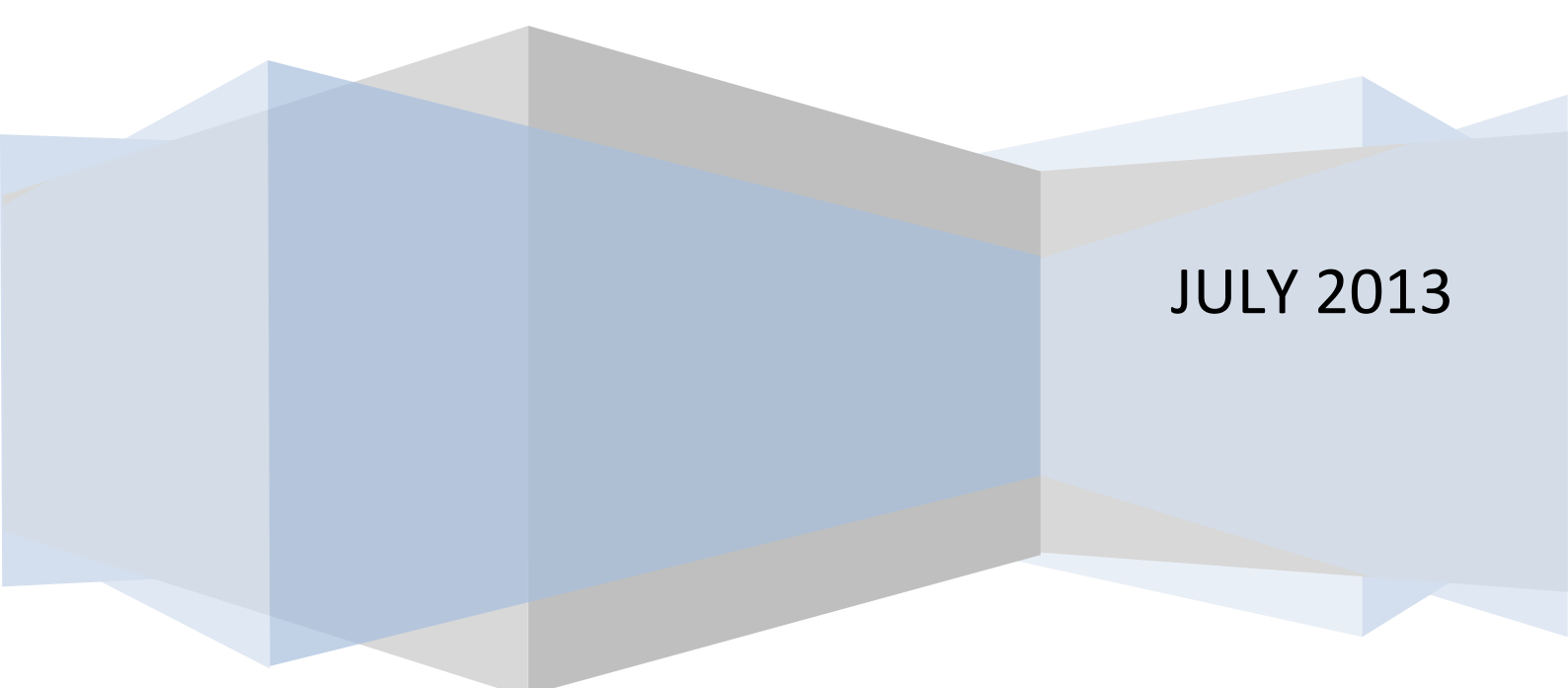


**THE REPORT FROM THE ALL PARTY
INQUIRY INTO LATE PAYMENTS IN
SMALL AND MEDIUM-SIZED
ENTERPRISES**

Debbie Abrahams MP

JULY 2013



Acknowledgements

The Chair and members would like to thank the following people and organisations for providing written and oral evidence to the Inquiry:

