REPORTING ON PAYMENT PRACTICES

As part of the Government's continuing efforts to improve payment practices, legislation was introduced in April 2017 that requires the UK's largest companies and Limited Liability Partnerships (LLPs) to report twice a year on payment metrics, including the average time taken to pay supplier invoices.

Late payment continues to be an issue for small and medium sized businesses as it can affect their cash flow and their ability to trade. The Spring 2018 edition of the Lloyds Bank Working Capital Index highlighted that customer payment times remained a challenge with six times as many companies reporting longer payment times than reporting shorter.

We analysed the payment practices reports published by the Department for Business, Energy & Industrial Strategy as at the end of November 2018. At time of writing, 7,010 companies had submitted 8,889 reports, including 880 nil returns. 1,350 companies had reported more than once since the introduction of the legislation.

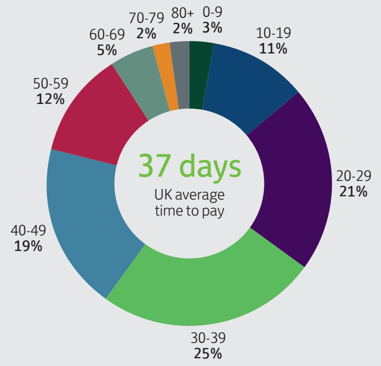
To date, peak reporting months relate to December 2017 and March 2018 period ends. 43% of complete reports were received in July 2018 and a further 17% were received in October 2018.

This document summarises the findings from our analysis, including the average time to pay and the percentage of late payments across industry sectors and UK regions.

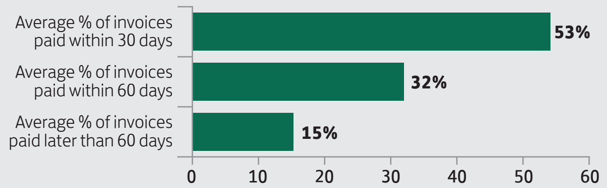
In association with

Small Business Commissioner

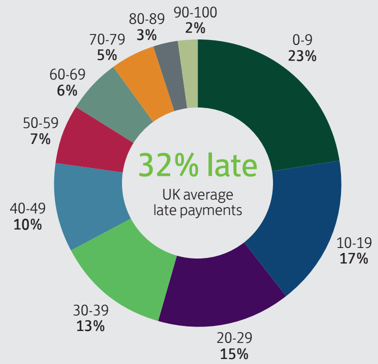
Average time to pay



Percentage of invoices paid



Distribution of late payments (days late)

