Title: Requirement for large companies and listed companies to report on their payment practices and policies **IA No:** **Lead department or agency:** Department for Business, Innovation and Skills **Other departments or agencies:**	**Impact Assessment (IA)** **Date:** 03/10/2014 **Stage:** Consultation **Source of intervention:** Domestic **Type of measure:** Secondary legislation **Contact for enquiries:**

Summary: Intervention and Options

RPC Opinion: RPC Opinion Status

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (EANCB on 2009 prices)	**In scope of One-In, Two-Out?**	**Measure qualifies as**
£-33.8m	£-33.8m	£3.2m	Yes	IN

What is the problem under consideration? Why is government intervention necessary?

Late payment harms business cashflow, hampering investment in growth and in extreme cases potentially risking a firm's solvency. The need to chase late payments can also add costs to businesses. A rising trend in late payment has put increasing strain on businesses, small businesses especially. Legislation to allow businesses to regain costs for late payment can only go so far in combating the problem. There needs to be a change in business culture. Asymmetry of information stops suppliers from knowing who the good businesses to trade with are, whether their current customer is acting in line with their peers or accurately pricing their contracts. The opacity of payment performance is advantageous for poor payers. A mandatory requirement to report will increase transparency across firms.

What are the policy objectives and the intended effects?

This policy will seek to increase the openness and transparency of payment practices used by large companies, large LLPs and listed companies. This was in response to the stakeholder feedback and evidence we received to the discussion paper "Building a Responsible Payment Culture". By creating this transparency, it will be easier to identify norms or unfairness in payment practices. Suppliers will be able to identify companies whose practices fall within their preferred trading practice, price contracts according to risk and be better able to plan for investing in growth. It is also envisioned that businesses who have payment terms that exceed the norms will seek to amend and fall into line with their peers.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 0: Do nothing. This status quo would not meet the policy objective of changing business culture.
Option 1a: mandatory quarterly reporting. A regularly updated and easy to access report that allows suppliers to better understand the payment practices of their customers.
Option 1b: mandatory reporting as part of the annual report required by the Companies Act 2006. This would not be easily digestible by effective for the audience.
Option 1c: Mandatory monthly reporting requirement. Although this would provide the most effective data source it would not be a proportional response to the problem.
Option 2: Voluntary report: This would be slow to achieve a critical mass of companies reporting to create a clear and factual benchmark of payment behaviour. Poor performers would not be incentivised to report.

Will the policy be reviewed? Within the Small Business, Enterprise and Employment Act there is a duty to review secondary legislation as created by the Act 5 years after implementation.

Does implementation go beyond minimum EU requirements?			N/A		
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:**	**Non-traded:**	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY: ______________________ ***Date:*** ______________________

Summary: Analysis & Evidence

Policy Option 1a

Description: Mandatory quarterly reporting. A regularly updated and easy to access report that allows suppliers to better understand the payment pratices of their customers.

FULL ECONOMIC ASSESSMENT

Price Base Year 2013	PV Base Year 2014	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£45.1	**High:** -£22.5	**Best Estimate:** -£33.8

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	£1.5m	1	£2.4m	**£22.5m**
High	£3.1m		£4.9m	**£45.1m**
Best Estimate	£2.3m		£3.7m	**£33.8m**

Description and scale of key monetised costs by 'main affected groups'

There is estimated to be around 18,000 firms in scope (large companies and LLPs as well as listed companies). The transitional costs to firms that have been monetised are the cost of signing off (1 hour of a financial director's time), publishing (1 hour of a web design and developer professional's time) and familiarisation (3 hours of a corporate manager's time). Report will updated quarterly, monetised recurring costs to firm would be costs of sign off and publishing. Sensitivity analysis around the hours of sign off and familiarisation.

Other key non-monetised costs by 'main affected groups'

All costs fall to firms in scope. The transition costs we have not been able to monetise at this stage are costs for additional IT infrastructure or processes that may be required, costs associated with data collection and analysis for the first time and costs of producing the first report. The recurring costs not monetised are costs of on-going data collection and costs of updating the report. The consultation period will be used to assess these costs.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	-	-	-	-
High	-		-	-
Best Estimate	-		-	-

Description and scale of key monetised benefits by 'main affected groups'

No benefits have been monetised. However, some analysis has been performed to provide a 'tipping point' which indicates the savings required by an SME for the benefits to equal the cost. For example, if each of the estimated SMEs affected by late payment were to save just under £33 (£3.30 per year), the benefits would outweigh the costs.

Other key non-monetised benefits by 'main affected groups'

Benefits are indirect. Greater information on firms' payments practices should help suppliers to make more informed decisions over which firms to contract with, help them to better factor in late payment risks into contract terms and price; manage cashflows and avoid costs of chasing late payments. Wider economic benefits may come by third parties benchmarking payment performance creating pressure across all firms to sharpen payment practices. Potential benefits to reporting firms as greater focus on payment timings may lead to identification of efficiencies in payment processes.

Key assumptions/sensitivities/risks | **Discount rate (%)** | 3.5%

The assessment of costs has been informed by a non-representative survey aimed at large firms conducted for the IA and structured discussions with firms who potentially fall into scope. Monetised costs include assumptions on hours and position of employee that individual tasks require. Benefits assume that suppliers, wider economy and reporting company will access and act upon the new information available. The more the information is utilised the greater the benefits will be. The consultation period will be used to test assumptions regarding costs and benefits, including some of those we are currently unable to monetise, with firms in scope and their representative organisations.

BUSINESS ASSESSMENT (Option 1a)

Direct impact on business (Equivalent Annual) £m:			**In scope of OITO?**	**Measure qualifies as**
Costs: £3.2	**Benefits:** £0.0	**Net:** -£3.2m	Yes	IN

Summary: Analysis & Evidence — Policy Option 1b

Description: Mandatory reporting as part of the annual report required by the Companies Act 2006.

FULL ECONOMIC ASSESSMENT

Price Base Year 2013	PV Base Year 2014	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£1.8	**High:** -£0.9	**Best Estimate:** -£1.4

COSTS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Cost** (Present Value)
Low	£0.9m	1	-	**£0.9**
High	£1.8m		-	**£1.8**
Best Estimate	£1.4m		-	**£1.4**

Description and scale of key monetised costs by 'main affected groups'

There is estimated to be around 18,000 firms in scope. The transitional costs to firms that have been monetised are the cost familiarisation (3 hours of a corporate manager's time). Sensitivity analysis around the hours required for familiarisation.

Other key non-monetised costs by 'main affected groups'

Lower costs compared to option 1a expected as the report would be incorporated into the firm's annual report required by the Companies Act 2006 therefore only marginal costs of sign off and publishing. Non-monetised transition costs of additional IT infrastructure possibly required for some firms, costs of data collection and analysis for the first time and costs of adding additional information to annual report for the first time. The recurring costs are not monetised; these are the costs of on-going data collection and costs of updating the data.

BENEFITS (£m)	**Total Transition** (Constant Price)	Years	**Average Annual** (excl. Transition) (Constant Price)	**Total Benefit** (Present Value)
Low	-	-	-	**-**
High	-		-	**-**
Best Estimate	-		-	**-**

Description and scale of key monetised benefits by 'main affected groups'

No benefits have been monetised.

Other key non-monetised benefits by 'main affected groups'

Benefits expected to be lower than option 1a. Whilst benefits could be felt by supplier and reporting business along the lines of 1a, the time lag between the end of reporting period and publication of report are likely to mean that data is out of date and not an effective indicator of current position. As the data may be out of date the comparisons will be less relevant and unlikely to lead to the same level of benefits for supplier firms and the wider economy.

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5%

Costs informed by a non-representative survey aimed at large firms conducted for the IA. Monetised costs include assumptions on hours and position of employee that familiarisation requires. Benefits assume that as the update is less frequent and harder to access less people will use it. It assumed the benefits will be lower than option 1a. Assumptions will be tested in consultation, which should also allow for better capture of currently non-monetised costs and benefits.

BUSINESS ASSESSMENT (Option 1b)

Direct impact on business (Equivalent Annual) £m:			**In scope of OITO?**	**Measure qualifies as**
Costs: -	**Benefits:** -	**Net:** -	Yes	IN

Summary: Analysis & Evidence

Policy Option 1c

Description: Mandatory monthly reporting requirement

FULL ECONOMIC ASSESSMENT

Price Base Year 2013	PV Base Year 2014	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£163.7	**High:** -£97.6	**Best Estimate:** -£130.7

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	£1.5	1	£11.2	**£97.6**
High	£3.1		£18.7	**£163.7**
Best Estimate	£2.3		£14.9	**£130.7**

Description and scale of key monetised costs by 'main affected groups'

There is estimated to be around 18,000 firms in scope. The transitional costs to firms that have been monetised are the cost of signing off (1 hour of a financial director's time), publishing (1 hour of a web design and developer professional's time) and familirisation (3 hours of a corporate manager's time). Report will updated monthly, monetised recurring costs to firm are costs of sign off and publishing. Senstitivity analysis around the hours of sign off and familiarisation.

Other key non-monetised costs by 'main affected groups'

Higher costs than option 1a expected due to the requirement to update the report monthly. The transition costs not monetised are costs for additional IT infrastructure or processes that may be required, costs associated with data collection and analysis for the first time and costs of producing the first report. The recurring costs not monetised are costs of on-going data collection and costs of updating the report.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	-	-	-	**-**
High	-		-	**-**
Best Estimate	-		-	**-**

Description and scale of key monetised benefits by 'main affected groups'

No benefits have been monetised. However, it is assumed that more regular reporting will allow for a supplier to better understand the performance and practice of their customer. Changes in performance will be more acute and therefore allow for decisions on further trade as referenced in option 1a.

Other key non-monetised benefits by 'main affected groups'

Marginally higher benefits compared to option 1a. The more recent data will be even more effective in the decision making of a supplier. The wider economy will also benefit as it will allow for indication of trends, whether there are difficulties in specific businesses or even where cashflow problems are being experienced because of a wider effect on the entire sector. Reporting businesses will be aware of their payment performance and able to identify weaknesses and blockages quicker.

Key assumptions/sensitivities/risks — **Discount rate (%)** 3.5%

Costs informed by a non-representative survey aimed at large firms conducted for the IA. Monetised costs include assumptions on hours and position of employee that familiarisation requires. Benefits assume that as the update more frequent and up to date it will be more useful and influence behaviour more. It assumed the benefits will be marginally higher than option 1a. The consultation period will be used to test assumptions regarding costs and benefits, including some of those we are currently unable to monetise, with firms in scope and their representative organisations.

BUSINESS ASSESSMENT (Option 2c)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: £12.3	**Benefits:** £0	**Net:** -£12.3	Yes	IN

Summary: Analysis & Evidence

Policy Option 2

Description: Voluntary Report

FULL ECONOMIC ASSESSMENT

Price Base Year N/A	PV Base Year N/A	Time Period Years N/A	Net Benefit (Present Value (PV)) (£m)		
			Low: -	**High:** -	**Best Estimate:** -

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	-	-	-	-
High	-		-	-
Best Estimate	-		-	-

Description and scale of key monetised costs by 'main affected groups'

No costs have been monetised.

Other key non-monetised costs by 'main affected groups'

Cost decrease compared to option 1a. This is because it is a voluntary option and therefore would only be produced by businesses where the benefits outweigh the costs. Costs will depend on what a firm chooses to report, if anything and how.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	-	-	-	-
High	-		-	-
Best Estimate	-		-	-

Description and scale of key monetised benefits by 'main affected groups'

No benefits have been monetised.

Other key non-monetised benefits by 'main affected groups'

Lower benefits expected compared to option1a. Whilst there could be some benefits to businesses producing the report, benefits to suppliers are reduced. Suppliers would be unaware of which customers produced a report and potentially face a plethora of different formats. Assumed businesses with poor performance will not voluntarily report. Wider economy will not be able to easily make comparisons as it depends on the data being available therefore there will be less competitive pressure to improve payment practice.

Key assumptions/sensitivities/risks | **Discount rate (%)** | 3.5%

Costs informed by a non-representative survey aimed at large firms conducted for the IA. Monetised costs include assumptions on hours and position of employee that familiarisation requires. Assumed that firms will only choose to produce the report where it would lead to net benefits for the firm. Benefits assume that as the update may be less frequent and harder to access less people will use it. It assumed that the benefits will be lower than option 1a. The consultation period will be used to test assumptions regarding costs and benefits, including some of those we are currently unable to monetise, with firms in scope and their representative organisations.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: -	**Benefits:** -	**Net:** -	Yes	NA

Evidence Base (for summary sheets)

Executive summary

Problem under consideration and rationale for intervention

1. Late payment has become an increasing problem for UK businesses. It can have a very damaging effect on cash flow, and is a particular issue for small and medium sized businesses, as it impacts negatively on their ability to invest and grow. The chasing of late payments can increase administrative costs for suppliers, and in some circumstances can lead to otherwise viable businesses becoming insolvent. This can hinder economy wide efficiency.
2. Late payment is not a new issue, but the problem has worsened since the financial crisis. Between 2008 and 2012, the overall level of late payments owed to these businesses almost doubled from £18.6 billion to £35.3 billion. Studies undertaken in 2014 suggest that the late payment debt burden borne by UK business stands at £46.1bn[1].
3. For a market to operate effectively there has to be open and transparent performance information, across a range of metrics, available to both suppliers and buyers. Customers require information on the quality of the good or service to make a sound judgement about the value added. Sellers, lenders and investors need to know the reliability of a buyer, borrower or entrepreneur to repay debt. This information should be available fully to both sides of the market. A lack of information on either or both sides may result in market failure. This is known as 'asymmetry of information'.[2] Asymmetry of information was one of the biggest concerns reported by suppliers in response to BIS's recent discussion paper, *Building a Responsible Payment Culture* (January 2014). In this discussion paper 73.2% (41 organisations) of respondents desired greater disclosure of payment practices. Leading business representative organisations, including the Federation of Small Businesses, Forum for Private Business and the Association of Chartered Certified Accountants called for a mandatory disclosure of payment practices.
4. Although all companies have the potential to pay late, it is large companies whose payment beyond terms continues to dwarf the national average (discussed paragraph 40). The purchasing power and impact of late payment by large companies can have a significant impact on cashflow of suppliers.
5. Therefore the aim of this policy is to reduce the barrier of information asymmetry, bringing transparency specifically to the practices and performance of large and listed businesses.

Policy Objectives and options

6. The policy objective is to reduce the asymmetry of information regarding payment practices of large companies and all listed companies. Unlisted companies that qualify as small or medium sized will be exempt from reporting.

7. By making this information easily available and accessible it is hoped suppliers will have a better understanding of what to expect from their customers, and therefore be in a better position to:

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[1] The studies undertaken by Bacs changed methodology in 2014 meaning that the recent data is less comparable to previous years.

[2] The Green book : Appraisal and Evaluation in Central Government, Annex 1: Government intervention, P52, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf

i. make an informed judgement on whether to enter into a commercial relationship (e.g. whether terms are beneficial and are likely to be adhered to);
ii. negotiate improved terms e.g. pricing in any cost from delayed payment;
iii. have a better understanding of what they need to do to ensure that they get paid on time; and
iv. have information to challenge where terms become inconsistent with published policies.

8. The options considered to achieve this objective include:
   - **Option 0**: Do nothing. This will not meet the stated policy objectives.
   - **Option 1**: Mandatory report
     - Option 1a): Requiring listed companies, large companies and large Limited Liability Partnerships (LLPs) to report on their payment practices and performance on the firm's website at each quarter of the financial year. This is our preferred option.
     - Option 1b): A requirement to publish payment performance within a company's annual report.
     - Option 1c): Requiring all large and listed companies to publish monthly reports on their payment practices and performance on firm's website.
   - **Option 2**: The voluntary reporting of payment performance and practices by large and all listed companies.

Firms in scope

9. We propose to require UK large incorporated companies, large UK Limited Liability Partnerships (LLPs) and listed companies to publish their payment practices. We propose at this stage to create specific exemptions for unlisted companies and LLPs that qualify as small or medium under the Companies Act 2006. We have taken this decision due to research that suggests large companies, on average, pay bills up to 30 days after terms.

10. A company or LLP qualifies as small or medium under the Companies Act definition in a year in which it satisfies two or more of the following requirements:

Criteria	Small qualifying conditions	Medium qualifying conditions
Turnover	Not more than £6.5m	Not more than £25.9m
Balance Sheet Total	Not more than £3.26m	Not more than £12.9m
Number of employees	Not more than 50	Not more than 250

11. We also propose that all companies listed on the London Stock Exchange are required to produce a prompt payment report, irrespective of size.