Barry J Ashmore, Founder, StreetwiseSubbie.com
Professor Robert Blackburn, Small Business Research Centre, Kingston University
Mike Cherry, National Policy Chairman, Federation of Small Businesses
Kevin Craven, Chief Executive, Services Division, Balfour Beatty
Paul Delaney, Group Treasurer, WPP
Philippa Foster Back, Director, Institute of Business Ethics
John Hackett, Chief Operating Officer, HSBC
Sue Hayes, Managing Director, Business Banking, Barclays
Alex Jackman, Head of Policy, Forum of Private Business
Ann Long, former Director, Harry Long Ltd
Steve Paul, Managing Director, SDP Floor Screeds
Ann Pettifor, Director, PRIME
Steve Sutherland, Chairman, Dorteck

Capita plc
Eazipay Ltd
GlaxoSmithKline
National Federation of Roofing Contractors
National Specialist Contractors Council
OxygenFinance
PayAsYouSay Ltd

The Chair and members would also like to thank Kari Mawhood and Carole Williams for providing administrative support to the Inquiry, John Ramsden for providing public relations support and the Federation of Small Businesses for publishing the report.

The Convenor, Chair and author of the Inquiry report was Debbie Abrahams MP.

The members of the Inquiry were:

Mike Crockart MP
Alex Cunningham MP
Caroline Dineage MP
Rt Hon Michael Meacher MP
Toby Perkins MP
Robin Walker MP

Contents

Acknowledgements.....	2
Summary	4
1. Introduction	6
2. About the Inquiry.....	7
3. Late Payments: evidence of the causes and effects	8
4. Recommendations	13
5. Conclusion.....	15
References	16

Summary

Late payments to small and medium-sized enterprises (SMEs) are a real issue. SMEs report that this is the most important issue for them after access to finance. Data from BACS shows that in 2012 SMEs were owed over £36.4bn in late payments, and that this problem is getting worse in the current economic climate.

The All Party Inquiry into Late Payments was convened by Debbie Abrahams MP to investigate the issues associated with late payments to SMEs, including the macroeconomic effects, the current tools being used to address late payments and additional measures that could be introduced. It consisted of a call for written evidence and an oral hearing from witnesses including economists and business academics, business organisations, suppliers, and FTSE companies.

Witnesses from the oral hearings reported that the banking system is still a cause for concern and that many banks are 'rebuilding their balance sheets on the back of small businesses'. It was suggested that large companies may also be failing to pay promptly for the same reasons.

Although there is evidence that particular sectors and industries are worse than others for paying late, this analysis is felt to be too simplistic as there are exceptions to this. Other evidence indicates that paying suppliers late reflects the leadership and prevailing culture in the organisation; an organisation with an ethical approach to business practice will also tend to pay suppliers promptly. Too often, however, this was not the case, and large companies were said to exploit their power and to 'bully' suppliers.

Evidence of the effects of late payments on SMEs includes not just financial hardship, but business failure and unemployment. In the recent 2008 recession it is estimated that 4,000 businesses failed as a direct result of late payments. A related effect of late payments on the cash flow of SMEs is their ability to access affordable finance. SMEs reported that late payments were a block to borrowing from banks. Some evidence suggests that business start ups were said to be particularly vulnerable to late payment issues. Surprisingly there was no evidence on the macroeconomic effects of late payments, for example on growth and unemployment, although the Inquiry believes it is inconceivable that the cumulative impact on SMEs is not having a macroeconomic impact.

The recommendations reflect the issues underpinning late payments and how to address them:

Developing ethical business practice to stop late payments

Recommendation 1: The Government should promote the adoption of 'good practice' guidance for large companies in managing supply chains, including publishing performance data relating to payment-on-time to suppliers in audited annual accounts.

Recommendation 2: The Government should encourage businesses to publish information for investors and shareholders defining their support of, and compliance with, ethical business practice, for example, signatories of FTSE4Good Index Series or Ethical Trading Initiative

Helping SMEs avoid late payments

Recommendation 3: The Government should support SMEs to avoid late payments through free, high-quality financial management advice and/or training provided, for example, through trade associations, SME organisations, or local SME advisors.

Recommendation 4: The Government should work with SMEs and support the establishment or development of trade associations to negotiate, for example, a Fair Treatment Charter, on behalf of member organisations.