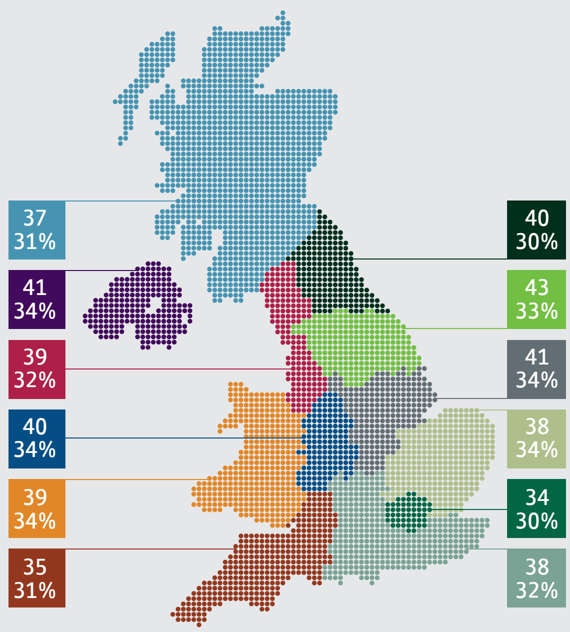


LLOYDS BANK

PAYMENT PERFORMANCE

Geographic analysis

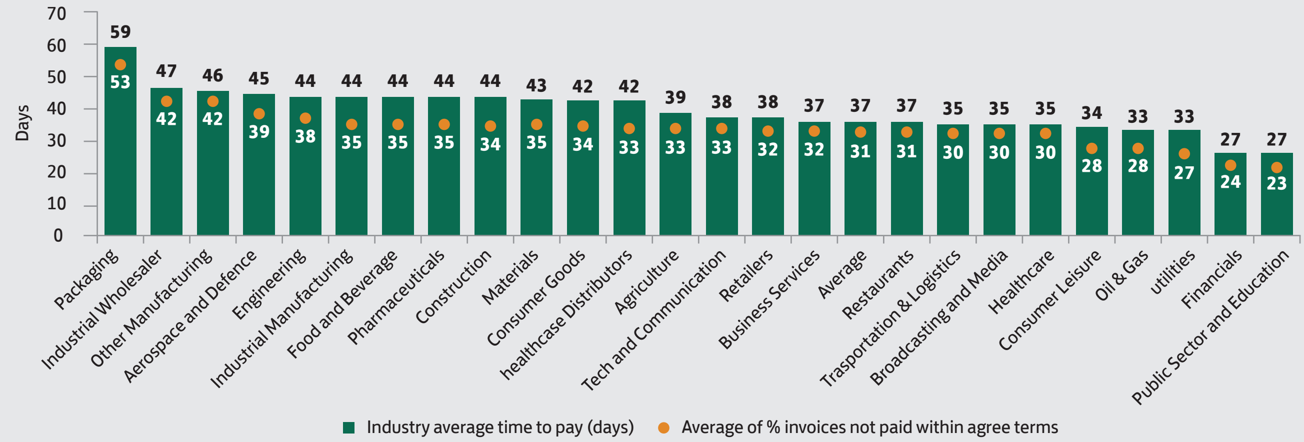
(based on the address of the registered office)



KEY FINDINGS

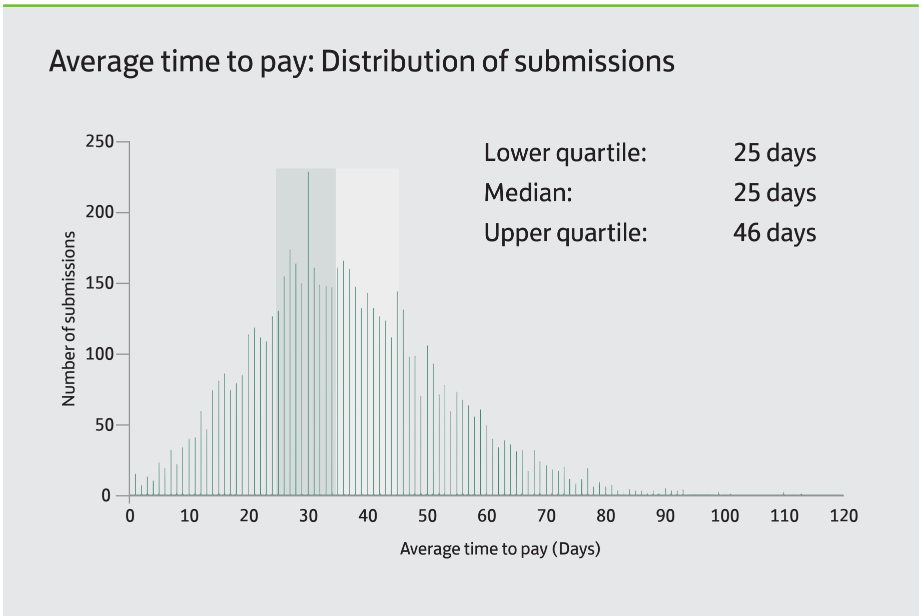
- With the exception of Scotland, average times to pay and the percentage of late payments were lowest in Southern England and London.
- The average time to pay is longer in industrial areas of the UK (e.g. Wales, Midlands and the North East).
- London reported the shortest average time to pay at 34 days and, at 30%, the lowest number of late payments.
- Companies in Yorkshire & the Humber reported the longest average time to pay at 43 days followed by Northern Ireland at 41 days.
- Companies in the Midlands, Wales and Northern Ireland reported the highest percentage of late payments.

