BUSINESS DEBTLINE

MONEY ADVICE TRUST

Business as usual

A spotlight briefing on **late payments** and their impact on small business owners in financial difficulty

February 2020

Contents

About the Money Advice Trust

The Money Advice Trust is a national charity helping people across the UK to tackle their debts and manage their money with confidence.

We run National Debtline, offering free, independent and confidential advice on personal debt over the phone and online, and Business Debtline, the UK's only free dedicated debt advice service for the self-employed and small business owners. We are also the leading training body for UK debt advisers through our Wiseradviser service and provide training and consultancy to companies who engage with people in financial difficulty.

Beyond our frontline activity, we work closely with government, creditors and partners to improve the UK's money and debt environment.

Our Business Debtline service

Business Debtline is the UK's only free debt advice service for the self-employed and small business owners. In 2019 Business Debtline helped more than 52,400 people to tackle their debts by phone and webchat. In addition, there were more than 471,000 visits to the Business Debtline website.

Business Debtline offers practical self-help – empowering businesses to deal with their creditors and put solutions in place to resolve their financial difficulties.

After receiving advice from Business Debtline:

- 98% of callers followed some or all of the steps our advisers gave
- 89% saw their business debts reduce or stabilise
- 61% said the advice helped them continue to trade, either with their business at the time of contact or with a new business set up subsequently.

This report has been produced by the Money Advice Trust. We would like to acknowledge and thank the Financial Conduct Authority for its support in the report's production.

Foreword

In 2018 our Taking Care of Business research explored some of the key challenges facing small business owners who contact our Business Debtline advice service. There is perhaps no greater single challenge than dealing with late payments.

To explore this issue further, we present in this follow-up briefing the findings of a survey of Business Debtline clients who have been affected by this complex problem. As the results show, chasing for late payments is unfortunately 'business as usual' for many small business owners in financial difficulty.

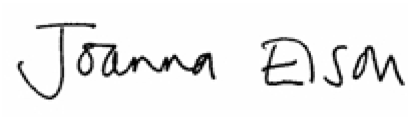
Business Debtline is the UK's only free, dedicated debt advice service for people who are self-employed and other small business owners. Last year our team – now numbering 45 advisers – helped more than 52,400 people by phone and webchat, with more than 471,000 visits to our advice website during the year.

After receiving advice from Business Debtline, 93% of callers are clear on their next steps and 98% of callers surveyed follow some or all of the steps our advisers provided. Nine in 10 callers saw their business debts reduce or stabilise.

Late payments affects nearly half (45%) of Business Debtline callers, and our advisers can often spend as much time advising callers on how to chase these debts owed to them, as they do on dealing with their own business and personal debts.

In the context of growing self-employment and small business ownership, the need to tackle the problem of late payments is urgent. In this briefing we have laid out six recommendations for government, creditors and others on how this can be achieved.

In the meantime, we look forward to working with partners to continue to improve the service we offer to help small business owners - and in particular, to working with the Office of the Small Business Commissioner to support its ongoing efforts to tackle what remains a fundamental economic and social problem.



Joanna Elson OBE
Chief Executive, Money Advice Trust

1. Introduction

In November 2018 we published *Taking Care of Business,*[1] a report on eight key challenges facing Business Debtline clients – low and variable incomes, banking products, business skills, vulnerable circumstances, tax and benefits, financial resilience, experiences with creditors and the long-standing issue of late payments.

The report highlighted that almost half of the surveyed Business Debtline clients had experienced problems with late payments.

To further explore this challenge we decided to examine more closely the nature of the late payments our clients were experiencing, their causes and consequences, including the impact late payments are having on their business finances and personal wellbeing.

This spotlight briefing presents the results of a survey of 174 Business Debtline clients in 2018 who had experienced late payments, together with case studies, to provide a greater insight about the experiences of the people we help with this challenge.

We conclude with six key recommendations for government and other stakeholders on measures that could improve the policy environment on this complex issue.

2. Methodology

We sent an online survey, by email in March 2019, to 16,578 Business Debtline clients who had contacted us by phone during 2018. Results are based on 174 respondents who had experienced late payments. Three respondents who expressed an interest in being interviewed further on their experience were randomly selected for in-depth interviews to complement the survey results as case studies.

Despite an inevitable element of self-selection bias, the sample of respondents is broadly representative of the Business Debtline client base in terms of gender, age, trade, trading status, employer status and income levels.

