finance, focusing initially on ensuring continuity for the existing PEPS scheme. Lex Greensill advised CCS about the market for supply chain finance and the maximum price that suppliers would be able to charge under the framework agreement. CCS told us that it communicated the maximum price to all suppliers and engaged with numerous other market participants to inform its approach to the market as is standard practice in public procurement. Lex Greensill played no further part in the approach to the procurement.

2.17 The business case outlined the role that supply chain finance could play in government's payment policy and the ambitions to pay suppliers faster, particularly small and medium-sized enterprises (SMEs). It was noted in the business case that the 2013 pharmacy scheme had not proved particularly successful in encouraging pharmacies categorised as SMEs to participate. The business case for the 2017 scheme emphasised that the scheme would be particularly beneficial for SMEs and would increase SME provision of pharmacy services. Government prompt payment policy was updated subsequently in November 2018 to state that the government commitment is to pay 90% of undisputed and valid invoices from SMEs within five days. Figure 5 shows to what extent SMEs have taken part in the schemes.

2.18 The business case predicted that the total value of transactions via the framework agreement would reach £5.5 billion by 2022-23. Over this period, CCS estimated that the proportion of pharmacy payments made through the scheme would increase from around 10% to 60%, starting from a base of £828 million. CCS considered its estimate to be more realistic than the 80% participation rate estimated by the Department.

2.19 CCS, as a trading fund, is required to be self-funding. It derives its income through levies on suppliers in proportion to the value of the business transacted through its frameworks. The framework also introduced a payment for NHSBSA, of equivalent value to the CCS levy. The total charged by CCS and NHSBSA was set such that the charge on pharmacies was no higher relative to the 2013 scheme. Over the three years that the scheme ran from 2018, the framework generated £280,000 of income for CCS.

Structure of the framework

2.20 The CCS framework consisted of two types of Supplier Early Payment Solutions, both to be provided by the same provider:

- 'supply chain finance'. The framework supplier would pay suppliers participating in a relevant scheme (in this case pharmacies) slightly less than the value of their invoice to reflect payment being made earlier than the contracted term. The public sector buyer would subsequently pay the framework supplier 100% of the invoice value; and
- 'dynamic discounting' schemes used in local government which allowed local authorities to pay certain invoices earlier in return for a discount. Local authorities were already operating such schemes. CCS' market engagement indicated that there were good prospects for growth in this area. The supplier would provide the technological solution but would not be involved in financing.

Selection of Taulia (and its subcontractor Greensill Capital) as supplier for the Supplier Early Payment Solutions framework agreement

2.21 Three companies bid to be the framework supplier. One was discarded on failure to meet minimum quality grounds, leaving Citibank and Taulia. CCS's commercial finance accountant's evaluation of Taulia's Dun & Bradstreet score and a review of its accounts required it to nominate a financial guarantor. Taulia nominated Greensill Capital, which was identified as Taulia's key subcontractor in its bid. CCS's assessors initially excluded Taulia from the bidding in January 2018 in line with the published evaluation criteria, as they were concerned about what Taulia said in its bid response about its ability to grow the number of businesses involved in the scheme. Taulia, and Greensill Capital in its role as an identified key subcontractor, protested to CCS. Following a review, and having sought legal advice, CCS asked both bidders to clarify their responses and appointed a new assessment panel, which reinstated Taulia in the competition.

2.22 At the time of preparing its final business case, CCS expected £888 million combined transaction value through the framework in 2018-19, comprising supply chain finance (including PEPS) spend of £828 million and £60 million of dynamic discounting spend (a ratio of 93:7 in favour of supply chain finance). The supplier bids were initially assessed on their quality. Those who met or exceeded minimum quality thresholds were then invited to a price auction weighted 65:35 in favour of dynamic discounting (a weighting to dynamic discounting that was almost double the weighting for supply chain finance). CCS told us that while it was possible to set the maximum charge that a supplier would pay through supply chain finance, it was not possible to do so under dynamic discounting without impacting the growth that CCS foresaw.

2.23 Citibank offered a lower charge to pharmacies for the operation of the supply chain finance, but this was offset by Taulia's lower charge for operation of the dynamic discounting scheme (see Appendix Two for details). Following the standard 10-day standstill period to allow for challenges to the procurement process, during which none were forthcoming, CCS appointed Taulia to the framework in March 2018, and NHSBSA placed a call-off contract under the framework for the delivery of PEPS in April 2018. Although the dynamic discounting scheme was given significantly more weight in the evaluation of bids, only around £6.5 million has been spent to date through that part of the framework, compared with £3.32 billion through PEPS. CCS told us that the weighting in the evaluation of bids was because its market engagement indicated that there was an opportunity for growth in dynamic discounting from the wider public sector.

2.24 NHSBSA told us that it soon realised that while Taulia's technology complied with the bidding requirements, it was not suited to NHSBSA's needs, and that Taulia therefore functioned only to communicate with eligible pharmacies regarding enrolment in the PEPS programme, including the provision of an informational website, and to provide some programme management. NHSBSA provided payment instructions directly to Greensill Capital, who in turn financed the payments to community pharmacies. Greensill was settled by NHSBSA under the contract arrangements when the obligation for payment was due.

Changes to the scheme from July 2020

2.25 In July 2020 PEPS was changed significantly to provide financing to pharmacies before their dispensing activity for the month, based on their prior 12 months' activity. This provided financing for a period of up to 60 days. The July 2020 PEPS was often referred to by the administering body (NHSBSA) as the Estimated Earlier Pharmacy Payments Scheme (EEPPS) to differentiate it from the 2013 PEPS and to reflect that the early payments were estimated. The change was made within the existing contract and no Departmental business case was produced to support the change. The Department told us that Greensill Capital had initially proposed such arrangements soon after the call-off contract commenced. The Department stated that there were no taxpayer considerations attached to this change to the scheme because it related to transactions between independent businesses. The Department told us that as there was no funding required from it, there was no further business case required.

2.26 Figure 6 shows the comparison between the standard method of reimbursing prescriptions, which has been used for more than 80% of pharmacies throughout the period covered in this report, and the arrangements for participants in the PEPS and EEPPS schemes and illustrative costs.

2.27 The earlier access to cash lengthened the duration of financing from 22 to 60 days, and therefore increased interest and charges paid by participating pharmacies. The arrangement introduced a risk to the lender that a pharmacy might obtain a loan at the start of a month, but cease trading, and thereby not perform the dispensing activity in the month ahead, such that it would not be eligible for reimbursement to cover the value of the loan. Therefore, in addition to the standard provisions of the CCS contract, NHSBSA required Greensill Capital to provide a parent company guarantee to mitigate this risk. It was not clear that consideration was given to the risk of Greensill Capital itself failing. NHSBSA indicated to us that it was considered internally but the financial risk was not perceived to be material, as Greensill did not receive taxpayers' funds in advance of making payments to pharmacies. The Department considered that Taulia and Greensill should have understood and assessed the risk for themselves. This guarantee lapsed when Greensill Capital did indeed fail. We understand that the actual loss associated with this risk is only around £5,000. However, the combined effect of the introduction of EEPPS and the failure of Greensill Capital placed the Department in a position of making 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".[14] HM Treasury approval was sought and obtained for the payment to pharmacies to be made in advance.