Sector analysis of payment performance

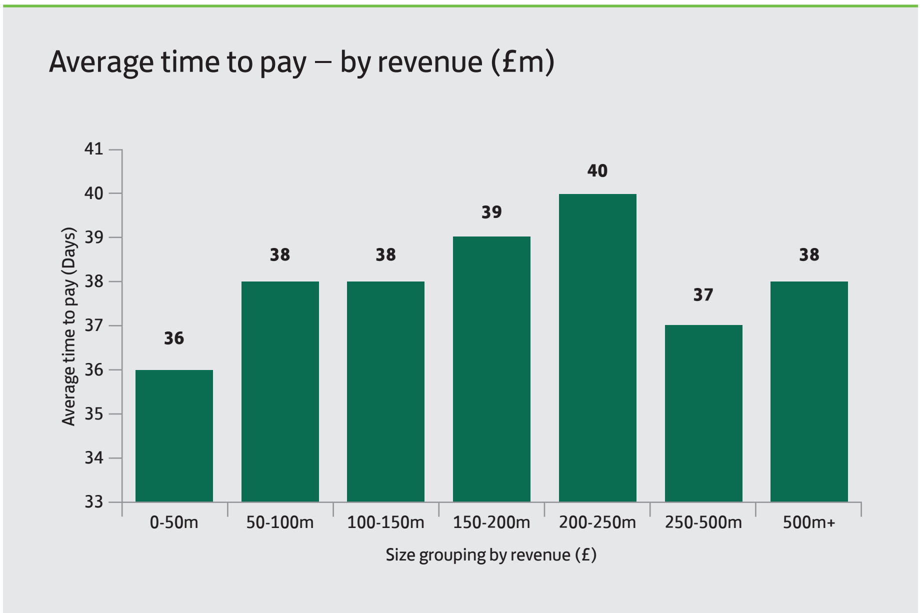


- The data suggests that the sector in which a business operates is the biggest driver of payment performance and late payments. The average time to pay ranges from 27 days in the public sector to 59 days for the average company in the packaging sector.
- Sectors that we would expect to have more complex supply chains (i.e. engineering and manufacturing) report longer average times to pay and pay a higher proportion of invoices later than agreed payment terms.