12. Using the FAME database, we estimate there are around 18,000 UK incorporated active companies and LLPs either large or listed in the London Stock Exchange (LSE). Of these, around 400 are LLPs and 17,700 are companies. UK listed entities trading on the London Stock Exchange main market account for approximately 780 of the above estimate. Of these under 50 are micro, around 270 are small and under 20 are medium[3].

[3] Data extracted from the FAME database on 24th September 2014.

Costs and benefits

13. It has not been possible to monetise all costs at this stage. However, further evidence gathering will be undertaken to fill these evidence gaps. During consultation we will be seeking to improve our understanding of these costs for our final Impact Assessment through our forthcoming consultation as well as holding structured discussions with stakeholders.

14. The discussion on benefits reflects the comments and evidence received from businesses representative organisations in our discussion paper “Building a Responsible Payment Culture”, and in subsequent stakeholder meetings. We will be seeking to better assess the type and quantity of organisations that would use this data and the purposes for which they would use it during the consultation and accompanying evidence gathering on this measure in order to inform the subsequent policy design and final Impact Assessment.

Option	Ease of data use and timeliness	Cost	Benefit
Option 0: Do nothing	N/A	There will be no additional cost associated with this option	No additional benefits would occur from this option.
Option 1a: Quarterly report. Standalone report on firm's website.	Good. Data will be easy to locate and will be relatively up-to-date.	There are direct costs associated with this option. These include possible transition costs: a. for additional IT infrastructure or processes b. associated with data collection and analysis c. of producing the report, sign off and publishing d. of familiarisation with administrative requirement including additional management time to ensure the report meets statutory standards. The option also includes on-going costs such including; Sign off by director; Data collection; and Producing the report	This option should: benefit suppliers; the wider economy and reporting companies (customer). Suppliers will benefit from up-to-date information on the payment practices of their customers. This will lead to more informed decision making on whether to enter into a contract, help in negotiating better terms and better understanding of how to chase payments. Should also allow for greater comparisons, therefore more peer and competitive pressure which is beneficial to the wider economy. Pressure for firms to fall in line with the norm of payment, from public access to payment performance, will also increase competitive pressure. Businesses that are aware of their payment performance are often able to identify weaknesses and blockages in procurement. The reporting firm will be are aware of their payment performance, potentially allowing them to identify weaknesses and blockages in procurement.

Option 1b: Published in line with current company reporting. Information added to the companies report.	Limited. Data will be hard to find and will be out of date when published. Information will be a 'snapshot' at time of procurement.	Lower cost compared to option 1a. This is because the report would be incorporated into the annual report and updated annually. Thereby the cost of producing the report would be lower and there would be lower costs for sign off or publishing.	Lower benefits compared to option 1a. Whilst benefits could be felt by supplier and reporting business along the lines of 1a, the time lag between end of reporting period and publication of report will mean the data is out of date and not an effective indicator of current position. Also as the data is out of date the comparisons could be less relevant and unlikely to lead to competitive pressure to reduce late payment.
Option 1c: Monthly reporting. Stand-alone report on firm's website	Very good. Data will be easy to locate and up to date.	Cost increase compared to option 1a. This is due to the increased number of reports required within a year.	Marginally higher benefits compared to option 1a. The more up to date data will improve its reliability as a basis for decision making.
Option 2: Voluntary report	Poor. Data will be hard to find as it is not known who will or will not report, what they will report, where or in what form. Unless this is mandated, it will be the firm's own choice on when to update the data.	Cost decrease compared to option 1a. This is because it is a voluntary option and therefore would only be produced by businesses where the benefits outweigh the costs. Costs will depend on what a firm chooses to report, if anything and how.	Significantly lower benefits compared to option 1a. Suppliers would only be able to view data from some of their potential customers, and even then could face a plethora of different formats, impeding comparisons and requiring greater effort to interpret the information. With less transparency and competitive pressure on customer firms, payment practices would be less likely to improve.

15. Our preferred option is option 1a.

16. If the report does lead to a reduction in late payment this would be an economic transfer i.e. a resource is moving from one group to another. The money is moving from the customer 'late payer' to the supplier quicker. Therefore, it would be a cost to the firm who used to pay late but it would be a benefit to those receiving the money earlier than they would have done previously.

17. However, there would be an economic benefit from reducing the resource requirements that chasing and managing the consequence of late payments place upon the firm. As discussed in the IA, studies of late payment it detailed the evidence on the cost to firms caused by late payment. It was shown that late payment places additional costs on business due to resulting overdraft fees and administrative costs etc. It can also place strain on a firms cashflow and potentially lead to a firm declaring bankruptcy,

18. Therefore the economic benefit of a reduction in late payment will be the resources saved of time spent chasing late payments and the costs of any external finance they may need to cover the delay. It may also potentially prevent otherwise successful firms from declaring bankruptcy.

Summary of best estimate of quantified costs (not all costs have been monetised at this stage) for option 1a

19. Table 1 below summarises the estimates of the quantifiable costs under option 1a; as previously mentioned it is not possible to quantify all costs at this stage. In the first year of implementation in addition to the one-off costs firms will also be required to update quarterly. This will mean 3 further updates.

Table 1: summary of quantified costs (not all costs have been monetised) in the first year of implementation and the recurring annual cost.

	First year costs			Recurring Annual cost		
	Low estimate	Best Estimate	High Estimate	Low estimate	Best Estimate	High Estimate
One off costs						
Sign off of first report	£0.3m	£0.6m	£0.9m	-	-	-
Publishing cost of first report	£0.3m	£0.3m	£0.3m	-	-	-
Familiarisation cost	£0.9m	£1.4m	£1.8m	-	-	-
Recurring costs						
Sign off of update report	£0.9m	£1.9m	£2.8m	£1.3m	£2.5m	£3.8m
Publishing cost of update report	£0.9m	£0.9m	£0.9m	£1.2m	£1.2m	£1.2m
Total	£3.4m	£5.1m	£6.8m	£2.5m	£3.8m	£5.0m

May not sum due to rounding. Not all costs of the policy have been monetised at this stage.

20. It has not been possible to monetise all costs. At this stage, unmonetised costs include transition costs such as:

- o Costs for additional IT infrastructure or processes that may be required
- o Costs associated with data collection and analysis
- o Costs of producing the report.

21. We have also been unable to monetise the following on-going costs related to:

- o Costs for on-going data collection
- o Costs of updating the report i.e. collating the data and writing the report

22. During consultation we will seek to collect further evidence on these costs and specific questions about them are embedded throughout this IA. We will undertake workshops with in scope companies and further test the report's metrics currently considered in our preferred option.

23. The preferred option 1a is in scope of One In Two Out and is classed as an 'IN' as it increases the regulatory burden on business. The quantified costs have a best estimate present value of £33.8m over a ten year period. This equates to an equivalent annual cost of £3.2m. As the benefits are all indirect the equivalent annual benefit is estimated to be £0.Therefore this yields an OITO equivalent annual net cost of £3.2m. Thus currently we have an overall net IN of £3.2m for OITO (in 2009 prices). It is anticipated that through consultation we will be able to develop a better understanding of the

potential costs of this measure, including those relating to production which we have not been able to monetise at this stage. We therefore anticipate that this initial estimate will change in the final IA.

Background

Problem under consideration

24. Late payment has become an increasing problem for UK businesses[4]. It can have a very damaging effect on cash flow, and is a particular issue for small and medium companies, as it impacts negatively on their ability to invest and grow.

25. Most companies in the UK supply goods and services on credit, agreeing to defer payment for a period after delivery rather than demanding immediate payment. This system (known as trade credit) is an essential element of business practice in the UK. Around 80% of business to business transactions are undertaken on credit terms of some form, and trade credit constitutes about 37% of total business assets.[5]

26. Late payment occurs when a business has been supplied goods or services on credit, but fails to pay within the agreed term. Legally, if no explicit payment terms have been agreed, payment is due after 30 days[6] for the purposes of charging statutory interest.

27. The timing of payment is not always clear cut. When the good or service being supplied is complex and difficult to value, reaching agreement on what is owed at what time may be difficult. Nevertheless, whether a contract is complex or straightforward, the customer and supplier should share clear expectations, and there should be a transparent, fair process for clarifying issues or disputes.

28. Businesses can also face difficulties if payment terms are very lengthy or if they are changed at short notice. It is accepted commercial practice to negotiate robustly over contractual terms. However, the aim of these negotiations should be to reach an agreement which is mutually beneficial.

Studies into late payment

29. Whilst a number of studies have looked at the occurrence and impact of late payment, only four provide a review of consecutive years. These studies, conducted by Experian, Intrum Justitia, FSB and Bacs, vary in results and scope but offer a useful insight to changes in late payment.

30. Experian produce monthly data sets on payment of UK firms for their customers. This seeks to highlight standard payment terms and days beyond terms across size of companies and in different sectors. Until 2012 this quarterly aggregated data was published as the Late Payment Index, using the Payment Performance database. Although this data is no longer public, up-to-date information is accessible from Experian's database.

31. Bacs Payment Services Ltd has undertaken business surveys on payment behaviour annually between 2007-2013. The research was undertaken by BDRC Continental, who conducted quantitative phone interviews with owners, finance directors and managing directors of UK SME's. The sample was representative of UK SME businesses. This survey looked at payment owed in Business to Business transactions. In 2014 Bacs

[4] Studies undertaken by Bacs suggest that late payment rose from £18.6bn in 2009 to £30.2bn in 2013.
[5] http://www.accaglobal.co.uk/content/dam/acca/global/PDF-technical/small-business/pol-tp-gp.pdf

[6] Section 4(3) of the Late Payment of Commercial Debts (Interest) Act 1998

opted to change the research methodology of this work, moving to a smaller and more robust sample group[7]. This means that the 2014 survey is not comparable to previous surveys.[8]

32. The Federation of Small Businesses (FSB) has undertaken regular surveys which provide useful information on the experiences of small companies. The most recent 'Voice of Small Business' Member Survey of FSB was published in March, and is based on 8,600 responses.

33. Intrum Justitia undertakes a survey of businesses in 31 European countries (but also including Russia and Turkey). The research shows trends in payment practice starting from the implementation of the EU Directive 2000/35/EC on Combatting Late Payment in Commercial Transactions. This also incorporates the implementation of EU Directive 2011/07/EU, which came into force in the UK in March 2013. The study looks for the impact of legislation on late payment. It allows for a data set to look at year on year changes in late payment.

Companies affected by late payment

34. Late payment is not a new issue, but the problem has worsened since the financial crisis. Between 2008 and 2012, the overall level of late payments owed to these businesses almost doubled from £18.6 billion to £35.3 billion.[9]

35. The Bacs 2014[10] study estimates that 60% of businesses have experienced late payment and the late payment debt burden borne by UK business stands at £46.1bn. It also suggests that the late payment debt burden borne by UK SMEs is significantly larger than for corporates: £39.4bn compared to corporates who are owed £6.7bn at any one time. The proportion of late payment against turnover, and the number of days outstanding, has a greater effect on SMEs.

36. The FSB members' survey undertaken this year showed that 5 in 10 SMEs were paid late by a large company.[11]

37. In the 2014 report by Intrum Justitia, 55% of respondents had seen an increase in late payment[12].

38. The Small Business Survey 2012: SME Employers commissioned by the Department for Business Innovation and Skills[13] estimated that 47% of SME employers reported customers paying them later than required. The survey also showed that the problem of later payment varied by sector; it was most likely to be a problem in sectors such as construction and manufacturing where 63% and 60% respectively said it was a problem. It was less likely to be a problem in sectors such as transport, retail and distribution where 63% of SME employers said it was no problem.

[7] The aim of Bacs in this new approach was to recruit a representative sample of businesses for the benchmark survey, then re-interview as many as possible of the original panel in future waves and where that is not possible, to replace them with comparable types of organisations.

[8] The sample size now utilised by Bacs was to interview 350 businesses. These would be split across the UK, with 200 from England, 50 from Northern Ireland, 50 from Scotland and 50 from Wales to help establish any regional differences. Sample was also further broken down by size, with 50 Corporates (250+ employees) and 300 SMEs (less than 250 employees) to establish any key differences in late payments between SMEs and Corporates.

[9] http://www.bmmagazine.co.uk/in-business/369/late-payments-having-a-ripple-effect/
http://www.is4profit.com/small-business-news/20120711-late-payment-to-smes-exceeds-35-billion.html

[10] http://www.bacs.co.uk/Bacs/newscentre/pressreleases/Pages/Index.aspx

[11] http://www.fsb.org.uk/News.aspx?loc=pressroom&rec=8511

[12] http://www.intrum.com/uk/Press-and-publications/European-Payment-Index/

[13] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193555/bis-13-p74-small-business-survey-2012-sme-employers.pdf

Length of payment delay

39. The time companies are kept waiting for payment can be substantial. Intrum Justitia estimated in 2003 the UK had an average contractual payment term of 34 days, but with actual payment being made 18 days beyond terms. This represents an average actual payment of 52 days. In 2014, for business to business transactions the average contractual payment term reduced to 25 days, with actual payment down to 17 days beyond term. This represents a reduction of average actual payment to 42 days, which has brought the UK closer to the payment terms expected in other Northern European countries.

40. The data produced by Experian differed from the Intrum Justitia study significantly, pointing to an average of 24.66 days beyond terms for all UK businesses in Q4 2012. Current data suggests the average payment time in June 2014 was 23.52 days beyond terms, with the average for businesses with over 500 employees being 32.05 days beyond terms.

41. The Bacs survey differs again, stating that 76% of businesses surveyed said settlement was being delayed a minimum of a month beyond agreed payment terms.[14] For SMEs the proportion of late payment against turnover, and the number of days outstanding, has a greater effect.

Costs to firms

42. Late payment places additional costs on business due to resulting overdraft fees and administrative costs etc. It was estimated in the Bacs study that the additional cost borne by UK business was £9.16bn a year due to late payment. As a consequence of money owed to them, 30% of business said they spent £500 a month; however this can be as high as £10,000 a month. The research also showed that 25% of businesses spent over 10 hours a week chasing payments.[15]

43. Late payment can have a significant detrimental impact on a firm's cash flow. This may mean firms have to find cash by other means such as loans and overdrafts and incur charges. The process of obtaining this finance to bridge the gap between incurred costs and payments will also have an administrative burden on firms. The Atradius payment practices barometer in 2010 showed that 34% of companies have sought external finance to cover gaps in cash flow caused by late payment[16]. The 2014 Bacs research stated that 21% of businesses say they are forced to rely on bank overdrafts due to late payment.[17]

44. The FSB estimated that late payment has led to £180 million in debt interest charges – money that affected firms could otherwise have used for their investment and growth.[18]

45. All businesses are highly dependent on cash flow. The Bacs Research estimated that 60% of UK SMEs are now experiencing late payments and that the average SME was waiting for £38,186 in overdue payments.

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[14] http://www.bacs.co.uk/Bacs/DocumentLibrary/UK_companies_face_a_late_payment_burden_of_£46.1_billion.pdf

[15] This is a representative sample of businesses surveyed by Bacs for this research.
http://www.bacs.co.uk/Bacs/DocumentLibrary/UK_companies_face_a_late_payment_burden_of_£46.1_billion.pdf
16http://www.atradius.co.uk/creditmanagementknowledge/publications/paymentpracticesbarometersummer2010.html
[17] http://www.bacs.co.uk/Bacs/DocumentLibrary/UK_companies_face_a_late_payment_burden_of_£46.1_billion.pdf
18http://www.fsb.org.uk/policy/rpu/london/assets/late%20payment%20july%202011.pdf

46. Late payments can have serious consequences, potentially leading to a firm declaring bankruptcy. One in four SMEs reported that if the amount owed to them rose to £50,000 it would be sufficient to put them at risk of bankruptcy. Research on Payment Culture in 2012 indicated that as a result of late payment 124,100 SME employers were almost put out of business.[19] As many as 4,000 businesses could be forced into administration because of late payment[20]. Even when a company remains financially viable, late payment can drain resources, due to the need to chase late payments, manage the consequences of cashflow shortages (e.g. arranging an overdraft), and add uncertainty when taking decisions on their ability to invest and grow.

47. Good cashflow is vital in enabling businesses to continue to raise finance and invest when required and late payment may have a negative impact on businesses ability to access finance. According to Professor Russel Griggs, who conducts independent external review of the major banks' appeals process; in 2012/2013 48% of declined finance applications over £25,000 were rejected on 'affordability' grounds – the ability of an SME to service the debt from its existing cashflow.[21] Late payment is one reason that cashflow is constrained, therefore preventing a business accessing finance. Late payment may also be the reason for the finance request in the first place. Reducing late payment may prevent requests for finance or the number of rejected applications.