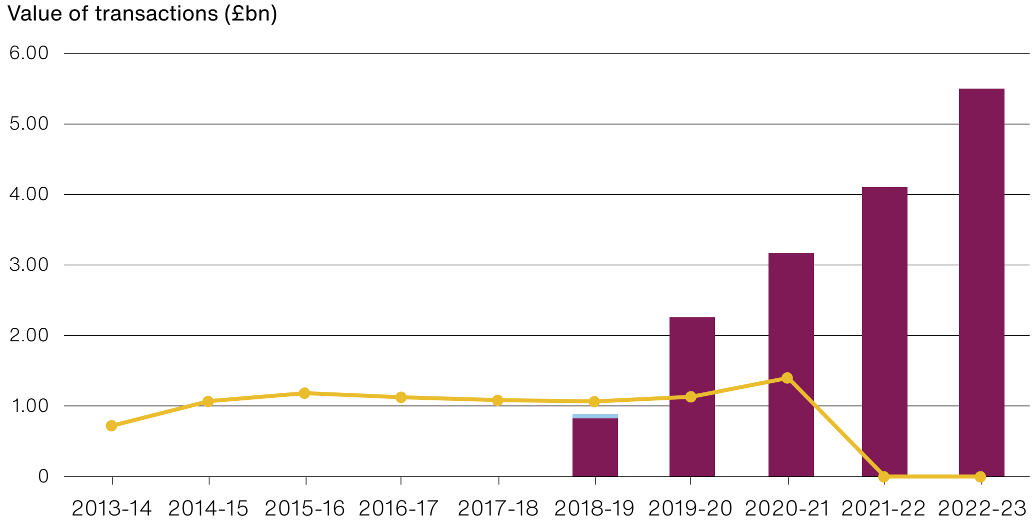
2.28 Following the change in July 2020, the number of pharmacies participating in EEPPS increased by more than one third and by March 2021 around one fifth (2,170) of the community pharmacies in England were participants. Nevertheless, participation was much lower than CCS's original expectations (see **Figure 7** overleaf). CCS told us that the overall charges, including its levy, paid by pharmacies who opted into PEPS (the aggregation of amounts paid to Taulia, Greensill Capital, CCS and NHSBSA) were no more than pharmacies paid when the scheme was run by Citibank.

14 HM Treasury, *Managing Public Money*, June 2021. Available at: www.gov.uk/government/publications/managing-public-money.

Figure 7

Pharmacy reimbursements: Comparison of Crown Commercial Service's (CCS's) estimated values and NHS Business Services Authority's (NHSBSA's) actual values, 2013-14 to 2022–23

Participation in the Pharmacy Earlier Payment Scheme was significantly lower than CCS had expected



	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Estimated transaction value for PEPS						0.83	2.26	3.17	4.10	5.50
Estimated transaction value for dynamic discounting						0.06				
Actual transaction value for PEPS	0.72	1.07	1.18	1.13	1.08	1.06	1.13	1.40	0	0

Note

1 The final business case did not provide a breakdown of transaction values for pharmacy payments and discounting for 2019-20 to 2022-23.

Source: National Audit Office analysis of Crown Commercial Service final business case and NHS Business Services Authority data

Consequences for government and pharmacies of the failure of Greensill Capital in March 2021

2.29 On 1 March 2021, NHSBSA learned that Greensill Capital might be unable to fully fund that month's payments to pharmacies. This was confirmed by direct contact with Lex Greensill. On the instructions of the Department, NHSBSA took emergency action to make direct payments to all pharmacies within the scheme and processed total payments of £144 million directly from government funds. Approval for this course of action was sought and received from the Department and HM Treasury. NHSBSA told us that these actions ensured that cash flow for pharmacies was not affected by the collapse of Greensill Capital. NHSBSA has halted new applications to the scheme, while continuing it for pharmacies already enrolled. The annual interest expense for government of this working capital requirement is around £144,000.[15] The Department told us it believed that if it had not intervened, a significant number of PEPS pharmacy contractors could have had financial difficulties and potentially gone out of business. This could have led to a deterioration of access to NHS pharmaceutical services in certain areas of the country.

2.30 Following the failure of Greensill Capital, CCS suspended the framework and told Taulia to source a replacement subcontractor, which it was unable to do. Following legal advice and instructions from the Department, NHSBSA terminated the PEPS contract in June 2021. CCS told us that Taulia was suspended from the Supplier Early Payment Solutions framework but remained contractually responsible for the call-off contract with NHSBSA until 30 June 2021. The Department is planning to wind down the current scheme and has announced a 12-month transition arrangement that will start on 1 November 2021 for PEPS pharmacy contractors.[16]

2.31 From November 2021 (for October 2021 prescriptions), a new advance payment timetable will be available to pharmacy contractors. This will allow contractors to access their advance payment approximately 20 days earlier in comparison to the normal payment timetable.[17] Under this new arrangement, a pharmacy must submit its claim electronically by the 5th day following the end of the month, in order for NHSBSA to issue payments four working days later.[18] The payment will comprise an advance payment of 100% of the claimed dispensing value from the prior month plus a reconciling payment for activities two months earlier. For example, claims for dispensing activities covering 1 January – 31 January 2022, submitted by 5 February will be paid by NHSBSA on 10 February, alongside a reconciling payment for December. Pharmacies that do not submit their claims by the 5th day will be subject to a separate reimbursement timetable. The new payment timetable will be available to non-PEPS pharmacy contractors from November (for October prescriptions); and PEPS pharmacy contractors from December (for November prescriptions). The transitional arrangement applies to PEPS participant pharmacies until April 2022 (for March 2022 prescriptions).

15 Calculation: £144,000,000 *0.001.
16 Department for Health & Social Care, *Pharmacy Earlier Payment Scheme announcement*, 26 August 2021. Available at: www.nhsbsa.nhs.uk/pharmacy-earlier-payment-scheme-peps-announcement-dhsc-26-august-2021
17 See Figure 3 and Figure 6.
18 NHS Business Services Authority, *Drug Tariff Part I*, August 2021. Available at: www.nhsbsa.nhs.uk/sites/default/files/2021-08/Drug%20Tariff%20Part%20I%20September%202021%2026082021.pdf

Part Three

Salary advance schemes for NHS staff

3.1 This section sets out how Greensill Capital contracted with NHS trust employers to provide employees with early access to their monthly salary, and what happened when Greensill Capital failed.

3.2 Appendix Three contains relevant information about consumer credit innovation and regulation.

How employer salary advance schemes (ESAS) work

3.3 Salary advance schemes allow employees to access some of the pay they have accrued ahead of their regular payday. These services are generally available to an employee if their employer has first partnered with a provider.

3.4 Employees download a smartphone app and accept the provider's terms and conditions to use the service. The app may be provided by the employer's existing payroll provider or the scheme operator. The app is updated daily to show accrued earnings and how much can be withdrawn. Schemes may apply to monthly salaries and completed shift work. Accrued earnings for a shift are added to the amount available to draw down early, subject to payroll processing timescales.

3.5 Salary advance schemes typically set a limit on the percentage of gross or estimated net pay that can be accessed early. Employees can obtain advances for different amounts on multiple occasions every month. The employer deducts these advances from the payroll and repays the provider the total advanced each month. Providers may also bundle other services such as retailer discounts and other financial services.

Pay and financial wellbeing in the NHS

3.6 The NHS in England employed more than 1.3 million people in March 2021, and in the year ended 31 March 2021 the average annual earnings per person was £34,846.[19] **Figure 8** on pages 34 to pages 36 shows the headcount and average pay by grade and role of NHS staff in England.