AVERAGE TIME TO PAY

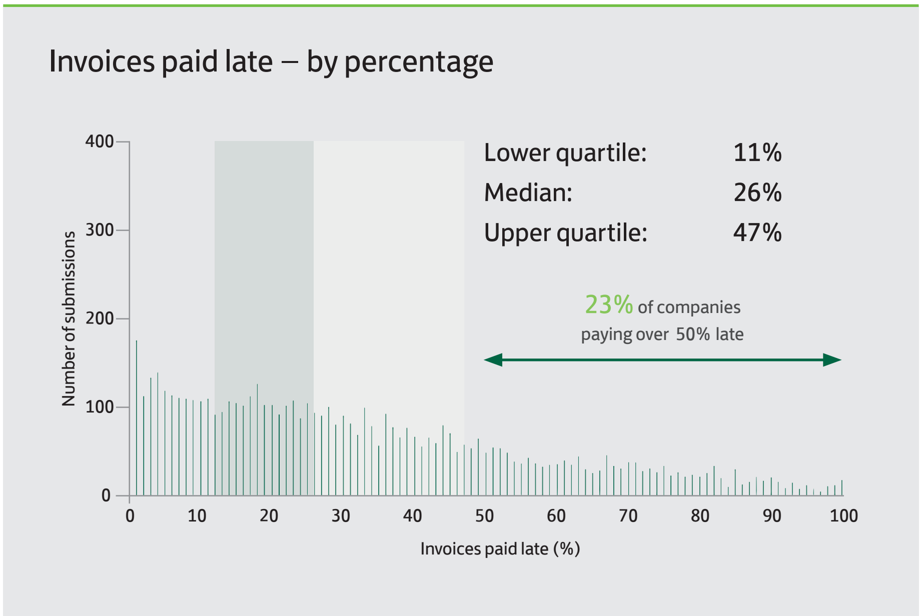


- On average, it takes 37 days for a UK company to pay its suppliers.
- 65% of companies report an average time to pay of longer than 30 days.
- 9% of companies report an average time to pay of longer than 60 days.

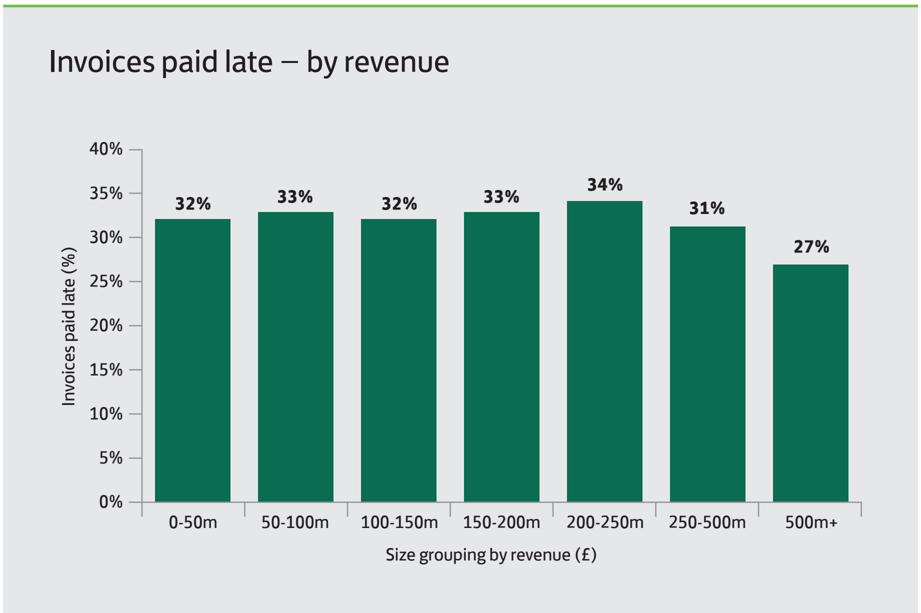


- Company size, analysed by revenue, does not appear to be a significant factor in the average time to pay.
- There is a four day range in the average time to pay when performance is analysed by size of company revenue. Companies with revenue of less than £50m have an average time to pay of 36 days compared to 40 days for companies with revenue between £200m and £250m.
- The very largest companies, with revenue greater than £500m, reported an average time to pay of 38 days. This was one day longer than the overall average time to pay of 37 days.

INVOICES PAID LATER THAN AGREED TERMS



- On average 32% of invoices were paid later than agreed terms.
- 23% of companies reported paying over 50% of invoices later than agreed terms.
- 2% of companies reported paying over 90% of invoices late.



- As with the average time to pay, size of company, does not appear to be a driver of the percentage of invoices paid late.
- Companies with revenue greater than £500m pay the lowest percentage of invoices later than agreed terms. Only 27% of invoices were paid late.
- Companies with revenue between £200m to £250m paid the highest percentage of invoices late. On average, companies within this size bracket paid 34% of invoices late; seven percentage points more than the largest companies.

