

CBI response to Department for Business, Energy and Industrial Strategy's call for evidence – “Creating a responsible payment culture”

Summary of CBI recommendations

- ***Large firms and LLPs should investigate what would be required to establish a mechanism to settle SME payments in a quicker timeframe without overhauling all commercial agreements***
- ***Government could use Duty to Report to identify the main terms of supply chain finance schemes, to identify how supply chain finance schemes being used in different industries are being successfully utilised to benefit both parties.***
- ***The CBI believes that the Small Business Commissioner's office is well placed to establish a centralised source of league tables of payment performance for different UK sectors, and recommends the Small Business Commissioner works with industry on how this could be delivered***
- ***The CBI encourages government to consider data around payment of SMEs as a separate reporting requirement under Duty to Report***
- ***The CBI recommends that Duty to Report should require data on 'percentage of payments to terms' as an indication of reliability of doing business, and that the government owner of any resources, such as league tables, measures performance on this metric***
- ***Using Duty to Report requirements to reveal the volume of payments made within agreed terms, and the value of payments paid on time compared to those paid late, would provide insight into the practical impact of late payment in different sectors***
- ***The CBI recommends that a government owner for payment performance data also accounts for client payment practices in both the private and public sector, to include central government departments, government agencies and framework owners***
- ***The CBI recommends that government should investigate how a step-change in the adoption of digital platforms by smaller firms could be achieved***

Strong and mutually beneficial business partnerships, built on trusted and fair practices, have an important role to play in supporting UK prosperity and public confidence in business.

The CBI welcomes this opportunity to continue engaging with government on the issue of responsible payment, which members of all sizes tell us is vital to successful working relationships.

Paying on time is a cornerstone of fair and honest working partnerships, ensuring businesses can support employment and create new jobs in local communities across the country, as well as providing firms with a sound financial base to plan with confidence. Cashflow is particularly important for small and medium sized businesses, and it enables small companies to grow.

Business has led significant improvement in reducing late payment over recent years, driven by the government's introduction of the Small Business Commissioner and the Reporting on Payment Practices and Performance Regulations 2017 (Duty to Report). For example, the UK has shorter average business to business payment durations compared to many other European countries.

However, the UK also has the highest number of firms in Europe that view late payment as a threat to survival¹. Research by BACS showed that in 2017 small and medium-sized firms were owed £14.2bn in overdue payments, and surveys by BEIS and the FSB, for example, continue to highlight that this is a top concern for small firms.

There is both an economic and moral imperative to improve cashflow to SMEs, which CBI members recognise. Unlocking this money can support smaller firms to invest in the skills and technology needed for the future, increasing productivity and enabling them to evolve in step with the changing nature of work.

Paying fairly also ensures that due regard is given to the impact payment practices can have on business owners, staff and customers through the supply chain.

While business is an undeniable force for good in the UK, when business relationships break down because of unfair practices, they can attract public discontent.

The introduction of Duty to Report means that firms' performance in this area is likely to become as visible as gender pay reporting, and our members expect this to drive further improvements in responsible payment, building on the progress in recent years.

In September, the CBI's director general Carolyn Fairbairn wrote to our members reminding them of the new Duty to Report requirement on large firms and LLPs. In November the CBI brought together representatives from Cabinet Office, BEIS' SME Policy team and our small and medium size members at the quarterly CBI Enterprise Forum, to discuss payment and government-SME partnerships.

This follows the CBI's responses to the Crown Commercial Service's consultation on accounting for payment practices by government suppliers, and to the BEIS and Work & Pensions Select Committees' report into the collapse of Carillion.

The CBI is pleased to continue working with government on what action could be taken to further improve the payment culture in UK business.

¹ *Intrum, European Payment Report 2018*, <https://www.intrum.com/media/2772/epr-2018.pdf>

In creating a responsible payment culture, the objective of new government measures should explicitly support SMEs

Large firms holding longstanding commercial agreements with other large companies, across sectors or continents, are not in need of new regulation to speed up these arrangements. But for a micro or small firm, one late payment could have serious consequences. As BEIS' own research indicates, despite the halving of late payment debt since 2014, a third of small and medium sized firms still report it to be an obstacle to business success. A quarter of all UK businesses believe late payment poses a threat to their survival, but inevitably most at-risk firms will be small and medium sized, as they are less able to manage debt, obtain financial support, or provide resource to recover late or disputed money.

There are sectors where late payment can be especially problematic for small firms. In construction, for example, 48% of SMEs cite late payment as an obstacle to success, significantly higher than the average across all sectors². After the collapse of Carillion in January 2018, trade association Build UK estimated that when large firms fail, around 18% of creditor firms also fail within five years. Given 99% of UK businesses are SMEs, they are likely to account for most future failures in such cases.