48. Late payment can create a domino effect in the supply chain as if a firm is paid late it may struggle to pay its own suppliers on time. The Bacs research estimated that due to late payment 25% of companies are being forced to pay their own suppliers late.

49. Research on Payment Culture in 2012 stated that over 244,000 companies say that they have paid suppliers late as a result of late payment by their customers.[22]

50. In the survey undertaken by the FSB 32% of SMEs had paid their suppliers late because of outstanding payment.[23]

International comparisons

51. Late payment is an issue that is not just limited to the UK, as evidenced by the need for EU legislation on this subject – the EU Late Payment Directives. This has moved the EU towards standardised legislation across member states.

52. However, whilst the legal framework is now broadly similar across the EU (France being a notable exception, see below) the scale of the issue varies widely. In Northern EU countries, in Scandinavia in particular, culture and historic payment norms have led to lower payment terms and lower average 'beyond terms' payment.

53. The table below shows the average of agreed contractual payment terms in days and the average of the number of days that it actually takes for payment to be made.

Country	Average business to business payment term in days	Average business to business payment duration in days	Difference in average terms and average duration (payment beyond terms)
Finland	20	26	6

[19] www.building.co.uk/Journals/2012/04/24/o/x/p/LatePayments.doc
[20] http://www.fsb.org.uk/News.aspx?loc=pressroom&rec=5584
21 http://www.betterbusinessfinance.co.uk/images/uploads/Annual_Report_Master_2013.pdf
22 http://www.fpb.org/images/PDFs/FPB_Graydon_research_report.pdf
[23] http://www.fsb.org.uk/News.aspx?loc=pressroom&rec=8511

Sweden	27	35	8
Germany	25	34	9
France	40	54	14
UK	25	42	17
Spain	60	83	23
Italy	65	94	29

Source: Comparison with other countries (figures drawn from European Payment Index 2014) [24]

54. Given this variability, it is evident that a culture of prompt payment is required alongside any legislative measures. Legislation alone will not resolve the issue of late payment. This can be seen from the example of France where there is a legislated maximum length of payment term and criminal liability or additional fines for those convicted of late payment. However average payment terms are longer and average days paid beyond terms are comparable to that of the UK.[25]

55. The French Commercial Code requires companies to produce information on their payment terms, supplier and clients.[26] This is supplemented by the role of National Observatory of Payment Terms.[27] These reports and third party monitoring allow for a clearer indication of payment within the economy and general trends. However, this has not ended late payment.

Previous legislative attempts to tackle the problem

56. Preventing a widespread culture of late payment has been the aim of successive governments, as well as the European Union, who have produced legislation in order to protect businesses.

57. The Late Payment of Commercial Debts (Interest) Act 1998 created a statutory framework in the UK for tackling late payment. This was amended in August 2002 (when the 2000 EU Late Payment Directive was transposed into UK law) and again in March 2013 (when the 2011 EU Late Payment Directive was transposed into UK law).

58. The legislation's key provisions are:

- Businesses are entitled to charge interest of 8% above the Bank of England Base Rate for any late payment;
- Administration costs for chasing late payment can be claimed by business, on a sliding scale depending on the size of the debt;
- Payment contracts must not infringe on a business's right to claim interest and administration costs for late payment;
- Mandatory 30 day payment terms for transactions with public authorities;
- Maximum 60 day payment terms between businesses, unless they agree longer terms and this is not grossly unfair to the supplier.

59. Few companies seek to exercise the rights provided by this legislation, especially against larger companies. Just 10% of businesses have considered using late payment

[24] http://www.intrum.com/Press-and-publications/European-Payment-Index/

[25] http://www.kramerlevin.com/files/Publication/2d3d2a63-8bab-4725-9f93-394c11e85bfe/Presentation/PublicationAttachment/105232f1-083d-4947-a340-3c7d606577fd/140129_EU%20Law%20Alert_D%C3%A9lais%20de%20paiement%20et%20n%C3%A9gociations%20commerciales_va.pdf

[26] http://www.legifrance.gouv.fr/affichTexteArticle.do;jsessionid=2F1912A793F16EE7B898560BA81C8857.tpdjo12v_1?cidTexte=JORFTEXT000028738036&idArticle=LEGIARTI000028740088&dateTexte=20140826&categorieLien=id#LEGIARTI000028740088

[27] http://www.economie.gouv.fr/files/rapport_odp_2014_02_07.pdf

legislation[28] despite 22% of businesses having ended a business relationship with a customer because of continued late payment.[29] A study by the Credit Management Research Centre found that the most prevalent reasons for not using the legislation were fear of losing a customer or damaging the relationship, or because of the administrative aspects of applying the charge.[30]

60. It is widely accepted that previous attempts to legislate to bring greater openness and transparency to the payment practices of companies, large companies specifically, has on the whole been ineffective. Legislation introduced in 2008 requiring certain companies to report on their outstanding trade debt failed to provide information in a clear and approachable way for suppliers. The requirement did not provide information that added additional value beyond that already contained in company accounts, and included far less information than the proposal currently under consideration. For this reason, the Government repealed this particular reporting provision in 2013. [31]

61. Sector specific legislation has also been developed to address the issue of late payment:

- The Housing Grants, Construction and Regeneration Act 1996 (the Construction Act)
- The Local Democracy, Economic Development and Construction Act 2009
- The Groceries Code Adjudicator Act 2013.

62. Part 2 of the Construction Act sets out a number of provisions that seek to address delays in payment.

- A quick 28 day dispute resolution process for each part of a construction contract, via third party adjudication;
- The entitlement to staged payments; and
- "An adequate mechanism" in contracts to ascertain what should be paid.

63. Part 8 of the Local Democracy, Economic Development and Construction Act 2009 made a number of changes to the payment and adjudication provisions of the Construction Act to deliver these improvements. Whilst this has improved culture around certain aspects of procurement, there is need for further commitments to prevent poor payment practices. This is set out below in relation to voluntary measures in construction.

64. The Groceries Code Adjudicator Act 2013 was established to ensure supermarkets act fairly towards their suppliers. Powers were provided to allow the investigation of complaints and arbitration in disputes, and to enforce the Groceries Supply Code of Practice (the Groceries Code). The Groceries Code is intended to remedy adverse effects on competition from supply chain practices which transfer excessive risks and unexpected costs to suppliers, and which restrict or distort competition in favour of larger grocery retailers. The Groceries Code covers the 10 biggest supermarkets. Time will need to be given to see the impact of the Groceries Code Adjudicator on payment in this sector.

[28] http://www.managementtoday.co.uk/news/1076769/
[29] http://www.newsroom.barclays.co.uk/Press-releases/SMEs-turn-away-business-to-fight-back-against-late-payments-9c1.aspx
[30] http://www.cmrc.co.uk/wp-content/uploads/PaymentTrendsandBehaviour.pdf
[31] The disclosure requirement asked companies to state if they adhered to any Code or standard of payment practice. If the company did not adhere to a code it was required to state its policy for payment of creditors and if there were any differences in this policy for different suppliers. The company was also required to disclose the amount which were owed to creditors and the amounts invoiced by suppliers.

Voluntary Measures to Increase Prompt Payment

65. Tackling late payment is about more than legislation, it is about changing a business culture and how business customers view their supply chain. For this reason voluntary measures have been an essential part in tackling late payment.

66. The Prompt Payment Code (the Code) was set up by the Institute of Credit Management (ICM) in 2008 on behalf of Government in order to promote a culture of prompt payment. It followed previous efforts, through the Better Payment Practice Group (1997), to improve payment culture with a partnership between government and business representative organisations.

67. The Code is voluntary and depends on signatories acting in good faith. Signatories to the Code agree to:
    - Pay suppliers on time:
        - Within the terms agreed at the outset of the contract;
        - Without attempting to change payment terms retrospectively; and
        - Without changing practice on length of payment for small companies on unreasonable grounds.

    - Give clear guidance to suppliers:
        - Providing suppliers with clear and easily accessible guidance on payment procedures;
        - Ensuring there is a system for dealing with complaints and disputes which is communicated to suppliers; and
        - Advising them promptly if there is any reason why an invoice will not be paid to the agreed terms.

    - Encourage good practice:
        - By requesting that lead suppliers encourage adoption of the Code throughout their own supply chains.

68. As of July 2014, 1,691 organisations had signed up to the Code, including 74 FTSE 100 companies. There has been a significant increase in membership following a campaign by Government and the ICM to drive up the number of signatories.

69. The Prompt Payment Code emphasises the benefits to suppliers and customers of good supply chain management. The Code's signatories are those who have made a public commitment to not only pay on time, but to pay fairly. To have a group of companies who publicise the importance of paying in a timely manner is beneficial to improving the culture of payment in their supply chains, and beyond.

70. We believe that it is right for this Code to continue to be voluntary, as it provides a statement by certain businesses that they pay on time and fairly. However, this visibility of these firms who voluntarily join the Code is matched by the secrecy of poor performers. This creates the need for a wider mandatory reporting requirement. Openness and transparency go to the heart of what suppliers' desire from their customers. This can only be achieved by a reporting requirement which targets more than the very best performers.

71. In addition, further efforts are being made to increase voluntary commitments to improve payment practices in certain sectors. In May 2014 the Construction Leadership Council

announced the agreement of Construction Supply Chain Charter. This Charter seeks to tackle some contractual and payment issues which specifically afflict construction supply chains and build upon the provisions of the Construction Act. Efforts to reduce payment terms to 30 days and the limited use of cash retentions will have a positive impact on the sector.

Rationale for intervention

72. For a market to operate effectively there has to be open and transparent performance information, across a range of metrics, available to both suppliers and customers. Customers require information on the quality of the good or service to make a sound judgement about the value added. Sellers, lenders and investors need to know the reliability of a buyer, borrower or entrepreneur to repay debt. This information should be available fully to both sides of the market. A lack of information on either or both sides may result in market failure. This is known as 'asymmetry of information'.[32]

73. Greater openness and transparency of information supports and promotes mutually beneficial trade, when both parties are acting in fair way. Openness on payment performance allows for greater competition through more efficient pricing. An improved understanding of customer performance would allow suppliers to price or bid for contracts accordingly, and mitigate against the risk of late payment. Asymmetry of information was one of the biggest concerns reported by suppliers in response to BIS's recent discussion paper, *Building a Responsible Payment Culture* (January 2014). In this discussion paper 73.2% (41 organisations) of the respondents to the transparency question desired greater disclosure of payment practices. Leading business representative organisations, including the Federation of Small Businesses, Forum for Private Business and the ACCA called for a mandatory disclosure of payment practices.

74. In practice, openness of information has not become commonplace, and the culture of late payment has not changed. Suppliers with few customers in a sector (or of a certain size) are unable to assess whether the performance of their customer or the terms they are offered are comparable to the norm. A number of stakeholders who provide credit ratings have confirmed that they will use this information for such an end. This tips the balance of power between the supplier and the buyer, and allows for a more robust negotiation from the customer, knowing that the supplier is likely to take a 'better the devil you know' approach to trade. There is a commercial disincentive for suppliers to leave lucrative contracts, even if the cost of transactions is eating away at profit. In industries where there are few large contractors, it is a concern that a second contract will be lost or even that there will be some sort of 'black listing'.

75. The inability of companies to see the payment norms of their customer's peers also makes it very difficult to utilise the challenges to 'grossly unfair terms' as set out in the Late Payment of Commercial Debts Act 1998. This legislation allows for undertakings (customer or supplier) to challenge unfair terms that differ from industry standard or fair commercial dealings. However, without clearly knowing what norms are, suppliers are unable to take advantage of this remedy to challenge certain terms. Where a customer is requesting terms that are outside of an industry norm and potentially unfair it is envisioned that third parties will bring pressure for a return to more normal and fair terms. For example, this has been undertaken by business representative organisations who have 'named and shamed' certain businesses who have been unfair to suppliers.

76. Supplier relationships are an increasingly important identifier of a company's business model and financial structure. Information on the liabilities of both invoices payable (which can be identified in a company's accounts) and interest/recovery costs (which can be claimed back dated for 6 years, and could create a significant liability for a repeat late

[32] The Green book : Appraisal and Evaluation in Central Government, Annex 1: Government intervention, P52, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/220541/green_book_complete.pdf

payer) is material to shareholders and investors in understanding whether a company is run effectively. Likewise the Board and senior management of companies should be in a position to understand how they are interacting with their supply chain in practice, not just in principle. This will put them in a better position to drive change and improve their business relationships. This information cannot currently be garnered from the financial sections of existing annual accounts; this report would create a normal presentation on payment performance to all boards. .

Policy objective

77. The policy objective is to overcome the asymmetry of information regarding payment processes between large and listed firms and their suppliers. The main aim is to bring greater transparency on payment practices.

78. By making this information easily available and accessible it is hoped that suppliers will have a better understanding of what to expect from their customers, and therefore be in a better position to:
    i. make an informed judgement on whether to enter into a commercial relationship (e.g. whether terms are fair and whether they are likely to be adhered to, so avoid the cost of chasing late payments later);
    ii. negotiate fair terms;
    iii. have information allowing them to challenge in situations where terms are become inconsistent with published policies; and
    iv. have information allowing them to challenge in situations where terms become inconsistent with published policy

79. As this information becomes available and accessible it is hoped that comparisons between competitors will lead to competitive pressure to improve payment practices in line with peers. The availability of the information will also make it easier for Government, business representative bodies, suppliers and other businesses to identify late paying businesses and put commercial and reputational pressure on these businesses to pay promptly. This will all contribute to moving towards a business culture of prompt payment. For the economy as a whole this should improve efficiency by ensuring resources are more rapidly allocated towards more successful firms.

80. While reporting firms should in theory, already be incentivised to operate cost effective payment policies and processes, in practice this may not be the case for all firms and indeed may be a factor in causing late payments. The focus on payment processes created by this measure, may therefore spark a review of processes and subsequent innovation within a subset of firms thereby improving their cost efficiency. The extent of this is something we are unable to quantify.

Description of options considered

81. Three high level policy options have been considered:
    a. Option 0: Do nothing
    b. Option 1: Mandatory report
        i. Option 1a): Quarterly reporting on company website(Preferred option)
        ii. Option 1b): Published in annual report
        iii. Option 1c): Monthly reporting on company website.
    c. Option 2: Voluntary report

Option 0: Do nothing

82. There is currently no requirement for firms to publish their payment practices and performance. This is since the removal of a former payment reporting requirement in 2013. This was removed as the previous required disclosure did not ask for information that could not otherwise be understood from annual accounts. Small business representative organisations criticised this removal in their responses to the discussion paper “Building a Responsible Payment Culture”. As such doing nothing would not change the status quo and would not meet the policy objectives.

Option 1: Mandatory report

Which companies will need to report on their payment practices:

83. Most companies, particularly those at the top of supply chains, say they value good relationships with their suppliers and seek sustainable supply chains as an important part of their business strategy. Nevertheless, the evidence clearly demonstrates that on average large companies pay later than smaller or medium size companies.[33]

84. While anecdotal evidence suggest that some companies may deliberately delay payment in order to improve their financial position, in many cases late payment appears to be a result of administrative issues.[34] There may be a lack of a clear payment policy; staff may not be adequately trained or resourced; or there may not be enough coordination between departments to ensure that invoices are approved quickly. The payment reporting requirement will bring greater clarity of payment practices to a firm’s senior executives, as well as suppliers.

85. We therefore propose to require UK large incorporated companies, large UK Limited Liability Partnerships (LLPs) and listed companies to publish their payment practices. We propose at this stage to create specific exemptions for unlisted companies and LLPs that qualify as small or medium under the Companies Act 2006.

86. A company or LLP qualifies as small or medium under the Companies Act definition in a year in which it satisfies two or more of the following requirements:

Criteria	Small qualifying conditions	Medium qualifying conditions
Turnover	Not more than £6.5m	Not more than £25.9m
Balance Sheet Total	Not more than £3.26m	Not more than £12.9m
Number of employees	Not more than 50	Not more than 250

87. We also propose that all companies listed on the London Stock Exchange are required to produce a report, irrespective of size. There is a general public interest in higher standards of behaviour in UK listed companies. The public interest is to ensure that the behaviour of a business is acting in accordance with the wishes of shareholders. For this reason it is desirable for this reporting obligation to apply to all listed companies irrespective of size so that investors have access to all relevant information.