1. Money Advice Trust, Taking care of business: eight key challenges facing small business owners, November 2018

Nearly half (45%) of Business Debtline callers have experienced late payments

Late payments

62%
of callers who had experienced late payments said that they experience late payments fairly or very often

58%
said that when they experience late payments, they typically have to wait between one and four months beyond the payment date to get paid

32%
said that they had experienced at least one occurrence of non-payment

Causes

57%
said that no reason was given for late payments

59%
felt their clients use late payments as a way to manage their own cash flows

35%
felt their customers were using late payments, knowingly, as a business practice

29%
said late payments were caused by the knock-on effect of their customers' own cash flow issues

Consequences

75%
said that late payments affected the viability of their business

87%
agreed that late payments had a negative impact on their wellbeing

Only 41%
said they knew what to do to chase late payments and only 16% knew where to turn for advice

41%
said they spend more than 10% of their working time chasing late payments

3. Experiences with late payments

People who are employed usually have certainty about how much and when they will be paid every week or month. However, many small business owners and self-employed people face uncertainty about when money they have earned will actually be paid – even if they have regular clients and plenty of work.

As our Taking Care of Business research found, this uncertainty can compound existing problems and can exacerbate the challenge of varied and irregular incomes that many small business owners face.

Cash flow issues caused by late payments can impact small business owners' ability to pay their tax, their business debts, and their household expenses including rent or mortgage, utility bills and basic household costs.

A common problem

Late payments are one of the most common problems facing Business Debtline clients, affecting 45% of callers – with the associated cash flow problems being both a cause of, and more often an exacerbating factor in, their financial problems.[2]

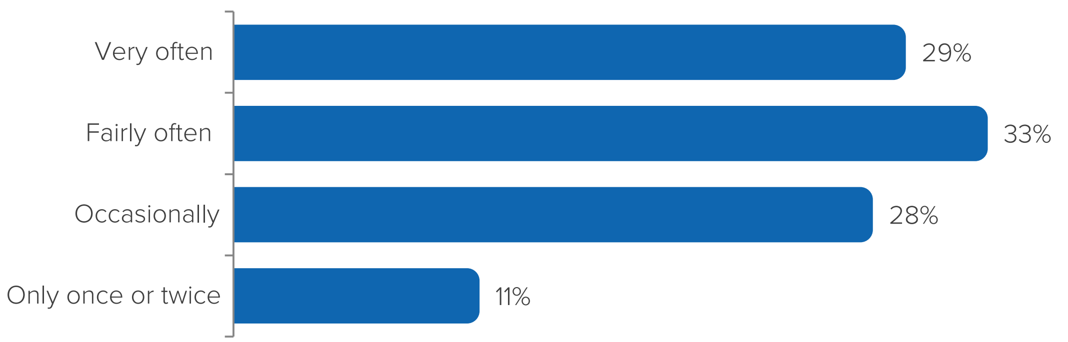
The majority (62%) of Business Debtline callers who had experienced late payments that we surveyed said that they had been paid late fairly (33%) or very (29%) often. For 28% of respondents, late payments had been an occasional issue while 11% of respondents said that they had experienced late payments only once or twice.[3]

Almost half of respondents (45%) reported that up to 20% of payments from their clients or customers were late. More than a quarter (28%) said that approximately 21-40% of payments were late, with 27% reporting over 40% of their payments were paid late.[4]

Figure 3.1

Source:
Survey of Business Debtline callers affected by late payments

Frequency of late payments



2. Money Advice Trust, Taking care of business: eight key challenges facing small business owners, November 2018
3. Base 141 respondents
4. Base 143 respondents