With SMEs disproportionately impacted by late payment, they also stand to gain the most from improvements in business to business payments. It is through this lens that government's efforts to improve payment performance should focus: by identifying what needs to change to positively impact small and medium sized firms.

Some CBI members who qualify as large firms have explored and successfully implemented procedures that ensure they pay their SME suppliers within faster timeframes, separate to the arrangements with larger firms or otherwise standard terms. This has been achieved by establishing processes within their payment systems that identify which invoices are due to an SME supplier, and once a payment is recognised, creating the mechanism for those invoices to be settled sooner than standard payment terms.

This allows large firms to settle payments to SME suppliers quicker without having to overhaul or renegotiate all commercial arrangements and standard terms, and provides a sustainable way for large firms – where, for example, the scale of cross-sector and multinational operations can present significant complexity – to effect changes positively impacting SMEs that government and industry wishes to see.

The CBI recommends that large firms should investigate what would be required to set up this kind of function within their existing payment procedures. To do so, government could consider adding a tick box requirement into Duty to Report that asks if large businesses have measures in place to offer specific terms for SME suppliers, or plans to introduce them in the future.

To assist in additional administration this might create for large businesses, who may deal with thousands of suppliers, making information on a company's size and status easily available, from a source such as Companies House, would aid awareness of which suppliers qualify as an SME.

Since government announced its support for supply chain finance in 2012, several UK industries have explored and implemented delivering payment to smaller businesses through such routes, with large firms setting up their own schemes as well as government providing support for supply chain finance.

CBI members report that where supply chain finance is offered, many suppliers are keen to receive payment through these schemes, primarily as it offers access to cash more quickly, at a cheaper rate than typical bank finance. Supply chain finance has also proven useful for smaller firms who may be owed money from other outstanding payments, and allows them to bring forward cash from another source while resolving disputes.

² BEIS, 24 May 2018, *Small Business Survey 2017: SME employers*
<https://www.gov.uk/government/statistics/small-business-survey-2017-businesses-with-employees>

However, as has been well documented, supply chain finance can be exploited by firms who simply lengthen their 'standard' payment terms in order to charge suppliers to receive payments in what was previously a standard timeframe, or by applying unfair charges to use such schemes.

Government is already collecting Duty to Report information to build up a picture of which sectors offer supply chain finance schemes. **It could go further by requesting that businesses detail the main terms of such schemes, to identify how supply chain finance being used in different industries is successfully utilised to benefit both parties.** This would additionally ensure greater transparency for suppliers about the costs and benefits of working with businesses where supply chain finance is offered.

The Small Business Commissioner should create a centralised resource for measuring performance on payment practices

The government's Duty to Report requirement on large firms means that by January 2019, all qualifying businesses will have reported at least one set of payment data.

The availability of such data means comparative analysis on businesses' performance is possible, and CBI members are positive about the idea of league tables to shine a light on performance levels. The visibility of this will undoubtedly drive firms to put in place plans to 'up their game' on payment, where needed, as it becomes a mark of responsible, reputable business.

League tables provide for businesses to benchmark themselves against competitors, allow suppliers to appraise a customer within the context of the sector's typical performance, and over the long term allow meaningful improvement to be proven against historical information.

In some sectors, trade bodies have already taken steps to begin the process of creating a league table to rank businesses within that industry. Rather than government tasking trade associations with quasi-regulatory responsibilities, however, **the CBI believes that the Small Business Commissioner's office is well placed to establish a centralised source of league tables for different UK sectors, and recommends the Small Business Commissioner works with industry on how this could be delivered.**

Duty to Report should evolve to enable businesses to provide a fuller picture of their payment performance

The effectiveness of league tables falls down where the data does not create a meaningful picture of performance. The CBI believes that the Duty to Report requirements can usefully be evolved to better support Government's policy objectives. In particular, average payment days is one metric that needs to be seen in the context of more detailed reporting, including percentage of payments made to terms.

While reporting additional data may place further administrative burden on large firms, the CBI's members have told us they are keen to provide greater detail to enable more transparent and effective conversations about payment performance and improvement, ensuring the challenge of creating a responsible payment culture is faced, not feared.

Our members from across a range of sectors have identified areas where Duty to Report can be updated to provide a more detailed picture of performance:

1. The metric of 'average payment days' is too narrow to account for, or shed light on, arrangements that businesses have, or are putting, in place to benefit SMEs.