[33] http://www.experian.co.uk/blogs/latest-thinking/2013/02/late-payments-index-the-annual-roundup-of-2012-improvements-led-by-larger-businesses/

[34] 71% of respondents who claimed not to have late payment say that robust invoicing practices were likely to reduce overdue payments. The questions related to whether administrative errors were a main or major cause of late payment. http://www.bacs.co.uk/Bacs/DocumentLibrary/UK_companies_face_a_late_payment_burden_of_%C2%A346.1_billion.pdf

88. This reporting requirement will be mandated for all individual firms who meet the requirements. The intended aim of this requirement is for suppliers to see reports from the firms they are directly supplying. Consolidated group level reports are not currently envisaged.

Why exclude small and medium sized companies:

89. Whilst late payment can be perpetrated by firms of all sizes, we are concerned that imposing reporting obligations on all firms irrespective of size would not be proportionate or effective.

90. As mentioned previously in this document, research carried out by Experian showed that large companies, on average, are above the national average of payment days beyond terms. We are also concerned about the ability of small and medium sized companies and LLPs to report on payment practices. With the anecdotal evidence we have gathered, we believe that large firms tend to have systems with sophistication to effectively provide data required for this report. While there is an increasing trend of companies of all sizes to purchase and utilise more sophisticated payment systems. . We are therefore concerned that requiring small and medium sized companies and LLPs to produce the same report would place disproportionate burdens on them.

91. We intend to require companies and LLPs to publish their payment reports in a publicly accessible format on their firm's website. The recent survey undertaken by BIS for this document indicates that large firms tend to have a company website[35] that could be used to publish a report. This may not be the case for all medium and small companies.

The report will cover

- Standard payment terms;
- Maximum payment terms;
- Changes to standard payment terms in reporting period;
- Proportion of invoices paid to terms;
- Average time taken to pay invoices;
- Invoices paid to a fixed (60 day) term;
- Dispute policy;
- Use of e-invoicing;
- Supply chain finance offer; and
- Membership of any fair payment code

92. A draft version of this report can be found in Annex A of this document.

93. The report will ask companies to set out clearly the type of **payment terms that they use as standard** in their contracts. This will allow suppliers to understand what to expect when negotiating contracts. It will also allow companies to better negotiate the terms they are on, especially if the terms offered are less favourable than an industry average.[36]

94. **Maximum payment terms** employed will be included in this report and reasons for use. This will aid suppliers in understanding why they are offered such terms. Where these terms differ significantly from standard terms offered, or industry norm, a supplier will be in a more informed position to negotiate more suitable terms.

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[35] 34 respondents to the survey said they had a public facing website.

[36] Credit reference agencies currently compile information on industry payment averages. This would be supplemented by the use of reports by companies within a certain sector publishing this report.

95. There have been a rising number of complaints about large companies altering their payment terms at short notice and without consultation with their suppliers. This behaviour creates uncertainties for suppliers, preventing the planning for investment and growth. We therefore propose to require companies to state **whether standard[37] payment terms have been extended** or significantly changed in the reporting period; and whether suppliers had been notified or consulted on this change in advance of it taking place.

96. Firms will also be required to report on the **proportion of invoices paid to terms**. This is an important metric for suppliers to understand, as it provides an indication of a company's record in paying on time. It is a holistic number, taking into account all terms. Where a company is failing to meet its commitments regularly, a supplier can then plan for the additional costs that will be incurred, plan to use late payment legislation or opt out of a transaction.

97. Firms will be required to report on the **average time taken to pay invoices**. This metric will be complimentary to the proportion of invoices paid to terms. This metric will demonstrate whether the invoices not paid to terms are quickly resolved after the elapsed term, or not.

98. A metric of **invoices paid to a fixed term**, in this case 60 days[38], will be included in the reporting requirement. 60 days is considered a max for standard payment, set out in the EU Late Payment Directive, and offers an opportunity for appropriate benchmarking of payment performance. This metric will allow suppliers to compare different customers against a standardised time frame of payment. It will also allow interested third parties the opportunity to compile industry benchmarks based on a standardised format.

99. Firms will also be required to **outline their disputes resolution processes**. Disputes are a standard practice among companies, especially where there are large quantities of transactions. Disputes can range from easily resolved reconciliations of invoice against supplied goods or services, to more complex and irreconcilable differences. However, there is a concern that some firms are using disputes as a method of delaying payment. It is essential that this report provides information to avoid this becoming a norm.

100. While it would be valuable to have a report on the **number and length of disputes** there is insufficient agreement on what constitutes a dispute. Requiring firms to measure this is likely to produce a disproportional cost burden. We therefore do not propose to include this in the report.

101. Large firms have increasingly provided supply chain finance to their suppliers to ensure that they have access to the finance they need, thereby helping them through any short-term cash-flow difficulties. However, it is not always clear to suppliers when this is offered by their customers. We consequently propose to include a requirement that companies report on whether and what kind of **supply chain finance they offer**, so that suppliers can understand what assistance is offered by a customer. This will include a change to payment terms with the use of supply chain finance. In turn, this will allow them to compare against the offers of other companies to decide if the offer is an attractive and competitive one. This will be an important part of the reporting requirement.

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[37] Our consultation will seek to provide more information on what constitutes a standard term.

[38] 60 days is currently set out by the Late Payment of Commercial Debts Act 1998 as being the maximum payment term before a consideration on whether a term is 'grossly unfair' needs to be made. We do not believe that companies currently performing better than payment in 60 days will increase their terms as this will likely lead to negative impact on their business. If payment times are currently shorter a firm will already have made a decision to be a leader on payment terms.

102. Payment codes should demonstrate a commitment of companies to treat their suppliers in a certain fashion. Our prompt payment report will ask **companies to state whether they are a signatory of a specific fair payment code**; and if so, state which one. Knowing whether a company is signed up to a code will allow a supplier to judge if a customer is committed to paying fairly, and also provide an avenue to challenge unfair actions.

103. These metrics ensure that there will be significant and robust differences to previous payment reporting requirements. The report to be required of firms is aimed at suppliers. The metrics are those that are directly applicable to a supplier's decision when entering a contract; whether payment terms offered are fair and whether this customer will perform to their commitment.

104. The preliminary decision to choose these metrics was taken in discussions with stakeholders, on which metrics would be the most effective for suppliers, and by surveying firms believed to fall within scope, to ensure that the required information was accessible and low burden. We will be testing these proposals further through our accompanying consultation paper, and through further interactions with stakeholders, to ensure it achieves the policy aims at proportionate cost to businesses.

Who will sign off companies' prompt payment report?

105. This report will require the signature of a finance director or equivalent within the reporting firm. Directors should take responsibility to ensure that the policies of their firm are being mirrored by performance. Having a director responsible for signing off this report is consistent with similar requirements included in other company reporting frameworks, for example executive remuneration.

Option 1a (preferred option): Quarterly report published on company website

Where will prompt payment reports be published?

106. We recognise that the success of this reporting requirement depends on the accessibility of the report, and subsequent usage of the information by suppliers. Therefore it is essential that it is published in an easy to access way. Firms' websites are a key medium for communication with customers and suppliers, so we believe this to be the most accessible and effective option.

107. The report will require firms to publish in a required style and format. This is to ensure that the information is standardised, being comparable and easy to use by suppliers looking at multiple reports. Standardisation allows for firms with an interest in compiling data on payment practices to do so in an automated and low impact way. This is essential for third parties that utilise such data to create effective benchmarks that will be easily and publically accessible and usable. Current discussions with these third parties suggest that they would not require a fee to be accessed (as the information is already publicly available). In turn, this will allow a supplier to understand the terms that they are offered against those that are offered in the rest of their sector.

When will companies report?

108. The ability to pay trade creditors is an essential part of a firm's liquidity and healthy accounts. However, it can change very quickly. This can be evidenced from the financial crisis, where firms including HMV and Comet defaulted on payments leading to a reduction of goods they could receive on credit. It is for this reason that we propose to

make this report publishable at four points in the year. This follows a timescale currently in use with VAT reporting. While the drivers for each report are different, we believe that information required for both reports share many characteristics. A firm will have to provide the payment data quarterly, based on their agreed accounting year. This will mean that if a firm's accounting year for tax purposes is on the 31 April, then a report must be published on 7 June.[39]

109. This is proportionate reporting as it will require assessment of accounts payable, which are also under consideration for VAT purposes. It will also be more effective, as it will allow suppliers to regularly see the payment performance of a customer, without this becoming onerous.

Option 1b: Published with annual report

When and where

110. Under this option firms will be required to provide the prompt payment report as part of the annual report required by the Companies Act 2006.

111. This is not a preferred option. The key drawback is timing. Company reports are published only once a year, and often published several months after the end of a company's financial year. Therefore metrics included in this report will be out of date and would not give an indication of the current spending patterns of the reporting company. This information will therefore be much less effective to suppliers. This is because suppliers will need to understand the current practices of the company, not reported performance from (potentially) 15 months before.

112. Including this information in the company report also adds a level of complexity for the supplier and will be less user friendly. Some annual reports are not immediately accessible or can even require fees. This provides a delay in receiving the information or a disincentive to check information. The policy aim of this requirement is to increase transparency of payment practices to suppliers. Including it in a company report, a document primarily aimed at shareholders, would not be suitable for a supplier to digest quickly when making a decision whether to transact with a company.

Who will be covered?

113. All companies currently required[40] to provide an annual report would be required to produce this payment report.

114. An advantage of this option is that it would be easier to incorporate it into the other metrics required for end of year company reporting.

115. A disadvantage is that firms that are part of a group can chose to report at group level rather than individually. If companies chose to do this it will adversely affect the benefit of the prompt payment report as firms which do not receive a group/parent guarantee from their customer will not be able to gain a clear indication of the payment practices of subsidiaries they may be supplying.

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[39] An example of this timetable can be found on the HMRC website http://www.hmrc.gov.uk/vat/managing/returns-accounts/deadlines.htm

[40] large companies incorporated in the UK, large UK Limited Liability Partnerships (LLPs) and listed companies

What will be covered?

116. The metrics and narrative of the report will not change from that set at Option 1a, although the report will cover a financial year.

Option 1c: Monthly report published on company website

When will this report need to be published?

117. This option requires companies to publish a report on a monthly basis. This will allow suppliers to have a more up to date view of the payment practices of a reporting company.

118. This is not the preferred option as proportionality of measures must be considered. This is likely to increase costs to a reporting company.

Where will the report be published?

119. Companies will be required to publish this report on their website, as with option 1a.

Who will be required to report?

120. This will not differ from companies included in option 1a.

What will be covered?

121. Requirements will not differ from option 1a.

Option 2: voluntary report

122. A voluntary option, utilising the above mentioned metrics, is not a preferred option as it would only place burdens on those companies who wished to report their performance. However, the strength of this policy is in creating greater information for suppliers on the payment practices of their customers. Other voluntary payment interventions, including the Prompt Payment Code, indicated that poor performing companies would be more reluctant to report and that only a limited selection of desired companies would report.

123. We believe that the uptake of a voluntary report would be limited, thereby reducing the effectiveness of these reforms. For a large number of companies the information would not be available, preventing suppliers from adequately planning for transactions with companies who have a poor performance, or to identify those firms using terms that varied widely from the norm of their sector.

Costs and benefits of options

Option 0: Do nothing

124. The ‘Do nothing’ option will not meet the policy objective which is to bring greater transparency on payment practices, reduce late payment and change business culture. Under this option, the market failure in the current system would be likely to remain intact.

125. Firms are currently not obliged to provide public information on their payment performance or standard practices. This makes it impossible for stakeholders to have a true understanding about the management of payment practices or whether commitments are being met. This prevents suppliers adequately planning for the likelihood of late payment, and government from taking further action.

Costs / Benefits:

126. There would be no additional costs and benefits associated with this option.

Option 1a (preferred option): Mandatory report

127. To inform policy development and ensure that our analysis was based on the most robust evidence, the following evidence collection methods were undertaken:

    - Consulted with large companies;
    - Consulted with Credit Reference Agencies;
    - Reviewed existing impact assessments that relate to reporting requirements;
    - Reviewed international evidence
    - Online survey to around 142 large organisations (further details below);
    - Consulted with business, in a series of focus groups and one-to-ones meetings; and
    - Discussion paper[41]

128. The results gathered from these approaches have been used to inform the analysis below. For the Final Stage Impact Assessment we will continue to develop the evidence base and our analysis during the consultation. We intend to hold working groups with businesses to analyse the requirement and to better understand the costs, including those we have not been able to estimate at this stage.

129. As noted in the ‘description of options considered’ above, there remain a number of policy variables in relation to Option 1a. This Impact Assessment considers the costs and benefits based on the different models outlined in that section.

Firms in scope

130. We propose that all large companies incorporated in the UK, large UK Limited Liability Partnerships (LLPs) and listed companies will be in scope of the proposals. Unlisted companies that qualify as small or medium under the Companies Act 2006 are excluded. Additional types of corporate entity may ultimately be placed in or out of scope of reform and so additional legislative and policy changes may be required to achieve this. This would be subject to a future consultation.

[41] BIS discussion paper Building a Responsible Payment Culture

131. In order to identify the number of firms in scope we have used the FAME company database (which uses, amongst other sources, Companies House data). This is because, unlike Companies House data, the FAME database allows us to identify company size by turnover, assets and employees. This allows us to apply the Companies Act definition of large (as outlined earlier in the IA).

132. Using the FAME database, we estimate there are around 18,000 UK incorporated active companies and LLPs either large or listed in the London Stock Exchange (LSE). Of these, around 400 are LLPs and 17,700 are companies. UK listed entities trading on the London Stock Exchange main market account for approximately 780 of the above estimate. Of these under 50 are micro, around 270 are small and under 20 are medium[42].

133. The FAME database is subject to limitations and may provide an overestimate of the number of large companies and large LLPs. This is mainly due to the fact that FAME reports worldwide data, not just UK, which may inflate values promoting some companies from medium to large. However, it is the best source of data available to the Government and also the only data set containing information on all three of the Companies Act variants that determine when a company is to be considered large.

Costs

134. The costs that businesses in scope are likely to face can be split into transition costs and recurring costs. Transition costs are one-off costs which relate to the implementation of the measure, whereas the recurring costs are those that are likely to recur for the time that the policy measure is in force.

135. The transition costs for this policy option will be the costs related to understanding the new legal requirements and then producing and publishing the first report. The recurring costs will be the costs related to updating the report quarterly.

136. We currently have relatively little information as to the extent that businesses already know, hold and report on the information required for the prompt payment report. For this reason BIS employed various approaches to gather evidence to estimate the likely costs of the policy option. It has not been possible to monetise all costs at this stage however we will be seeking to improve our understanding of these costs for our final Impact Assessment through our forthcoming consultation, the questions within the IA as well as holding structured discussions with stakeholders.

137. A sample of published Impact Assessments regarding reporting requirements were analysed but provided few or no relevant cost estimates for this proposal.

138. BIS conducted a non-representative online survey aimed at large firms as part of the policy development process (see Annex B for detail) (the survey). We received 64 attempts to answer the survey of which 35 responses were valid. Although not a representative sample of firms in scope, it does provide an indication of likely impact of the policy option. During the formal consultation we will seek confirmation of these assumptions and further evidence from businesses.

[42] Data extracted from the FAME database on 24th September 2014.

Private business costs

Transition costs

139. Businesses in scope of the policy will face one-off costs associated with producing the report for the first time. These one-off costs may include:

    a. Costs for additional IT infrastructure or processes that may be required;
    b. Costs associated with data collection and analysis;
    c. Costs of producing the report, sign off and publishing; and
    d. Costs of familiarisation with administrative burdens including additional management time to ensure the report meets statutory requirements and time taken to understand the new regulatory requirements.

Additional IT infrastructure or processes

140. The survey asked respondents about the use of Electronic Invoice Systems. E-invoicing is the transfer of invoice between a supplier and buyer in a fully integrated electronic format. E-invoicing leads to greater automation and more sophisticated information capture. Recent research from the EU Commission has shown cost savings through reduction in manual work and process improvement*.*
    a. *Mail processing*
    b. *Data capture*
    c. *Data validation and matching*
    d. *Exception handling, tracking and business approvals*
    e. *Fraud and loss prevention*
    f. *Late-payment fees* [43]

141. If firms have this software available it would indicate that they have the capability of data capture and would not need to purchase additional IT infrastructure. It is assumed that firms who have procured accounts payable systems will utilise them for the entirety of their accounts payable function

142. Out of the 33 responses to the question, 76% said their organisation has an Electronic Invoice System, while 21% who said “no” and 3% who did not know. Those who answered “yes” were then asked what proportions approximately of invoices were on the system. Of the responses received to the question just over half (54%) of responses estimated 96%-100% of invoices were on the system. Under a third (29%) of responses estimated 26% - 50% of invoices were on the system, 8% estimated 76%-95% and 8% did not know.