19 NHS staff – headcount in February 2021. Source: NHS Digital workforce statistics for February 2021.

3.7 NHS England has published a guide for financial wellbeing, including seven steps to ensure employees' financial resilience.[20] This recommends a diverse approach and provides links to a range of support services available to employees encountering financial difficulties. The seven steps were adopted directly from a note published by the Money and Health Policy Institute, an independent charity, and it includes a reference to short term loans and larger credit facilities via payrolls, allowing lower interest rates and fees/charges.[21]

3.8 Staff are employed by individual NHS bodies around the country. There were 217 NHS trusts as of July 2021, most of which are the direct employers for the staff engaged in their activities. Some NHS trusts are part of regional groups, which may coordinate or share services such as payroll, human resources, finance, and administration.

Department policy on salary advance schemes

3.9 The Department of Health & Social Care's (the Department's) view is that the use of these schemes is a matter for individual NHS trusts and for that reason it would not normally 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. The Department told us that the December 2020 letter was not cascaded to its arm's-length bodies (ALBs) until recently, and that this had been an oversight. The Department also stated that it did not believe any of its ALBs had introduced the salary advance scheme for their own employees.

3.10 The Department told us that NHS trusts were independent legal entities and not Departmental ALBs. Its view was that it would not be normal practice to disseminate advice aimed at government departments and ALBs to the NHS, as NHS finance and human resources arrangements (such as requiring HM Treasury sign off, for example) differ when compared with central government arrangements.

How Greensill Capital approached NHS employers

Business case and procurement

3.11 Greensill Capital approached NHS trusts directly and via regional networks from late 2019. Several NHS trusts agreed to keep each other informed of progress with Greensill Capital and share relevant working papers.

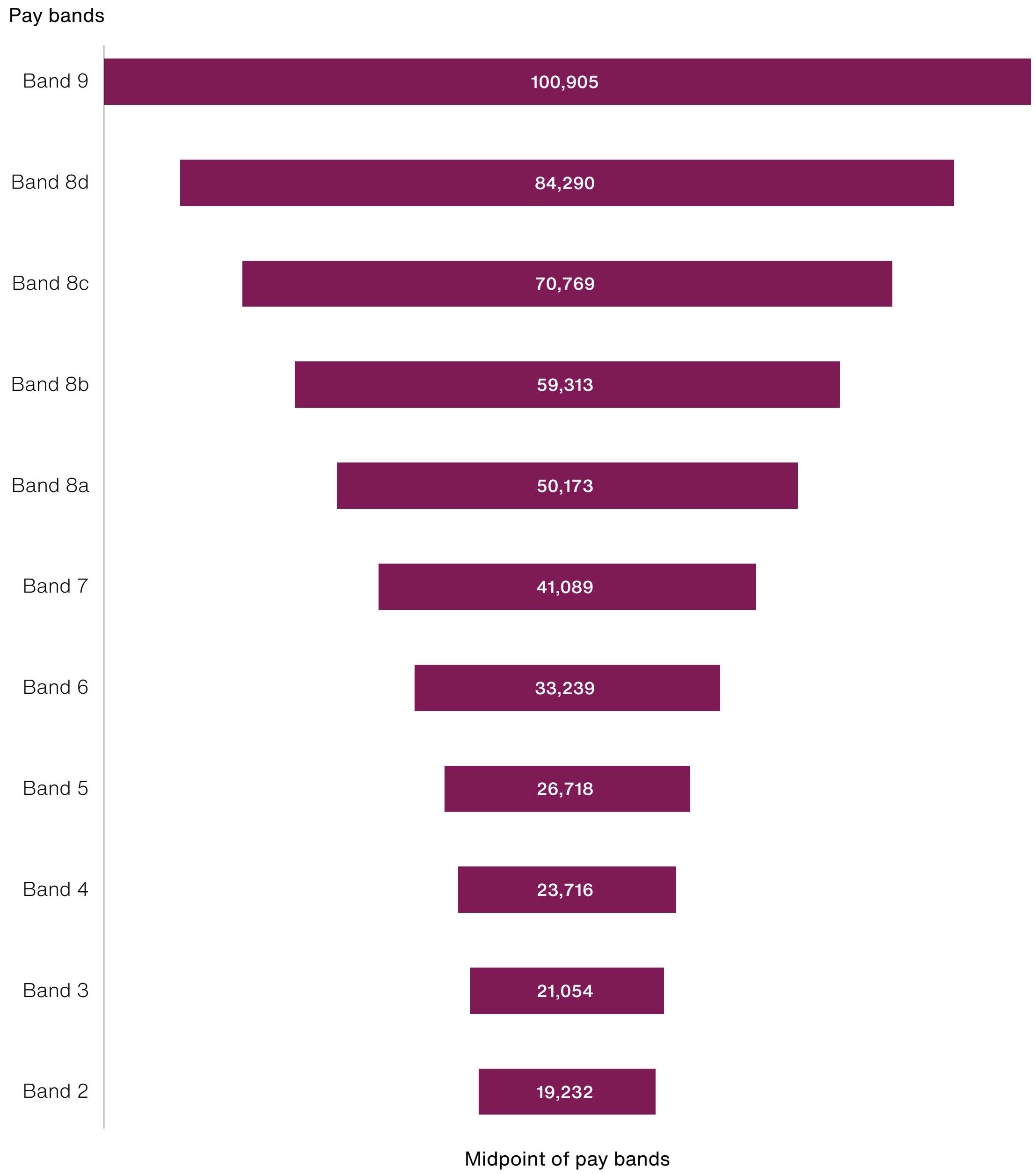
20 NHS England, *7 Steps to ensure employee's financial resilience*. Available at: www.england.nhs.uk/supporting-our-nhs-people/how-to-guides/financial-wellbeing/7-steps-employees-financial-resilience/

21 Money and Mental Health Institute, *Best Practice Checklist: Employers,* May 2018. Available at: www.moneyandmentalhealth.org/wp-content/uploads/2018/05/Best-practice-checklist-Employers.pdf

