



Department for
Business, Energy
& Industrial Strategy

THE IMPACT OF PAYMENT REPORTING REQUIREMENTS

Final research report



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1. Introduction

Touchstone Renard Limited (TR) was appointed by the Department for Business, Energy and Industrial Strategy (BEIS) to research the cost impact on large companies of an illustrative set of reporting requirements that will then help frame the details of the new regulation.

Existing legislation has sought to improve the prompt payments culture. In support of this, the Secretary of State was given powers under the Small Business Enterprise and Employment Act 2015 to require companies to report on prompt payment and for large companies to publish the details of their payment performance through a reporting regime. However, this could increase administration costs for larger companies.

Proposals for new regulations must be accompanied by an impact assessment (IA), which assesses and estimates the likely costs and benefits, as well as presenting the associated risks, of any regulatory proposal that has an impact on business, civil society organisations, the public sector or individuals.

The essential purpose of the research gathered in this project was to gather cost estimates from a sample of larger companies of the cost impact on them of having to meet the requirements of the new payment reporting regulations. These costs estimates can then be used in the subsequent impact assessment to be prepared by BEIS.

2. Key findings

We surveyed a representative cross-section of UK large companies, as defined under [Annex 1](#) of this report, and received data from 36 groups comprising 89 individual companies with an aggregate turnover of £54.7 billion.

Responses were received from a range of companies with a good coverage of different characteristics as regards sizes (as measured by turnover and numbers of employees), business sectors, brands of IT systems, overseas involvement and numbers of subsidiaries.

The average (mean) costs for each group of companies were:

- For initial one-off costs including familiarisation with the proposed new requirements, information gathering, IT costs and changes to processes: £24,458 for the whole sample; £40,509 for groups with turnover of more than £0.5 billion; and £8,407 for groups with turnover of £0.5 billion or less. These one-off costs may fall into the first year following implementation but the exact timing depends on the reporting dates for each company.
- For ongoing annual costs including maintaining systems and processes and preparing, collating, approving and submitting reports twice yearly: £10,088 for the whole sample; £16,652 for groups with turnover of more than £0.5 billion; and £3,524 for groups with turnover of £0.5 billion or less. These ongoing costs may commence in the first year following implementation but the exact timing depends on the reporting dates for each company.

The average (mean) costs at individual company level (including subsidiaries of a group or individual companies that are not members of a group): were:

- For initial one-off costs including familiarisation with the proposed new requirements, information gathering, IT costs and changes to processes: £9,895 for the whole sample. These one-off costs may fall into the first year following implementation but the exact timing depends on the reporting dates for each company.
- For ongoing annual costs including maintaining systems and processes and preparing, collating, approving and submitting reports twice yearly: £4,071 for the whole sample. These ongoing costs may commence in the first year following implementation but the exact timing depends on the reporting dates for each company.

Companies provided cost estimates on the basis of a high-level specification of requirements. The actual costs will depend on the detailed guidance that BEIS will need to provide in engaging with companies as to how the specification is to be delivered. We have set out in this report some of the issues that the guidance will need to address and clarify.

Without prejudice to the responsibility of BEIS for preparing an impact assessment for the whole economy, we note that:

- According to the Business Population Estimates (BPE) for the UK and Regions 2015, there were 6,965 companies (at the Group level) with 250 or more employees and these companies had a total turnover of £1,956,408 million.
- BEIS are able to apply the average costs estimated from our data sample to the population as a whole, so as to estimate one-off and annual ongoing costs for the whole population of companies on which there will be a reporting requirement.

Note that the population of companies affected by the proposed legislation will not be identical to the 6,965 companies cited above. It will comprise all companies that meet two of the following criteria: over 250 employees; over £36 million annual turnover; and over £18 million balance sheet total.

3. Research methodology and work done

The assignment began with an Inception Meeting on 10th August 2016 and finished on 7th October 2016.

We were asked to design and carry out a new programme of consultation with large companies, with no reference to the work already carried out by BEIS, although we were informed about the work that they had already undertaken and the lessons learned.

3.1 Research approach

At the outset, 2 pilot companies were selected for testing an email communication pack, including a questionnaire. Following this, a sample of 90 large companies across a spread of agreed sectors was built and all these companies were contacted where available.

It immediately became apparent that the sample was not large enough to provide the required number of responses due to many of the targeted Financial Directors (FDs) being on leave at this time (late August). As a result it was decided to enlarge this sample to a total of 300 large companies.

The sample was taken from data supplied by the FAME database, which covered companies within the size range relevant to this research, filtered for companies with a named financial contact. At BEIS' request it was representative of all the main business sectors and included substantial numbers of both the largest and the smallest companies within range in the overall population, as well as a random sample of all companies within the size range. It included some companies that were already aware of the requirement and some that were not, and some companies that were members of the Prompt Payment Code and some that were not.

An email pack was sent to each company, comprising:

- A covering email from ourselves
- A letter from BEIS
- A high level specification of the proposed reporting requirements (see [Annex 1](#))
- A questionnaire asking for information about the company; cost estimates to deliver the proposed requirements, the basis for the cost estimates; and any other points that respondents wished to make (see [Annex 2](#)).

We followed up the emails with telephone calls to each of the 300 companies selected (more than 500 phone calls in total). This provided an opportunity to improve and cleanse the contact details in the database, some of which were incorrect or out of date, and to identify other people in each organisation who would be better placed to respond to the questionnaire, such as Financial Controllers, Financial Reporting Officers and other relevant roles.

On receiving responses, we followed up with telephone interviews to probe and understand the company's background, systems, costs of meeting the requirements and any other issues that respondents wished to raise. In selecting companies for follow-up interviews we prioritised responses that appeared unusual, raised interesting issues or required further explanation.

We have summarised detailed issues that will require further guidance from BEIS in [Annex 3](#).

The table below summarises the contacts made.