143. There is also software other than electronic invoice systems that would provide the necessary IT infrastructure. Accounting and accounts payable software may mean a company already has the capability for the required data capture. This type of software is used to record and process the accounts transactions of a company. Systems differ in complexity, some being bespoke in-house systems and others provided by a wide variety of developers. However, the core modules of this type of software are: accounts payable, accounts receivable and purchase order generation.

144. The survey asked respondents what type of accounts payable software their company used. Of the 34 respondents who answered the question a variety of leading software

[43] http://www.ukeag.org.uk/media/337/ukeag_enterprise_benefits.pdf

packages or bespoke packages were used with some companies using more than one package. There was only one case where no account payable software was being used.

145. Whilst we do not envisage that all companies will have the latest software, it is anticipated that all companies must track their payments in order to understand their cashflow. It is essential for financial planning to know which payments are going out of the business and how that might affect the finances available to the company. Those companies with infrequent procurement may be less likely to report internally on procurement spends, but it is understood that they will have a system of keeping track of invoices and payments.

146. The survey evidence of widespread reported use of electronic invoice systems and accounts payable software, combined with views we have received in discussions with stakeholders, indicates that the majority of businesses have the technical capability to capture data on their invoices. We also assume that firms have a good working knowledge of their current system and that no additional training will be needed.

147. Therefore, we assume that for the majority of business in scope there will not be a cost of additional IT infrastructure. However, the extent of data collection can vary across companies due to the variety of different software packages; we explore the differences in the next section.

Consultation Question to firms in scope:

Do you agree with the assumption that your organisation, and firms that would fall into the scope of this measure, has the technical capability to capture data on your invoices?

Do you have any evidence that could help to refine this assumption?

Where firms do not currently have the capability to fulfil this requirement, at all or currently only for some invoices, do you have any evidence in relation to potential set-up costs?

Costs of data collection and analysis

148. As set out in the policy description, the prompt payment report covers: payment terms; metrics on proportion of invoices paid within contractual terms; average time taken to pay invoices; proportion of invoices paid to a fixed term 60 days; a section on the firm's dispute resolution processes; and a narrative section providing information on e-invoicing, supply chain finance and payment codes. A draft report is at Annex A. The Government may amend this proposal in light of responses received during the consultation process.

Payment terms

149. It is proposed that the report will ask firms to set out clearly the type of payment terms that they use as standard and maximum in their contracts, as well as standard payment period and the proportion of suppliers that are covered by the standard term. The survey asked respondents if they negotiate the period for paying invoices individually with suppliers or if they use a common payment period across different suppliers (standard payment terms). The split between the 35 respondents was almost equal: 51% said they

specify the same period for the payment in some or all of their contracts, whereas 49% said that they negotiate the period for invoice payment individually with suppliers.

150. For those who said they used standard terms the survey asked approximately what proportion of contracts this standard payment period applied to. Of the 14 responses to the question received, the majority (51%) said it applied to approximately 76%-95% of their contracts. 30% said it applied to approximately 96%-100%; 7% said it applied to 51%-75%, 7% said it applied to 26%-50% and 7% did not know.

151. The responses to the survey suggest that firms have information on their standard payment practices readily available. Every respondent (100%) provided an answer to the first question indicating it would be a low burden to include this information in a report. Of those who were asked the second question on the proportion of invoices the standard payment period applied to, only one respondent answered "don't know"; all others gave the proportion of invoices on standard terms.[44]

152. For the firms that do not have a standard payment term we would assume that they would declare this in the form, which is expected to be low burden. We also assume that the maximum payment term used will be easily identified, as they are likely to be used for a specific reason. Evidence suggests that maximum terms are often applied when financial support is provided, for example in the provision of supply chain finance.

153. In accordance with the evidence, we assume that the costs to capture this data are very low. Again, we will seek to confirm this assumption during the consultation.

Consultation Question to firms in scope:

Do you agree with the assumption that the cost of collecting required information on payment term is low burden?

Do you have any evidence on the costs that could help to refine this assumption?

Required metrics

154. It is proposed that the report will ask firms to provide information on certain specified payment metrics. The metrics currently being considered, subject to consultation, are: proportion of invoices paid within contractual terms; average time taken to pay invoices; and the proportion of invoices paid over 60 days.

155. In the survey we asked if respondents collected data on one or more of the following:
    a. The average payment period specified in contracts;
    b. The proportion of invoices paid within the contractual period;
    c. The average time taken to pay an invoice; and
    d. The proportion of invoices paid within 60 days of issuing the invoice.

156. Out of 35 responses to the question around two thirds (66%) said "yes", with the remaining 34% answering "no". The survey asked more detailed questions about the type of data collected to those respondents who answered "yes". The table below shows the type of data collected by the 23 respondents who said they do collect this data.

[44] The survey did not capture the reason that this respondent answered "don't know", for example, they may just not have the information to hand, they may not work in that area of the organisation that has that information or that the organisation does not collect the data.

Table 1: Answer choices selected by the 23 respondents who answered yes to collecting data on one or more of the named areas.

	Number of times answer choice selected			
	Yes - By number	Yes - By value	No	Don't know
The average payment period specified in contracts	11(48%)	6 (26%)	8 (35%)	2 (9%)
The proportion of invoices paid within the contractual payment period	18 (78%)	10 (43%)	3(13%)	1(4%)
The average time taken to pay an invoice	14 (61%)	9 (39%)	4(17%)	2(9%)
The proportion of invoices paid within 60 days of issuing the invoice	7 (30%)	5 (22%)	10(43%)	3(13%)

Brackets contain the percentage of respondents that selected the answer.

157. This table shows that some data is more likely to be collected than others. The metrics currently being considered for inclusion in the report are already collected by some firms. 18 respondents (78% of those who said yes to collecting data) do collect the proportion of invoices paid within contractual terms by number.

158. The average time taken to pay an invoice by number was collected by 14 respondents (61% of those who said “yes”). However, through discussions and workshops with stakeholders we are aware that firms have different trigger points from when they start to measure the time taken to pay invoices. The survey therefore also asked ‘what is the trigger point from when you start to measure the time taken to pay invoices’. Of the 34 respondents, the majority indicated that the trigger point is on receipt of invoices. During consultation we will explore what an appropriate trigger point should be in order to establish standardised metric allowing comparisons between companies.

159. The proportion of invoices paid within 60 days of issuing the invoice by number was collected by 7 respondents (30% of those who said “yes”).

160. This evidence suggests that for some firms they already collect the data that is potentially needed for the report and so the impact costs of data collection for these particular firms will be low.

161. However for those firms who do not collect all or any of the data they will face costs of data collection for the report which will vary for organisations depending on their current data collection if any. We asked all respondents (both those who said “yes” and “no” to collecting data on one or more of the named areas) if there are any barriers to collecting the data. 35 respondents answered the question, some of which selected two answer choices. Table 2 shows how many times each answer choice was selected by the 35 respondents.

Table 2: Answer choices selected when asked ‘Are there any barriers of collecting the data’

Answer choice	Number of times selected
My invoicing system can’t produce the data	6
My invoicing can produce the data, but I do	6

not analyse the data	
I only track data on my most important contracts	3
There are none	20
Other (please specify)	7

Total number of respondents equals 35

162. As table 2 shows, when asked “Are there any barriers to collecting the data” the answer choice most often selected was “there are none”. A minority, 6 respondents, selected ’My invoicing system can’t produce the data’. Responses ‘other’ included that the data did not go down to the required level, additional time and cost needed to analyse the data.

163. The survey also asked respondents “what would you estimate the level of resources required to collect information on the additional data”. Responses are shown in Table 3.

Table 3: Responses to ‘what would you estimate of the level of resources required to collect the information on the additional data’

Answer choices	Number or selections	Percentage
Very Low	1	3%
Low	14	40%
Medium	15	43%
High	3	9%
Very High	2	6%

Total respondents: 35

164. As table 3 above shows, 86% of respondents believe the resources required to collect the information on additional data would be “very low” to “medium”. The 2 “very high” responses were selected by those who previously selected “My invoicing system can’t produce the data” as one of their answer choices in the previous question selected.

165. It is interesting to note that 83% of the 12 respondents who answered “no” to “do you collect data on one or more of the named areas” believed the level of resources required to collect the information on additional data would be “low” or “medium”. 1 respondent answered “high” and 1 respondent answered “very high”.

166. It is also interesting to note the answer choices selected in response to “if there are any barriers to collecting the data” by those 12 respondents who answered “no” to collecting data on one or more of the named areas. Table 4 shows how many times each answer choice was selected by these 12 respondents.

Table 4: Answer choices selected when asked ‘Are there any barriers of collecting the data’ by those respondents who answered no to collecting data on one or more of the named areas.

Answer choice	Number of times selected
My invoicing system can’t produce the data	2
My invoicing can produce the data, but I do not analyse the data	5

I only track data on my most important contracts	4
There are none	3
Other (please specify)	3

Total number of respondents: 12

167. Table 4 shows that, when asked "Are there any barriers of collecting the data", the answer choice most often selected by those respondents who answered no to collecting data on one or more of the named areas was "My invoicing can produce the data, but I do not analyse the data". 'My invoicing system can't produce the data' was selected twice.

168. The evidence from the survey indicates that the majority of firms already collect some of the data that is potentially needed for the report. However the type of data collected does vary and not all of the firms collect all the potentially needed data. However the evidence also suggests for the majority there are no barriers and the burden is very low to medium. This still holds in the case of firms who said they do not collect any data on the named areas. This would indicate that the data collection would be low cost to the majority of firms.

169. We must also consider that the reporting requirement, removed in 2013[45], had asked for information on company's trade debt. Whilst the metrics of the proposed report do vary, similarities with this previous reporting requirement would suggest firms have some experience collecting such data.

Consultation Q to firms in scope:

Do you agree with the assumption that there are no barriers to data collection for your organisation?

What do you estimate would be the cost of data collection for your organisation? What employee level would perform the work needed for data collection? How many hours of this employees time do you think data collection will take?

Do you have any evidence on the costs that could help to refine this assumption?

Dispute data

170. We propose that the report also requires firms to provide information on dispute resolution. The information currently being considered under this option (although this may change following the consultation) is text explaining the process for dispute resolution.

171. The survey asked respondents "in your invoice management system what do you consider to be a 'disputed' invoice". The 32 responses received to the question were very varied and this highlighted that there is no standard definition across firms. The response included 'where the purchase order number does not match', 'anything unapproved', and 'value difference'.

172. However when asked "Does your organisation have a formal process for resolving disputes on invoices" a clear majority (68%) of 34 responses received said yes compared to (29%) who said "no" and 3% who answered "don't know". This suggests

[45] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/34744/12-978-reforming-uk-narrative-reporting-impact.pdf

that for the vast majority of companies it would be a low burden to include this information in a report. For the firms that do not have a process we would expect that they would declare this in the form which is also expected to be low burden.

173. This evidence would indicate that this section of the report would be a very low burden. Again during the consultation we will seek to confirm this assumption.

Consultation Q for firms in scope:

What do you estimate would be the cost of providing* text explaining the process for dispute resolution *for your organisation? What employee level would perform the work needed to provide the narrative? How many hours of this employees time do you think providing the narrative will take?

Narrative section

174. It is proposed that the final section of the report may ask firms to provide information on whether they offer e-invoicing and/or supply chain finance, and if they have signed up to any payment code.

175. It is envisaged that firms will be required to produce a short narrative on each. We believe that this information will be easily accessible and the costs of doing so for the first time will be very low.

Consultation Question for firms in scope:

Do you agree with the assumption that the information needed for the narrative section is easily accessible?

What do you estimate would be the cost of providing* text for the narrative section *for your organisation? What employee level would perform the work needed to provide the text for the narrative section? How many hours of this employees time do you think providing the text for the narrative section will take?

Costs of producing the report, sign off and publishing for the first time

176. We envisage that firms in scope will be required to produce the report which will require the signature of a finance director or equivalent within the reporting company. We propose that the report will be published on the firm’s website.

Producing the report

177. As outlined previously in the IA evidence, the survey showed that the majority of respondents do collect some of the data already. For those respondents who answered “yes” to collecting data on one or more of the named areas the survey also asked ”what is the data collected for”.

178. Of the 18 respondents who said they collect data on the proportion of invoices paid within the contractual payment period by number, 100% said they use the data to produce an internal report and one respondent said they also use it to produce an external report. This is the same in the case of the 14 respondents who said they collect data on the average time taken to pay an invoice by number: 100% said they use the data to produce

an internal report and one respondent said they also use it to produce an external report. It was also the same in the case of the 7 respondents who said they collect data on the proportion of invoices paid within 60 days of issuing the invoice by number: 100% said they use the data to produce an internal report and one respondent said they also use the data to produce an external report. Reporting periods were not covered by the survey. However, conversations with large companies suggest that monthly or four week payment cycles are the norm.

179. We expect that for the organisations that already collect some of the required data the report will rely on data in their internal report and therefore there will only be a small additional burden of producing the report.

180. However, as mentioned in the costs of data collection and analysis section of the IA, although the evidence from the survey indicates that the majority of firms already collect some of the data that is potentially needed, the type of data collected does vary and not all of the firms collect all the potentially needed data. Also the survey shows that there are some firms that do not collect any of the required data.

181. Therefore during consultation we will be asking consultees to provide an estimate of how much they think it will cost their organisation to produce the report. To improve the robustness of estimates we will be asking for an estimate of the time it would take their organisation to produce the report (time taken to collate the information needed and write the report) and the position of the employee who will be producing the report. At this stage, we have not been able to include an estimate of this cost in the IA, meaning that it will understate the total cost to firms that fall within the measures scope.

Consultation Question for firms in scope:

Approximately how much do you estimate it would cost your organisation to produce the (draft) prompt payment report set out in Annex A? Who in your organisation would complete the report? How much of that employee's time do you think it would take to complete the produce the report? **Do you have any evidence that could help to refine these estimates?**

Sign off

182. Under this option the report will require the signature of a finance director or equivalent within the reporting company. As the draft report in Annex A shows, it is envisaged that under this option the report will be one or two pages long. The sign off officer will be required to ensure the information is published within the required time frame and that the information is factually correct. As this is a relatively short report we believe that it would take a finance director approximately 1 hour to sign off the report. This time includes the finance director ensuring the information is published within the required time frame and that the information is factually correct.

183. Using the Annual Survey of Hours and Earnings 2013 provisional results[46] the median hourly pay excluding overtime for full time financial managers and directors has been estimated to be £29.78. This hourly rate is then uprated by 17.8% to account for employers' non-wage costs[47], the hourly cost per employer is therefore estimated to be £35.08.

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46 http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-328216. Table 14.6a, full time employee jobs, median.

47 This estimate is based on Eurostat figures for employers' labour costs and non-wage costs in the UK, 2012, for the whole economy excluding agriculture and public administration.

Total Sign off cost for first report: firms in scope x cost per hour x hours = 18,000 x £35.08 x 1= £0.6m

184. A sensitivity analysis of this estimate using a high estimate of 1.5 hours and a low estimate of 0.5 hours estimates a range of £0.9m to £0.3m.

Consultation Question for firms in scope:
Do you agree with the assumption that it will take a finance director approximately 1 hour to sign off the first report? **Do you have any evidence that could help to refine this estimate?**

Publishing the report on a website

185. Under this option it is proposed that the report will be published on the firm's website. When asked 'does your organisation have a public-facing website' in the survey all but one of the 34 respondents said yes. However, with further investigation a public facing website for this respondent was easily found, so we believe that this response should be discounted. The survey then asked 'what level of resource would it take to add an additional webpage on the site'.

Table 5: Responses to 'what level of resource would it take to add an additional webpage on the site'

Answer choices	Percentage
Very low	6%
Low	18%
Medium	36%
High	3%
Very high	3%
Don't know	33%

186. Table 5 above shows that 61% of the 33 respondents estimate the level of resource to be "medium" to "low".

187. We believe that for an organisation to upload the report to an area on their public facing website would require relatively little time for a web design and development professional. Firms under this option are only required to provide the report on an area on their website that is clear and obvious to suppliers. We therefore estimate it would take an hour of a web design and development professional's time to complete the changes.

188. Using the Annual Survey of Hours and Earnings 2013 provisional results,[48] the median hourly wage excluding overtime of full-time web design and development professionals is estimated to be £14.70 in 2013. This hourly rate is then uprated by 17.8% to account for employers' non-wage costs[49], the hourly cost per employer is therefore estimated to be £17.32. The cost to a firm in scope for publishing the first report on their website is therefore estimated to be £17.32.

Total publishing cost for first report: firms in scope x hours x cost per hour = 18,000 x 1 x £17.32= £0.3m

48 http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-328216. Table 14.6a, full time employee jobs, median.