Figure 8

Headcount and average pay by grade and role of NHS staff in England, March 2021

The average (mean) annual earnings of an NHS worker in March 2021 was £34,846



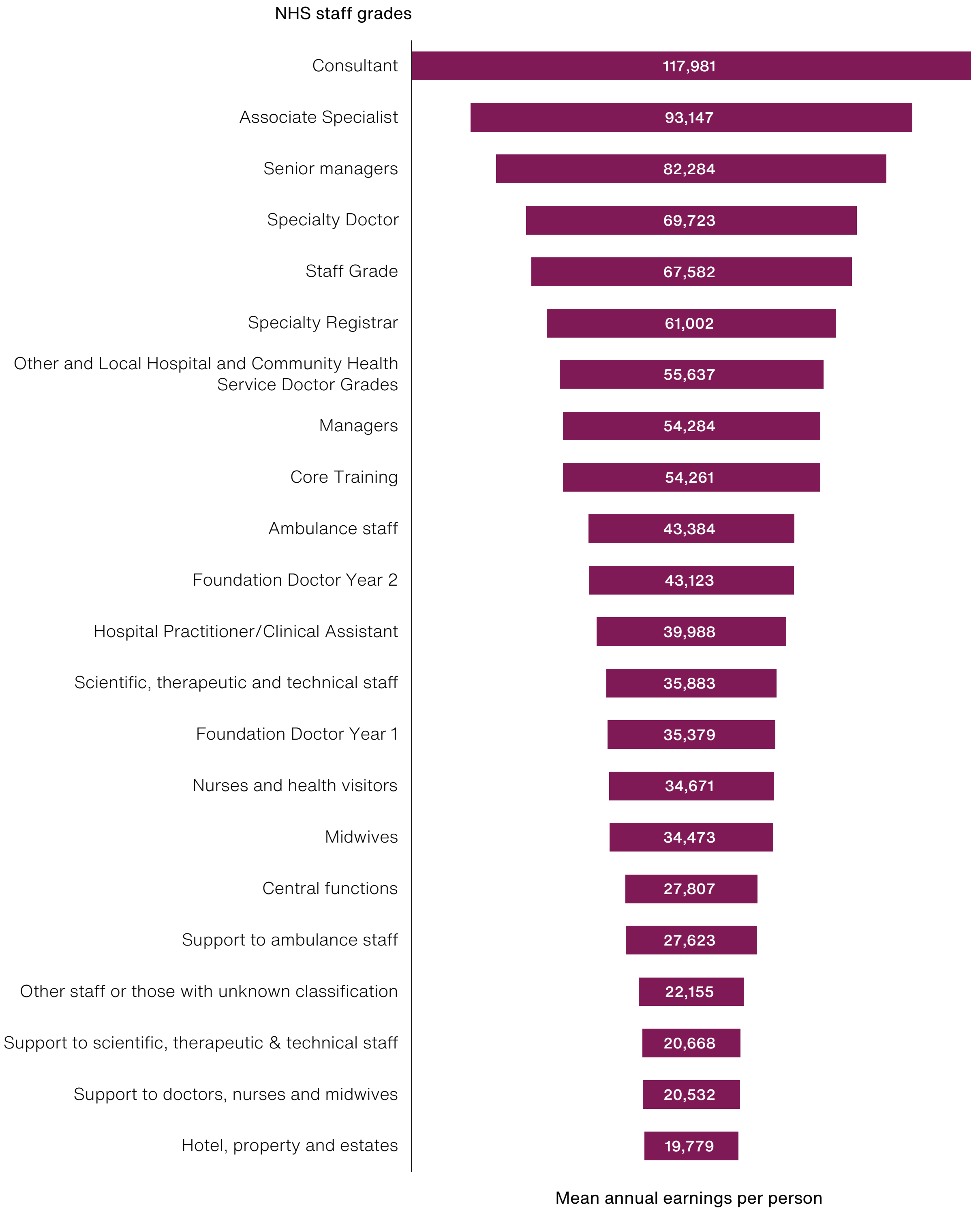
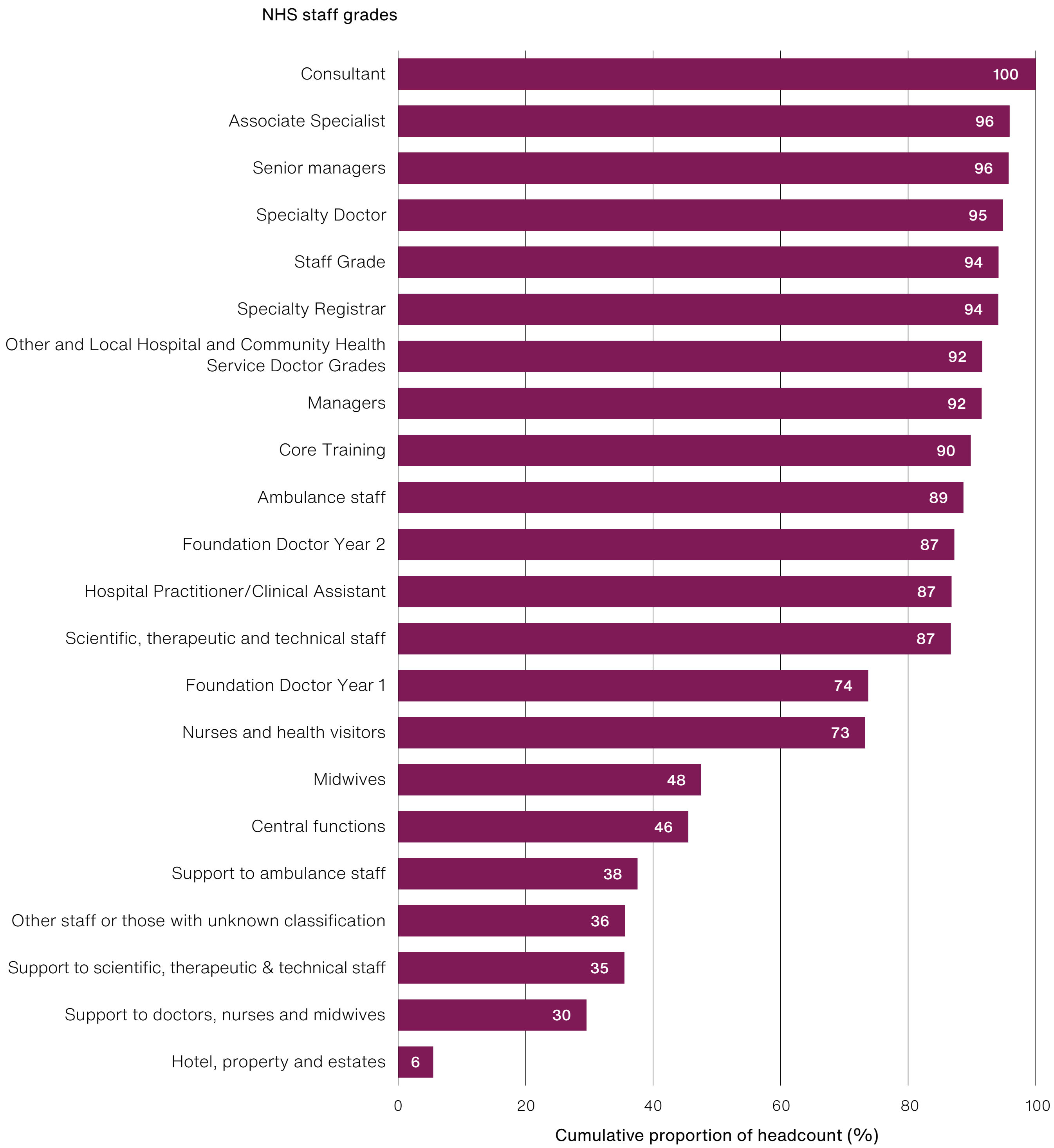

NHS staff grades
Consultant
117,981
Associate Specialist
93,147
Senior managers
82,284
Specialty Doctor
69,723
Staff Grade
67,582
Specialty Registrar
61,002
Other and Local Hospital and Community Health Service Doctor Grades
55,637
Managers
54,284
Core Training
54,261
Ambulance staff
43,384
Foundation Doctor Year 2
43,123
Hospital Practitioner/Clinical Assistant
39,988
Scientific, therapeutic and technical staff
35,883
Foundation Doctor Year 1
35,379
Nurses and health visitors
34,671
Midwives
34,473
Central functions
27,807
Support to ambulance staff
27,623
Other staff or those with unknown classification
22,155
Support to scientific, therapeutic & technical staff
20,668
Support to doctors, nurses and midwives
20,532
Hotel, property and estates
19,779
Mean annual earnings per person

Figure 8 *continued*

Headcount and average pay by grade and role of NHS staff in England, March 2021

Cumulative proportion of headcount



Source: Summary of data from NHS Digital

3.12 Greensill Capital offered Earnd as a free service for both employees and employers in the NHS. This was successful in attracting some NHS trusts to prefer Greensill Capital in place of alternative providers who levied charges for salary advance or charged interest on conventional loans by third party providers. Some NHS trusts said it was not their policy to charge employees for access to earnings.

3.13 Greensill Capital supplied presentations and marketing materials which focused on the challenges of low pay and financial wellbeing. It told NHS trusts that providing the service for free to the NHS was part of its corporate social responsibility agenda.