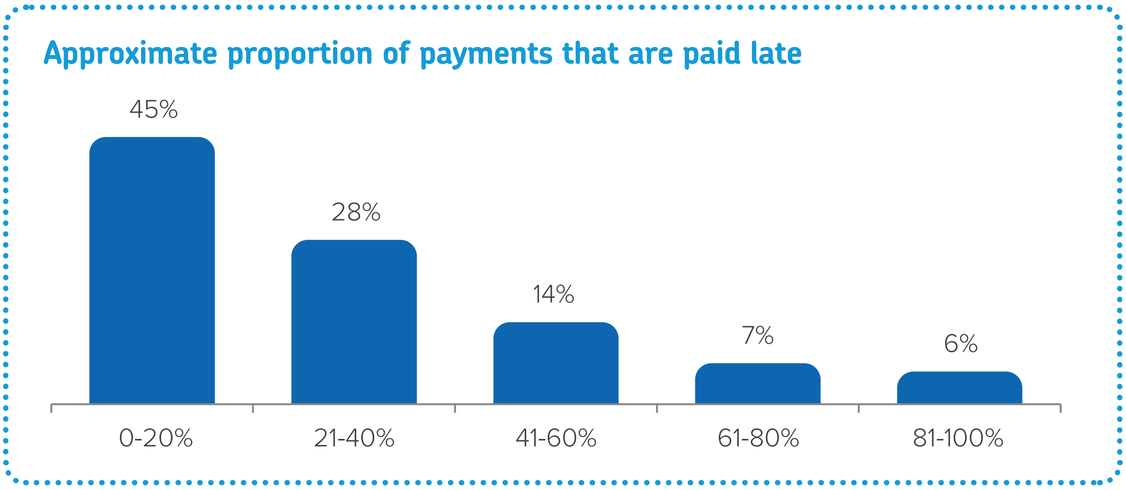


Figure 3.2

Source: Survey of Business Debtline callers affected by late payments

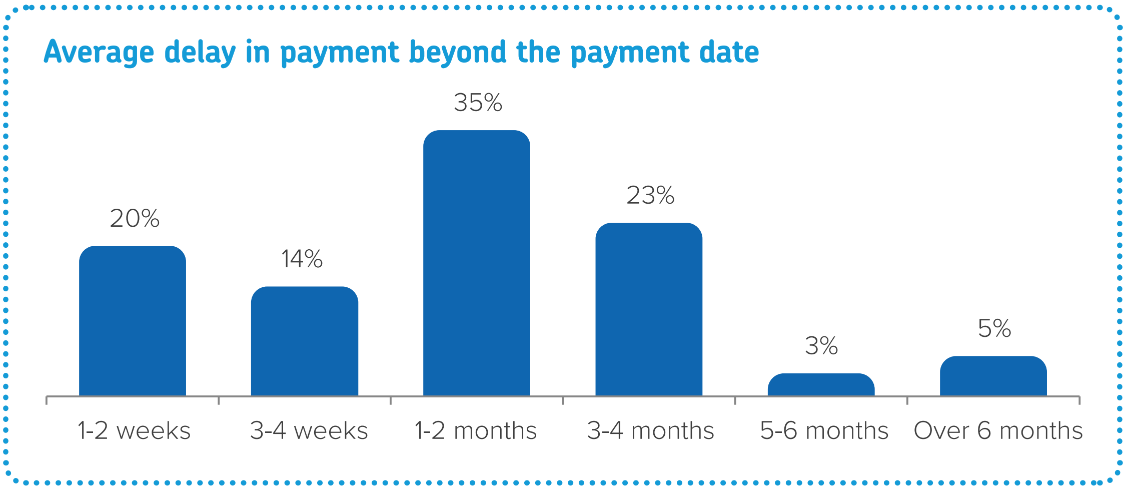


Figure 3.3

Source: Survey of Business Debtline callers affected by late payments

How late is late?

We asked our sample of Business Debtline clients who had experienced late payments how long they had to wait, on average, for payments to be made[5].

35% said that when they experienced late payments they had to wait on average one to two months to get paid beyond the payment due date, while 23% waited two to four months. 8% say they had to wait over four months to get paid.

Although sole traders might have more flexibility in managing their business finances due to the simple business structure they employ, our advisers find they are less likely to have the time to chase late payments. Dependency on a small number of clients, or even a single client, can also be a factor, with sole traders reluctant to damage these critical relationships – especially in the early stages of a business.

On the question of the longest period of late payment that respondents had experienced, 32% reported that they had experienced non-payment – while nearly a quarter (23%) had waited more than five months.