49 This estimate is based on Eurostat figures for employers' labour costs and non-wage costs in the UK, 2012, for the whole economy excluding agriculture and public administration.

Consultation Question for firms in scope:
***Do you agree with the assumption that it will take a web design and development professional approximately 1 hour to place report on a website?* Do you have any evidence that could help to refine this estimate?**

Familiarisation costs

189. We estimate one of the significant costs associated with the introduction of a new prompt payment report will be one-off familiarisation costs. This includes additional management time to ensure the report meets statutory requirements and time taken to understand the new regulatory requirements

190. A sample of published IAs were analysed to see if they provided relevant cost estimates for this option. The final IA for 'Reforming UK Narrative Reporting' provides a useful guide to inform the estimate of hours of familiarisation required. The preferred option for reforming UK Narrative reporting required companies to produce a focused strategic report, simplifying reporting requirements and improving guidance.[50] This is a significantly longer and more complex report than the one proposed.

191. The strategic report is required of relevant companies to provide a fair and balanced analysis of:
    a. the development and performance of the company's business during the financial year;
    b. the position of the company at the end of the year; and,
    c. a description of the principal risks and uncertainties facing the company.

192. The strategic report replaced the business review in 2013. In the final IA it was estimated that it would take a quoted company 15 hours of managerial time to familiarise itself with the new requirements of the strategic report. However, the strategic report is a lengthy and complex section of a company's annual report requiring, unlike the proposed prompt payment report.

193. As the payment report is shorter and considerably less complex, with a number of companies already producing some or similar data for internal purposes, and having previously been required to produce a similar report, our best estimate is that it would take 3 hours to become familiar. We have conducted sensitivity analysis on +/- 33% on the hours taken. The high estimate is 4 hours and the low estimate is 2 hours.

194. We have estimated it will take 3 hours of managerial time to become familiar with the new requirements. Using the Annual Survey of Hours and Earnings 2013 provisional results[51] the median hourly wage excluding overtime of full-time corporate managers and directors is £21.25. This hourly rate is then uprated by 17.8% to account for employers' non-wage costs[52], the hourly cost per employer is therefore estimated to be £25.03.

Best estimate of total familiarisation cost: firms in scope x hours x cost per hour = 18,000 x £25.03 x 3= £1.4m

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[50] https://www.gov.uk/government/consultations/the-future-of-narrative-reporting-a-further-consultation

[51] http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-328216. Table 14.6a, full time employee jobs, median.

[52] This estimate is based on Eurostat figures for employers' labour costs and non-wage costs in the UK, 2012, for the whole economy excluding agriculture and public administration.

195. Such costs are expected to occur only during the first year of policy implementation. A sensitivity analysis of this estimate using an upper and lower bound of hours gives a range of £0.9m to £1.8m.

Consultation Q for firms in scope:
Do you agree with the assumption that it will take a corporate manager approximately 3 hours to become familiar with the new requirement? **Do you have any evidence that could help to refine these estimates?**

On-going costs

196. Under this option it is proposed that firms will be required to update the report on a quarterly basis. As this will just involve the firm updating the report we assume that the costs will be significantly lower than the cost of producing the report for the first time. This is because the firms will have incurred the costs of any additional IT infrastructure or processes that may be required. There will also be some sections of the report, for example payment terms, which will not need to be changed unless there has been a change in the reporting period.

197. Businesses in scope of the policy will face the on-going costs associated with producing the report. These on-going off costs may include:

   a. Costs for on-going data collection
   b. Costs of updating the report i.e. collating the data and writing the report
   c. Costs of sign off
   d. Costs of publishing the updated report

Costs for on-going data collection

198. As discussed earlier in the ‘additional IT infrastructure or processes’ cost section the survey evidence of widespread reported use of electronic invoice systems and accounts payable software, combined with views we have received in discussions with stakeholders, indicates that the majority of businesses should have the technical capability to capture data on their invoices. We also assume that firms have a good working knowledge of their current system and that no additional training will be needed.

199. This should mean that producing the metrics required in the report will be a potentially automated process by an IT system providing the necessary data. Similarly, the anecdotal evidence from organisations in stakeholder meetings indicates that, with respect to the narrative reporting sections, practices and terms change infrequently and are also straightforward to report on (as they are factual in nature). We consequently assume that, once the data has been collected for the first time, the process will be largely automatic and the costs for on-going data collection will be limited, due to IT systems after initial report will be able to automatically generate data for a report. We will be conducting further analysis of on-going costs to test these assumptions, both through our consultation and through additional evidence gathering, to inform the final policy design and final Impact Assessment.

Consultation Q for firms in scope:
Do you agree with the assumption that the costs of on-going data collection will be negligible?
What do you estimate would be the cost of on-going data collection for your organisation? What employee level would perform the work needed for on-going data

collection? How many hours of this employees time do you think on-going data collection will take?
Do you have any evidence that could help to refine these estimates?

Costs of updating the report

200. We assume that once the firms have produced the first report an update should be relatively simple. Companies will have experience gathering the information from the report and it is envisioned that narrative sections will change less often than the metrics within the report.

201. As explained earlier in the IA it has not been possible to quantify the cost of producing the report for the first time. However, during consultation we will be asking consultees about this in order to inform our Final Impact Assessment.

Consultation Q for firms in scope:
Approximately how much do you estimate it would cost your organisation to update the report as described by the draft report in Annex A? Who in your organisation would update the report? How much of that employee's time do you think it would take to update the report? **Do you have any evidence that could help to refine these estimates?**

Costs of sign off quarterly

202. Under this option the updated report will require the signature of a finance director or equivalent within the reporting company.

203. As previously estimated in the sign off costs under the one off cost section we believe that it would take a finance director approximately 1 hour to sign off the report. However, it is unlikely that the report will require as long to sign off in the future.

204. As paragraph 174 shows the hourly cost of a Financial Director per employer is estimated to be £35.08. The cost to a firm in scope is therefore estimated to be £35.08 each time sign off is required. As the report will be updated quarterly the finance director will be required to sign off the report four times a year.

Total annual Sign off cost: (firms in scope x hours x cost per hour) x number of times per year = (18,000 x £35.08 x 1) x 4= £2.5m

205. A sensitivity analysis of this estimate using a high estimate of 1.5 hours and a low estimate of 0.5 hours estimates a range of £3.8m to £1.3m.

Consultation Q to firms in scope:
Do you agree with the assumption that it will take a finance director approximately 1 hour to sign off the updated report? **Do you have any evidence that could help to refine this estimate?**

Costs of publishing the updated report

206. Under this option firms would have to publish the updated reports on their website four times a year. As detailed earlier in the IA we believe that for an organisation to upload the report to an area on their public facing website would require relatively little time for a web design and development professional. We therefore estimate it would take an hour of a web design and development professional's time to complete the changes.

207. As paragraph 179 shows the hourly cost full-time web design and development professionals per employer is to be £17.32. The cost to a firm in scope is therefore estimated to be £17.32 each time a report is placed on their website. Though we assume that this will be lower cost for subsequent reports.

Total Annual publishing cost: (firms in scope x hours x cost per hour) x number of times per year = (18,000 x 1 x £17.32) x 4= £1.2m

Consultation Q to firms in scope: Do you agree with the assumption that it will take a web design and development professional approximately 1 hour to place the updated report on a website? **Do you have any evidence that could help to refine this estimate?**

Enforcement costs

208. Enforcement of this measure will rest on two duties for a company finance director. A director will be liable for criminal sanction for failure to produce this report within the given time frame or publishing wilfully misleading information. Action can be brought by any party using the existing legal framework. While it is not currently envisaged that there will be any one body entrusted with enforcement, we believe that pressure from third parties will make it clear which firms are not publishing the report.

Micro, small and medium listed companies

209. As explained earlier in the IA this measure proposes that all large companies incorporated in the UK, large UK Limited Liability Partnerships (LLPs) and listed companies will be in scope of the proposal. It is estimated there are currently around 780 UK incorporated listed entities on the LSE main market. Of these, just under 50 are micro, around 270 are small and under 20 are medium.

210. The survey conducted to inform the analysis for the above cost section to private firms was predominantly aimed at large firms. The survey asked 'what is the approximate size of your organisation'. We received 35 responses 66% of which said 500+ employees, 14% said 250-499 employees, 9% said 50 to 249 employees and 11% said 49 or less employees. Although this implies that these 15% were small companies, that is not necessarily the case. For a company to be considered large under the Companies Act definition it must meet 2 of 3 criteria i.e. a firm of not more than 50 can still be large if it has a turnover of more than £25.9m and a balance sheet total of more than £12.9m. Whilst the evidence presented in previous sections therefore includes some limited evidence from what are likely to be small companies, the sample size was relatively small and may not necessarily be representative.

211. During the consultation and in order to inform our Final Impact Assessment we will actively explore whether the costs impacts and assumptions are different in the case of the micro, small and medium listed companies.

Consultation Q to micro, small and medium listed companies:

Do you agree that the assumptions made in the above cost section accurately reflect the costs potentially faced by your organisation? **Do you have any evidence that could help to refine these estimates?**

Summary of best estimate of quantified costs for option 1a

212. Table 6 below summarises the estimates of the quantifiable costs under option 1a as stated previously it has not been possible to monetise all costs at this stage. In the first year of implementation in addition to the one off costs associated with producing the first report, firms will also be required to update quarterly which in the first year will mean providing 3 further updates.

Table 6: summary of quantified costs (not all costs have been monetised) in the first year of implementation and the recurring annual cost.

	First year costs			Recurring Annual cost		
	Low estimate	Best Estimate	High Estimate	Low estimate	Best Estimate	High Estimate
One off costs						
Sign off of first report	£0.3m	£0.6m	£0.9m	-	-	-
Publishing cost of first report	£0.3m	£0.3m	£0.3m	-	-	-
Familiarisation cost	£0.9m	£1.4m	£1.8m	-	-	-
Recurring costs						
Sign off of update report	£0.9m	£1.9m	£2.8m	£1.3m	£2.5m	£3.8m
Publishing cost of update report	£0.9m	£0.9m	£0.9m	£1.2m	£1.2m	£1.2m
Total	£3.4m	£5.1m	£6.8m	£2.5m	£3.8m	£5.0m

May not sum due to rounding. It has not been possible to monetise all costs of the policy option at this stage.

Benefits

213. Mandating a standard report for all large and/or listed companies and LLPs will enhance the availability of information on firm practices, thereby reducing the current asymmetry of information identified in the rationale for intervention. The benefits of the report are indirect and to a large extent will depend on the behavioural responses of the suppliers, wider economy and reporting firms. In particular, the potential benefits of the policy depend on the willingness of suppliers, reporting firms and the wider economy to act on the new information that will become available to them. The more the information is used, the greater the benefits will be. Such benefits are extremely difficult to monetise.

214. The below discussion on benefits reflects the comments and evidence received from businesses representative organisations in our discussion paper “Building a Responsible Payment Culture”, and in subsequent stakeholder meetings. We will be seeking to better assess the type and quantity of organisations that would use this data and the purposes for which they would use it during the consultation and accompanying evidence gathering on this measure in order to inform the subsequent policy design and final Impact Assessment.

215. In this IA we have identified and qualitatively described the benefits. Benefits of this option fall into three categories: benefits for the supplier, benefits for the wider economy,

and benefits for the reporting company. Various tipping points can be used to illustrate how large our benefits need to be by firm for our benefits to equal the costs.

216. As mentioned previously Bacs research estimated that 1,032,000 (60%) UK SMEs have received late payment.[53]

217. Currently the best estimate of total costs over the ten year period (present value) for option 1a is estimated to be £33.8m. **Therefore if each SME who has experienced late payments was able to save just under £33 over the next ten year period (approximately £3.30 per year) the benefits would equal the costs.**

218. Therefore, despite the difficulties of monetising the benefits, this illustrates the potential benefits to the economy of introducing this measure.

Benefits for the supplier to those firms in scope

219. The report will allow many suppliers who deal with or potentially will deal with firms in scope to access information on their payment practices which they previously may have either found it difficult or impossible to find. This information is very important when deciding whether or not to enter into a contract, when deciding the terms and price of a contract and also when chasing up late payments. It should thus help suppliers reduce their administrative costs and mean that their success is more reflective of the quality of their underlying business model rather than the promptness with which customers pay them, or at least the extent to which this can predicted.

220. Credit reference agencies can already offer similar data to their customers. This data is a core disclosure used for those organisations in deciding how much credit to extend to their customers. However, this data may be an average from a limited number of business to business transactions. Conversely, the Government's proposed reporting requirement will require reporting firms to give an average of all invoices. The information will also be accessible to all suppliers and will not require purchase from a third party. It should therefore provide a significant step-change in the quality of information available to suppliers free of charge.

221. This report will provide suppliers with valuable metrics on payment performance and practices. It will allow suppliers to monitor changing behaviour of their customers, ensuring that practices and performance match their risk profile.

More informed decision on whether to enter into a contract

222. Before deciding whether to enter into a contract with a firm in scope suppliers will be able to go onto the firm's website and access the report to find information on their payment practices.

223. They will be able to see the standard payment terms and average time taken for a customer to pay and see if their business wants to operate to this i.e. some firms may prefer to deal with a firm average time of 25 days rather than one with 90 days.

224. Firms who have the opportunity to choose between two contracts, without the resources for both, will be able to use two reports to compare and choose the customer with the

[53] http://www.bacs.co.uk/Bacs/DocumentLibrary/UK_companies_face_a_late_payment_burden_of_£46.1_billion.pdf. BACS estimates of SMEs are from BDRC continental.

payment practices that best fit with the firms preferred payment model. This could help the firm in reducing the incidence of late paying customers and so experience reduced administrative costs through lower chase costs. It will also reduce the need for companies to seek external finance at a time that they are in a financially weak position due to late payment. This ability to better manage cashflow, and plan ahead, could allow for greater investment based on forecast revenue.

Help in negotiating fair terms and price

225. A key aspect of this report is to allow companies who supply goods and services on credit to large companies to better plan and manage their cashflow. For example a supplier can access the report for potential contractors to find out how long their standard payment period is. If the period is long and would mean that the supplier would have to finance the gap between supply of goods and payment of goods by other means (e.g. overdraft) they could factor this extra cost into the contract.

226. Current opaqueness around payment terms make it very difficult for suppliers to know if the contract offered meets current industry norms. This report will allow suppliers to decide if the terms they are offered match those currently being offered by other larger companies in the industry. This could potentially allow a supplier to renegotiate or opt out of terms that fall outside of the norm or can be considered unfair.

Better understanding of how to chase payments

227. In situations where complications with payment arise it is often difficult for small businesses to identify the appropriate contacts within a large company to escalate an issue. This often takes time and resources that a business can ill afford. This report will allow companies to plan for business with a specific customer, but understand what options are open to them if bills are not paid on time. This may lead to a reduction in time spent chasing payments and the resource requited.

Consultation Question to suppliers of firms in scope: Would you use the prompt payment report of a company that you supply or potentially supply? How would you use the information? What benefits do you think this information will have for your organisation?

Benefits for the wider economy

228. As it is proposed that the report will be on firms’ websites, it will be publically accessible to everyone not just the firms’ suppliers; we hope this report will bring benefits to the wider economy. We hope the report will enable comparisons to be made between competitors leading to competitive pressure to improve payment practices. We hope that alongside the prompt payment code and the EU Late Payment Directive this will contribute to moving towards a culture of prompt payment.

229. If the report does lead to a reduction in late payment this would be an economic transfer i.e. a resource is moving from one group to another. The money is moving from the customer ‘late payer’ to the supplier quicker. Therefore, it would be a cost to the firm who previously paid late but it would be an offsetting benefit to those receiving the money earlier than they would have done previously.

230. However, there would be there would be an economic benefit from the reducing the resource requirements that late payments place upon the firm. As discussed earlier in the IA, studies of late payment provide an indication show that late payment places additional costs on business due to the need to deal with uncertainty in contracting and administrative costs in chasing late payments.

231. Economic efficiency relies on resources being allocated quickly to those firms that are most effective in combining inputs into the goods demanded by consumers. Late payments can impede this process and in some circumstances may cause an otherwise efficient firm becoming insolvent and declaring bankruptcy.

232. Therefore, in so far as the measure is able to help firms manage late payment risks and reduce the incidence of late payments within the economy, this should lead to administrative savings to suppliers and support economic efficiency.

Comparisons and competitive pressure

233. Competition is an essential part of the UK economy. Companies who seek to maximise their profit by exploiting suppliers or their own position are limiting competition in the market. This report will enable public benchmarking of payment performance by third parties. Being able to identify poor performing companies will place considerable public pressure on companies who fall outside of industry norms to fall in line with peers. This may lead to increased competition, as better information may prevent firms from taking advantage of their market position.