Strengthening voluntary codes to reduce late payments

Recommendation 5: The Institute of Credit Management should review and amend the PPC to reflect the issues identified.

Preventing late payments through legislation

Recommendation 6: The Government should establish a Construction Code of Conduct, similar to the Grocery Code, with an independent adjudicator for mediation.

Recommendation 7: The Government should introduce a Retentions Monies Bill with money retained by a customer from a supplier to be held in a trust.

Preventing late payments by the public sector

Recommendation 8: The Government should require all new Government contracts to include Pre Qualification Questions on past payment performance, and should consider the payment history as part of the bidding process.

Recommendation 9: The Government should make fair payment a contractual requirement for new Government contracts, with Tier 1 contractors paid within 14 days, Tier 2 within 19 days and Tier 3 within 23 days.

Gaining redress for late payments through legislation

Recommendation 10: The Government should support intermediary agencies, for example, SME organisations or trade associations, to act on behalf of suppliers in seeking recompense through the EU Late Payments Directive.

Reducing the effects of late payments

Recommendation 11: The Government are urged to implement a growth strategy that recognises the importance of SMEs and commission's research to assess the macroeconomic effects of late payments on SME suppliers.

1. Introduction

1.1 Late payments to small and medium-sized enterprises (SMEs) are a key issue. SMEs report that late payments are the most important issue after access to finance as they do not have the cash flow buffers of larger businessesⁱ. Data from BACSⁱⁱ shows that in 2012 over **£36.4bn** was owed to over a million SMEs in late payments, with the average company owed approximately £36,000 at any one time. Evidence from the Federation of Small Businesses (FSB) indicates that over half of SMEs are not paid promptly by large companies with the average payment time being 58 days, nearly double normal contract termsⁱⁱⁱ. Over the last year 158 million hours were lost by SMEs chasing overdue bills.

1.2 The problem of late payments is getting worse^{iv}. In 2011 £24bn was owed and one-third of SMEs were affected. To put the problem into context, high street banks lent just over **£56bn** to small businesses in 2011. 42% of SMEs believe the reason late payments is getting worse is that it is not seen as an issue by large companies. Different sectors are worse than others. The private sector is the worst culprits for late payments according to 77% of FSB members, particularly the manufacturing and constructions industries, but there is still a significant section of the public sector which also fails to pay promptly including local authorities and Government departments. New businesses are also more likely to be affected. In 2012, over 124,000 micro companies and SMEs reported that they were almost put out of business as a result of late payment.

1.3 The impact of late payment can be disastrous. During the 2008 recession it is estimated that 4,000 businesses failed as a direct result of late payments. In addition the ability of SMEs to access capital from banks and other financial institutions is also affected by late payments. In the FSB's recent survey 18% of businesses cited poor cash flow as the reason cited for their loan application being unsuccessful. The impact on those businesses refused additional finance included 13% saying that they had had to lay off staff, 47% who had written off invoices of up to £5,000 because of non-payment and 40% who had on-going financial concerns.

1.4 There is growing evidence that late payments to SMEs are hurting the economic recovery as businesses fail and workers are laid off. Data from the Office for National Statistics shows that SMEs make up 98% of the total number of organisations in the UK economy, providing 59.1% of all private sector jobs, 45% of all employment and generating 46% of the UK's income from the private sector (£1,558 bn).

1.5 The previous Labour Government introduced the Late Payment of Commercial Debts (Interest) Act in 1998, updated in 2002. The Act enables firms to charge interest and obtain compensation on overdue payments from customers. However fear of reprisals, including being 'blacklisted' from getting work, has been cited as a reason this legislation is not used more. However this is changing with claims for debt recovery increasing by 34% in the last quarter of 2012 according to debt recovery firm Lovetts. In 2008 the Institute of Credit Management (ICM) set up the Prompt Payment Code (PPC) for FTSE companies; this stipulates that suppliers must be paid on time (meeting contract terms) and that the Code is adopted down the supply chain. In Europe the Late Payments Directive, which had to be implemented in the UK by March 2013, mirrors these developments.