5. Base 149 respondents

Figure 3.4

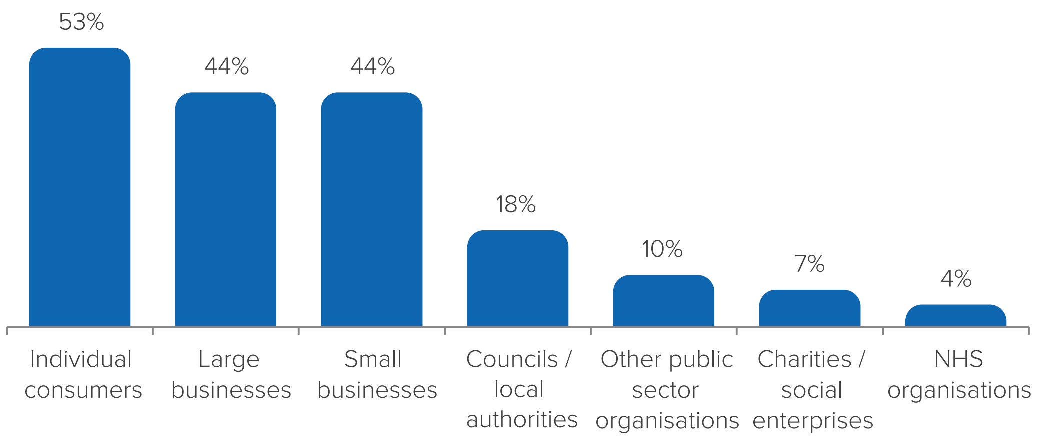
Source: Survey of Business Debtline callers affected by late payments

Longest delay (beyond payment date) experienced

Figure 3.5

Source: Survey of Business Debtline callers affected by late payments

Types of organisations that make late payments



Who are the late payers?

Respondents experienced late payments from a range of customers, including individual customers (53%), large businesses (44%), small businesses (44%), local authorities (18%), other public sector organisations (10%) and charities (7%).[6]

Quotes from Business Debtline clients surveyed[7] about their experience with late payments

"Some customers use late payment as a business tool."

"Generally would take three months for my invoices to be paid."

"The bigger the business the bigger the problem."

6. Base 142 respondents
7. Money Advice Trust, Taking care of business, November 2018

Steve, the glass manufacturer

Steve is a glass manufacturer, who has been running his business for six years. He does not have any employees. Steve was confident setting up his business due to his experience from his previous job. He contacted Business Debtline last year for advice on his business debts, incurred largely because of late payments.

Steve mostly works as a supplier to other contractors, which puts him at the bottom of the supply chain. He experiences late payments in connection with roughly one in every five invoices, mostly from larger companies. It typically takes one to two months to get paid for his work. Often Steve is not given any reason for the delays in payments, while sometimes his customers claim that the invoice had not been on their system.

Steve feels that larger companies higher up the supply chain tend to prioritise payments to their big suppliers, "letting the small ones slide". Steve has to chase his customers for payments and he suffers the effects of any problems affecting the "higher" parts of the chain.

He has also experienced a number of occasions where he never been paid for his work, primarily because the companies that owed him money went bust. Last year he lost £16,000 as two separate main contractors he was working for went into liquidation, after he had already bought materials.

Steve sends his initial invoice to his clients before commencing the work and again 10 days before and 10 days after completion of the work. He allows up to 30 days for the payments to be made and then he immediately starts chasing the payments by email and phone. The next step is to send a solicitor's letter, which usually works, as large firms in particular do not want to receive a poor credit rating.

Steve has also recently started to specify to his clients that costs for materials used should be paid up front, which at least enables him to pay his suppliers and avoid the stress of not being able to pay them, if the payment for his work is then delayed.

* *names and photos have been changed*

4. Causes of late payments

The causes of late payments vary widely. Different organisations have different policies and processes, which can affect how and when they handle payments. Administrative processes or clients being overseas can also affect payment timing. Cash flow issues affecting the payers themselves can affect their ability to pay their suppliers on time. If a company goes out of business without first having paid their suppliers, small suppliers remain unprotected.

Some larger companies are often accused of using late payments as a business tool, to manage their own cash flow – taking advantage of their power over smaller suppliers in their supplier chain, who can be reluctant to challenge this behaviour for fear of losing business.

Reasons given for late payments

In our survey, we asked Business Debtline callers affected by late payments to share the reasons behind these, based on their experiences.[8] Most respondents provided a combination of reasons behind late payments, though a majority (57%) said that their customers had not given them any reasons for the delays.

Almost six in 10 (59%) respondents consider that their customers were delaying their payments as a means of managing their own cash flows and 35% of the respondents said that their customers were using late payments, knowingly, as a business practice.

8. Base 149 respondents

29% of respondents said that the reason was that their customers were facing their own cash flow issues and 20% that their customers had defaulted. Almost one in 10 respondents (9%) attributed late payments to a dispute with their customers.