Table 1: Summary of Company Contact

Action and Response	Group level contacts	Individual Companies
Full responses received – questionnaires completed, estimated impact costs provided	30	83
Partial responses received – questionnaires not completed, estimated impact costs provided by phone	6	6
Brief discussion with some information provided, impact costs not estimated	3	
Duplicated record in sample	5	
Spoke to a named individual (this ranged from people who could submit a response to others who only provided a name and email address to follow up)	94	
Left voicemail message or message with receptionist	32	
Unable to speak to anyone (due to invalid number, no reply, switchboard would not transfer the call etc.)	100	
Company declined to participate or provide input to the research	30	
Total	300	89

At all stages we worked closely with BEIS to achieve the best possible outcomes in the time available, including:

- The Inception Meeting (as mentioned above, which took place on 10th August 2016) attended by the BEIS Project manager, Policy Lead and analysts / economists
- Weekly highlight reports and regular telephone contact and email contact with BEIS personnel
- Producing an Emerging Findings Paper based on feedback received from early respondents
- Producing a draft report which was reviewed by BEIS officials before this final report was issued.

3.2 Data analysis

The results of each questionnaire received and follow-up interviews carried out were reviewed and key points established on an ongoing basis. All questionnaire responses were loaded into an Excel Analysis workbook which was used as the basis for carrying out statistical analysis of the quantified cost data estimations made by respondent companies.

The key quantitative outputs from the analysis are tables analysing the main cost components for a) the initial costs, and b) the ongoing costs, at both group and individual company levels. Further considerations about whether and how to group the results into separate analyses for different business sectors are considered in section 3.4 under ‘whole economy’ costs.

Quantitative analysis was also used to draw out patterns from the responses. Recurrent themes, patterns, and search data were identified to support the development of the cost estimates. Text analytics were used to support the analysis as appropriate. Instances of apparent inconsistency or omission, compared to information provided by other similar companies, were followed up with interviewees.

From this analysis, we were able to establish key findings and ensure validation throughout. The analysis has been presented in the 'Summary of Responses to Question' section 6 later in the report.

3.3 Possible adjustments to the cost estimates provided by respondents

We considered making adjustments to the raw data supplied by respondents in three areas: labour costs; 'nil cost' returns and reductions in costs over time. The adjustments made and the reasons for them are set out below.

Labour costs

Most respondents have used 'fully costed' labour costs, but some have used salary costs only. HM Treasury's Green Book guidance states that: 'Full time equivalent (FTE) costs should be used to estimate the costs of employees' time to the employer, and should include pensions, national insurance and allowances, as well as basic salaries.'

In cases where respondents have used salary costs only, we have applied a mark-up of 13.8% for national insurance contributions and a further 5% for pension costs and allowances.

We have not attempted to standardise the basic salary costs used because these reflect genuine differences in the grades of the employees who would be expected to do the work.

'Nil cost' returns

Some responses estimate that no costs will be incurred for one-off expenditures, ongoing expenditures, or both. This is not considered entirely accurate. The RPC guidelines state that opportunity costs should be taken into account and the preparation of BEIS returns will take time that could otherwise have been spent on other work.

Based on responses from other respondents and discussions with interviewees who expect the costs to be minimal, we have amended each 'nil' response to include:

- £200 of one-off costs, representing approximately a day for management and staff to understand the requirements and collate the information
- £200 of ongoing costs, representing around half a day, twice a year, to prepare, approve and submit reports to BEIS.

Reductions in ongoing costs over time

We have had qualitative discussions with a number of respondents to see if they would expect the ongoing costs that they have cited to reduce over time as the processes become more familiar. The feedback was that this would not be a significant factor, so we have made no adjustment for it.

3.4 'Whole economy' costs

The purpose of our work, as set out in the invitation to tender and our response to it, was to provide a data set of survey results for input to the final Impact Assessment, which was to be carried out by BEIS.

We derived a 'representative mean estimate' of the costs for each company so that BEIS was able to gross this up by a multiplier based on the overall population divided by the sample of companies that provided data for our survey. Section 6 of this report provides that estimate.

We considered splitting our results by business sectors but found that a larger number of responses would have been needed to provide sufficient coverage of the relevant sectors. However, in addition to the representative mean set of costs for the whole sample, we have also provided a split of costs for companies above and below £0.5 billion turnover for BEIS to utilise for the 'whole economy' impact assessment.

4. Findings and issues encountered

4.1 Coverage of responses

Size of company

We received responses from across the spectrum of company sizes, with turnover bands as follows (as reported by groups of companies):

Table 2: Company Turnover spread

Turnover band	Number of companies
More than £5 billion	3
£1 billion to £5 billion	9
£500 million to £1 billion	6
£100 million to £500 million	8
£25 million to £100 million	10
Total responses received (group level)	36

The turnover of respondent companies totalled £54.7 billion and their balance sheet values totalled £48.6 billion. They employed at least 256,000 staff (five companies did not provide a figure for the number of staff).

Sectors

We received responses from a representative range of different business sectors, as below. These are reported at the level of individual companies, because some groups include individual companies from more than one business sector:

Table 3: Company Business Sectors

Business sector	Number of companies	Number of groups
Construction	25	
Health and Education	10	
Machinery, Equipment, and Products	17	
Wholesale, Retail, Food and Beverages	17	
Other services	20	
Total responses received (by company)	89	36

Job titles of respondents

We received responses from a range of different roles. The table below illustrates the range of different job titles involved, with the caveat that there is no equivalence between Finance Directors of different sized companies.

Table 4: Respondent Job Titles

Job title	Number of groups
Finance Director / Chief Financial Officer	9
Financial Controller	6
Director of Financial Control	1
Finance Manager /Head of Finance	6
Financial Accounting Manager	3
Chief Accountant / Group Accountant	5
Head of Reporting	1
Head of Financial Integration	1
Accounts Payable Manager	1
Financial Services Manager	1
Systems / IT roles	2
Total responses received (group level)	36

Accounting systems

The responses received covered more than 30 different brands of accounting systems as shown in section 6 (question 1.6) below.

Responses were received from individuals with a wide range of roles from Finance Directors to Heads of Accounts Payable, and from a wide range of business sectors and company sizes.

