Covid-19 Defence Furlough and Interim Payment Policy Note

A Defence specific PPN around Interim Payments has been created to take into account Defence and Single Source requirements.

**Principles**

- **Three Principles have been agreed:**
  
  a. **Continued delivery**
     
     i. For suppliers that are in a position to continue delivering against the current contract terms, payments will continue to be made in line with the Contract, via the P2P system in the normal way, in line with existing delegations.
  
  b. **Interim Payments**
     
     i. Where suppliers are unable to provide goods or services or can only deliver partial goods or services against their contract deliverables and this is as a result of COVID-19, then they can discuss use of interim payments on a contract by contract basis.
  
  c. **Revised Payment Approach**
     
     i. If the supplier requests further financial support or a different methodology from that detailed in option b above, then this will be dealt with on a case by case basis and will require escalation to Finance and Commercial Senior Civil Servant.

- **Interim payments principles include:**
  
  a. Any payments should exclude profit.
  
  b. Any supplier continuing to be paid in full must ensure their staff on the contract are retained and paid in full, including full sick pay, as set out in the contract. Evidence of this will be required by the contracting authority.
  
  c. Any supplier intending to make staff cuts and redundancies on the contract should set this out to the contracting authority in advance of taking any action as this may affect payments being made in full during this period.
  
  d. The supplier will not be entitled to combine these payment options with any other Government or public sector COVID-19 related relief, grant,
intervention or other measure which results in the Supplier receiving more than one benefit/relief for the same underlying cash-flow issue e.g. any suppliers applying furlough to their staff will not be able to claim payments against the same staff.

**Furlough**

- Suppliers are able to furlough staff if they require through the Coronavirus Job Retention Scheme - it is for them to decide if that is the correct course of action. More information can be found here - [https://www.gov.uk/guidance/claim-for-wage-costs-through-the-coronavirus-job-retention-scheme](https://www.gov.uk/guidance/claim-for-wage-costs-through-the-coronavirus-job-retention-scheme)

Principles include:

- If a supplier cannot maintain your current workforce because operations have been severely affected by coronavirus (COVID-19), they can furlough employees.
- The supplier can apply for a grant that covers 80% of their usual monthly wage costs, up to £2,500 a month, plus the associated Employer National Insurance contributions and minimum automatic enrolment employer pension contributions on that wage.
- Any entity with a UK payroll can apply.
- The online service used to claim is expected to be available by the end of April 2020
- To be eligible for the government grant, when on furlough, an employee cannot undertake work for, or on behalf, of the organisation - this includes providing services or generating revenue.
- The government expects that the scheme will not be used by many public sector organisations, as most public sector employees are continuing to provide essential public services or contribute to the response to the coronavirus outbreak, however this scheme is open for use by government suppliers, including those in Defence.
- The supplier is not entitled to combine these payment options with any other Government or public sector COVID-19 related relief, grant, intervention or other measure which results in the Supplier receiving more than one benefit/relief for the same underlying cash-flow issue.
- Where suppliers are furloughing staff and discussing interim payments, they must separate out the costs associated with the furloughed staff.
- It is vital that suppliers are fully transparent throughout this process to enable reconciliation as quickly and easily after the event.
- These principles are also compatible with Single Source contracts. Profit must be identified separately.

**Single Source Contract Regulations (SSCR)**

- The Single Source Advisory Team are keen to use the regulations to allow MOD to place and / or amend contracts quickly and complete the full cost assurance activities at a later date.
- There is no provision in the law to disapply the regulations.
The Single Source Advisory Team are being pragmatic and flexible in their approach with regards to:

a. Amendments: more authority has been delegated to project / delivery teams to determine whether to convert contracts to QDCs on amendment,
b. Interim Payments: issued guidance that allows teams to deal with any SSCR consequences of advance payments after the payment has been made,
c. Reporting: adopted a system that allows us to give more time without timing out the ability to receive the statutory reports at a later date,
d. Furlough: work has started on the SSCR pricing implications of furlough

Q&A

Can furloughed staff be redeployed elsewhere?

Furloughed staff would not be able to take paid work elsewhere; however they can take unpaid work or volunteer. If they were redeployed to paid work, they would need to be removed from furlough.

In response to the latest Coronavirus (COVID-19) circumstances, supply and demand matching support is being established by HMG across the UK labour market to:

- Meet critical demand
- Help employers to retain staff who are un-utilised in this period
- Keep the economy moving

To achieve this a new capability is being mobilised, initially a call centre, to collate and triage supply and demand information. This call centre will take initial information to facilitate connections, enabling matching and brokering to take place. Action is being taken to rapidly develop this service, including the future provision of advice and best practice guidance for employers.

The call centre will be available for employers to call on: 0333 003 7080. The service will be available from 09:00 - 17:00 on working days. Additional communication channels will be mobilised that can also be used to contact this team, and will be providing regular updates.

The government states that where employers receive public funding for staff costs, and that funding is continuing, we expect employers to use that money to continue to pay staff in the usual fashion – and correspondingly not furlough them. Does that mean that suppliers to MOD cannot furlough staff?

Each supplier needs to make their own decision as to how effective their staff can be in the current climate and what is the best methodology to support them.

If staff are directly funded through a continued delivery payment or interim payment from MOD then they cannot be furloughed.
Other staff (e.g. back office functions or those not recovered via overhead) can be furloughed as long as they are not specifically funded through continued delivery payment or interim payments.

**Is the eligibility for furloughing extended to contingent workers?**

Yes – contingent workers are covered by the Coronavirus Job Retention Scheme. Suppliers cannot claim twice for contingent workers – e.g. they would not be able to claim for interim payments and furlough those staff.

**Will staff who have to self isolate be covered by interim payments or furloughing arrangements?**

Suppliers can claim for furloughed employees who are self isolating. It is up to individual companies to make an assessment and to discuss interim payments with projects teams on a contract by contract basis.

**If a supplier continues to deliver a contract, but is less efficient due to Covid-19 is that inefficiency covered by the supplier?**

For continued delivery we will continue to make payments in line with contract conditions. Impact or interruptions will be looked at on a case by case basis and will need to be evidence-based.

**How might emergency cost control measures (e.g. cutting staff salaries) play into final reconciliation of a contract?**

This would need to be evidence based. MOD would be looking for suppliers to mitigate costs in whatever way they can and accessing the support available.

We are developing a common set of principles across MOD delivery organisations to review our approach to reconciliation. This will be shared via the DSF Commercial Working Group.

**How would sub contractors for critical outputs manage payments?**

Where MOD provides the Prime Contractors with a continued delivery payment or an interim payment we expect this to be flowed down through the supply chain. Sub-contractors will need to liaise with the Primes.