234. The report will allow the information to be utilised by open data organisations and reduce complexities for stakeholders. A single report, using familiar metrics, will simplify use. In discussion with these third parties there was initial agreement that this could be provided as a free data source.

235. If competitive pressures succeed in making some firms reduce their payment times and terms then there will be a reduction in the incidence of late payment and a reduction in the resulting costs incurred by customers to deal with any cash-flow issues.

Benefits for the reporting firm

236. There are also potential benefits to the reporting firms, although these are difficult to quantify. While economic theory assumes that firms will adopt management processes up the point the marginal cost of further improvement equals the marginal benefits, in practice firms may behave sub optimally. It is possible that by asking companies to report on their payment practices they are prompted to review or invest in improving their accounts payment functions and achieve administrative efficiencies, for example by introducing greater automation.

237. In Denmark, where the government has implemented the wide use of e-invoicing, increased approval times and faster payment of invoices has allowed local businesses to reduce costs by €50 million.[54] A company that provides information on their ability to meet contractual payment terms could likewise benefit from reductions in prices as suppliers no longer have to factor in finance for risk of late payment.

238. Shareholders and investors would be able to use this report to better judge the general cashflow health of a company. While a company’s liabilities are visible from annual

[54] http://www.ricoh-europe.com/about-ricoh/news/2014/european-business-could-save-up-to-eighty-percent.aspx

financial statements, this report will allow investors to see how quickly a company is able to fulfil trade debts.

***Consultation Q to firms in scope: Do you agree with the identified benefits?* Do you have any evidence that could help to inform the estimates of benefits?**

Option 1b: Published in line with company reporting:

239. Under Option 1b firms in scope will be required to provide this report within other reporting requirements as included in the Companies Act 2006. The metrics and narrative of the report will not change from the draft report included at Annex A.

240. Therefore under this option firms will not be required to publish the report on their website formally and they would only update the report once a year.

Costs

241. As the report will be incorporated within other reporting requirements it is assumed that the costs will be lower compared to option 1a. This is because information will be added within other reporting requirements rather than being produced as a separate report. There will be marginal additional costs of sign off and publication of the report as this will be additional information within an organisations report which is already subject to sign off and publishing requirements. The on-going costs will also be reduced as the information will be updated annually.

242. The following costs will therefore remain the same as in option 1a:
    i. Costs for additional IT infrastructure or processes that may be required
    ii. Costs associated with data collection and analysis for the first time
    iii. Costs of familiarisation with administrative burdens including additional management time to ensure report to ensure the report meets statutory requirements

243. However the cost of producing the report, sign off by Finance Director and publishing for the first time will be significantly reduced

Consultation Question to firms in scope:
***Do you agree that the cost of producing the report, sign off by Finance Director and publishing will be significantly reduced for your organisation if you are* required to provide this report within other reporting requirements as included in the Companies Act 2006?**

244. The On-going costs of this option are:
    i. Costs of on-going data collection
    ii. Costs of updating the report i.e. collating the data and writing the report

245. Under this option there will be no costs of placing the updated report on the website

246. Again we expect the cost of updating the report will be lower as it will be part of the process of updating the firm’s annual report. There will also be a cost saving as the firm will only update the report once a year.

Summary of best estimate of quantified costs for option 1b

247. It has not been possible to quantify the costs of inserting the additional information within the other reporting requirements. However, we will seek to fill the evidence gaps during our consultation. Table 7 below summarises the estimates of the quantifiable costs under option 1b.

Table 7: summary of quantified costs (not all costs have been monetised) in the first year of implementation and the recurring annual cost of option 1b.

	First year costs			Recurring Annual cost		
	Low estimate	Best Estimate	High Estimate	Low estimate	Best Estimate	High Estimate
One off costs						
Familiarisation cost	£0.9m	£1.4m	£1.8m	-	-	-
Total	£0.9m	£1.4m	£1.8m	-	-	-

May not sum due to rounding. It has not been possible to monetise all costs of the policy option at this stage.

Consultation Question to firms in scope:
Do you have any evidence that could help to refine these estimates?

Benefits

248. We believe under this option the benefits will not be as large as those associated with option 1a, as described above. As the report under this option is required to be provided within other reporting requirements, as included in the Companies Act 2006, it will require more time for a supplier to source the report. When a company's report cannot be downloaded from a website it may create delays in the supplier's decision making process. Also, as the other reporting requirements are yearly and as annual reports do not need to be published until several months after the end of a company's financial year, the information may be older and therefore have diminished relevance. In the cases where an annual report is published 3 months after the end of a financial year some information may be 15 months out of date. Information will also only provide a snapshot at time of reporting and may not therefor be a true representation of practices and performance.

249. Payment information needs to be up to date to be useful. This allows the tracking of potential problems. Suppliers will not be as inclined to source a report that does not show current performance. Where a decision to undertake a contract needs to happen very quickly, delay in sourcing a report will prevent usage. Reporting on payment practices had been included in company annual reports until 2013, when this requirement was removed following consultation into the value of annual reporting requirements. Suppliers were often unaware of this and usage was even lower than awareness. This demonstrates why this option would not provide the desired benefits.

Benefits for the supplier to those firms in scope

250. Metrics included in this report will capture a set period of time, but will not represent a current view of a reporting companies payment practices. An annual report can be published several months after the end of the financial year.

More informed decision on whether to enter into a contract

251. Before deciding whether to enter into a contract with a firm in scope suppliers will be able to access the information contained within the companies report to find information on their payment practices. Under this option the information will be harder to find, therefore we believe less people will try to access it. Small businesses who are not comfortable with the reporting of large corporates may be unclear where to look or daunted by the prospect. Stakeholders, including organisations representing the views of the company accountants, were very clear that publishing within the report would be of little use. The time taken to source information was cited as a clear barrier.

252. Metrics included in this report would be able to provide a figure for a specified period of time, but the information may be several months out of date at publication. This is due to the requirements on when to publish company reports. This would therefore not give an indication of the current spending patterns of the reporting company.

Help in negotiating fair terms and price

253. Although firms could use the report to price contracts, a true picture of current performance could not be gained. The supplier would be pricing contracts based upon how the customer was paying some months before. It would therefore not bring the required transparency to payment practices.

254. Analysing changes in payment terms would be very difficult. A change in payment terms may have been at the start of a reporting period, as such would not add valuable information to a supplier. Suppliers are interested to know if a customer is regularly changing terms.

Better understanding of how to chase payments

255. Information on how to handle disputes would still be valuable for a supplier. However, if the method of disputes changes soon after the publication of the report it may be a year until the new information is published. This could create further barriers to suppliers reaching a speedy resolution to a dispute.

Benefits to the wider economy

256. This reporting requirement could produce additional benefits if it is possible for third parties to the benchmark payment terms and payment performance of companies. For this to be possible the information will need to be easily accessible and extracted automatically. Including this information in company reports could make it difficult to access, and the use of different formats in publishing annual reports could make it very difficult for third parties to use in an effective way.

257. These benchmarks, whether created by the supplier themselves or a third party, are essential in challenging terms and bringing competitive pressure on reporting firms. As a consequence this is likely to considerably reduce its impact in tackling late payment and could limit the contribution this policy will have to moving towards a culture of prompt payment. Further details referenced in paragraph 234.

Benefits for the reporting firm

258. Asking companies to report on their payment practices will provide greater oversight of how companies handle their accounts payable function. Better information management

may allow executives to identify areas where productivity is below company-desired performance. Improving performance on payment of invoices could reduce costs, though again this is very hard to quantify

259. Therefore although including this data in annual reports may reduce costs somewhat the information would be harder to find and may be out of date. Report users would not have a clear picture of the company's current performance but rather how they performed in the year previously. This considerably limits the potential benefits of collecting this data.

Option 1c: Monthly reporting

260. Under Option 1c, firms in scope, large and listed companies will be required to update the report on a monthly basis. The metrics and narrative of the report will not change.

Costs

261. The metrics and narrative of the report will not change under this option. The following costs will therefore remain the same as in option 1a.
    iv. Costs for additional IT infrastructure or processes that may be required
    v. Costs associated with data collection and analysis for the first time
    vi. Costs of producing the report
    vii. Costs of familiarisation with administrative burdens including additional management time to ensure report to ensure the report meets statutory requirements

262. We do not believe that transition costs in this option will alter significantly from option 1a for the first publication.

Ongoing costs

263. Under option 1c the report will need to be updated monthly therefore on-going costs will be significantly higher than under option one. The on-going costs are related to:
    a. Costs for on-going data collection
    b. Costs of updating the report i.e. collating the data and writing the report
    c. Costs of sign off
    d. Costs of publishing the updated report

264. We believe these will be significantly higher than under option 1a. This is because the costs will be encountered every month rather than quarterly. We assume the cost of actually performing the task remains the same as option 1a however the significant increase in the annual cost is because the individual tasks need to be completed twelve times a year.

Costs for on-going data collection

265. We still assume under this option that once the IT systems have been put in place that allow the data to be collected for the first time, the process will be automatic and so the costs for on-going data collection will be negligible. These costs will hence not differ greatly whether the data is collected once a year, quarterly or every month.

Consultation Question: Do you agree with the assumption that the costs of on-going data collection will be negligible? Do you have any evidence that could help to refine these estimates?

Costs of updating the report

266. We assume that once firms have produced the first report an update should be relatively simple. As explained earlier in the IA it has not been possible to quantify the cost of producing the report for the first time. However, we assume that the cost of the update remains the same as option 1a. However the significant increase in the annual cost is because the cost would be incurred every month.

Consultation Q: Do you agree the cost of updating the report would not significantly increase due to the inclusion of the two metrics? **Do you have any evidence that could help to refine these estimates?**

Costs of sign off each year

267. Again it is assumed that the task of sign off will cost the same as option 1a. It is still assumed for each sign off it would take a finance director approximately 1 hour to sign off the report.

268. Using the Annual Survey of Hours and Earnings 2013 provisional results[55] the median hourly pay excluding overtime for full time financial managers and directors has been estimated to be £29.78. This hourly rate is then uprated by 17.8% to account for employers' non-wage costs[56], the hourly cost per employer is therefore estimated to be £35.08. The cost to a firm in scope is therefore estimated to be £35.08 per report signed off.

269. As the report under this option will be updated monthly the finance director will be required to sign off the report 12 times a year.

Total annual Sign off cost: (firms in scope x hours x cost per hour) x number of times per year = (18,000 x 1 x £35.08) x 12= £7.6m

270. A sensitivity analysis of this estimate using a high estimate of 1.50 hours and a low estimate of 0.5 hours estimates a range of £11.4m to £3.8m.

Consultation Question: Do you agree that the cost of the actual task of sign off will be the same under this option? Do you have any evidence that could help to refine these estimates?

Costs of publishing the updated report

271. Again we assume the task of publishing the updated report on the website will be the same as option 1a. It is still assumed for each time the report is placed on a website it would take an hour of a web design and development professional's time to complete the changes. Under this option firms would have to publish the updated reports on their website every month.

272. Using the Annual Survey of Hours and Earnings, 2013 provisional results[57] the median hourly wage excluding overtime of full-time web design and development professionals is estimated to be £14.70 in 2013. This hourly rate is then uprated by 17.8% to account for

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[55] http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-328216. Table 14.6a, full time employee jobs, median.

[56] This estimate is based on Eurostat figures for employers' labour costs and non-wage costs in the UK, 2012, for the whole economy excluding agriculture and public administration.

[57] http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-328216. Table 14.6a, full time employee jobs, median.

employers' non-wage costs[58], the hourly cost per employer is therefore estimated to be £17.32. The cost to a firm in scope is therefore estimated to be £17.32 each time a report is placed on their website.

Total Annual publishing cost: (firms in scope x hours x cost per hour) x number of times per year = (18,000 x 1 x £17.32) x 12= £7.5m

***Consultation Q: : Do you agree that the cost of the actual task of placing the report on the website will be the same under this option?* Do you have any evidence that could help to refine these estimates?**

Summary of best estimate of quantified costs for option 1c

273. Table 8 below summarises the estimates of the quantifiable costs under option one. At this stage it has not been possible to monetise all costs. In the first year of implementation in addition to the one-off costs firms will also be required to update the report monthly therefore 11 times.

Table 8: Summary of quantified costs (not all costs have been monetised at this stage) in the first year of implementation and the recurring annual cost for option 1c

	First year costs			Recurring Annual cost		
	Low estimate	Best Estimate	High Estimate	Low estimate	Best Estimate	High Estimate
One off costs						
Sign off of first report	£0.3m	£0.6m	£0.9m	-	-	-
Publishing cost of first report	£0.3m	£0.3m	£0.3m	-	-	-
Familiarisation cost	£0.9m	£1.4m	£1.8m	-	-	-
Recurring costs						
Sign off of update report	£3.5m	£6.9m	£10.4m	£3.8m	£7.6m	£11.4m
Publishing cost of update report	£6.9m	£6.9m	£6.9m	£7.5m	£7.5m	£7.5m
Total	£11.9m	£16.1m	£20.3m	£11.3m	£15.1m	£18.8m

May not sum due to rounding. It has not been possible to monetise all costs of the policy option at this stage.

Benefits

274. We believe under this option the benefits will higher than those under option 1a as described below. As the report under this option is required to be updated monthly it will provide more up to date data, making it easy to identify if firms' behaviour is changing. As the report will be on the firm's website it will be easily accessible just as under option 1a.

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58 This estimate is based on Eurostat figures for employers' labour costs and non-wage costs in the UK, 2012, for the whole economy excluding agriculture and public administration.

275. This regularly updated information will provide a clear indication of the health of a company; rising payment terms and poor performance are key indicators of cash flow difficulties. This will allow suppliers to have a key resource for when transacting with customers, being able to make an informed decision on whether current trajectory of a customer's payment practices and performance falls within their customer risk profile.

Benefits for the supplier to those firms in scope

276. Data supplied more regularly will allow firms to keep track of the current performance of their customers. It will allow for analysis of regular delays, potentially seasonal, thereby allowing companies to put contingency plans in place or communicate with customers early to avoid problems. Data provided from credit reference agencies, where available, is currently provided at monthly intervals – showing that there is already an existing demand for up-to-date data. This additional data set would be a valuable addition to data provided by credit reference agencies.

More informed decision on whether to enter into a contract

277. When a firm is entering into a contract for the first time it is essential to understand the health and practice of the potential customer. With regular monthly reports a near real time picture of payment performance can emerge. This may mean that a firm wishes to wait before offering further goods and services if performance doesn't meet their current risk appetite.

Help in negotiating fair terms and price

278. With real time data suppliers will be in a stronger position to negotiate fair contracts. If a potential customer is having difficulties meeting commitments it may be necessary to ask for upfront payment or to change the amount of goods and services offered. At the moment information asymmetry can leave a supplier entering into a contract with a customer who is not in a position to pay for goods and services. Benefits will mirror those of Option 1a.

Better understanding of how to chase payments

279. The monthly deterioration in payment performance, or the extending of terms, could be an indication of a company in financial difficulties. Having this information readily available will allow a supplier to act quickly to reclaim debt and discuss with a customer any problems that they may be having. Information in the report on how disputes are handled will also allow suppliers to act quickly to resolve issues with companies who are not performing to commitments. Benefits will mirror those of Option 1a.

Benefits for the wider economy

280. As it is proposed under this option that the report will be on the firm's website it will be publically accessible to everyone not just the firm's suppliers, we hope this report will bring benefits to the wider economy. However under this option the data is more up-to-date we therefore hope the report will enable timely comparisons to be made between competitors leading to competitive pressure to improve payment practices. We hope this alongside the prompt payment code and the EU Late Payment Directive will contribute to moving towards a culture of prompt payment.

Comparisons and competitive pressure

281. Competitive pressures will be felt as in the above paragraph.

282. As information is updated monthly under this option it will be easier to see how quickly firms are taking action to fall in line with peers. Also if firms decide to change their payment practices, firms will be able to quickly identify this change and the impact this change may have on their decision to supply the firm. Monthly data will also allow for indication of trends where there are difficulties in certain firms or specific sectors.

283. The report will allow the information to be utilised by open data organisations and reduce complexities for stakeholders. A single report, using familiar metrics, will simplify use.

284. If competitive pressures succeed in making some firms reduce their payment times and terms then there will be a reduction in the incidence of late payment and a reduction in the resulting costs incurred by customers to deal with any cash-flow issues.

285. If the report does lead to a reduction in late payment this would be an economic transfer. Further detail of which can be found in paragraph 234.