Around one in eight (13%) respondents said their payments were delayed due to complex invoicing procedures. Those who report that complex invoicing procedures were a reason for late payments were more likely to be private limited company directors and less likely to be sole traders.

Respondents mentioned the challenge of slow approval procedures, processing invoices at the end of the month or sending invoices to external companies to clear the payment. Some larger companies also have multiple departments between which the payments need to be passed to be processed. One respondent reported that additional information required for invoices to be paid was not requested until after the invoice had been sent, while another said that delays happened because of international banking systems being involved.

Other less frequent reasons cited for late payments include customers committing fraud, bureaucracy and accounting departments not processing invoices.

Reasons behind late payments

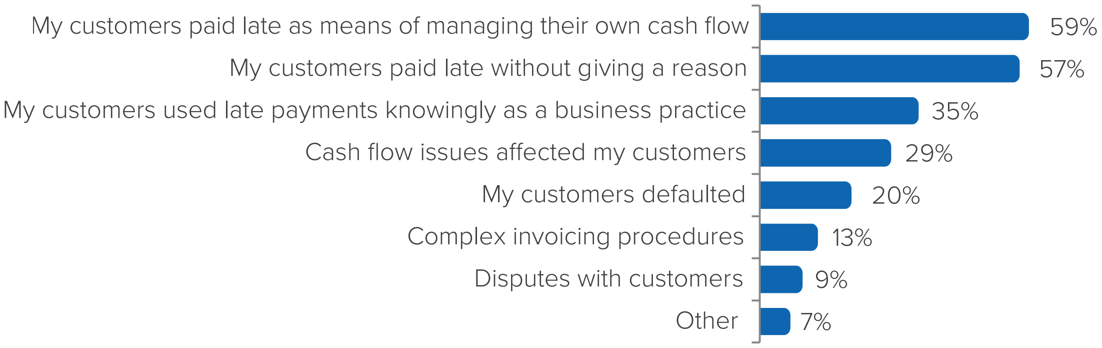


Figure 4.1

Source: Survey of Business Debtline callers affected by late payments

Alice, the wellbeing consultant

Alice* has been a wellbeing consultant for 16 years, working with many large businesses to provide support for their employees. She appoints sub-contractors to provide more tailored support to businesses, such as nutritionists.

It has not been uncommon for Alice to experience delays with payments, usually from larger companies. When she experiences late payments she typically has to wait three to four months to get paid, while on one occasion she never got paid.

In her experience, delays with payments relate to firms' internal processes and communication between departments. To minimise the risk of being paid late, she now asks new customers about their processes and whether there is anything she needs to do upfront, with regards to setting up forms or completing processes.

Alice usually allows 28 days for invoices to be paid, giving an extra week "just in case" and then starts sending out emails and chasing up with the relevant departments. Although she says she does not spend a great deal of time chasing late payments, she finds it very stressful.

Alice has never charged interest on late payments. She does not want to appear "heavy handed" with chasing late payments as securing new customers can be difficult and maintaining good relationships is important for her business.

Since calling Business Debtline for advice, her debt situation has been improving.

* *names and photos have been changed*

5. Consequences of late payments

We asked Business Debtline clients surveyed to tell us about the impact that late payments had on their business finances, the viability of their business and their personal wellbeing.[9]

Impact on business finances and personal wellbeing

Unsurprisingly 82% of respondents strongly agreed that late payments caused them cash flow issues. 58% strongly agreed that late payments caused their financial problems, while 68% strongly agreed that late payments made their financial problems worse.

Three quarters (75%) strongly or tended to agree that late payments affected the viability of their business.