4.2 Overview of responses received

We have listed below the key points made or ascertained during our research.

1. Respondents received the high-level specification that we provided but do not yet have details of the final detailed specification of the regulations. In making their cost estimates, many have assumed that the requirements will allow reasonable approximations rather than insisting on precision in every respect.
2. Many of the companies involved in this exercise have invested in well-integrated systems that capture all or most of the data required. In a small number of cases, little or no additional cost is anticipated to meet the reporting requirements.

3. Other companies will find it more onerous to meet the requirements. Examples of these companies include:
 - Heavy engineering and construction companies that work mainly on a project basis through sub-contractors, with payments depending on when the end customer accepts the work as completed
 - Companies with bespoke legacy IT systems that are typically inflexible and costly to upgrade
 - Companies with multiple local purchasing and accounts payable systems that are not integrated centrally
 - Companies with significant overseas operations.
4. Costs are not correlated to either the brand of accounting system used (SAP, Oracle etc.) or to the number of transactions. Some of the key drivers are:
 - Whether all or some of the required metrics are already captured for internal monitoring purposes
 - Whether the required fields that enable the metrics to be calculated are present in the existing systems (see points listed in [Annex 3](#), where guidance will be needed to clarify what fields are acceptable)
 - How easy it is either to create reports from the existing systems or to download data to spreadsheets
 - How many different locations supplier invoices arrive at within the company
 - How many separate purchasing / accounts payable systems there are within the reporting entity (for example unintegrated systems for different business units, separate systems and processes for regular / approved and irregular / 'one-off' suppliers)
 - Complexity, variety and changeability of payment terms
 - If changes and upgrades are needed to comply with the requirements, whether the company has in-house resources or needs to use external suppliers to realise them
 - The extent to which accounts payable and purchasing systems are integrated.
5. One major construction company illustrated both the 'well-integrated' and 'onerous' profiles in one set of responses. Their initial response showed high costs, because their existing COINS system is reportedly out of date and poorly integrated. However, they mistakenly believed that they would have to begin reporting in 2017. On being told that reporting would begin in 2018, they reduced their cost estimates because, by that time they expected to have rolled out a new, fully integrated Oracle system across the group.
6. No concern was expressed about reporting any other of the qualitative information.

4.3 Other issues

The proposed scope of reporting

Some companies questioned whether the scope would need to cover all companies that fell within the stated definition of a large company (see [Annex 1](#)).

The view was stated that this definition may include some companies that do not have any significant control over suppliers, and/or that have limited administration resources available for handling requests for information.

However the 'large company' criterion is clear and well understood and it would take a significant amount of work to identify and justify any other criteria.

The need for ongoing dialogue with BEIS

This point was well made by one respondent, whose comments are quoted below:

“(We) consulted with IT and supply chain colleagues. Their initial response was positive, but on looking more closely they realised that more work would be needed. Much of the data is already captured and manipulated on spreadsheets. The raw data tends to show on-time payments at around 60% but this is known not to provide a true and fair view; for internal management reporting purposes within the Supply Chain team, adjustments are made for some of the practical issues which are not accurately reflected in the raw data and these suggest that a fairer view of on-time payments is around 95%.

“The validity of these subjective adjustments has never been tested by the finance team and this would need to happen against the reporting specifications if this internal management reporting were to be used as a basis for external statutory reporting purposes. An assessment would need to take place to determine whether for the purposes of external report requirements these adjustments are reasonable and permissible, or whether they could be considered to unduly flatter our reported position.”

We have asked the respondent for details of the adjustments that they make to the raw data. Where details are received too late to be included in this report, we will pass them to BEIS.

The timing of information provision

Most respondents considered that there would be sufficient time for them to meet the new requirements. The only company to raise time as an issue was the respondent quoted above. Following is an extract from their questionnaire response:

“At this stage we only have a high level specification available and it is assumed that a more detailed specification will be released. The high level specification is open to a certain degree of interpretation and as such, a more detailed specification will be required to ensure consistency and reliability of reporting and to reduce the burden on companies of having to interpret the reporting requirements.

“For example, the invoice metrics specification does not clarify whether the information should be based upon numbers of invoices or alternatively presented by value of invoices.

“With the reporting requirements coming into effect from 1st April 2017 and the need to build a solution over the next six months, it is important that a full specification be released no later

than the end of November 2016. This could have a knock-on impact on the costs of implementation we have submitted.”

Touchstone Renard comment: In our view, although the point is well made, the elapsed time between 1st April 2017 and the envisaged start of the first reporting period is actually 9 months i.e. 1st January 2018, and so the dates cited by the above respondent should be adjusted accordingly.

In-house versus external resources

Responses were mixed in that some were based on the assumption that in-house staff would be able to make any necessary changes to reporting systems, without external support from consultants, whilst others, expressed that they might need considerable external support.

Several respondents pointed out that if more sophisticated system changes turned out to be required once the full detailed specification had been published, then consultancy support might be more widely needed and this would increase costs significantly.

5. Structure and breakdown of cost types

5.1 One-off costs

Familiarisation

Managers need to understand the requirements and consider to what extent the existing systems can provide the required information and what changes or upgrades might be needed. A named person needs to be given responsibility for delivery of the requirements.

Clarifications may be sought from BEIS by managers about how to interpret the requirements and other issues such as timing of reports and reporting methods.

Information gathering

Managers need to understand what systems and locations are affected, what data are already held and what metrics are already produced. They need assurances about the reliability of the data and may require an audit to be carried out.

Further information may need to be gathered about what payment terms are in place with different groups of suppliers. Managers also need to capture the qualitative information as specified.

IT costs

These are the costs of making changes to IT systems. They cover all the stages of IT development from specification of requirements by users, through design of solutions (involving business analysts and/or IT specialists), testing and implementation of solutions and user acceptance. Strictly speaking, design and testing of new reports should be treated as an IT cost.

Costs vary significantly depending on the amount of work required and whether external support would be needed. Some respondents indicated uncertainty about this until the final detailed specification had been seen and analysed.