3.14 Greensill Capital's approach coincided with NHS trusts' own research into salary advance scheme providers in the context of staff financial wellbeing and employee benefits. NHS trust working papers also showed that employers considered the service could provide additional benefits, including reductions in agency bills, increased take up of additional shifts, and improved recruitment and retention.

3.15 NHS trusts said they contracted directly with Greensill Capital and that there was no requirement to undertake a public tender because Greensill Capital was providing the service for free, and therefore the offer did not pass relevant tendering thresholds.

3.16 Subsequent to the failure of Greensill Capital, disclosure indicated that the commercial rationale for providing these services to the NHS (without profit) was to create critical mass to enable Earnd to sell to corporate entities, to generate revenues and to provide cross-selling opportunities to the wider Greensill group.

3.17 Greensill Capital also distributed marketing materials and held discussions to solicit interest in supply chain finance solutions relating to individual NHS trusts' procurement activity with commercial suppliers, but none of the NHS trusts we spoke to indicated that this had been progressed.

Technical integration

3.18 Earnd was offered as a standalone smartphone app, and also via the MySBSPay employee app developed by NHS SBS. Greensill Capital contracted with NHS SBS for it to implement Earnd within MySBSPay and agreed to pay NHS SBS £5 per active user per year, in order that NHS SBS could generate a commercial return on its upfront investment of £97,000. At the time of Greensill Capital's failure, revenue of approximately £2,500 had accrued to NHS SBS from this agreement although no money was actually received.

3.19 NHSBSA told us that one NHS trust had asked it to develop an application programming interface (API) to enable NHS employees using the Earnd UK scheme to validate their personal details stored on the centralised Electronic Staff Record. NHSBSA told us that it recovered its development costs from Greensill Capital. The API was live between January and February 2021 and was used 117 times. Between February and June 2021 there were more than 5,500 equivalent requests by NHS employees eligible to use Wagestream.

Operational phase

3.20 A major London NHS trust was one of the first NHS trusts to agree a pilot of Greensill Capital's Earnd product in 2020, and other NHS trusts began exploring the product during the year. By 2021, several NHS trusts were in trials or operational with Earnd (**Figure 9**).

3.21 We spoke to eight NHS trusts about their experience of implementing salary advance schemes. Seven of these NHS trusts had implemented the Earnd UK scheme, and one had implemented Wagestream before the failure of Greensill Capital. Our findings cover the following aspects of these schemes, and the data we have collected are set out in Figure 9:

- limitations and safeguards;
- monitoring employee patterns of use;
- potential benefits to employers; and
- potential benefits to employees.

Limitations and safeguards

3.22 NHS trusts introduced drawdown caps for employees of 20% to 40% of gross or net salary. One NHS trust also included restrictions on the times that employees could access Earnd, excluding evenings and weekends.

3.23 Two NHS trusts told us that during the operation of the scheme, one or more departing employees drew down a salary advance in excess of the amount due to them at the month end. One of the NHS trusts told us that this risk had been identified at the contract stage and formally allocated to Greensill Capital. The other NHS trust told us that its policy was to pursue former employees in the event of overpayment, but that Greensill Capital had settled the amount as an ex-gratia payment. We understand that the individual sums were each a few hundred pounds and there was no loss to the taxpayer.

Monitoring employee patterns of use

3.24 Greensill Capital provided management information to NHS trust employers about the numbers of users of Earnd, frequency of use and average amounts advanced.

3.25 Our sample of NHS trusts indicated that the active users of the salary advance scheme ranged from 1.3% to 10% of employees by NHS trust. On average, active users drew down between £25 and £84, and the most common number of transactions per active user was two to five times per month (see Figure 9).

Figure 9

Summary of key data from NHS trusts we spoke to about the use of salary advance schemes, July to August 2021

Our interviews with NHS trusts suggested that a low proportion of employees used Earnd before the service was withdrawn

NHS trust	Trust 1	Trust 2	Trust 3	Trust 4	Trust 5	Trust 6	Trust 7	Trust 8
Number of Employees	10,139	15,000	16,000	10,305	5,126	3,554	2,300	12,000
Active users (and as percentage of total employees)[3]	650 (6.4%)	202 (1.3%)	288 (1.9%)	17 (0.2%)	74 (1.4%)	131 (3.7%)	Estimated between 5% and 10%	760 (6.3%)
Dates of operation	April 2020–March 2021	January–March 2021	November 2020–March 2021	February–March 2021	May 2020–March 2021	July 2020–March 2021	May 2020–March 2021	October 2019 (still operational)
Salary cap (per month)	30% of net pay	30% of net pay	25% of gross pay	25% of gross pay[6]	20% of net pay	20% of net pay	25% of net pay	40% of net pay
Average transaction value	£47.83	£40.37	£24.87	No data[2]	£25.71	£32.80	£25.06	£84.00
Typical number of monthly advances per user[3]	2–5[4]	2–5[4]	2–5[4]	No data[2]	6	2–5[4]	2–5[4]	6
Current Employer Salary Advance Scheme (ESAS) status	Discontinued	NHS trust settles employee fees of £1 per transaction charged by Wagestream	Novation of agreement to Wagestream – employees pay £1.75 each time salary is accessed	Discontinued	Discontinued	Discontinued	Discontinued	Employees charged £1.75 per transaction and employer is charged a five-figure sum per annum

Notes

1 Trusts 5, 6 and 7 are part of a foundation group of hospitals.

2 Data unavailable as pilot was not completed.

3 Usage data are based on National Audit Office analysis of NHS trust data to present average or typical usage. It does not relate to a specific month or time period.

4 Most common pattern of usage.

5 Trust 8 used Wagestream from the outset.

6 Trust 4 told us that this figure was provisional and subject to pilot evaluation.

Source: National Audit Office interviews with eight NHS trusts

3.26 One NHS trust implemented Wagestream before the failure of Greensill. Management information supplied to this trust showed that 10% of its employees had registered for that service and growth had been steady. Employees were permitted to access 40% of their net pay at a charge of £1.75 each time. The NHS trust is also charged a five figure sum each year for the service. The average amount of salary accessed for each transaction at this NHS trust is £84 and the number of transactions each month per active user was 6.

3.27 A presentation by Earnd to three NHS trusts indicated that all pay bands were represented in the user base, Band 2 staff represented one third of the users and Bands 2 to 4 combined represented 59% of all users.

3.28 Frequent advances by active users of small amounts were commonplace, but given our limited evidence base we could not infer from this a risk of employee dependency on these products. We found no evidence that the potential benefits of these schemes to employers had been realised.

Potential benefits to employees

3.29 Greensill Capital's presentations to customers routinely contained positive quotations from users and indicated that salary advances were applied to a variety of expenses, including day-to-day expenses and unexpected bills.

Potential benefits to employers

3.30 NHS trusts told us about a range of potential benefits for employers offering salary advances. These included potential reductions in staffing agency costs, increased take-up of additional shifts and potential improvements in recruitment, motivation, and retention. Given the limited rates of employee adoption of the schemes and short period of operation of Earnd, there is no evidence that these potential benefits have been realised in the NHS trusts we interviewed.

The government response to Greensill Capital's approaches to other public service employers

3.31 Following approaches by Greensill Capital in relation to salary advance schemes to the Ministry of Justice, a letter regarding salary advances was issued by Civil Service Human Resources, HM Treasury and Cabinet Office to the accounting officers of departments and their arm's-length bodies in December 2020. The letter said departmental accounting officers must sign off any new type of finance agreement, and final approval by HM Treasury was required. The letter urged consideration of available options including existing payroll arrangements, before launching salary advances. HM Treasury told us that it had not received any requests for approvals of salary advance schemes.

