

# Association of Accounting Technicians (AAT) response to the Department for Business, Energy & Industrial Strategy (BEIS) “Creating a responsible payment culture” call for evidence

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## 1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to this Call for Evidence published on 4 October 2018.
- 1.2. AAT is a registered charity, based in London, with 140,000 members spread across the world although primarily based here in the UK.
- 1.3. These members include 4,250 licensed accountants who provide tax and accountancy services to over 400,000 British businesses. These businesses are almost exclusively SMEs.
- 1.4. AAT is a signatory to the Prompt Payment Code, employs over 250 staff and paid 89% of its invoices within 30 days in the most recent year to date (97% within 60 days).

## 2. Executive summary

- 2.1. **Repeated attempts at voluntary action in this area have had little positive impact.**  
The Prompt Payment Code should be made compulsory for all companies with more than 250 employees with effect from April 2020.
- 2.2. **As AAT has long argued, maximum payment terms under the Prompt Payment Code should be halved to 30 days instead of the current 60 introduced in 2012.**  
In the 21<sup>st</sup> century, with a range of automated and electronic processes available to companies, there is absolutely no justification for any large company to take longer than 30 days to make a payment.
- 2.3. **There should be significant fines for large companies who fail to pay their suppliers promptly.**  
GDPR style fines should be considered given the effectiveness these have had in ensuring companies take their data protection related duties seriously.
- 2.4. **AAT has spoken to a cross section of the SME community and found widespread support for its three key recommendations.**  
These are to put the Prompt Payment Code on a statutory footing for all companies employing more than 250 workers; to reduce maximum payment terms to 30 days, and to impose substantial fines for non-compliance.
- 2.5. **AAT’s primary reason for responding to this call for evidence is to protect and promote the interests of AAT members.**  
Rather than expressing organisational views of limited relevance, focussing on the impact that developments to the Prompt Payment Code are likely to have on AAT’s members, members clients and employers.

### 3. **AAT response to the call for evidence**

#### **What percentage of payments from businesses and organisations that you supply to are late and what, if any, action do you take when you are paid late?**

- 3.1. AAT members will lose their membership if it is not renewed (and paid for) and with regard to AAT's business customers (training providers) when a payment becomes unacceptably late, which it rarely is, AAT will place a financial stop to prevent them booking assessments or registering new students (effectively removing their credit limit). This certainly has the desired effect, with payment usually being received almost immediately following such action.
- 3.2. AAT recognises that as a registered charity, employing just over 250 employees and therefore falling just outside the SME category, with a relatively captive audience i.e. if students want to study they must pay to do so and if training providers wish to offer our qualifications they must likewise pay to do so in a timely manner, AAT does not perhaps embody the more standard supplier/customer relationship model.
- 3.3. Many companies are unable to simply withdraw their services or threaten to do so, given the financial distress this could cause.
- 3.4. AAT's 4,250 licensed accountants, who operate primarily in the SME sector, do report some problems with late payment. This has often been brought about by their clients not having received timely payments themselves.
- 3.5. A far bigger problem is the experience of many of their 400,000 clients in receiving late payments.

#### **How has the proportion of payments made late changed over the past 3 years?**

- 3.6. The proportion of late payments that AAT has received has remained relatively static over the past three years, but this is not a great surprise given the relatively low starting point and should not be indicative of any wider trends.

#### **Do you research the payment performance of a business before entering in to an agreement with them?**

- 3.7. AAT does run credit checks (Dun and Bradstreet) and looks at the accounts for all prospective training providers before permitting them to offer AAT qualifications. The same process is followed for key suppliers.
- 3.8. Part of the credit check gives a sample of payment history for bigger companies and a rating based on those. For smaller companies this might simply be based on industry trends, making this part of the credit check somewhat subjective.

#### **How often do you experience invoices that are never paid?**

- 3.9. Again, this is fortunately a very rare occurrence for AAT and only happens where a company goes into liquidation or if an international training provider ends its engagement with AAT. These debts are very difficult, often impossible, to recover and AAT would likely employ the services of a debt collector in these instances.
- 3.10. AAT recognises that this is not the case for many businesses, especially SMEs. Anecdotal feedback from AAT's licensed accountants suggests a reasonable number of their SME client base undertake work for which they are never paid.
- 3.11. Furthermore, the Association of Independent Professionals and the Self-Employed (IPSE) recently confirmed that 43% of the self-employed (many of whom may be operating on a limited company basis) have never been paid for work that they have undertaken and invoiced for. This further demonstrates a very clear need for very different payment practices.

**On average, what is the typical payment term offered by businesses you supply to and how have the length of these terms changed over the past 3 years?**

- 3.12. Typically, 30 days although recruitment agencies used by AAT are typically 0-7 days and IT suppliers 7-14 days.
- 3.13. Whilst typical payment terms vary across sectors, there can be little denying that responsible businesses have shorter payment terms. For example, following the criticism UK supermarkets received, particularly in the aftermath of the Tesco accounting scandal, all major supermarkets have reduced their payment terms for SMEs, with Aldi, Morrisons, Tesco and Asda reducing their terms to 14 days and Waitrose leading the industry with terms now reduced to just 7 days. This demonstrates that significant change can be achieved where large companies feel compelled to do so.
- 3.14. Simply requiring companies to report what their payment terms are, is insufficient to deliver change.
- 3.15. Our free to all SME resource web site [www.informi.co.uk](http://www.informi.co.uk) recently undertook a survey on this issue to better understand what payment terms SMEs are working on themselves. 15% sought payment within 7 days, 21% within 7-14 days and 36% within 30 days. Just 5% worked on the basis of 60 days or more.