2. About the Inquiry

2.1 In June 2011, the 'Be Fair – Pay on Time' campaign was launched by Debbie Abrahams MP to raise awareness about late payments to SMEs after she had been contacted by businesses in her Oldham East & Saddleworth constituency. In September 2011 she convened a Westminster Hall debate to try to gain political consensus on how to address this issue. At the debate, the Government agreed to bring forward the EU Late Payments Directive to 2012, but later reneged on this. In collaboration with the Forum for Private Business, the FSB and Institute of Credit Management, in July 2012, Debbie Abrahams contacted the 75 FTSE 100 companies **not** signed up to the Prompt Payment Code (PPC) urging them to do so; the number of signatories more than doubled.

2.2 In October 2012, the Business & Enterprise Minister also wrote to the FTSE 350 urging them to sign up to the PPC as well and by January 2013, 54 more had signed up to the PPC. Alarming however, prior to signing up to the PPC some companies increased their payment terms in some cases without negotiation or notice, and by up to 3 times previous contract terms (e.g., 25 to 75 days).

2.3 Another development in October 2012 was the support of Supply Chain Finance (SCF) schemes where a large company informs a bank that that an invoice has been approved for payment; the bank then offers a 100 per cent immediate advance to the supplier at variable interest rates, knowing the invoice will ultimately be paid by the large company.

2.4 With this context, Debbie Abrahams convened an all party Inquiry into late payments to SMEs to consider the issues associated with late payments to SMEs, including the macroeconomic effects, the current tools being used to address late payments and additional measures that could be introduced. A call for written evidence was issued in March and an oral evidence session was taken in public on 23rd April from business and economic key informants, business organisations, suppliers (SME) representatives, and FTSE company representatives.

2.5 This report summarises the evidence received and analysed by the Inquiry, and defines recommendations to be implemented to address the issue of late payments.

3. Late Payments: evidence of the causes and effects

Panel 1: business and economic informants

3.1 Written and oral evidence on the causes of late payments suggest a complex inter-play of different factors. A key issue was said to be the 'dysfunctional banking system' which is failing to lend to SMEs at sustainable interest rates so compounding the issue of late payments. Some key informants said large and small businesses were losing out as they were being made to pay excessive interest rates for overdrafts and loans above the Bank of England base rate in order to 'repair the banks' balance sheets'. Concerns were raised that 160,000 'zombie' companies are unable to repay their debts; the question was posed that with debt increasing but wages barely increasing, what will happen when these companies fail?

3.2 Another key factor was said to be the power imbalance between large and small businesses, and all too often, 'unethical power relations...bullying' that exist. In the construction industry it was said that 'paying late or not at all is a ruthless tactic....motivated by corporate greed'. However, it was suggested that it is not helpful to identify specific sectors as being 'good' or 'bad' – it was more likely to be associated with a company ethos or culture which was down to the leadership of that company rather than a sector. According to one key informant, the particular issues associated with the construction industry relate to the valuation of the work being done and the monitoring of this work. It was suggested that large companies are also trying to rebuild their balance sheets, and using late payments as a means to do this.

3.3 Surprisingly there was no evidence immediately available which defines the macroeconomic effects of late payments. The Inquiry members believe it is inconceivable that SME debt and insolvency levels attributable to late payments are not impacting on the wider economy. In addition to restructuring the banking system to enable sustainable lending, it was also suggested that there needed to be changes in companies' behaviour underpinned by a Code of Ethics and driven by the companies' leaders. A Fair Treatment Charter associated with the Construction Act was also suggested.

Panel 2: business organisations

3.4 There was support from representatives of the FSB and FPB with many of the points raised by the business and economic informants. In particular there was concern that there was an increase in 'bullying' of SMEs by larger companies and that the construction sector was the worst culprit. It was said that 125,000 micro-companies are nearly being put out of business by late payments. The main issue is final invoices being queried after the work has been completed, which has a knock-on impact all the way down the supply chain. It was disputed that SMEs are at fault in submitting inaccurate invoices.