3.32 The Department told us that it received the December 2020 letter and officials considered that the letter applied to the Department and its ALBs operating within the civil service pay framework. The Department added that the matter was discussed internally, and it was decided that on the basis that the Department had no intention of introducing such a scheme, no further action was necessary.

3.33 Sopra Steria has indicated that, based on its experience of introducing the Greensill Capital salary advance scheme by NHS SBS, it also sought to do the same for those government bodies for whom Shared Services Connected Limited (SSCL) was the shared service provider, as it thought the service might be helpful for other public service employers. SSCL tabled an agenda item at the November 2020 government departments' customer board meeting seeking approval to speak to departments about a salary advance scheme that it was pursuing in partnership with Greensill Capital. Approval was withheld by the customer board and the initiative was halted, given the departmental feedback.

The failure of Greensill Capital in March 2021

3.34 According to the administrator's statement of unsecured creditors for Earnd, two NHS bodies were listed with a total claim of £21,429. This indicates that taxpayer exposure to the failed venture was minimal.

3.35 Following the failure of Greensill Capital and Earnd UK, two NHS trusts said they discontinued salary advance schemes completely. One NHS trust said it has allowed interim access for active users to Wagestream and agreed to reimburse fees pending a procurement. Another NHS trust replaced Earnd UK with Wagestream and staff are charged per transaction. One NHS trust is contemplating the integration of Wagestream to offer the service to shift workers.

Appendix One

Our investigative approach

Scope

1 We conducted an investigation into Greensill Capital's provision of supply chain finance to community pharmacies and wage advance schemes for NHS employees between June and September 2021.

Methods

2 In examining these issues, we drew on a variety of evidence sources – including consulting information held on the Companies House website. We held discussions and obtained supporting documentation from the Department of Health & Social Care (the Department), Crown Commercial Service (CCS), NHS Business Services Authority (NHSBSA), NHS Shared Business Services Limited (NHS SBS) and NHS trusts. We received evidence from the Financial Conduct Authority (FCA). We also received evidence from Taulia Inc, Citibank, Sopra Steria and Lex Greensill.

3 How we selected the case studies for Appendix Three:

- There is no definitive list of NHS trusts which used salary advance schemes or Greensill Capital's Earnd (the focus of our investigation on the salary advance scheme). Therefore, it is not possible to select a sample of such NHS trusts on a statistical basis. We considered that surveying all NHS trusts to obtain these data would be disproportionately resource-intensive and impractical.
- We therefore selected our case studies on a judgemental basis from the set of NHS trusts we identified from web searches and our wider audit work as having subscribed to the Earnd app. In selecting our sample, we sought to ensure a good geographical spread of NHS trusts from across the country.

4 We engaged with key individuals from eight NHS trusts, NHSBSA and NHS SBS to establish facts surrounding how the service was introduced to the organisations, and the procurement and approval processes undertaken in awarding the relevant contracts.

5 We reviewed business cases submitted to NHS trusts' leadership, monitoring reports, and statistical information on activities and staff usage of the salary advance scheme.

Appendix Two

Events leading to the Crown Commercial Service (CCS) appointing Taulia Inc to the Supplier Early Payment Solution framework

1 **Figure 10** on pages 44 and 45 sets out the timeline for the creation of the framework agreement following approval of the final business case.

Figure 10

Development of the Crown Commercial Service (CCS) framework agreement for the provision of Supplier Early Payment Solutions, including the Pharmacy Earlier Payment Scheme (PEPS), and the appointment of Taulia Inc (with Greensill Capital as its subcontractor)

The PEPS procurement followed a two-stage process – a framework agreement, and a call-off contract

Date	Stage	Commentary
12 September 2017	Final business case for creation of framework approved	CCS considered that creating a framework agreement to cover supplier early payment solutions would be preferable to a contract because it could be used by any public authority that required this form of finance. CCS also considered that this involved less risk and expense for CCS and would mean that a contract let under the framework could endure beyond the expiry date of the framework. The framework covered: • supply chain finance – through this, NHS Business Services Authority (NHSBSA) was able to let a call-off contract, to provide early payments to pharmacies through PEPS; and • dynamic discounting – this allows organisations, in this context local authorities, to pay suppliers early for certain invoices in return for a discount. CCS considered that the framework agreement should be for a single supplier, based on feedback from potential suppliers. CCS has indicated that the pricing on the supply chain finance solution was the discount that would be charged to suppliers voluntarily taking early payment whereas the pricing for dynamic discounting was the percentage of the discount that would be charged to public sector organisations deploying that type of scheme (gainshare). CCS told us it believed in the scope for future growth in the use of dynamic discounting and organisations deploying it set their own charges for their suppliers to be paid early. A low gainshare charge would encourage organisations to charge their suppliers lower rates to be paid early. The Department of Health & Social Care (the Department) initially expected 80% of pharmacies to participate. CCS's market engagement indicated that take-up could increase from the historical 10% of pharmacies to 60%.
19 September 2017	Market engagement	CCS published an intention to tender for the framework, following which representatives of 17 potential suppliers attended a market launch event, including Taulia.
24 November 2017	Invitation to tender issued	Eleven organisations registered on the portal, but three bids were finally submitted. The deadline was originally 21 December 2017, but this was extended to 29 December because of the amount of clarification needed in response to questions from bidders.
	Evaluation process	The evaluation team comprised representatives of CCS, the Department and NHSBSA.
17 January 2018		One of the bidders failed on the assessment of its professional ability, leaving two bidders – Taulia and Citibank.
19 January 2018		Taulia did not initially satisfy the financial risk criteria, and was asked to provide a financial guarantor. On 25 January, it nominated Greensill Capital, who it had already named in its bid as a subcontractor. Greensill Capital had an acceptable risk score within the evaluation.
26 January 2018		Based on the supplier evaluation and the moderation exercise on 25 January 2018, CCS informed Taulia it had failed to meet the minimum quality threshold for the "Finance, Marketing and Growth" criterion. The assessors had reservations about Taulia's ability to fund future growth opportunities and its plans to work with contracting authorities to grow the Supplier Early Payment Solutions framework.

Figure 10 *continued*

Development of the Crown Commercial Service (CCS) framework agreement for the provision of Supplier Early Payment Solutions, including the Pharmacy Earlier Payment Scheme, and the appointment of Taulia Inc (with Greensill Capital as its subcontractor)

<table>
<tr><th>Date</th><th>Stage</th><th>Commentary</th></tr>
<tr><td>30 January 2018</td><td>Threat of legal action</td><td>Taulia's legal adviser wrote to CCS to complain that the process for taking forward the tender had been handled incorrectly and refuting the assessment panel's points about Taulia's ability to grow the scheme among pharmacies.</td></tr>
<tr><td>31 January 2018</td><td></td><td>Lex Greensill also wrote to CCS objecting strongly to the potential exclusion of Taulia and, by extension, Greensill Capital as subcontractor to Taulia.

