



New government plans to tackle late payments

Late payments are the bane of many small businesses. A survey by the Federation of Small Businesses (FSB) found that late payments were one of the top three reasons for small business failure, with 10 per cent of members waiting for payments of more than £35,000 and around 30 per cent of payments being made late. This problem causes major cash flow issues, hampers investment and puts a quarter of small firms at risk of insolvency.

In December last year Paul Uppal was appointed the Small Business Commissioner. The post was created by the government to act as a champion for small businesses, primarily to tackle the major problems facing them such as late payments and helping with dispute resolution of unpaid invoices. So far Mr Uppal and his office have helped to recover more than £400,000 of outstanding debt for small businesses. However this is only a small step in the ocean compared to the £2.5bn they are owed.

The government also brought in the Prompt Payment Code last April which makes large companies and limited liability partnerships report their payment practices twice a year, including the average time it takes to pay supplier invoices. However these regulations do not appear to be having any impact or consequences for those not paying on time according to Mike Cherry, the national chairman of the FSB;

“The voluntary Prompt Payment Code is not working when it allows signatories like Carillion to pay on terms of over 120 days, so we want to see a new tough and transparent compliance regime being proposed.”

The government now intends to strengthen the Prompt Payment Code by requiring big companies to designate a non-executive director to oversee any late payment issues and to be a point of contact for their suppliers who have unpaid or overdue invoices.

Mr Cherry believes that this new government focus “Is the only way to transform boardroom culture in the UK, where it has become acceptable to pay small firms late if it helps cashflow.”

While it is hoped that the government’s renewed focus on this issue will help to turn around the UK’s late payment culture, small businesses need to be proactive too. Small business owners need to think about when they start sending invoices, when do they start chasing for payment and is the customer fully aware of the credit terms? Ultimately small businesses need to stay in control of their credit. They might not want to lose business but a customer who does not pay is not a customer.

If a customer is happy with the product or service they should be happy to pay for it. When contacting a customer regarding payment the right questions need to be asked – was the delivery received, was the order complete, is there an issue? Disputes are inevitable, but the sooner the business is aware of them, the sooner they can be resolved and payment can be received.

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