3.5 In agreement with other informants, it was suggested that access to easy credit prior to the banking crisis had meant late payments were not the pressing issue that they are now. It was also mentioned that business start-ups are particularly badly affected as they find it more difficult to get credit and are less likely to be paid on time. In response to questions about supply chain finance, informants indicated it should not be seen as a substitute for paying promptly for goods or services that have been delivered.

3.6 Looking at solutions e-invoicing was seen as an opportunity and challenge; in particular interoperability was the key challenge. Similarly although legislation defines late payments as unacceptable practice, the lack of enforcement means it has little impact on behaviour. The PPC was seen as a useful kitemark but as there is no monitoring, and some companies had even changed payment terms without discussion with their suppliers prior to signing up to the PPC, in blatant contravention of the code, its influence was seen as limited.

3.7 It was suggested that there needed to be a combination of cultural change and legislation. The FPB indicated an obstacle to SMEs taking legal action before had been the fear of reprisals or 'blacklisting' from large companies. Through Article 7.4 of the new EU Late Payments Directive there was an opportunity for an intermediary to act on behalf of the SME to recoup interest owed without the company knowing who was making the claim. This was seen as a potential way forward.

Panel 3: suppliers (SMEs)

3.8 Further allegations of bullying and intimidation were asserted by two suppliers who worked in construction. Excerpts from their evidence are included below:

'In August last year I lost my business of 25 years, after building it from nothing...late payments meant it was starved of cash flow and I had to put the business into administration. It was the worst time of my life....[It was] Due to a big main contractor playing with us and using their power and might to starve me so they didn't have to pay me. They were in trouble on a job and through their incompetence we were made to suffer. We lost people from the business. Not a pleasant thing to do to tell people they have to lose their jobs when they've done nothing wrong. It's organised crime. They know what they're doing and they're playing with us....

'It started in August 2011. We were trying to get meetings with the surveyors to sort the account out, putting in valuations for £100,000 and being paid £5,000 on account. That kept us going on.... I turned up for meetings and found the surveyor wasn't there and was on another site. By August 2012 the business went into administration. The day after, their accounts department submitted to the Administrator saying we owed them £71,000 which was a ploy to brush the Administrator away. We were left high and dry. It needs to be changed...They owed us £450,000...'

Steve Paul, former construction sub-contractor

In response to questions as to whether the main contractor was himself in financial trouble it was confirmed that it was the one of the largest construction companies in the country and published accounts do not indicate any financial issues.

'[They] pass all the risk back onto subcontractors. Getting paid, design risk even things like paid-when-paid clauses, if the project is late....Last year we had a problem when we won 4 jobs with Balfour Beatty, very tight prices, we knew that, there wasn't a problem doing that. Then we came across lots of disaffected Balfour Beatty staff on sites....

'The surveyors had started to target at the beginning of a job how much they were going to reduce the amounts they were going to pay subbies. There was spreadsheet document which challenged [construction co] but they denied it exists. I even challenged the guy that wrote it and he said, "That's nothing to do with me". But it was photographed on his desk. [Under] Dortech "Commercial settlement based on reduction sought from Dortech for general delays caused by them being late" - this is when we'd hardly started the job. So we thought this isn't right, before we hardly started the job to reduce your final costs... we believed they'd won those jobs significantly below their costs knowingly wanting to reduce their cost irrespective on the outcome on their subcontractors....

'So then we found we had some issues and they started holding back some money. £5,000 to start; at one stage we had 25 lumps of £5,000 held back. To go to adjudication under the Construction Act it costs a non-recoverable cost of £5-6,000. So it would cost us £5-6,000 to go to adjudication to recover £4,500. You don't do it do you? You'd be mad. And so it built up...towards the end of these contracts we were owed £500,000 including retentions.'

Steve Sutherland, Dortech

3.9 They described how this is getting worse and their belief that the 'economy is driving their behaviour...tendering at below cost...how are they to make up?' how when they had gone public – something many subcontractors are afraid to do because of the potential blacklisting – they were overwhelmed with the number of sub-contractors contacting them reporting the same thing. Steve Sutherland indicated that the wider implications of this 'cut-price construction' are a 'legacy of sick buildings' which could result in fatalities.

