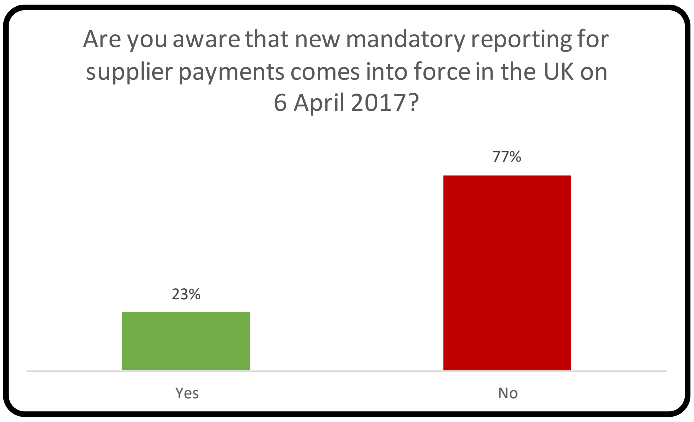
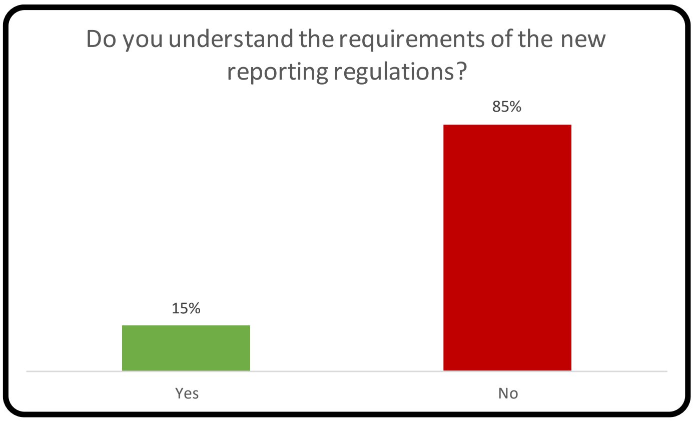
Informita

UK Payables Reporting Requirements **April 2017**

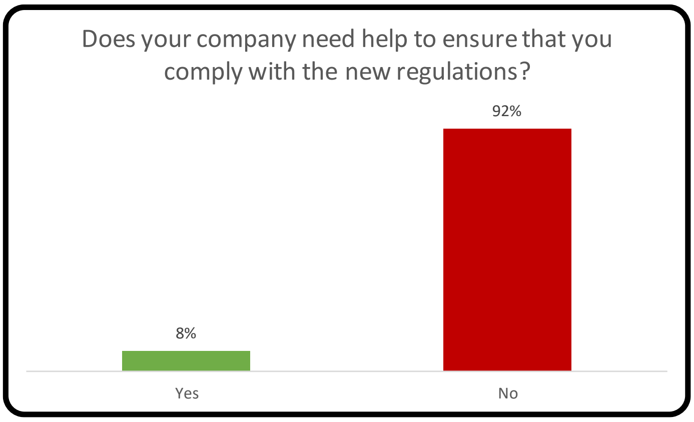
Most do not know about the regulations

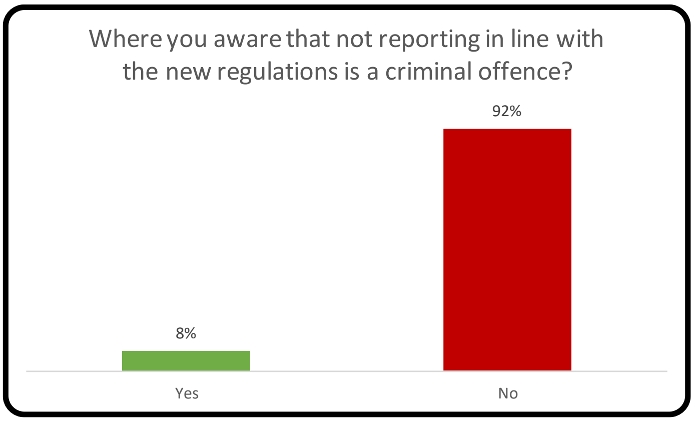
In January the UK government published a paper called "Duty to Report on Payment Practices and Performance". This innocuous sounding title is the product of one of the last Acts passed by the former Coalition government early last year (Small Business Enterprise and Employment Act). At the same time the government strengthened the code of practice called the Prompt Payment Code. The usual process for such new legislation is to go through a 12 week consultation period. While this did happen there was almost no publicity about this consultation and therefore nothing changed as a result. We then conducted a survey in the UK to understand who was aware of the new regulations. Shockingly 77% of responders were not aware of the existence of the regulations at all. Only 15% understood the content of the new regulation. Only 8% were aware that not complying with the new regulations would be a criminal offence. But only 8% thought that they might need help to comply. In our view this is a shocking state of affairs, so we wanted to inform people of the regulations and help them understand how they might comply. As part of that investigation we have found that the new regulations have a number of flaws that could have been resolved as part of the consultation period if anyone had really known a consultation was going on.





