



Government crack down on late payments: what you need to know and how to protect your business

Late payments are a huge headache for small businesses across the UK, costing SMEs around £22,000 per year on average. In fact, it's estimated that they're responsible for about 50,000 business closures each year!

The government has just announced new measures to tackle the problem, but these won't come into play overnight, so what can you do in the meantime to protect your business?

What's changing?

The government has rolled out some new proposals to address late payment problems, particularly trying to tackle larger businesses taking advantage of smaller ones. Here's what's on the table:

- **New Fair Payment Code:** The old Prompt Payment Code will be replaced with a new Fair Payment Code this autumn, setting clearer standards for businesses to meet. Businesses that show they pay their suppliers promptly can earn gold, silver, or bronze status, encouraging faster payments across the board.
- **More transparency about big company practices:** New legislation will soon require large businesses to report their payment practices in their annual reports. This will shine a light on companies that drag their feet on paying small suppliers, holding them accountable to boards and investors.
- **Consultation on tougher laws:** Consultation will be held on stronger laws to force big companies to pay small businesses on time. Enforcement of existing laws is also being ramped up, meaning companies that don't comply with reporting regulations could face criminal penalties, including unlimited fines.

This matters to small businesses

According to the Federation of Small Businesses (FSB), more than half of UK SMEs are affected by late payments every quarter, with many forced to take out expensive loans or dip into personal savings to cover cash flow gaps. This new government focus on the issue aims to level the playing field and remove a major barrier to SME growth.

Of course, it's hard to say exactly how effective the new measures will be, and it will take time for them to be fully implemented. So, what can you do to tackle late payments in your business today?

Practical steps to handle late payments right now

While the government's efforts to fix the late payment culture are welcome, here are a few practical steps you can take immediately to protect your business:

- ***Be proactive with your payment terms:*** Make sure your payment terms are crystal clear right from the start. Include these in your contracts and invoices, and consider tightening your payment deadlines if you've been giving clients too much leeway. For example, moving from 60 to 30-day terms can help speed things up.
- ***Chase payments early and regularly:*** Don't wait until an invoice is overdue to follow up. Send polite reminders a week before the due date, and chase them promptly if payment is late. Many businesses find that consistent, friendly follow-ups can make a big difference in getting paid faster.
- ***Offer incentives for early payment:*** Consider offering a small discount for clients who pay early. While this might reduce your profit slightly, it's often worth it to avoid the costs and stress of late payments.
- ***Use electronic invoicing and payment systems:*** Research shows that electronic invoicing can reduce late payments by up to 20%. Switching to digital invoicing and payment systems can streamline the process, making it easier for your clients to pay on time and for you to track payments more efficiently.
- ***Consider factoring or invoice financing:*** If late payments are seriously hurting your cash flow, you could look into invoice financing or factoring services. These allow you to borrow against your unpaid invoices, giving you the cash you need upfront. Just be aware that these services come at a cost, so weigh the pros and cons carefully.
- ***Build strong relationships with clients:*** It's easy to overlook, but maintaining a strong relationship with your clients can sometimes help avoid late payments. Regular check-ins and open communication about the status of payments can prevent issues before they arise.

Looking ahead

Hopefully the new Fair Payment Code and the related legislation around reporting will put more pressure on big businesses to pay smaller ones on time. However, even if effective, these changes will take time to filter through.

In the meantime, taking a proactive approach to invoicing, payments, and customer relationships now will continue to help protect your business and reduce the impact of late payments.

If late payments are causing you major issues or you're unsure how to handle overdue invoices, get in touch with us for advice tailored to your business. We're here to help you stay on top of your finances and keep your business growing.