Given the uncertainties, some responses appeared to have erred on the side of optimism - for example, one respondent estimated the cost of upgrading and configuring their systems at £35 per hour using in-house staff. However, the same number of hours would cost 3 to 4 times as much if carried out by consultants.

None of the respondents is planning to implement new systems or to use these new requirements as the rationale for implementing wider enhancements, so no adjustments are needed for this.

Changes to processes

These are changes to the ways in which the systems are used. The view of respondents was that, if new reports are created, then new procedures will need to be set up to specify (for example):

- what data will be extracted, from where, by whom and when
- how the data will be checked and by whom
- how and by whom the data will be approved
- how and when the data will be transmitted to BEIS, and many related issues.

Some respondents have said they will have to train their staff in the new processes.

Companies will need to amend their accounting timetables at least for half year and annual reporting. One respondent reported that their company would run the BEIS reports each month to iron out any emerging problems while the data are relatively fresh.

5.2 Ongoing costs

Maintain systems and processes

Procedures, once established, need to be kept under review, advised to the personnel who have to carry them out and updated where necessary. When any part of the purchasing and accounts payable system changes there could be a knock-on effect on the BEIS reporting requirements, which would have to be addressed to ensure the ongoing integrity of BEIS reporting. There may be additional requirements for software licenses and system support, to be purchased from external suppliers on an annual basis. System support may also be provided by an in-house team, which incurs an opportunity cost.

Prepare reports twice yearly

The costs of preparing reports twice yearly depend on the amount of manual work involved. Tasks may range from simply running an automated report, extracting data to Excel and running reports from there, and/or generating varying amounts of manual data for transactions and suppliers that for whatever reason are not covered by the routine systems. As stated above, some companies may wish to run and check the reports more often than twice yearly.

Collate, approve and submit reports twice yearly

The amount of collation depends on the number of separate systems involved. For one integrated system there may be no collation, whereas for organisations with multiple, unintegrated systems it will be a more significant task.

The cost of approving reports depends on both the complexity of the underlying data and the confidence that managers have in the systems they have set up. These factors will drive the amount of management time that will be needed for sense-checking each report.

No issues were raised by respondents about the cost of submitting reports to BEIS and this does not appear to be a significant cost.

Other costs

One respondent said that, because of the political sensitivity of this information, they would have it validated on a regular basis through external assurance, by a third party. We suggested that their in-house internal auditors could do this, but they did not think this would give sufficient assurance.

Other costs were not added by any other respondents.

6. Summary of responses to questions

In advance of interview discussions, we sent firms a questionnaire requiring quantitative responses; so that respondents could gather the information required and be prepared for full discussions. In this section we provide a summary analysis of responses to the quantitative questions.

Question 1.1 simply asked for the respondent’s name and job title for audit trail follow-up purposes.

Question 1.2 asked ‘Please list the legal entities which are covered in this response (only include UK companies that are large for purposes of the Companies Act i.e. which do not meet the Companies Act criteria for medium or small companies, and for which you feel able to make ballpark estimates)’

Question 1.3 asked ‘What is the turnover of the companies concerned?’

The following table provides a statistical summary of the data provided for the groups, including those that are structured as one company, which responded to the survey:

Table 5: Turnover Analysis

Q1.3: Criteria	Turnover Analysis
Minimum	£37,000,000
Maximum	£14,020,900,000
Range	£13,983,900,000
Average	£1,518,985,706
Count	36
Sum	£54,683,485,400

Question 1.4 asked ‘How many employees are there in the companies concerned?’

The following table provides a statistical summary of the data provided for the groups, including those that are structured as one company, which responded to the survey:

Table 6: Employees Analysis

Q1.4: Criteria	Employees Analysis
Minimum	11
Maximum	83,069
Range	83,058
Average	8,261
Count	36
Sum	256,085

Question 1.5 asked ‘What is the balance sheet total for the companies concerned?’

The following table provides a statistical summary of the data provided for the groups, including those that are structured as one company, which responded to the survey:

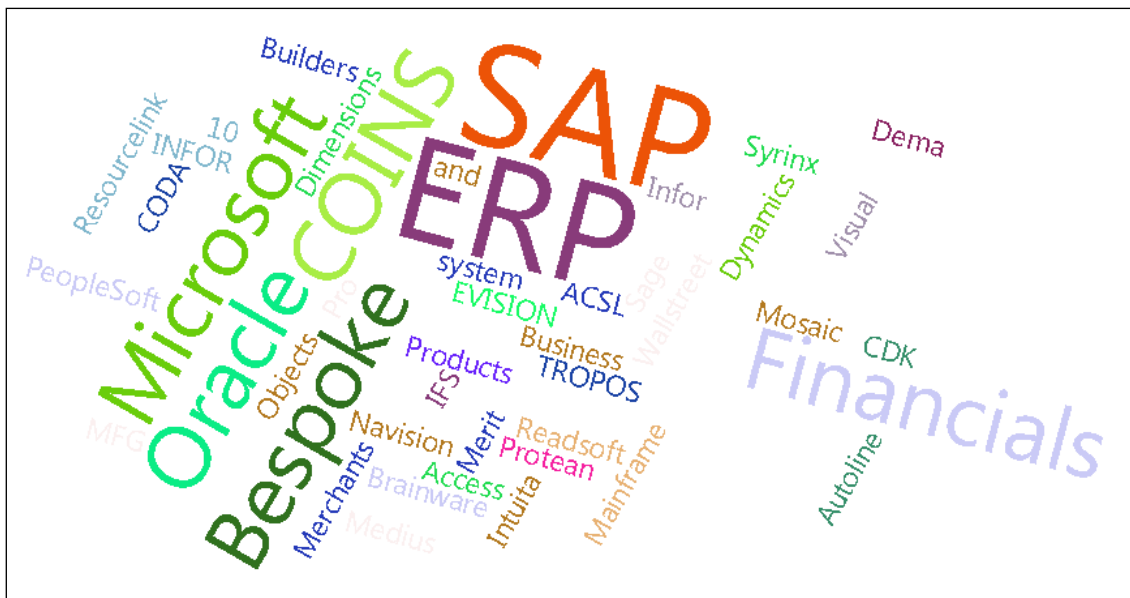
Table 7: Balance Sheet Analysis

Q1.5: Criteria	Balance sheet Analysis
Minimum	-£424,000,000
Maximum	£20,030,500,000
Range	£20,454,500,000
Average	£1,349,040,515
Count	36
Sum	£48,565,458,533

Question 1.6 asked ‘What are the main IT systems used?’