Benefits for the reporting firm

286. We believe the potential benefits to the reporting firms will be the same as under option 1a. We do not think any potential benefits to a reporting firm will be substantially between being required to report monthly or quarterly.

287. **Therefore although the benefits are increased we do not think it is proportionate given the significant increase in costs. We will test this conclusion during our forthcoming consultation and reflect our findings in our Final Impact Assessment.**

Option 2: voluntary report

288. Under option 2, preparing a report would be voluntary. No companies would be obliged to produce a report.

Costs

289. As the regulation is permissive it is assumed that firms will only choose to produce the report where they lead to net benefits for the firm. Therefore the costs must be equal or lower than the benefits to the firm of producing the report.

Benefits

290. Under this option the benefits would be restricted as it is assumed that firms will only choose to produce the report where they lead to net benefits for the firm. However the majority of the benefits of this policy are indirect and fall to suppliers and the wider economy.

291. Compared to other voluntary payment interventions, including the Prompt Payment Code, it would suggest that: poor performing companies will not wish to report and that only a limited number of probably highly performing companies will choose to report.

292. A company that voluntarily publishes performance data, but fails to meet its payment obligations, will be under greater public scrutiny to improve performance than a company that chooses not to report. Whilst all companies should seek to improve payment

performance, non-reporting companies would be able to hide inefficiencies behind the opacity of the current payment reporting framework.

293. Payment practices and performance can offer a competitive advantage to certain companies. Those companies which actively choose to pay their supplier late could benefit from an illusion of healthier cashflow.

294. Non-disclosure will continue to hinder the competitiveness of a trade creditor. An inability to plan adequately for trading with a poor performing customer will lead to constraints on cashflow. This limits ability to choose better performing customers or to seek external finance to manage a difficult transaction.

295. Without wider uptake of this report by the target group, effectiveness of this report would be limited. It would not allow companies to adequately plan for transactions with companies which perform poorly, or to identify those companies using terms that vary widely from the norm of their sector.

296. Usage of this report is likely to be very low. Suppliers will be unaware in many circumstances which customers are producing this report. This will create a disincentive to search for customer reports. Time can be seen as wasted searching for a report on a company's website that has chosen not to produce this report. This would also prevent usage by third parties; there will be no incentive to benchmark payment due to the reduced sample of businesses.

Benefits to suppliers

297. Where a customer, or potential customer, reports on payment performance a supplier will benefit from being able to adequately cost a transaction. This would take into consideration not only the terms that are offered but also the performance of the firms in meeting their commitments.

298. However, the benefits would not be as great as those of mandatory reporting. There is no guarantee that a customer will report, therefore the asymmetry of information and uncertainty will remain. There will also be less option to compare with peers in the industry, as it is not guaranteed that enough companies will report to produce a clear understanding of industry norms.

Benefits to wider economy

299. There is a benefit in being able to identify a company in distress, seen from increasing payment terms and poor performance; it will not be possible to see that from an industry wide view point. With fewer, or potentially no, companies reporting on payment performance it will not be possible to see if there is an endemic problem of poor payment in certain sectors. The report will unlikely to play a key role in the decision making of a supplier and worst payers will not choose to report. Therefore little of the benefits referenced in option 1a will occur.

Benefits to reporting firms

300. Benefits for a reporting company will be smaller than in option 1a. It is assumed that only companies with an interest in payment, or a commitment to pay fairly will report, therefore the worst payers will have no incentive to analyse payment practices.

Rationale and evidence that justify the level of analysis used in the IA

301. We believe that the analytical approach taken in this IA is proportionate given that it is at the consultation stage. As discussed, in order to gather evidence of the impact of these proposals on UK businesses, individuals, the public sector, and to inform thinking around policy and implementation.
302. BIS has used multiple approaches for data gathering. This has included: undertaking a literature review of previous IAs that were produced for other reporting requirements; various workshops with accountancy bodies, accountancy companies, the Financial Reporting Council and business representative bodies; an online survey aimed at a selection of large firms (see Annex B for the methodology); face to face meetings with stakeholders; and international comparisons.

303. When designing the survey we consciously decided that it was not appropriate to ask respondents to estimate costs. This was because we did not yet have enough information about the details of the report, for example length, what it would cover etc to provide to respondents at the time of answering the survey. As respondents would not have any facts to base their estimation on, this would therefore not have yielded robust results. Instead the Survey asked questions on the burdens and the barriers of data collection etc so that this would provide an indication of the relative costs. As the consultation will contain a straw man of the report we feel that it is more appropriate to ask about costs at this stage.

304. As explained earlier the survey did not directly seek responses from micro, small and medium companies. It is estimated that currently around 1,500 UK incorporated listed entities will be in scope of this policy. Of these under 50 are micro, around 270 are small and under 20 are medium. Although this makes up a small proportion of the overall number of firms in scope (3%), we are aware that the survey was not aimed at these companies and therefore has not allowed us to take into account how our assumptions may change for these particular firms. We will therefore ask specific questions on this during formal consultation.

305. The discussion on benefits reflects the comments and evidence received from businesses representative organisations in our discussion paper "Building a Responsible Payment Culture", and in subsequent stakeholder meetings.

306. However, it is acknowledged that there is uncertainty around some of our key cost and benefit assumptions, particularly in relation to production costs and possible administrative savings to suppliers. These costs and benefits will also be influenced by final decisions on the form of any reporting requirements. We will be seeking to reduce this uncertainty through further work with firms and their representative organisations to understand the potential costs and benefits to help us develop our final impact assessment.

Risks and assumptions

307. The key assumptions and risks underpinning the cost-benefit analysis are:
    a. Costs in this IA have been informed by limited information gathered from a survey aimed at a selection of large firms. The survey is not a representative sample. The resulting estimations are therefore not statistically representative but instead provide a reasonable best estimate of the likely impact of the policy for the reasons discussed earlier.

b. It has not been possible at this stage to monetise all the costs. However, further evidence gathering will be undertaken to fill these evidence gaps. During consultation we will be seeking to improve our understanding of these costs for our final Impact Assessment through our forthcoming consultation as well as holding structured discussions with stakeholders.

c. For those costs that have been monetised assumptions regarding the time of a particular task and employee who will perform this task have been made. For the larger costs, sensitivity analysis around the hours the tasks required has been performed, We have assumed that it will take a firm 3 hours to become familiar, it will take 1 hour for a finance director to sign off a report and 1 hour to place the report on a website. We have assumed the sign off time and time to place the report on the website remains the same for an update. We will seek to confirm these assumptions in consultation.

d. Potential benefits of the different options depend on the willingness of suppliers, reporting firms and the wider economy to act on the new information that will become available to them. The more the information is used, the greater the benefits will be.

308. For options we have assumed how the appetite for accessing the data may change due to its timeliness and simplicity of finding it. Therefore as option 1b makes the information harder to access and less timely, we assume it is accessed less and therefore reduces the potential benefits. For option 1a and 1c we have assumed that the report will be easily accessible by suppliers. However as the data under option 1c is updated monthly compared to quarterly, under option 1a we have assumed a marginal increase in benefits for option 1c in comparison to option 1a. We do not, however, believe that these marginal benefits are likely to outweigh the greater cost burdens to firms of reporting on a more frequent basis.

Key risks of the policy are:

309. A risk of this policy would be creating reporting disincentives. These could come in two forms. Firstly, firms who have shorter payment terms may extend payment terms to guarantee that they pay all suppliers in time for this report. We believe that this is unlikely to be a large scale problem as external pressure, especially from business representative organisations, would be damaging for a company's reputation. Secondly, there is a potential that companies will falsely dispute invoices to ensure that their 'paid on time' figures are positive. We believe that sufficient legal deterrent exists to dissuade this course of action, including the acceptance and verification standards enshrined in the Late Payment and Commercial Debts Act 1998.

Enforcement

310. Summary conviction against the non-reporting of payment performance and wilfully reporting of inaccurate information will enforce this measure. This would require a court judgement to decide if such actions had taken place, with the possibility of a financial penalty. While it is envisioned that all required firms will comply with this requirement, there is the potential risk that additional costs will be created by actions to tackle not compliance.

Direct costs and benefits to business calculations including OITO considerations

311. The preferred option 1a is in scope of One In Two Out as it places a direct cost on to those firms in scope. All the costs are direct and all the benefits are indirect; therefore it will class as an ‘IN’. The direct economic incremental cost to a firm in scope exceeds the direct economic incremental benefits to a firm in scope.

312. As stated earlier it has not been possible at this stage to monetise all costs. The quantified costs have a best estimate present value of £33.8m over a ten year period. This equates to an equivalent annual cost of £3.2m (using the BRE calculator).

313. As the benefits are all indirect the equivalent annual benefit is estimated to be £0.Therefore this yields an OITO equivalent annual net cost of £3.2m. Thus currently we have an overall net IN of £3.2m for OITO (in 2009 prices). This may change as we collect more evidence during consultation.

Wider impacts

Equalities impact

314. We have assessed these proposed reforms against the equality duty and do not consider them to have an adverse effect on any protected group. Indeed, we consider that these measures will have a positive effect on Black and Ethnic Minority (BEM) and Women-led businesses.

315. Good cash-flow is vital in enabling businesses to raise finance and invest. Our proposed measure will increase transparency of payment performance, seek to reduce late payment and ensure healthy cash flow. A 2013 report produced by the Department for Communities and Local Government[59] (DCLG) found that affordability[60] is an area that disproportionality affects the 8% of Britain's 4.8 million small businesses which are BEM owned. Measures such as those proposed would therefore appear to have the potential to benefit BEM businesses in particular.

316. Specifically, the DCLG report found that BEM businesses face the following challenges which make access to finance more difficult[61]:

- collateral shortages;
- poor credit worthiness (as assessed through credit-scoring);
- lack of formal savings; and
- poor financial track record

317. The report concluded that non-BEM businesses were as a result 10% more likely to receive an overdraft or loan than BEM businesses (87% Vs 77%).[62] In instances where late payment makes it difficult for SMEs to access finance for cashflow, BEM and women-led businesses are likely to be further disadvantaged.

Small and micro business Assessment

318. The preferred option proposes that large UK incorporated companies, large UK Limited Liability Partnerships (LLPs) and listed companies publish their Payment Practices. We propose at this stage to create specific exemptions for unquoted companies that qualify as small or medium under the 2006 Companies Act definition.

319. As mentioned earlier, this policy is estimated to impact 18,000 UK incorporated active companies and LLPs either large or listed in London Stock Exchange (LSE). Of these just under 50 are micro and under 270 are small, they are included in the policy because there is a public interest in the behaviour of UK incorporated listed firms, as is explained earlier in this document.

320. Using FAME it is estimated that just under 2.9 Million small and micro businesses[63] have been excluded. While it is possible that small companies can pay late we need to consider the proportionality and effect of this policy. Micro and small businesses are less likely to have the procurement software that will provide the requirements in a cost effective way.

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[59] Ethnic Minority Businesses and Access to Finance, Department for Communities and Local Government, July 2013

[60] Affordability relates to the ability of a business to service a debt. In a loan application a finance provider may chose not to award the finance as the company would not be able to make repayments during the course of the requested loan.

[61] The report looked at the access to finance of BEM businesses. Whilst inferences can be made related to affordability of the loans and the impact on affordability created by late payment, was must consider that the main report did not explicitly look at late payment.

[62] http://www.accaglobal.com/ie/en/member/accounting-business/bank-fairness.html

[63] Data extracted from the FAME database on 14th September 2014.

321. Therefore the vast majority of firms in scope will be large, and only around 310 firms will be small and micro. During our consultation we will be seeking evidence on if the assumptions made to assess whether the cost differ significantly for those small and micro firms.

322. We believe that this policy will be beneficial to micro and small businesses, as they will be able to better analyse the payment practices and performance of their large customers. This will enable for more informed decisions for on-going trade, which will ultimately make businesses more productive.

Review Clause

323. Within the Small Business, Enterprise and Employment Act there is a duty to review secondary legislation as created by the Act 5 years after implementation.

Annex A straw man

Report on payment practices and performance

Company name:
Reporting period:

Payment terms including any standard contractual length of time for payment of invoices the maximum contractual payment period and changes to standard term.

Narrative text

Proportion of invoices paid beyond terms (by number)

X%

Average time (by number) **taken to pay Invoices from the date of issue**

X days

Proportion of invoices paid over 60 days (by number)

X%

Process for dispute resolution for overdue invoices: statutory interest paid?

Narrative text

Do you offer e-invoicing – and is it mandatory?

Narrative text

Do you offer supply chain finance? Does it affect other payment terms?

Narrative text

Have you signed up to a payment code – if so, which one?

Narrative text

Annex B – **Evidence collection methods**:

1. To inform policy development and ensure that our analysis was based on the most robust evidence, the following evidence collection methods were undertaken:

    a. Consulted with large companies;
        i. We discussed with a number of large companies their current methods for collecting data on payment performance and the systems that they used for this. We also explored the benefits that had been gained from more streamlined and effective procurement processes.
    b. Consulted with Credit Reference Agencies;
        i. We spoke to the UKs leading CRAs to discuss the current data available on late payment of commercial debts, how reported data could be used by third parties and how data should be presented to suppliers.
    c. Reviewed existing impact assessments that relate to reporting requirements;
        i. Reforming UK Narrative Reporting, Final, 2012 (IA number: BIS 0284)(link: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/34744/12-978-reforming-uk-narrative-reporting-impact.pdf)
        ii. Improved Transparency of Executive Remuneration Reporting, Final stage, 2013 (IA number: BIS0355) (link: http://www.legislation.gov.uk/ukia/2013/107/pdfs/ukia_20130107_en.pdf)
        iii. Transparency & Trust – Enhanced Transparency of Company Beneficial Ownership, consultation stage, 2014 (IA number: RPC13-BIS-1990)
        Link: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/303555/bis-14-670-part-a-of-transparency-and-trust-proposals-impact.pdf
        iv. Final Regulatory Impact Assessment on the Operating and Financial Review and Directors' report regulations 2005
    d. Reviewed international evidence;
        i. Analysed current reporting practices in other states, especially EU member states. Looked at how Late Payment legislation was being applied in these states and the lessons that could be learned.
    e. Online survey to 142 large organisations (further details below); and
    f. Consulted with business representative organisations, in a series of focus groups and one-to-ones meetings.
        i. This work allowed us to better understand the information needs of small businesses, as well as the affect this reporting requirement would have. We also engaged on the potential effect this reporting will have on the reputation of reporting businesses.

Online Survey

Sampling approach

2. The Pilot survey was sent to 14 organisations known to BIS within the Prompt Payment policy area. The sample for the final survey was compiled using the FAME company database (as it can be used to identify large companies using the Company Act 2006 definition) and BIS connect (an online tool that stores information about the Department's stakeholders and their contact details). In addition we also asked the Chartered Institute of Purchasing and Supply (CIPS) and

the Association of Corporate Treasurers (ACT) to distribute the link to their networks using their Linked-in profile.

3. Therefore, as stated previously in the IA the Survey is not a representative sample of firms potentially in scope of the policy options.

Research Methodology

4. The survey mostly consisted of multiple choice questions but also included some interval scale questions and a limited amount of open ended questions.

5. Overall the survey asked about perceptions of impacts rather than estimates of the cost of the policy. This is because, when the survey questionnaire was designed, policy was still in the early stages of development. The timeframe necessary to inform the policy development and Impact Assessment schedule was tight, meaning that the specific requirements of the companies were not fully defined (e.g. what to include in the report and the sign-off requirements). Thus it was not possible to formulate specific questions on estimates of the costs at this stage, as this would have led to irrelevant or misleading responses making the final results obsolete.

6. The survey was intended to examine the impact of proposed prompt payment report on a range of companies rather than the cost. Companies were asked questions in order to explore what data they already collect, what they use the data for and if they have the technical capability in place to be able to publish the report.

7. Before launching the full survey BIS conducted a pilot. This allowed us to test people's understanding of the language used and to test the overall flow of the questionnaire and to make the necessary changes were needed before sending out the survey to the wider sample. As a result of the pilot we modified one question which respondents had found difficult to interpret. This meant that for this particular question we were unable to merge the results from the pilot and the final survey results. Other minor changes were made such as an addition of a comment box which did not invalidate responses made in the pilot.

8. The pilot survey ran from the 10th July to 4th August and the final survey ran for around two weeks; from the 28th July 2014 to 12th August 2014.

9. We received 35 valid responses (29 responses were removed because the majority of questions were unanswered), 7 were from the pilot and the remaining 28 responses were from the final survey. Of the 35 valid responses, some questions were left unanswered, not all questions were asked to all respondents and as mentioned before one question changed significantly between the pilot and final survey, hence pilot responses for that question was invalid.