We would like to thank all those who took the time to respond to the survey. We promised that £100 in Amazon vouchers would be awarded to one lucky responder. The winner was chosen at random as part of a blind selection process. So many congratulations to David Llewelyn at Homeserve.





The regulations

The Headlines

All companies with an annual turnover of more than £36 million, a balance sheet total of more than £18 million or have more than 250 employees will have to comply with the new regulations. This includes UK subsidiaries of foreign parent companies. The following information will need to be published every six months for all supplier payments under a UK contract, excluding financial services:

- The company's standard payment term and any changes to the standard payment term in the previous six months. If no standard payment term exists then the most prevalent term must be reported
- The maximum payment term agreed with a supplier
- The average time taken to pay supplier invoices
- The proportion of invoices paid beyond agreed terms
- The proportion of invoices paid in 30 days or less, paid between 31 to 60 days and paid beyond 60 days
- The amount of late payment interest owed and paid to suppliers
- The dispute resolution processes must be explained
- It must be disclosed if there is the availability of e-invoicing, supply chain finance or preferred supplier lists
- Whether financial incentives were required to join or remain on supplier lists
- Whether the company is a member of a Payment Code

Prompt Payment Code

The Prompt Payment Code has also been revised. In order to comply with the code in the future the following new rules will apply:

- Pay invoices within a maximum of 60 days, and seek to pay within 30 days as the norm
- Avoid practices that are grossly unfair and adversely affect your suppliers
- Report annually (for small and medium sized companies) on payment performance, on a comply or explain basis, and every six months for large companies in line with the new statutory reporting requirement

The regulations could have been better

Volume not Value

Companies only need to report on the volume of invoices in the various categories and not the value of invoices paid in each category. The payment terms weighted by value is the standard internal payment measurement for those businesses that currently report payment performance internally and would have been a much more meaningful measure.

Invoice Receipt Date

The regulations state that day 1 for calculating due dates "is the day after the date on which the business receives an invoice". Most ERP systems calculate due dates based on the date on the invoice and not the date that the invoice is received. Equally there are often delays in processing invoices once they have been received. One way of getting around this problem is to scan invoices on the day of receipt. But there will still be a programmer required to get that invoice receipt date into your ERP system. Another problem is if the goods or service receipt date does not coincide with the invoice receipt date. This means that the regulations are inconsistent with long held accounting practice on when title transfers from the vendor to the buyer.

Supply Chain Finance

"If the supplier does not receive the full amount or has to bear the cost of any fee for the supply chain finance, then the date on which the payment is made by the qualifying company or qualifying LLP (generally to the finance provider) is the date of payment." This now means that additional information must be sought from the finance provider. Given that the contract for payment is between the finance provider and the supplier and not the qualifying company, there may be cases where the finance provider may not be able to disclose this information since it is subject to confidentiality.

Conclusions

More confused legislation

Late payment is clearly a scourge for many UK businesses. There have been several attempts to legislate the problem away starting back in 1998. None to date have been successful at changing corporate payment behaviours anywhere in the world and the UK has not been any different. Many UK utilities have published their average days of payment for several years and there is no evidence that what they publish is in anyway accurate and certainly has not changed the payment practices of those organisations. The whole theory of name and shame hasn't worked because most corporates feel no shame. Many have become privately owned bureaucracies that keep repeating poor processes over and over again. The other major problem is that many small businesses do not help themselves by invoicing late, presenting incorrect invoices and sending invoices to the wrong place. All the regulation on the planet will not change these facts. So lets congratulate the latest bunch of politicians for creating more work for everyone without solving any problem.

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