The following ‘word cloud’ (Fig 1) shows at a glance the diversity of IT systems with those that are the most prominent being in the larger text font size. In the larger companies, SAP dominates whereas in the smaller large companies, there is more system diversity from bespoke through to a set of different systems for different financial purposes.

Figure 1: Spread of IT Systems used



Question 2 (and sub-questions 2.1 to 2.6) asked for cost estimates of initial one-off expenditures in the initial stages of meeting the new regulation's likely reporting requirements.

The following tables provide summary statistical analysis of the total sample of companies provided both on the basis of:

- a 'Group Cost Analysis' i.e. using the cost estimates provided for an overall group of subsidiary companies as well as those from individual companies who were reporting not as groups
- an 'Individual Company Analysis' i.e. using the cost estimates provided apportioned equally across individual subsidiary companies within groups as well as those from individual companies.

Table 8: Cost estimates – one-off expenditures (Group Total Sample)

Question	Cost item	Average Estimated cost	Minimum Estimated cost	Maximum Estimated cost	Group totals	Standard Deviation (sample)	Standard Error of the Mean	Median Estimated Cost
2.1	Familiarisation with the new requirements	£3,316	£0	£26,070	36	£6,413	£1,069	£1,000
2.2	Information gathering	£2,688	£0	£50,000	36	£8,413	£1,402	£593
2.3	IT costs	£11,829	£0	£133,000	36	£28,618	£4,770	£1,250
2.4	Changes to processes	£5,281	£0	£60,000	36	£13,811	£2,302	£0
2.5	Other	£1,344	£0	£47,400	36	£7,897	£1,316	£0
2.6	Total	£24,458	£0	£225,000	36	£53,235	£8,873	£3,278

Table 9: Cost estimates – one-off expenditures (Total Sample Individual Company)

Question	Cost item	Average Estimated cost	Minimum Estimated cost	Maximum Estimated cost	Company totals	Standard Deviation (sample)	Standard Error of the Mean	Median Estimated Cost
2.1	Familiarisation with the new requirements	£1,341	£0	£17,775	89	£2,775	£294	£169
2.2	Information gathering	£1,087	£0	£10,000	89	£2,598	£275	£85
2.3	IT costs	£4,785	£0	£65,000	89	£11,592	£1,229	£294
2.4	Changes to processes	£2,138	£0	£60,000	89	£7,397	£784	£85
2.5	Other	£544	£0	£47,400	89	£5,024	£533	£0
2.6	Total	£9,895	£0	£140,000	89	£23,428	£2,483	£846

A further breakdown analysis of the total sample above into those companies under £0.5 billion turnover and those above £0.5 billion turnover is also provided on the basis of a 'Group Cost Analysis' i.e. using the cost estimates provided for an overall group of subsidiary companies as well as those from individual companies who were reporting not as groups.

Table 10: Cost estimates – one-off expenditures (Group Turnover under £0.5 billion)

Question	Cost item	Average Estimated cost	Minimum Estimated cost	Maximum Estimated cost	Group totals	Standard Deviation (sample)	Standard Error of the Mean	Median Estimated Cost
2.1	Familiarisation with the new requirements	£1,392	£0	£17,775	18	£4,128	£973	£100
2.2	Information gathering	£645	£0	£5,925	18	£1,373	£324	£100
2.3	IT costs	£2,188	£0	£15,000	18	£4,057	£956	£444
2.4	Changes to processes	£1,548	£0	£23,700	18	£5,561	£1,311	£0
2.5	Other	£2,633	£0	£47,400	18	£11,172	£2,633	£0
2.6	Total	£8,407	£200	£104,800	18	£24,299	£5,727	£2,000

Table 11: Cost estimates – one-off expenditures (Group Turnover over £0.5 billion)

Question	Cost item	Average Estimated cost	Minimum Estimated cost	Maximum Estimated cost	Group totals	Standard Deviation (sample)	Standard Error of the Mean	Median Estimated Cost
2.1	Familiarisation with the new requirements	£5,239	£0	£26,070	18	£7,732	£1,822	£2,000
2.2	Information gathering	£4,731	£0	£50,000	18	£11,618	£2,738	£1,000
2.3	IT costs	£21,470	£0	£133,000	18	£38,378	£9,046	£4,875
2.4	Changes to processes	£9,013	£0	£60,000	18	£18,228	£4,296	£500
2.5	Other	£56	£0	£1,000	18	£236	£56	£0
2.6	Total	£40,509	£200	£225,000	18	£68,547	£16,157	£11,400

Question 3 (and sub-questions 3.1 to 3.5) asked for cost estimates of ongoing annual expenditures of meeting the likely reporting requirements.

The following tables provide summary statistical analysis of the total sample of companies provided both on the basis of:

- a 'Group Cost Analysis' i.e. using the cost estimates provided for an overall group of subsidiary companies as well as those from individual companies who were reporting not as groups
- an 'Individual Company Analysis' i.e. using the cost estimates provided apportioned equally across individual subsidiary companies within groups as well as those from individual companies.