After discussions with its lawyers, CCS paused the process and restarted with a new evaluation team in place.</td></tr>
<tr><td>2 March 2018</td><td>Revised assessment</td><td>Both bidders submitted further clarifications, and the new panel assessed both as meeting the minimum quality threshold. Quality scores were not taken forward to the final stage.</td></tr>
<tr><td>9–14 March 2018</td><td>eAuction on price</td><td>The final business case showed that the estimated value of each activity in 2018-19 was £828 million of annual transaction from pharmacies and £60 million from discounting. In other words, the value of pharmacy reimbursements was approximately 14 times higher in value than that of discounting. By contrast, the weighting applied to the price scoring criteria for bids submitted to the eAuction were weighted 65:35 in favour of discounting. CCS told us that this was because it wanted to ensure its dynamic discounting offer was competitive and would attract public sector customers. CCS considered it could predict how much public sector suppliers might be charged using supply chain finance but could not do so for dynamic discounting. The weighting therefore aimed to generate a low bidder fee for dynamic discounting which in turn would encourage local authorities to charge their suppliers low rates for being paid early. In CCS's view, this would in turn encourage the growth in dynamic discounting that CCS foresaw.

The final bids received were as follows:
<table>
<tr><th>Bidder</th><th>Supply chain finance</th><th>Dynamic discounting</th></tr>
<tr><td>Taulia</td><td>LIBOR[1] plus 0.3%</td><td>9% discount achieved by local authority</td></tr>
<tr><td>Citibank</td><td>LIBOR plus 0.235%</td><td>13% discount achieved by local authority</td></tr>
<tr><td colspan="3">In addition to these charges, NHSBSA was paid a fee of 0.1% and CCS charged a levy of 0.1% to cover its administrative costs for supply chain finance contracts.

CCS also retained 2% of the 9% dynamic discount margin.</td></tr>
</table></td></tr>
<tr><td>16 March 2018</td><td>Final award of the framework</td><td>Notification of award to Taulia, following confirmation from Taulia that its bid included all costs.</td></tr>
<tr><td>20 June 2018</td><td>Call-off contract</td><td>NHSBSA used a call-off contract to appoint Taulia for PEPS (with Greensill Capital as subcontractor).</td></tr>
</table>

Note

1 The London Inter-Bank Offered Rate (LIBOR) is the average interest rate at which a selection of banks on the London money market are prepared to lend to each other.

Source: National Audit Office analysis of Crown Commercial Service documents

Appendix Three

Consumer credit innovation and regulation

Financial Conduct Authority (FCA) and the Woolard Review

1 FCA regulation does not apply to most salary advance schemes because they do not meet the definition of credit under relevant legislation (although there are a variety of ways the schemes could be structured). However, individual providers may be subject to authorisation or registration depending on their activities.

2 In July 2020 the FCA published a statement setting out its views of the risks and benefits of salary advance schemes, and what employers and employees should consider when using them. The FCA said that salary advance schemes are commonly promoted as an alternative to high-cost credit and have a broadly similar economic effect.

3 The FCA commissioned its then Chief Executive, Chris Woolard, to undertake a review of change and innovation in the unsecured credit market in 2020, which examined salary advance schemes and Buy Now Pay Later (BNPL) products. The FCA contacted a number of salary advance scheme providers as part of its information gathering for the review. In December 2020 Lex Greensill met with Chris Woolard and his team and indicated to them that Greensill Capital was supplying the Earnd product to NHS employees at a loss, and that Earnd users tended to make repeated use of the scheme for small advances of around £30 once a week on average.

4 In February 2021, the FCA published the Woolard Review. The review noted that the salary advance schemes market was predominantly found in the hospitality, retail and healthcare markets and was still in a stage of relative infancy. It stated that salary advances could result in some users experiencing a shortfall in income at the end of the month, leading to the risk of persistent use of the product, escalating charges or driving consumers to use mainstream or potentially high-cost credit to 'bridge the gap'.

5 The review identified the importance of providers and employers monitoring usage and proactively engaging with employees when there are indications they are in financial difficulty, and the need for greater clarity over who has ultimate responsibility for monitoring and supporting individual employees who may be in financial difficulty. It recommended that the FCA and government should encourage salary advance scheme providers and major employers to draw up a code of good practice. It said that given the size and scale of the market, it would be disproportionate to introduce a bespoke regulatory regime at that time.

6 The FCA told us in July 2021 that it presently had no future plan for interventions for the sector in response to the Woolard Review and its findings.

Potential benefits, risks and mitigations of salary advance schemes

7 **Figure 11** overleaf contains a summary of potential benefits, risks and mitigations for salary advance schemes based on the FCA statement, our discussions with NHS trusts, and our understanding of the service provided by Greensill Capital.

Difficulty of comparing fees and charges

8 The evidence that we have obtained from NHS trusts suggested active users of Earnd UK drew down small amounts of money regularly at no charge. Seven of the NHS trusts offered Earnd UK, and one NHS trust used Wagestream, a chargeable service. Similar patterns of use were evident between the free and chargeable service.

9 The FCA said that the most common usage pattern was three salary advances per monthly pay cycle, and a typical sum advanced was £75. The FCA told us that it is difficult to apply a comparison in respect of unsecured credit products because salary advance scheme providers do not apply an interest rate. However, the FCA indicated that if a hypothetical scheme operator charged a £3 transaction fee for a £50 drawdown in the final week of a monthly pay cycle, the equivalent annual percentage rate for a short-term loan would be a very high rate of interest, similar to that charged by high-cost credit firms.

10 **Figure 12** on page 49 provides an indication of the implied annual percentage rates of interest for repeated advances of £50 and a transaction fee of £1.50 for a hypothetical salary advance scheme. It shows how the implied cost of finance increases with repeated use closer to the month end.

Figure 11

Potential benefits, risks and mitigations for salary advance schemes

The Financial Conduct Authority (FCA) set out its views on salary advance schemes in two publications, including the Woolard review

	Potential benefits	Potential risks
Employee	The Greensill Capital product was free of charge.[1] Quick and simple access to immediate funds. Alternative to payday loans for unexpected bills. Salary advance scheme apps may be bundled with money advice and tips to support a financial wellbeing offer. Advances available alongside other employee benefits, for example, discounts, and to fund a range of digital transactions within the app.	Lack of credit regulation. Lack of visibility for credit reference agencies. Bundled with discounts and incentives for non-essential or impulse purchases. Encourages frequent use which may lead to dependency for some users. Lack of transparency about costs, which may be similar to high-cost credit.
Employer	The Greensill Capital product was free of charge. May reduce staffing agency costs. May increase take-up of additional work shifts and encourage staff to work overtime. May improve recruitment, motivation and retention.	Direct award of commercial agreement – no procurement. High switching costs due to technical integration. Lack of transparency on terms may increase risks of claims against employer.

Mitigations of risks for employers and scheme operators
Highlight to employees where to find advice to address underlying financial problems.
Highlight limitations of a salary advance and signpost the Money Advice Service and debt charities such as Citizens Advice and Stepchange.
Bringing the above matters to the attention of employees may be particularly important when employees are making frequent use of these facilities.
Provide employees with periodic notification when there is an accumulation of transaction charges
Monitor usage patterns by individual employees.