3.10 There were different ideas as to how to resolve the issue of late payments and sub-contractor intimidation. But it was felt that the PPC was 'not fit for purpose'. There was concern that if contractors were made to pay interest on monies owed to suppliers then contractors would pass that on to the supplier. It was suggested that the power imbalance needs to be addressed by

strengthened trade organisations acting on behalf of and providing support for these SMEs. A construction code with adjudicator to enforce was one suggestion. It was also noted that remediation needs to be swifter.

Panel 4: FTSE companies

3.11 All of the FTSE companies giving evidence were signatories to the PPC. They defined their contract terms as ranging from 28 days (Barclays), 31 days to 2/3 of suppliers (Balfour Beatty) to 86% paid within 43 days (HSBC). Reasons for paying late were said to be about 'process failures' and included:

- Invoice queries
- Goods or services not delivered correctly
- Incorrect date
- Credit note issued
- Internal approval systems delays

3.12 In response to concerns raised by earlier witnesses, Kevin Craven (Balfour Beatty) said they processed over a million invoices a year from over a thousand different sites across the UK. On average it took 13 days for an invoice to be entered into the system. 'Historical reasons' may account for different payment terms as they have over 18,000 suppliers.

3.13 When questioned about whether paying suppliers promptly were a Board priority, informants responses varied. Some indicated that this was monitored carefully by the Board, others that the Board would only be informed if there was a problem.

3.14 Sue Heyes (Barclays) and John Hackett (HSBC) were asked about lending to SMEs. It was mooted that different banks have different approaches but Barclays said that they were approving 80% of loan applications and were working with business organisations to help SMEs access finance. Overdraft pricing was not seen as a key issue.

3.15 In response to the point made by earlier witnesses that banks and large businesses are 'rebuilding their balance sheets on the backs of small businesses' it was said that there was evidence of large companies drawing out payments and that this was being passed down the supply chain. The state of the economy and demand were seen as the key issues for SMEs. Kevin Craven (Balfour Beatty) described the state of the construction industry as 'dire' with demand down by 35% since 2008 and margins 'very tight'. Paul Delaney (WPP) indicated that since the financial crisis Boards had asked finance departments to 'preserve [the company's] liquidity' and that this had involved increasing debtor days. There was general agreement that there was a vicious cycle: as well as late payments being affected by the economy, by impacting on SMEs viability, late payments were affecting the economy.

3.16 Looking to solutions to late payments, Paul Delaney (WPP) suggested that the PPC was limited and that penalties need to be applied. A construction 'fair treatment' code or charter with an independent adjudicator was seen as a useful step forward. Supply Chain Finance was seen as 'dealing with the symptom and not the problem'. E-invoicing was also supported.

Written evidence

3.17 Written evidence submitted to the Inquiry generally reflects that of the oral hearings: SMEs are being subject to late payment problems and for some this can mean not just financial hardship but

bankruptcy. Late payments is not a new phenomenon, but has been brought into focus by the rise in small firms, the increase in formal 'contract relations' between enterprises and the effects of the financial crisis and the stagnant economy.

3.18 A literature search indicates a surprising absence of any recent academic work on late payments^v. Similar to the oral testimony, the literature refers to 'uneven power relations' between small and large organisations with less scrupulous firms exploiting weaker firms^{vi}. However the behaviour of some SMEs is said to contribute to a late payments culture, for example, through offering trade credit either implicitly or explicitly: in other words getting a contract is more important than the terms and conditions agreed.

3.19 There is some evidence to suggest that late payments vary by industrial sector and by size (micros are less likely to suffer late payments)^{vii} although there are exceptions to sector trends^{viii}. Although late payments contribute to the financial issues SMEs face and may be a contributory factor if they fail, financial management skills may also contribute to this; often these weaknesses are exacerbated in a recession making them more vulnerable to cash flow problems.

3.20 On the efficacy of legislation enshrining a statutory right to interest or of a voluntary code of practice as a means of addressing late payments, the literature suggests that neither are panaceas. Supporting the oral evidence, the literature suggests that SMEs are reluctant to trigger a statutory right to interest fearing 'losing a valuable client or developing a reputation of being overly litigious'. The effectiveness of voluntary codes seems to vary with the state of the economy, with compliance aggravated during financial downturns^{ix}.