PERFORMANCE OF COMPANIES THAT PARTICIPATE IN A PAYMENT CODE

Participate

Average time to pay

36 days

Paid late

27%

Do not participate

Average time to pay

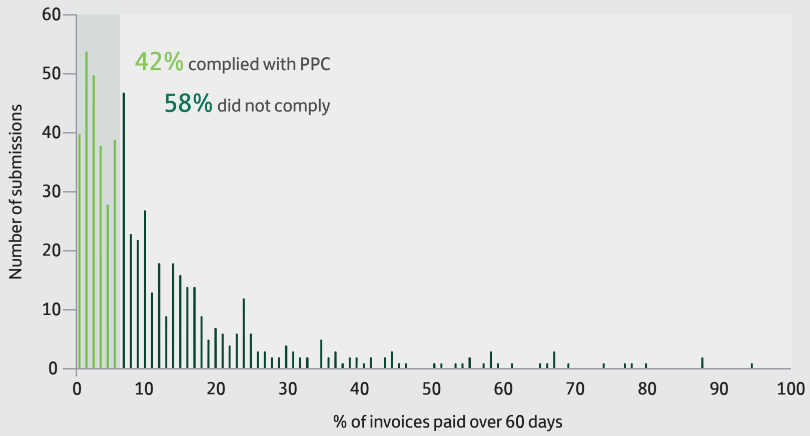
38 days

Paid late

32%

- Participation in a payment code is low amongst reporting companies. 9% of companies reported being a member of a payment code.
- Membership within particular sectors varies. Whilst 26% of engineering companies reported they are a member of a code, no companies that we categorised within the packaging sector reported being a member.

Payment code compliance



- 42% of companies that are a member of the prompt payment code comply with the requirement to pay 95% of invoices within 60 days.
- Compliance with the prompt payment code varies significantly across sectors with the highest being broadcasting and media at 76% and the lowest being engineering with only 7%.
- Of the companies that did participate but not comply, 19% of invoices were paid later than 60 days. This compares to 15% for those who do not participate.

Note: Although signatories to the Prompt Payment Code may not be compliant with the requirement to pay 95% of invoices within 60 days, they may have demonstrated that they offer SME suppliers preferential payment terms and pay these suppliers within 60 days.

IMPACT OF FINANCE SOLUTIONS ON PAYMENT PRACTICES

Offer e-invoicing

Average time to pay

40 days

Paid late

29%

- Companies that offer e-invoicing are more likely to make payments on time.
- 18% of companies that offer e-invoicing pay over 50% of its invoices late, compared to 23% of those that do not offer the solution.
- Where an e-invoicing solution is offered, the percentage of payments made late reduces from 32% to 29%. The average time to pay, however, increases to 40 days compared to the national average of 37 days.

Offer supply chain financing

Average time to pay

48 days

Paid late

32%

- 7% of companies that have reported offer supply chain finance. The highest concentration of supply chain finance programmes is within the aerospace and defence and packaging sectors. 50% of reported programmes are concentrated across five industry sectors.
- The average time to pay for a company with a supplier finance programme increased by 11 days to 48 days.
- The pharmaceuticals sector reported the longest impact on the average time to pay where supplier finance is utilised. The average time to pay within the sector increased by 29 days to 70 days.
- The percentage of late payments remained at 32% for the average company offering supplier finance.

OVERVIEW OF REPORTING TRENDS

Our analysis was based on the 6,435 unique companies that had submitted complete reports on their payment practices by the end of November 2018.

From our analysis we have identified a number of trends in payment reporting, including the timeliness and completeness of reporting as well as submissions where the underlying information is likely to be inaccurate.

Consistency of reporting

- With only 1,135 companies reporting twice and 209 companies reporting three times, it would suggest a number of companies have missed subsequent requirements to report following their initial submission.

Reporting periods

- A number of companies have submitted reports for unusual time periods. These include periods that are significantly shorter and longer than six months. Examples range from 29 days to 365 days.

Timeliness of reporting

- There are several example of companies reporting after their respective deadlines.

Accuracy of company information

- A number of groups have submitted identical payment information across all of their different entities that are required to report.
- Companies have reported an average time to pay of 0 days and 1,000 days.
- Companies have reported maximum payment terms of 0 days as well as some reporting maximum payment terms shorter than their standard payment terms.

Important information

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