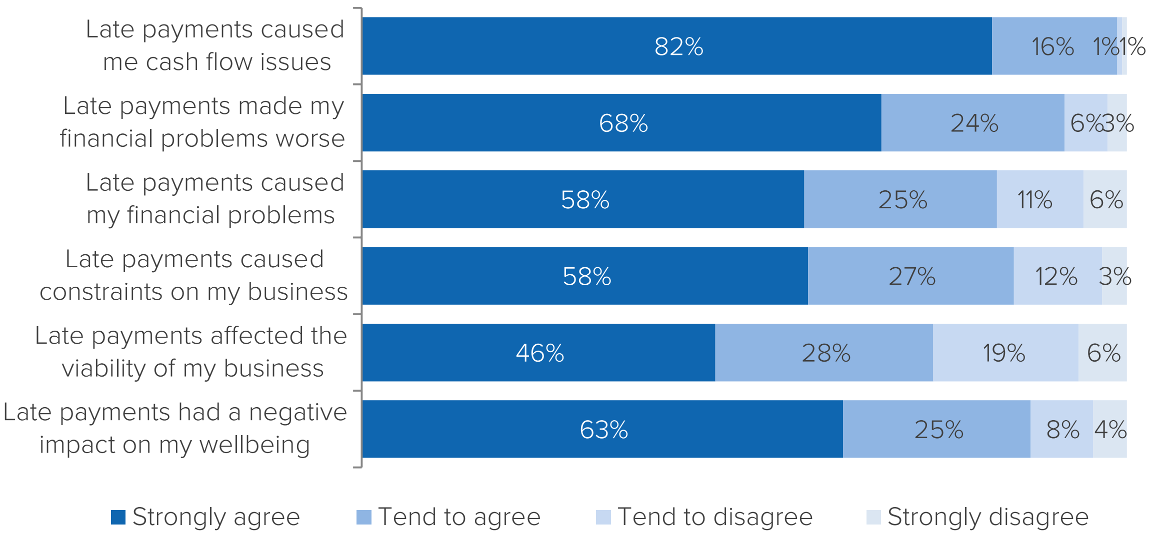
Respondents who were private limited company directors were marginally more likely to report that late payments caused constraints to their business and affected its viability. Even though sole traders are more exposed in terms of personal liability, they usually have more control of their business and flexibility on how to manage their finances.

As would be expected, uncertainty about when and if one will be paid, can have a negative impact on one's wellbeing. Almost nine in 10 respondents (87%) either strongly or tended to agree that late payments had a negative impact on their wellbeing.

Figure 5.1

Source: Survey of Business Debtline callers affected by late payments

Impact of late payments



9. Base 159 respondents

Chasing late payments

We asked Business Debtline callers to tell us about their experiences chasing late payments, the difficulties they faced and whether they knew where to get help.[10]

The vast majority of respondents said that they felt they did everything they could to chase late payments (84%) – however, only 41% had known what to do to carry this out.

Four in 10 respondents (39%) said that they were worried that if they chased late payments, they would lose future business. For many small business owners damaging their relationship with a customer is a key concern – particularly in the early days of setting up a new business or becoming self-employed.

Worryingly, only 16% of respondents said that they knew where to turn for advice on how to chase late payments – with sole traders less likely to know where to turn for advice than private limited company directors.

One in five respondents (20%) said that they felt it was too expensive to chase late payments, and 17% said they did not have the time to do this.

A time-consuming task

With regards to the proportion of their working time spent chasing late payments, most respondents (58%) said that they spend up to 10% of their working time chasing late payments. One in four (27%) said they spend between 11% and 30% of their working time on this activity, with 14% reporting spending more than 30% of their working time on late payment issues.

For small businesses and self-employed people usually with up to one or two employees, even 10% of their working time spent chasing late payments can have a significant impact on their business's productivity.

