

The British Chambers of Commerce believes that late payment is pervasive up and down supply chains, and that by addressing the fundamental problems that exist in both the public and private sectors, business and the wider economy would benefit.

Summary

Late payment of invoices has a negative affect on cashflow positions, and, in the worst case scenario, can cause business failure. The credit crunch has laid bare the fundamental problems surrounding payment within supply chains.

While already on policy-makers' radars, the scale of the issue in recent months has led to enhanced Government action. However, it is clear that underlying structural problems need to be addressed to help the thousands of businesses whose cashflow is affected by the late payment of invoices.

This situation has also been recognised at a European level, with the European Commission producing the Late Payment Directive in an attempt to tighten the rules that currently exist relating to payment terms.

¹ <http://www/creditmanagement.org.uk/berrguides.htm>


Problem

The financial crisis caused private sector payment times up and down supply chains to lengthen, as demand fell sharply and credit lines dried up. Like many business-related issues over the past 18 months, prompt payment difficulties did not materialise out of thin air. Instead, long-standing problems were exposed and exacerbated as money became increasingly scarce.

At first, the media focus vilified large companies, such as Tesco, for preserving their own cashflow positions at the expense of smaller suppliers. This perspective did have some credence, but was by no means the complete picture.

Smaller firms' approach to invoicing and cash management was often found to be inadequate, even during benign economic conditions¹. Widespread bad practice includes:

- Non-provision of payment terms in writing to those who have been supplied;
- No agreement of payment terms before an order is confirmed;
- No strategy for non-payment;
- Late raising of invoices; and,
- Insufficient information included in invoices.



Ultimately, a combination of big firms throwing their weight around and shoddy practice throughout the public and private sectors has combined to create problems that result in business failure.

There are two other important points to note:

- Late payment is not a UK only problem. Europe has recognised the economic consequences through the Late Payment Directive (see below); and,
- Public sector bodies have been criticised, both at home and abroad, for a tardy approach to payment.

Evidence

BCC March 2009 Monthly Business Survey showed the stark impact on businesses: 61% of respondents stated that late payment of invoices was affecting their cashflow position². Furthermore, 20% of businesses answered that it was taking over a month longer to pay invoices than a year previously.

The Department for Business's SME Business Barometer in April 2009 also provides a useful insight:

- 58% of SME employers offer their customers credit in the form of a period of time before payment is due (74% of those who sell to other businesses).
- 36% of those offering extended payment time reported that customers had tried to negotiate longer payment terms in the previous 6 months.³

Lord Mervyn Davies, Small Business Minister, has stated that in 2009 UK business will pay £180 million in interest on overdue payments⁴.

In May 2009, a European survey of over 5,000 businesses found that 50% of all invoices were paid within 30 days. Over 70% of respondents believed that payment risks are set to increase further over the following 12 months⁵.

Recent Government Policies

The Government has responded to the importance of prompt payment as an issue through several initiatives:

- In December 2008 BIS launched a Prompt Payment Code for business. Key elements of the code include: encouraging businesses to pay suppliers on time, giving clear guidance to suppliers, and encouraging good practice through their supply chains. The BCC is one of over 650 signatories.
- In November 2008 BIS and the Institute of Credit Management launched a series of guides on managing cashflow. The guidance is highly regarded internationally, and has been accessed by thousands of businesses. The guides can be found at the following web address:
<http://www.creditmanagement.org.uk/bisguides.htm>
- The Government has set a target for Departmental invoices to be paid within 10 days. The latest data shows that nineteen out of twenty central government invoices are now paid within this timeframe⁶.

The Late Payment Directive from the European Union updates an existing directive. It maintains the current 30 days payment period for businesses, but allows claims on late payment interest and fixed amounts of compensation for debt recovery costs incurred. A 30 day payment period for public authorities will be introduced, with a penalty if this period is breached. The directive also removes the exemption for claims for interest of less than €5, and tightens rules on grossly unfair contracts. The rules remain optional for businesses.

² BCC March Monthly Business Survey, 13/03/09.

³ BIS SME Business Barometer, 04/09

⁴ BIS Press Release, 25/11

⁵ Intrum Justitia Research, 05/09

⁶ BIS statistics



Opposition Positions

Both major opposition parties have recognised that late payment is a problem, but have not outlined any specific policy prescriptions as of yet. Vince Cable, the Liberal Democrat Shadow Chancellor, has been more vocal on the subject, stating that “big chains are just screwing their suppliers”, and that the penalties for late payments are hard to enforce.

BCC Policy Position

Prompt Payment Code

The BCC – and many local Chambers of Commerce – are signatories of the Prompt Payment Code. For the code to be a successful tool it must have more signatories from both the public and private sectors, and awareness of its benefits need to be raised. We therefore urge both Chambers and member businesses to become signatories.


Public Sector

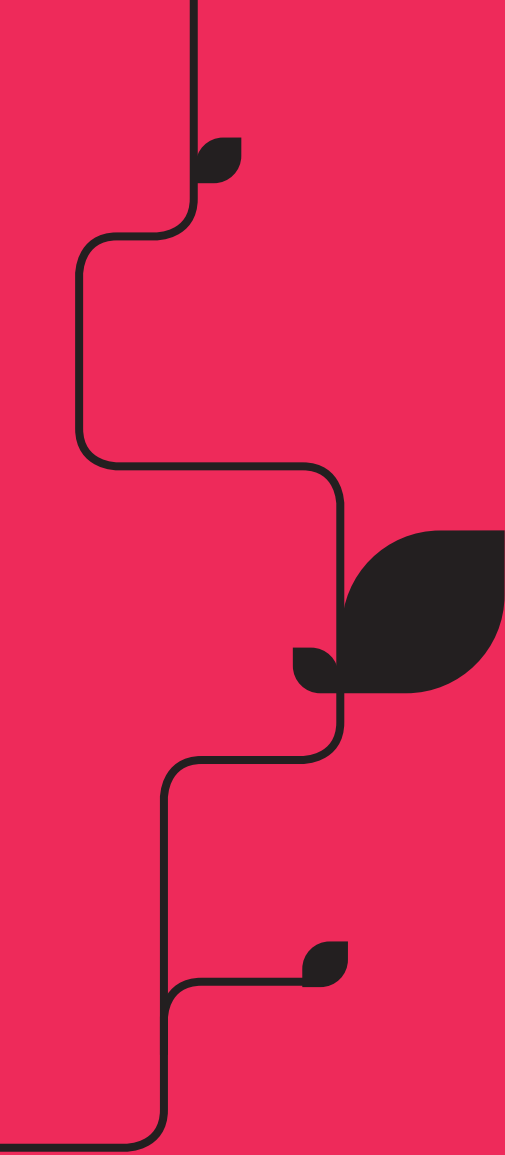
The Government’s attempt to pay invoices within 10 days is laudable and appears to have been successful. This model should be applied by public bodies outside of central government control, i.e. Local Authorities and Primary Care Trusts, where in some cases payment delays are still causing cashflow difficulties for SMEs.

EU Late Payment Directive

The BCC has welcomed the European Commission’s efforts to update current rules on late payment. Nevertheless, we believe that they could be improved both in terms of content and legal certainty. The proposed rules should provide a system that give SMEs the confidence to apply the rules and not risk future contracts and customers.

We also welcome the stricter payment conditions for public authorities, but do not believe that the fixed lump sum on top of interest and recovery costs is appropriate. Not only is it an arbitrary figure, but we have concerns that public sector penalties will ultimately be recouped through additional business taxation.





APPLICABILITY

UK wide.

CONTACTS

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