For example, some businesses already have procedures in place that ensure their SME suppliers are paid within 30 days, while their standard terms are longer. However, due to the frequency and volume of transactions with SMEs, a firm's overall 'average payment days' might be higher than 30 days because a greater number of payments are made to companies under the standard terms. **The CBI encourages government to consider data around payment of SMEs as a separate reporting requirement.**

2. The Duty to Report regulations also require companies to report on the percentage of payments paid outside of their agreed terms. This therefore allows the converse to be reported on: the percentage of payments paid to terms. This is a valuable metric that can provide more insightful guidance to a business's practices than average payment days.

Fair and transparent payment practices are a cornerstone of trusted, responsible business relationships. Being able to point to reliable and responsible practices are key for firms in enhancing their reputation to customers and the wider public. By measuring payments made to terms, government has a useful guide of whether businesses are acting in a reliable, open way; in short, answering the question 'does a company do what they say they will do'.

Reliability is essential for businesses in supply chains. The CBI has held discussions with small, medium and large firms on this: feedback from our membership is that reliability is as important, if not more so, than speed, because it allows suppliers to plan with confidence of payment.

The CBI recommends that Duty to Report should require data on 'percentage of payments to terms' as an indication of reliability of doing business, and that the government owner of any ranking resources, such as league tables, measures performance on this metric.

3. Duty to Report does not currently account for the volume of payments made within agreed terms, or the value of those payments paid on time compared to those that are paid late.

Using Duty to Report requirements to reveal this data would provide more insight into the practical impact of late payment in different sectors and the scale of disputed payments, going further than 'average payment days' which, as a proxy for performance, doesn't provide enough detail.

Transparency of payment performance should extend to public and private sector clients

The CBI's members are united in telling us that the biggest hindrance to funding onward payment is receiving timely payment from clients in both the public and private sectors. Where contracts involve supply chains, large firms are responsible for ensuring payment to their suppliers as and when those goods or services are provided, while awaiting payment that typically arrives once the final product is delivered.

Where firms operate in a market that is characterised by long-term delivery, such as aerospace, or by low margins, such as construction, this places pressure on businesses to fund onward payment while still awaiting money from their direct client.

In the same way that company performance on payment can be ranked through Duty to Report data, businesses want to see that transparency for the clients they work for. This should involve reporting on standard terms, percentage of payments made to terms and average payment days, alongside any SME-focused practices.

This would then allow deeper analysis of the UK industries where payment can be a major obstacle to success, and identify where faster and/or more reliable payment by public and private clients can make a difference to flowing money to small and medium sized firms later in contract delivery.

In some sectors, this has already begun to happen and clients' average payment days are being recorded. Government has committed to publishing its payment data for SME spend, too; however the CBI believes that greater transparency and understanding of market behaviours would be achieved if this reporting was aligned with the Duty to Report requirements on large businesses.

If responsibility for performance league tables is to sit with a central office such as the Small Business Commissioner, then the **CBI recommends that this resource also accounts for clients' payment practices in both the private and public sector, to include central government departments, government agencies and framework owners.**

As the world of work is digitally transformed, payment processes must transform with it

Businesses have consistently told the CBI that errors in processing invoices are the biggest cause of disputes. Incorrect or missing information; invoices sent to the wrong email or postal addresses; spelling errors; all can cause significant delays to payments from a few hundred pounds to millions and put strain on the resources of everyone involved.

To counter this, many large firms have invested in and continue to explore digital platforms and tools for processing invoices and finalising payments.

E-invoicing and other technologies offer the dual benefits of reducing errors and process time, which bring positives to both payee and payer. Fewer disputes will save businesses a lot of time and money in potential litigation and could serve to vastly reduce the late payment debt. For SMEs, however, there is a need to invest time, money or both in getting up to speed with different systems and training staff. **Therefore, the CBI recommends that government should investigate how a step-change in the adoption of digital platforms by smaller firms could be achieved.**

It is evident that there is a knowledge gap between the digital platforms and tools available for SMEs, and those firms' awareness of and ability to utilise them effectively. Government could look to support the adoption of digital payment tools by offering financial assistance in acquiring systems, or training small and medium-sized employers in using them. This could be delivered through, for example, a fund administered by the British Business Bank, or by partnering with industry to create resource that can provide training and support for businesses adopting new tools.

Large businesses could also incentivise the use of digital tools and platforms by providing training to SME suppliers themselves. While this presents a short-term cost, the long-term benefit would reduce overheads and the potential for legal disputes around payments.

Business is committed to enhancing the UK's reputation as a place to do business, and responsible practices such as paying fairly are a foundation of this. The CBI and its members will continue to demonstrate the value that good business, done well, delivers for society.

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