Table 12: Cost estimates – ongoing annual expenditures (Group Total Sample)

Question	Cost item	Average Estimated cost	Minimum Estimated cost	Maximum Estimated cost	Group totals	Standard Deviation (sample)	Standard Error of the Mean	Median Estimated Cost
3.1	Maintain systems and processes	£4,379	£0	£78,210	36	£14,109	£2,351	£0
3.2	Prepare reports twice yearly	£2,871	£0	£25,478	36	£6,099	£1,016	£1,000
3.3	Collate, approve and submit reports twice yearly	£1,963	£0	£25,478	36	£4,517	£753	£550
3.4	Other	£875	£0	£20,000	36	£3,679	£613	£0
3.5	Total	£10,088	£0	£129,165	36	£24,873	£4,146	£2,000

Table 13: Cost estimates – ongoing annual expenditures (Total Sample Individual Company)

Question	Cost item	Average Estimated cost	Minimum Estimated cost	Maximum Estimated cost	Company totals	Standard Deviation (sample)	Standard Error of the Mean	Median Estimated Cost
3.1	Maintain systems and processes	£1,771	£0	£29,625	89	£5,819	£617	£0
3.2	Prepare reports twice yearly	£1,163	£0	£15,000	89	£2,451	£260	£169
3.3	Collate, approve and submit reports twice yearly	£794	£0	£9,700	89	£1,911	£203	£100
3.4	Other	£343	£0	£10,000	89	£1,389	£147	£0
3.5	Total	£4,071	£0	£43,055	89	£9,958	£1,056	£500

A further breakdown analysis of the total sample above into those companies under £0.5 billion turnover and those above £0.5 billion turnover is also provided on the basis of a 'Group Cost Analysis' i.e. using the cost estimates provided for an overall group of subsidiary companies as well as those from individual companies who were reporting not as groups.

Table 14: Cost estimates – ongoing annual expenditures (Group Turnover under £0.5 billion)

Question	Cost item	Average Estimated cost	Minimum Estimated cost	Maximum Estimated cost	Group totals	Standard Deviation (sample)	Standard Error of the Mean	Median Estimated Cost
3.1	Maintain systems and processes	£1,951	£0	£29,625	18	£6,946	£1,637	£0
3.2	Prepare reports twice yearly	£856	£0	£5,925	18	£1,387	£327	£593
3.3	Collate, approve and submit reports twice yearly	£662	£0	£5,925	18	£1,422	£335	£100
3.4	Other	£56	£0	£1,000	18	£236	£56	£0
3.5	Total	£3,524	£0	£41,475	18	£9,565	£2,255	£1,000

Table 15: Cost estimates – ongoing annual expenditures (Group Turnover over £0.5 billion)

Question	Cost item	Average Estimated cost	Minimum Estimated cost	Maximum Estimated cost	Group totals	Standard Deviation (sample)	Standard Error of the Mean	Median Estimated Cost
3.1	Maintain systems and processes	£6,808	£0	£78,210	18	£18,684	£4,404	£250
3.2	Prepare reports twice yearly	£4,886	£0	£25,478	18	£8,128	£1,916	£1,593
3.3	Collate, approve and submit reports twice yearly	£3,264	£0	£25,478	18	£6,033	£1,422	£1,000
3.4	Other	£1,694	£0	£20,000	18	£5,137	£1,211	£0
3.5	Total	£16,652	£200	£129,165	18	£33,031	£7,785	£3,896

Question 4 asked (using sub-questions 4.1 to 4.7) what the 'basis for the above cost estimates' was.

Question 5 asked if there were any other points respondents wished to make and thanked them for their contribution.

7. Impacts on different types of companies

In this section we present and discuss the impacts on different sectors as explained by respondents, together with our own comments.

7.1 Construction

For payments to subcontractors, some construction companies reported that they only record the invoice when it is paid and not before. Consequently there may be no date of invoice to record and no standard payment terms for these suppliers. BEIS, ideally in consultation with the industry, will need to provide guidance for dealing with these payments. The options include leaving them out of the scope of the reporting; finding a proxy invoice date; and treating them as paid immediately.

The VAT tax point for 'input tax' on payments to construction industry subcontractors is the date that payment is made, not the date the invoice is received. This is linked to the fact that the amounts due to subcontractors are determined not by the amount invoiced but by the amount of work completed, usually as certified by quantity surveyors. Therefore VAT cannot be claimed back until this has been determined.

VAT inputs may be calculated automatically from invoices recorded on the system. However, if amounts invoiced by subcontractors were recorded on the system this would inflate the amount of VAT input, which would then require work to adjust by 'reversing' any amounts that had not been paid. Some companies currently deal with this problem by simply not recording subcontractor invoices on their accounts payable systems until the invoices are actually paid.

Under the Construction Industry Scheme (CIS), all payments made from contractors to subcontractors must take account of the subcontractors' tax status. This may require the contractor to make a deduction, which they then pay to HMRC from that part of the payment that does not represent the cost of materials incurred by the subcontractor. This may have implications for supplier payment reporting.

It was suggested by some companies that BEIS should consult the Confederation of Construction Contractors in developing the final specification – the Confederation is aware and has discussed the issues with some companies and it may need one representative organisation to speak for the industry.

7.2 Engineering and other project-based businesses

Payments from customers, hence back to suppliers, may be routinely delayed due to questions about completion of the work. Payment terms may not be a straightforward number of days and may be linked to contractual terms. Again, companies will need guidance on how to report on these payments.

Customers have inspection, testing and acceptance regimes which may result in work not being signed off by the customer that suppliers and sub-contractors believed had been completed. Sometimes documentation has to be provided by suppliers and payment is delayed while companies wait for the documentation to be completed. It may require manual work to

consider whether any given payment has been made in compliance with agreed payment terms.

These considerations affect any supplier that works on a project basis with pieces of work being passed on to subcontractors. Those potentially affected include most heavy engineering companies and many companies in the oil, gas and wind turbine industries.

7.3 Wholesale & retail trade - Food, beverages, tobacco

One company reported that it had been hit hard by the 'living wage' increases, which will cost an extra £3 million annually, with profit margins already low – around £8-9 million on a turnover of £1.3 billion. They are '...ruthlessly having to cut costs to survive'. As part of this exercise they have written to many of their suppliers, seeking to extend longer payment terms. Negotiations with suppliers are on an individual basis and consequently the company works with a wide range of different payment terms. The Financial Director of this company raised two further points:

- They are also squeezed on payment terms by the companies that they supply.
- Whether it would be possible for a filter to be applied so that companies with low profitability would not be asked to meet these requirements, 'which they can ill afford to do'.