Note

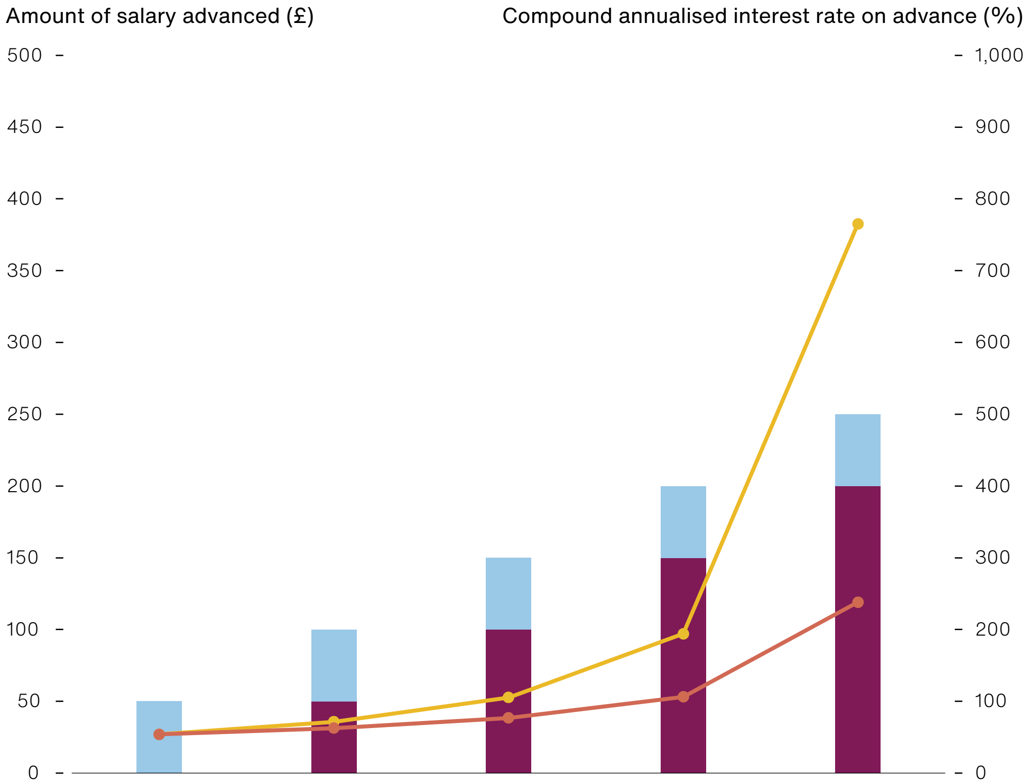
1 Lex Greensill told us that Earnd provided by Greensill Capital was guaranteed free of charge to both employees and employers in perpetuity. As such, the product posed none of the common risks associated with other salary advance schemes as detailed in the table above.

Source: National Audit Office analysis adapted from Financial Conduct Authority publications and information from Lex Greensill

Figure 12

Illustrative cost of finance for hypothetical salary advance schemes

Although Earnd was free, repeated use of a chargeable scheme, particularly near the end of the month, is equivalent to a high implied interest charge



	Day 5	Day 10	Day 15	Day 20	Day 25
Existing advance	0	50	100	150	200
Additional advance	50	50	50	50	50
Compound annual percentage rate for additional advance (%)	54.0	71.5	105.3	194.1	765.2
Average of compound annual percentage rates (%)	54.0	62.7	76.9	106.2	238.0

Notes

1 This illustration is based upon an employee taking five advances of £50 every five days. It assumes that each salary advance is subject to a transaction fee of £1.50 (3% of the value of the advance).

2 Annualisation formula: (1 + fee / advance) ^ (365 / days of advance) - 1.

Source: National Audit Office analysis

Glossary

Term	Definition
Community Pharmacy Contractual Framework (CPCF)	The CPCF is the name given to the terms on which community pharmacies (known as pharmacy contractors) deliver NHS pharmaceutical services in England. CPCF funding is delivered through fees/allowances paid to pharmacy contractors and the retained medicine margin – the latter being the difference between what pharmacy contractors pay wholesale suppliers when they purchase products from a specified list of medicines, and the amount they are reimbursed by the NHS for that product.
Drug Tariff	The Drug Tariff contains the Secretary of State's determinations outlining what the NHS will pay pharmacy contractors for providing pharmaceutical services including reimbursement for the cost of drugs and appliances dispensed. These determinations are made in accordance with the NHS (Pharmaceutical and Local Pharmaceutical Services) Regulations 2013 and after consultation with the Pharmaceutical Services Negotiating Committee (PSNC) who are the representative body of pharmacy contractors. The Drug Tariff is published monthly.
Dynamic discounting	Dynamic discounting is a form of supplier financing that allows suppliers to take early payment in return for a discount. It means that suppliers can choose which invoices to accelerate according to their cash flow needs.
Employer Salary Advance Scheme (ESAS)	The ESAS allows employees to access some of their earned salary before their normal pay day. These schemes are not regulated by the Financial Conduct Authority because they do not meet the definition of credit under legislation.

Term	Definition
Estimated Earlier Pharmacy Payments Scheme (EEPPS)	In July 2020 the Pharmacy Earlier Payment Scheme (PEPS) was changed to enable participating pharmacies to access funds from the start of the month before dispensing activity. For example, accessing funds at the beginning of January for the anticipated dispensing activity in January. The legal term for the early payment scheme to pharmacy contractors is PEPS. However, the July 2020 PEPS was often referred to by the administering body (NHSBSA) as the EEPPS to differentiate it from the 2013 PEPS and to reflect that the early payments were estimated. We also use EEPPS in this report to distinguish between the two schemes.
Loan	In relation to PEPS, 'loan' refers to the amount advanced by the private finance provider to community pharmacies, which the finance provider subsequently recovers from the NHS. These may also be described as 'receivables discounts', which refers to the fact that the dispensing activity represents a receivable – that is, the amount to be reimbursed by the NHS, and a discount is applied and retained by the finance provider in exchange for releasing these funds to the pharmacies earlier than the normal payment timetable.
Medicine margin survey	The Department of Health & Social Care with the Pharmaceutical Services Negotiating Committee (representative body of pharmacy contractors), assess the medicine margin retained by pharmacy contractors through a medicine margin survey. The difference between the medicine margin from the survey and the medicine margin allowed contractors as part of the CPCF, determines whether there needs to be an adjustment to payments made to pharmacy contractors. If the medicine margin being delivered is too much, a downward adjustment is required and, if insufficient, then an upward adjustment is required. The target medicine margin in the CPCF is £800 million per year from 2019 to 2024.

Term	**Definition**
Normal payment timetable up until November 2020 (for NHS pharmaceutical services)	The normal payment timetable (up until November 2020) constitutes two payments: • Advance payment – this is an estimated payment to pharmacy contractors made approximately 25 days after the receipt of their claim for dispensing activities (for example, pharmacy contractors receive an advance payment on, or around, 1 March for prescriptions dispensed in January and claimed for by 5 February). • Reconciliation payment – this is the payment which reflects the true reimbursement prices calculated by NHS Business Services Authority (NHSBSA) based on claims submitted by pharmacy contractors for prescriptions dispensed. This payment is reflected almost two months after a pharmacy contractor has claimed for dispensing activities (for example, the true reimbursement for January's prescriptions is known at the end of March, when January's Drug Tariff prices are used. The difference between what was paid as an advance payment on, or around, 1 March and the true reimbursement, is paid (or subtracted) from the final settlement made on, or around, 1 April).
Pharmacy Earlier Payment Scheme (PEPS)	PEPS allowed community pharmacies participating in the scheme to enter into an agreement with the scheme provider (in this case Taulia, with Greensill Capital as subcontractor providing the private finance) to receive payment for dispensing activities earlier in comparison to the normal payment timetable. In return for the early payment, the scheme provider charged a cost of interest to participating pharmacies. Up until July 2020, pharmacy contractors participating in PEPS received advance payment approximately 20 days earlier in comparison to the normal payment timetable. From July 2020, pharmacy contractors participating in PEPS received their advance payment approximately 60 days earlier in comparison to the normal payment timetable (note that in this instance, payment was made before the dispensing activity had occurred).
Supplier Early Payment Solutions (SEPS) or RM6001	A framework agreement established by CCS in 2018 to facilitate the provision of supply chain finance solutions in the public sector. The PEPS was operated under a call-off contract derived from this framework agreement.

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