



Late Payment

Squeezing money out of SMEs

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Consequences

Paying an invoice late costs the UK businesses and jobs.

According to Government statistics 4,000 businesses closed in 2008 as a direct consequence of late payment.

While large firms will have sufficient reserves to cope with late invoices, small firms need invoices paid within the agreed period. This represents good business practice and helps to keep long term business relationships.

A third of FSB members report that they have been paid late, and the average delay can be up to 20 days after agreed payment terms. This squeezes already tight cash flow and leads to difficulty in paying amenity bills, wages and reducing new orders. Ultimately it leads to job cuts.

Solution

The Government must take leadership in this area by introducing a 'Social Clause' in all national, regional and local Government contracts. This would guarantee that the speedy fashion that Government pays the lead contractor is passed down the chain to all sub-contractors.

This would help the cash flow of small sub-contractors and give confidence to small businesses that they will be paid in time. Where lead contractors are failing to adhere to the Social Clause and pay sub-contractors late, they should be fined and given warning that persistent failure will lead to loss of contracts in the future.

While this will not completely stamp out the late payment issue, it would go far and slowly help to change the behavior of UK businesses.

Where small businesses are contracted by national, regional and local Government agencies and payment terms are not set, a maximum of 30 days should be applied. This is set out in the EU's working paper on late payments in commercial transactions.

Throughout the EU, the UK's payment losses are between p1 per cent and 1.9 per cent in total turnover. This is higher than Sweden, Finland, France and even Scotland.

Sources: BIS Prompt Payment Code, Intrum Justitia and FSB Research

LATE PAYMENT **STATISTICS**

- **4,000 BUSINESSES SHUT IN 2008 DUE TO LATE PAYMENT**
- **AVERAGE PAYMENT TIME IS NOW 20 DAYS AFTER CONTRACTED PERIOD**
- **OVER 30% OF SMALL BUSINESSES SAY THAT THEY ARE BEING PAID LATE BY OTHER BUSINESSES**
- **15% OF SMALL BUSINESSES SAY THEY ARE WAITING MORE THAN 10 DAYS TO BE PAID BY GOVERNMENT AGENCIES**

For further information

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