

Credit Management Specialists Graydon UK Demands Late Trade Payments Legislation Rethink

Submitted by: Leapfrogg

Friday, 18 April 2008

Government Urged To Review 1998 Act As Small Firms Suffer

With the Bank of England's Monetary Policy Committee widely anticipated to announce an interest rate cut tomorrow, credit referencing agency (<http://www.graydon.co.uk/UKContent/UKPublicHTMLPages/index.html>) Graydon UK today called upon the Government to do more to support small businesses in protecting their cashflow at a time when the economic stability of the nation is facing increasing pressure.

Martin Williams, Managing Director of Graydon UK, highlighted the additional suffering piled upon small firms by the UK's culture of late payment of trade invoices, which has persisted despite Government legislation introduced in 1998 in the form of the Late Payment of Commercial Debts (Interest) Act.

Martin Williams said: "The 1998 Late Payment of Commercial Debts (Interest) Act simply hasn't worked and whilst the prospect of further interest rate cuts will be warmly welcomed by the UK's small firms, this alone will not cure all the ills of the ongoing credit crunch. Late payment is starving businesses of cash which is rightly theirs and is heightening the risk of them going to the wall in an already incredibly challenging economic operating environment.

Martin Williams is not alone in his call for action, with both the Institute of Credit Management and Forum of Private Business speaking in agreement.

Philip King, Director General of the Institute of Credit Management, said: "Cash keeps businesses in business and without it they will fail. We need to ensure that small businesses in particular are well prepared and supported in what could prove to be significantly challenging times ahead."

Phil McCabe, spokesman for the Forum of Private Business, added "Things are tough enough as it is for small firms without the additional hassle of chasing customers who are exploiting legislative shortcomings as a means of getting away with treating suppliers unfairly.

"Maintaining a healthy cash flow can be the difference between success or failure in the market, and the epidemic of late payment is the scourge of small businesses. The Government must take action now to prevent any further spread of this disease which is undermining the efforts of small firms to contribute to the overall success of the UK's economy."

Research shows that the Act has not been widely applied, in particular by those smaller, more vulnerable companies the law was designed to help. Over 50 per cent of all trade debts remain overdue at any one time, with larger companies often at fault. This figure remains unchanged from a July 1999 report featured in the International Small Business Journal. Recent research by BACS, the payment processing industry body, also estimates the value of outstanding payments owed to small and medium sized enterprises in the UK at a total of £18.6 billion.

Martin Williams adds: "The existing legislation doesn't work because it puts the onus on the supplier

to penalise the tardy customer by imposing statutory interest on overdue debts. This poses two big issues for small firms in the shape of the administration associated with continuing to add interest to overdue bills, and concerns about the impact on business relationships with larger, more powerful clients.

"In the worst scenario, clients may take future business elsewhere. It's a bit like handing a pair of boxing gloves to an eight stone man, and asking him to get in the ring with a heavyweight without a referee. Only one winner will emerge from this kind of bout. Large corporations flex their financial muscle in many ways, and the existing legislation is allowing them to hold on to suppliers' money too easily."

Small business owners and directors are already voicing the belief that the Government must now initiate new regulation to tackle this growing problem via a Department for Business Enterprise and Regulatory Reform (BERR) review. Many firms believe it's time for the BERR to make good its commitment to support business success by taking firm action to alleviate the suffering inflicted amidst the culture of late trade payments.

For the longer term, the small business community is suggesting that new legislation should be introduced to ensure that large companies over an identified sales turnover pay their bills to suppliers as soon as the money is available to do so. The idea is BERR inspectors could then be employed to do spot checks on bought ledger departments within these organisations to see whether there was compliance. A cursory glance at any company's aged creditors would identify a problem. As with tax inspections, if companies are not complying with the law, financial penalties would result.

Martin Williams is unsure about the practicalities of this approach but adds "The existing legislation has bred a dog with no bite. The best solution would be for PLCs and other large companies to introduce a voluntary code of practice to ensure faster payments of trade debts, as they surely understand the importance of a healthy cash flow to businesses of all sizes".

"The type of legislation being proposed by small business could be much more successful in tackling the delayed payment problem from a commercial relationship angle, as suppliers would not be directly involved in taking action against the offenders" Williams adds. "This would mean that individual customer and supplier relationships would not be adversely affected."

-Ends -

For further information contact:

Stephen Finch
Weber Shandwick Financial
Phone: 020 7067 0705
Email: sfinch@webershandwick.com

Graydon UK Limited
Phone: 020 8515 1400
Email: mail@graydon.co.uk

Notes to Editors:

About Graydon UK

Graydon UK is one of the leading database information providers specialising in credit risk management (<http://www.graydon.co.uk/UKContent/UKPublicHTMLPages/RiskMonitoringService.html>). The company helps clients reduce the uncertainty of doing business by providing a complete, differentiated and high-quality package of credit risk management services. Graydon provides access to credit information and reports on companies in more than 130 countries worldwide. The Graydon group is owned by Atradius, Coface and Euler Hermes, three of Europe's leading credit insurance organisation. www.graydon.co.uk