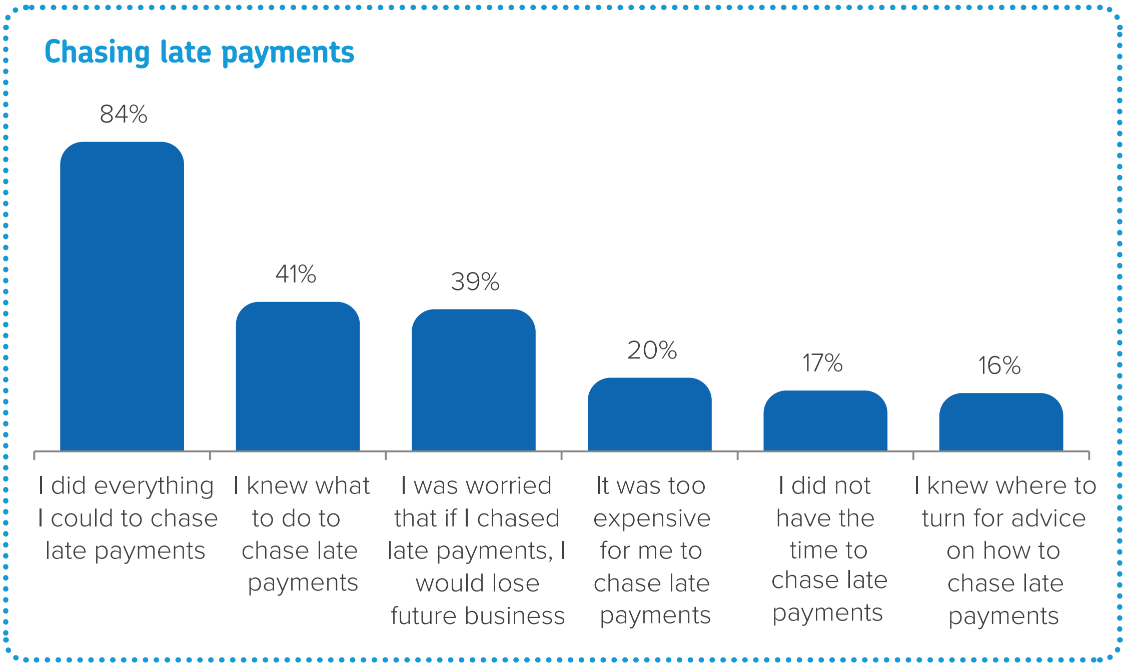


Figure 5.2

Source: Survey of Business Debtline callers affected by late payments

10. Base 145 respondents

Max, the freelance actor

Max* is a freelance actor and promoter for charity and retail events. He has been self-employed for almost 20 years. His business is overdrawn, but his debt situation is currently manageable.

Max has regularly experienced delays with payments. One or two invoices per month are usually paid late, and he sometimes receives partial payments – typically having to wait three or four months before these late payments are made in full. He had one occasion when he never got paid after the company he had contracted with went bankrupt.

Some of the companies he contracts with experience cash flow problems themselves, which means they tend to delay their payments. Many companies do not give clear explanations for their delays. On one occasion when he had a contract to deliver work for the NHS, his payment was delayed for several months due to the original invoice being cancelled for no apparent reason, with no explanation being given.

Max is usually confident that eventually he will get paid, but he is concerned because the delays can cause him significant cash flow constraints so he cannot plan ahead. He has cancelled the majority of his direct debits to avoid going overdrawn and incurring bank charges. He often relies on his credit cards to get through periods of cash flow problems, while in emergencies he borrows money from family and friends.

Chasing late payments takes him a couple of hours each month and involves sending emails, followed up by telephone calls when necessary. He declined an offer of professional help to manage his late payments due to the cost, and because he was not completely confident they would succeed.

To manage late payment risks, he aims to take work from a spread of companies to avoid being over-reliant on just one or two clients. Ten years ago he almost lost his business when a firm he was reliant on folded without paying the £3,500 owed. He tends to go with customers' terms which are usually 30 days in receipt of work done, but often their terms are not clear.

One key thing which would help Max is if the companies he has contracts with were to be transparent and upfront about their payment terms and conditions, even if these take longer than 30 days, as that would enable him to plan ahead and better manage cash flows.

* *names and photos have been changed*

6. Recommendations

Since the publication of our Taking Care of Business report in November 2018, the Department for Business, Energy and Industrial Strategy has carried out a call for evidence on Creating a responsible payment culture. [11]

As a result, in June 2019 the Minister for Small Business announced[12] a series of measures including the transfer of responsibility for the voluntary Prompt Payment Code to the Small Business Commissioner, and a new consultation on strengthening the Commissioner's powers.

The government's willingness to strengthen its approach in these areas is a welcome opportunity to help tackle the problems with late payments that callers to Business Debtline are experiencing. We recommend the following measures.

1. Re-launch and strengthen the Prompt Payment Code

The existing voluntary Prompt Payment Code has had some success in improving payment practices, with more than 2,300 businesses signed up and data collected via the Payment Practices Reporting Duty now being used to pro-actively enforce compliance with the Code's requirements. [13]

We welcome the transfer of responsibility for the Code to the Small Business Commissioner, along with the government's intention for reforms to address "weaknesses within the current Code's operation"[14]. This presents an ideal opportunity to re-launch and strengthen the Prompt Payment Code to ensure it is a more effective tool in bringing about the pace of change in payment culture required.

The Prompt Payment Code should be re-launched with a commitment that all signatories will pay small business suppliers within 30 days or less where faster payments/fintech solutions are already in place.