We were asked how these requirements related to the information required by the Groceries Supply Code of Practice (GSCOP). It appears that there may be some overlap on qualitative reporting under each of the two regimes but that the quantitative invoice metrics will be a new requirement.

Another retailer reported using SAP, which is already configured to provide all the data that BEIS need. They currently report the required metrics as part of their regular scorecard. The date of payment is the batch run date. Payment terms are variable and the company is trying to standardise them. There would be no IT or process change costs, unless the current ways of calculating the metrics were unacceptable to BEIS.

7.4 Transport

No particular issues emerged, with our sample showing a range of different systems and costs. One motor manufacturer and retailer anticipated high costs of implementing upgrades across branches in 18 different countries, many of which had different IT setups, whereas another had only one qualifying business using up-to-date systems. The Society of Motor Manufacturers & Traders (SMMT) might speak for the industry.

7.5 Other services

One service company expressed concern that the information requested for 'proportion of invoices paid later than the agreed term' could paint a false picture. It might be the case that 90% of suppliers are paid just after the due date, which in practice they are content with, and there is no question of any exploitation or mistreatment.

It is suggested that there could be an option for companies to say how long after the due date they were paying, rather than just having a binary 'within vs outside the terms' question.

Making this obligatory for all companies could be quite onerous for some but there could probably be an option, offered by BEIS, for companies that wanted to do so to provide additional information as necessary.

In addition, companies will need absolute clarity on when an invoice is treated as paid – at what point in the process which starts with approval for payment, continues with sending a BACS file to the bank and ends up with the money in the supplier's account? Companies also suggested that, to ease workloads, they should have the option of making one return for the whole group.

The Financial Director of another services company was of the view that supplier payment reporting is a politically sensitive issue. It was considered that the media will be interested in the results, and therefore large companies must take care to ensure that their published data is both robust and representative and as such will stand up to scrutiny. As such this Financial Director said he was aware of, and concerned by, the political background and that the costs would be estimated to reflect this level of care.

7.6 Education, health

We received two responses from companies in these sectors, with no sector-specific issues emerging.

8. Suggestions for further actions

8.1 Providing guidance for companies

Companies will need clarity to be provided on the detailed issues raised in this report and on other issues as they emerge.

We have advised BEIS to take into account the comments that respondents made before the initial guidance is posted on the internet.

8.2 Difficulties encountered and lessons learned

The exercise was carried out during a holiday period (late August to early September), which put companies under pressure and meant that key personnel were in many cases not in the office to receive our initial emails. We would therefore recommend that future consultations be conducted outside holiday periods.

The initial deadlines for this exercise were later extended but some contacts had already decided not to respond or had submitted rushed responses based on the initial deadlines. If we had been aware from the outset that the timescales could be extended as far as 7th October 2016, then we would have been able to allow potential respondents more time.

The FAME database that we used for key individuals' names and contact details was not of the quality expected. We found that half of the records that we used for our sample had errors in the names, contact details, or both and we spent additional time checking and updating the details. In light of this, further exercises should allow more time for cleansing the data prior to making contact with companies.

Finance Directors were not the most appropriate contacts, especially in large companies – Financial Controllers and Heads of Financial Reporting were more likely to be interested in participating. Secretaries and personal assistants of Financial Directors were valuable contacts and could often direct us to the best person in their organisation, with only limited involvement from director level.

Companies' attitudes can have a major bearing on the quality of data received and the ease of obtaining it. We are grateful for the time spent by the 36 companies that completed the questionnaire and by the other companies that shared information with us, but they were in a minority.

The vast majority of companies contacted (around 70%) were not overtly negative but made it clear to us that questionnaires and surveys were not their top priority. At the other extreme, a few (say 10%) were very negative.

Annex 1: Information sent to companies specifying requirements

Research into the cost to businesses of the proposed new payment reporting requirements

Introduction

Touchstone Renard Limited (TR) have been appointed by the Department for Business, Energy and Industrial Strategy (BEIS) to research the cost impact of an illustrative set of reporting requirements, that will help frame the details of the new regulation.

TR have selected a random sample of companies that would likely be affected by the new arrangements and your company has been selected as part of that sample. We urgently need your response as quickly as possible and will very much appreciate your support.

The process for participating in the research is:

- Please read the high level specification of illustrative reporting requirements on the next page and then kindly complete the cost estimates on page 3 as far as you are able. Precision is not required – ballpark estimates and partial responses are far more valuable to us than no response at all.
- Please return the completed or partially completed questionnaire to TR by email to hmachin@touchstonerenard.com
- If you have no objection, TR will then arrange a brief telephone interview, at a time convenient to you, to discuss your responses, complete any missing items as necessary, and address any issues and questions you may wish to raise
- TR will collate the responses received and report the results, both quantitative and qualitative, to BEIS for further consideration.
- Your response will make a very useful contribution to the process, thank you.

Proposed reporting scope

The government proposes that the new reporting requirement would apply to all individual entities that qualify as large businesses in their own right.

If you are responding on behalf of a Group, please include in your response only those companies that individually meet the criteria.

By 'large' business we mean companies – including private, public and quoted companies, and LLPs, which meet two of the three following criteria:

1. Over £36 million annual turnover
2. Over £18 million balance sheet total
3. Over 250 employees

Large companies would be asked to submit a report every 6 months - in a standard format, to a central digital location.

For this exercise please assume that the first reporting period would start on the first day of your financial year, ending six months later, and with the first report due at the end of the seventh month of your financial year.

The report is likely to comprise of requirements such as those detailed below:

High level specification of illustrative reporting requirements

Invoice metrics¹:

These metrics are for third party invoices only - intra-company invoices are excluded. 'Payment' means full payment or full resolution of the invoices received².