4. Recommendations

4.1 The recommendations to address the issues associated with late payments are as follows:

4.1.1 Developing ethical business practice to stop late payments

There was evidence from witnesses and from the literature that paying supplier late reflected the culture and ethos of a company. Stopping this poor practice requires a change in corporate behaviour and this needs to be driven from the top. The leadership and culture of large businesses determines the relationship with suppliers, including contract terms and payment. Evidence was also presented to suggest advantages to large organisations engaging with suppliers rather than just monitoring and auditing them. Key elements of 'good practice' were also defined.

Recommendation 1: The Government should promote the adoption of 'good practice' guidance for large companies in managing supply chains, including publishing performance data relating to payment-on-time to suppliers in audited annual accounts.

Recommendation 2: The Government should encourage businesses to publish information for investors and shareholders defining their support of, and compliance with, ethical business practice, for example, signatories of FTSE4Good Index Series or Ethical Trading Initiative

4.1.2 Helping SMEs avoid late payments

Evidence from the literature identified financial practice issues, for example, invoices being incorrectly completed, as a contributory factor to paying their suppliers late. SMEs need to develop robust financial management systems and skills which reduce the risk of invoices being delayed or rejected by their contractors. To help redress the power imbalance between individual SMEs and their contractors they also need to develop new or strengthen existing trade associations to liaise across, and negotiate on behalf of, the industry.

Recommendation 3: The Government should support SMEs avoid late payments through free, high-quality financial management advice and/or training, for example, through trade associations, SME organisations, or local SME advisors.

Recommendation 4: The Government should work with SMEs and support the establishment or development of trade associations to negotiate, e.g., a Fair Treatment Charter, on behalf of member organisations.

4.1.3 Strengthening voluntary codes to reduce late payments

Evidence from witnesses indicated that the Prompt Payment Code (PPC) was seen as a useful starting point for developing commitment to paying suppliers promptly. However in recent months it had fallen into disrepute as some signatories had signed up to the PPC after changing the terms and conditions of their contracts with their suppliers without negotiation. The lack of monitoring, for example, of whether signatories and their supply chain paid promptly, was also seen as an issue.

Recommendation 5: The Institute of Credit Management should review and amend the PPC to reflect the issues identified.

4.1.4 Preventing late payments through legislation

Although it was acknowledged that late payments happen in all sectors, there is evidence that the manufacturing and construction sectors are the worst offenders. In view of the evidence presented concerning the issues in the construction industry, it was felt that there should be urgent action to address the late payments issue in this sector:

Recommendation 6: The Government should establish a Construction Code of Conduct, similar to the Grocery Code, with an independent adjudicator for mediation.

To ensure that large companies are not intentionally delaying payments to suppliers for their own financial purposes, the contractually agreed payment should be held in an independent trust. Once all the conditions for that contract have been met, the payment can be made to the supplier. A Credit Ombudsman will arbitrate in disputed cases. This will require legislation:

Recommendation 7: The Government should introduce a Retentions Monies Bill with money retained by a customer for a supplier to be held in a trust.

4.1.5 Preventing late payments by the public sector

Although the public sector as a whole has made great strides to improve their payment performance, this does not currently flow down the supply chain. To address this, the following recommendations are proposed as part of the public sector procurement process:

Recommendation 8: The Government should require all new Government contracts to include Pre Qualification Questions on past payment performance, and should consider the payment history as part of the bidding process.

Recommendation 9: The Government should make fair payment a contractual requirement for new Government contracts, with Tier 1 contractors paid within 14 days, Tier 2 within 19 days and Tier 3 within 23 days.

4.1.6 Gaining redress for late payments through legislation

There is evidence that there has been reluctance from SMEs to use past legislation, e.g., to claim interest on late payments, because of the fear of 'blacklisting'. The new EU Directive on Late Payments (2011/7/EU) which came into effect in the UK in March 2013 may alleviate this. It requires business-business invoices to be paid in 60 days and public authority-business invoices in 30 days, with debtors forced to pay interest with and an administration fee. However through article 7.4 it allows an intermediary to act on behalf of the supplier.