2. Introduce fines for persistent late payers

The government intends to consult on strengthening the Small Business Commissioner's powers including considering "whether sanctions should be imposed by the Commissioner under certain specific circumstances, such as the undertaking of binding payment plans and financial penalties where payment fails to take place"[15]. We support the idea of specific sanctions along these lines.

The introduction of the Payment Practices Reporting Duty, however, is also an opportunity to introduce more wide-ranging powers for the Department of Business, Energy and Industrial Strategy to fine larger companies that are persistent late payers.

The government should introduce fines for large businesses that are persistent late payers, based on the data already being reported to the Department for Business, Energy and Industrial Strategy through the Payment Practices Reporting Duty.

11. For the Money Advice Trust's response to the Call for Evidence see www.moneyadvicetrust.org/researchpolicy

12. Department for Business, Energy and Industrial Strategy, Creating a responsible payment culture: Government response, June 2019

13. Prompt Payment Code Quarterly Update, April 2019

14. Department for Business Energy and Industrial Strategy, Creating a responsible payment culture: Government response, June 2019

15. Ibid.

3. Expand the Small Business Commissioner's remit to cover late payments from other small businesses

As our findings show, late payments can have a domino effect through the supply chain, resulting in frequent occurrences of small businesses being paid late by other small businesses. 44% of Business Debtline callers affected by late payments said they had experienced late payments from other small businesses.

However, as it stands, investigating late payments that occur between small businesses (as opposed to between large businesses and their small business suppliers) lies outside of the Small Business Commissioner's remit.

The government should expand the Small Business Commissioner's remit to include issues involving late payments made to small businesses by other small businesses.

4. Strengthen the use of statutory interest to deter late payments

The Late Payments of Commercial Debts (Interest) Act 1998 and later regulations give suppliers the right to charge 'statutory interest' on late payments by businesses and public sector bodies. Suppliers can charge non-compounding daily interest of 8% plus the Bank of England 'reference rate', as well as a fixed sum of £40, £70 or £100 depending on the size of the debt and reasonable recovery costs. [16]

However, many small businesses are understandably reluctant to claim this statutory interest, for fear of jeopardising business relationships – and others are not aware that this statutory right exists and is available to them. This could be tackled by shifting the onus away from suppliers having to pro-actively claim statutory interest, and towards making the payment of statutory addition the default position.

The government should review how the right to statutory interest on late payment of commercial debts is being exercised, and review options for how this could be strengthened – up to and including requiring the automatic addition of statutory interest on late payments in certain circumstances.

16. Department for Business, Energy and Industrial Strategy, A users guide to the recast Late Payments Directive, October 2014

5. Improve creditor forbearance where late payments are a factor

As late payments are a significant driver of financial difficulty for small business owners, the actions of financial services and other creditors in offering forbearance in these circumstances can be key to determining outcomes. Many creditors already offer significant forbearance, and the government's new Breathing Space scheme – which will now include sole traders with a turnover under the VAT registration threshold [17] – will provide further protections for many small business owners.

There may be further additional forbearance measures, however, that are specific to the problems caused by late payments, which could reduce the impact that late payments can have – such as repayment date flexibility under set criteria.

Creditors should consider how to provide additional forbearance for self-employed people and small businesses affected by late payments. This could include working with the Small Business Commissioner to develop a fair set of criteria for when this could apply, and an appropriate application mechanism.

6. Raise awareness of the support available to small business owners

There is a clear need to raise awareness of the support available to small business owners in financial difficulty, including those affected by late payments. This includes the need to raise awareness of the Small Business Commissioner, and the unique free debt advice service provided by Business Debtline. Action is also needed to address the business management skills gap – and in the late payments context, to improve small business owners' credit management capabilities.

The Money and Pensions Service should play a key role in these efforts, both through its role supporting and co-ordinating a national financial capability strategy, and its commissioning of debt advice alongside the Devolved Administrations in Scotland, Wales and Northern Ireland.

All stakeholders – including government, the Money and Pensions Service, advice agencies, the Small Business Commissioner, creditors, small business groups and business support organisations – should work together to raise awareness of the support and resources available to small businesses, including those in financial difficulty.

17. HM Treasury, Breathing space scheme: Response to policy proposal, June 2019.

Money Advice Trust

The Money Advice Trust is a charity formed in 1991 to help people across the UK tackle their debts and manage their money with confidence.

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www.moneyadvicetrust.org

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