- For payments made in the six months of the reporting period, average time taken to pay invoices from the date of receipt of invoice³
- Proportion of invoices due for payment within the six month reporting period:
 - a) paid within 30 days
 - b) paid between 31 and 60 days
 - c) which had not been paid by day 60
- Proportion of invoices due for payment within the six month reporting period, which are paid later than the agreed term.

Payment terms:

- Your company's standard contractual length of time for payment of invoices (there is also an opportunity to detail the range if you use more than one standard, and provide further information)
- Your company's maximum contractual payment period or periods
- Any changes to standard payment terms since the last six monthly report
- Whether suppliers have been notified or consulted on these changes

¹ The duty to report will not cover contracts for financial services, as defined in section 2 Small Business Enterprise and Employment Act 2015

(http://www.legislation.gov.uk/ukpga/2015/26/pdfs/ukpga_20150026_en.pdf). These are contracts for any service of a financial nature such as (but not limited to) insurance, financial lending or financial trading. Businesses whose primary activity is in financial services will still need to report on their non-financial contracts.

² Unresolved errors, disputes or part payments would not count as full payment for these purposes.

³ If your systems do not record the date of receipt of invoice, it would be acceptable to use the supplier's invoice date instead.

Other payment information:

- High level process for **dispute resolution** related to payment – for example by email / url / phone call to a named individual / call centre (narrative box)
- Whether suppliers are offered **e-invoicing** (tick box)
- Whether suppliers are offered **supply chain finance** (tick box)
- Whether the organisation's practices and policies cover deducting sums from payments as a charge for remaining on a **supplier list**, and whether they have done this in the reporting period (tick boxes)
- Whether the organisation is a member of the Prompt Payment Code or another **payment code**, and the name of the code (tick box plus narrative if answer yes).

Annex 2: Questionnaire sent to companies

Questionnaire

Please kindly answer the following questions as far as you can, with input from other members of your organisation such as IT specialists or Business Analysts as necessary. If you cannot answer any question, or would prefer to discuss it with a TR researcher, please leave it blank for the time being. Thank you.

1. You and your organisation

- 1.1 What is your Name and Job title? _____
- 1.2 Please list the legal entities which are covered in this response (only include UK companies that are large for purposes of the Companies Act i.e. which do not meet the Companies Act criteria for medium or small companies, and for which you feel able to make reasonable ballpark estimates):
- 1.3 What is the turnover of the companies concerned?
- 1.4 How many employees are there in the companies concerned?
- 1.5 What is the balance sheet total for the companies concerned?
- 1.6 What are the main IT systems used?

2. Cost estimates – one-off expenditures

Cost item	Estimated cost in £000s
Familiarisation with the new requirements	
Information gathering	
IT costs	
Changes to processes	
Other (please add further lines as required)	
Total	

3. Cost estimates – ongoing annual expenditures

Cost item	Estimated cost in £000s
Maintain systems and processes	
Prepare reports twice yearly	
Collate, approve and submit reports twice yearly	
Other (please add further lines as required)	
Total	

4. Basis for the above cost estimates

- 4.1 Whether your cost estimates are for an average company in your Group or for the total costs of all eligible large companies in your Group
- 4.2 What type(s) of solution(s) are costed above - for example upgrading existing systems / implementing new systems / spreadsheet / manual)
- 4.3 To what extent (if any) your proposed costs include any enhancements in addition to the reporting requirements specified above

- 4.4 Whether your proposed solution(s) will deliver the whole specification as outlined above. If not, please say what is missing and why you cannot deliver it
- 4.5 To what extent (if any) you would need to use external resources to deliver the proposed requirements
- 4.6 Whether any labour costs are fully costed or salary cost only
- 4.7 Please list any other key assumptions you have made if applicable
- 5. *Any other points you wish to make and many thanks for your contribution.***

Annex 3: Detailed specification points to be resolved

This annex sets out some of the detailed points raised by respondents, which they would like to see clarified when the new regulations come into effect.

General

Guidance will be needed to clarify whether:

- The invoice metrics should be based on payments made in the reporting period or on invoices due for payment in the reporting period – these are different data sets
- The metric for ‘proportion of invoices due for payment’ should be based on invoice numbers or amounts?

Invoice date and payment date issues

Any uncertainty over either the date an invoice was issued, or the date it was paid, will impact all of the metrics listed in the current specification. In this context it is helpful that, as BEIS have already indicated; either the date on the invoice or the date of receipt by the company is acceptable. However the issues that remain to be resolved include the following:

- Some companies that work on a project basis, and/or employ subcontractors to do discrete pieces of work, do not raise invoices until the work has been certified for payment. Guidance will be needed as to whether these invoices and payments should be omitted from the metrics or, if not, how such invoices should be dated.
- Guidance will be needed as to which of several possible dates may be treated as the payment date for the purpose of the metrics. Companies currently use a variety of dates, including:
 - Date invoice is approved for payment
 - Date of ‘batch payment’ run issued by the accounts payable system
 - Date that cheque is printed
 - Date that cheque is signed
 - Date that payment clears the company’s bank account

Invoice amount issues

Guidance will be needed as to when a payment of less than the original full invoice price may be counted as a full payment of the invoice concerned, for example when:

- The company and the supplier have agreed an early payment discount
- The company has deducted a credit note issued by the supplier from the payment made
- The company has deducted its own debit note from the payment made.

Payment terms issues

The current specification requires companies to report on 'the proportion of invoices paid beyond agreed terms'. Guidance will be needed to help companies to determine what counts as 'the agreed terms', for example:

- How to deal with the common situation where payment is made provided the suppliers' invoice is received by a certain day (for example the 15th of the month) in time for the monthly payment run? This may result in some invoices being paid earlier and some later than the formally agreed supplier terms.
- Will companies be required to identify and report on payment terms for every individual supplier, or can reasonable assumptions be made – for example that all suppliers in a certain group have certain payment terms?
- What if no formal payment terms have been agreed?
- How to treat one-off agreements with suppliers that payments may be delayed to improve the reported figures at half year and year ends?



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