Recommendation 10: The Government should support intermediary agencies, e.g., SME organisations or trade associations, to act on behalf of suppliers seeking recompense through Late Payments Directive.

4.1.7 Reducing the effects of late payments

The late payments issues facing SMEs are brought into sharp focus because of the state of the economy. Shrunken order books are exacerbating cash flow issues, which in turn are affected by difficulties accessing finance and getting paid on time.

Recommendation 11: The Government are urged to implement a growth strategy that recognises the importance of SMEs and to commission research to assess the macroeconomic effects of late payments on SME suppliers.

5. Conclusion

5.1 Late payments are a major issue for SMEs. The Inquiry acknowledges that paying suppliers late is not a new issue, but it appears to be a growing problem. Evidence suggests that this reflects the fragile state of the economy, which is making this problem more acute.

5.2 It was reported that the banking system is still a cause for concern and that many banks are 'rebuilding their balance sheets on the back of small businesses'. It was suggested that large companies may also be failing to pay promptly for the same reasons.

5.3 Although there is evidence that particular sectors and industries are worse than others for paying late, this analysis is felt to be too simplistic as there are exceptions to this. Other evidence indicates that paying suppliers late reflects the leadership and prevailing culture in the organisation; an organisation with an ethical approach to business practice will also tend to pay suppliers promptly. Too often, however, this was not the case, and large companies were said to exploit their power and to 'bully' suppliers.

5.4 Evidence of the effects of late payments on SMEs includes not just financial hardship, but business closures and unemployment. The Inquiry took oral evidence from the former director of such a small business, and the emotional toll was clear for all to see. A related effect of late payments on the cash flow of SMEs is their ability access to affordable finance; SMEs reported that late payments were a block to borrowing from banks. Some evidence suggests that business start ups were said to be particularly vulnerable to late payment issues. Surprisingly there was no evidence on the macroeconomic effects of late payments. The Inquiry believes it is inconceivable that late payments to micro and SMEs will not be impacting on both economic growth and employment.

5.5 An indirect effect of late payments was said to be a legacy of 'sick buildings'. Construction companies were under pressure to agree to unprofitable contracts and ended up taking short cuts. The Inquiry was shown photographic evidence which featured poor quality, potentially dangerous buildings, including schools, said to be the result of 'cut-price construction'.

5.6 On analysing and reviewing the evidence, the Inquiry has developed a number of recommendations to address the issues underpinning late payments, particularly unethical business practice from large companies and poor financial management practice from suppliers. There is also the recognition that a stagnant economy is compounding the effects of late payments and that more analysis of the macroeconomic effects of late payments is needed. Other recommendations are concerned with developing informal systems as well as statutory instruments to ensure small and micro businesses are paid on time and can thrive.

References

-
- ⁱ BIS SME Business Barometer (2013)
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/197450/bis-13-p75a-sme-business-barometer-february-2013.pdf
- ⁱⁱ BACS (2012)
<http://www.bacs.co.uk/Bacs/Press/PressReleases/2012/Pages/LatepaymentsdebthighenoughtoputUKSMEsou tofbusiness28-09-12.aspx>
- ⁱⁱⁱ FSB (2011) Members' survey
- ^{iv} FPB (2010) Economy Watch Report
- ^v Blackburn (2013) Note for Late Payments Inquiry, Kingston Business School. Kingston University, Surrey
- ^{vi} Wilson (2008) An Investigation into Payment Trends and Behaviour in the UK: 1997-2007, CMRC Centre, Leeds University Business School, Leeds.
- ^{vii} Peel et al (2000) Late payment and credit management in the small firm sector: some empirical evidence. *International Small Business Journal*, 18(2), 17-37.
- ^{viii} Spence, L (2006) Supplier Relationships in the UK: Business Ethics and Procurement Practice. London: Institute of Business Ethics
- ^{ix} Paul & Boden (2011) Size Matters: The Late Payment Problem, *Journal of Small Business and Enterprise Development*, 18(4), 732-747