**Do you feel able to negotiate and/or challenge payment terms?**

- 3.16. AAT does feel able to do so. As a larger organisation it is easier to be able to challenge payment terms.
- 3.17. When presented with various options the opportunity to challenge exists but when presented with a single client or two as many SMEs often are, inevitably that opportunity rapidly diminishes, and terms are often reluctantly accepted.

**On average what is the typical payment term you offer your suppliers?**

- 3.18. 30 days is offered as a standard to all AAT suppliers although AAT endeavours to make payments earlier wherever possible.

**What do you think are the reasons for long payment terms?**

- 3.19. Long payment terms may be partly historical and where this is the case, education and best practice can help address the issue. However, this is only likely to be the case in a minority of cases.
- 3.20. Government does not help by unintentionally promoting the acceptability of long payment terms. For example, in the foreword to this call for evidence, the small business minister is quoted as saying, "*payment terms beyond 60 days are unacceptable*". This implied that anything up to 60 days is acceptable when it clearly should not be.
- 3.21. AAT has long argued that payment terms beyond 30 days are unacceptable. The fact Government has confirmed it will pay 90% of SME invoices within 5 days is an implied acceptance that 60 days is very, very far from acceptable.
- 3.22. According to BEIS data for the period from 27 October 2017 to the end of August 2018, more than half (53%) of large firms pay their suppliers within 30 days<sup>1</sup>. If most firms can do this, there is no reason why all firms cannot do so.
- 3.23. However, 33% of invoices are still being paid between 30 and 60 days and a further 10% are paid more than 60 days after the invoice was received,<sup>2</sup> demonstrating an obvious need for action.

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<sup>1</sup> BEIS, Check Payment Practices:  
<https://check-payment-practices.service.gov.uk/export>

<sup>2</sup> BEIS, Check Payment Practices:  
<https://check-payment-practices.service.gov.uk/export>

- 3.24. Amongst some organisations, there is undoubtedly an intentional use of late payments as a form of financing and/or to assist with cash flow. This approach completely ignores the needs of suppliers and further reinforces the unequal bargaining situation between large organisations and their often much smaller suppliers. Furthermore, such an approach fails to consider the knock-on effect of suppliers then having to pay their own suppliers late and all the associated problems this may cause. This exacerbates the late payments problem in the British economy and puts further companies at risk of collapse or at the very least making scaling-up much more challenging.

#### **How have long payment periods affected you?**

- 3.25. They have not affected AAT significantly, but they do impact upon AAT members and to a greater degree, their clients. AAT's primary reason for responding to this call for evidence is to protect and promote our members interests rather than to express organisational views of limited relevance.
- 3.26. FSB statistics in this area are well known and quoted in the call for evidence. It is also worth noting that R3, the Association of Business Recovery professionals, suggest that almost a quarter (23%) of all insolvencies are caused by late payments.

#### **Do you use technology to manage the payment process? How has it helped?**

- 3.27. All authorisations to make payment, whether purchase orders, invoices, payment run sign off etc. are undertaken via online systems to allow for a comprehensive audit trail.
- 3.28. Regarding collections, AAT recently introduced a third-party solution that has greatly assisted with credit control. AAT emails all invoices to its customers through this third-party solution, affording the opportunity to check if a customer has received the email, viewed the relevant document and downloaded the document. This ensures that any failed deliveries can be actioned, establish if the invoice has been received and if it has been stored.

#### **Do you think that newly introduced measures, namely the Small Business Commissioner and payment practices reporting, will affect the culture of payment practices?**

- 3.29. It would be unfair to suggest these changes will make no difference, but it is reasonable to suggest that the difference they will make is very limited.
- 3.30. The Small Business Commissioner was supposed to be based on the Australian model i.e. a Commissioner with teeth to impose fines but has instead been introduced with very limited powers and the SME community appears to have little confidence in his ability to make a positive difference.<sup>3</sup>
- 3.31. Payment practice reporting provides useful data for policy makers but has no discernible value in terms of changing behaviour. It is also worth noting that whilst there is a legal obligation to report the data, there is no legal action if that data provides great cause for concern i.e. theoretically if only 1% of all invoices are paid within agreed terms (irrespective of length) then no action whatsoever will be taken against that company. This point was far from uniquely demonstrated by Grainer & Worrall Engineering who paid suppliers within agreed payment terms in just 4% of cases for the six months from June to December 2017.
- 3.32. There is also considerable evidence to suggest that naming and shaming is not effective e.g. in relation to high executive pay, tax avoidance, employers who fail to pay employer tribunal compensation claims and increasingly in relation to National Minimum Wage enforcement.
- 3.33. AAT suggests that the constant stream of failed tweaks, voluntarism and reliance on employers to do the right thing out of little more than a sense of morality be ended and that Government legislate to solve the problem once and for all i.e. to make the Prompt Payment Code (PPC) obligatory for large companies, for payment terms to be halved to a maximum of 30 days and for a clear, simple financial penalty regime for non-compliance to be introduced and enforced by the Small Business Commissioner.

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<sup>3</sup> SMEs don't trust Small Business Commissioner, 18 March 2018  
<https://smallbusiness.co.uk/trust-small-business-commissioner-2543260/>

### **How could these be enhanced to further promote a best practice payment culture?**

3.34. As stated at 3.33 above, further enhancements and constant meddling in this area are unlikely to produce the desired outcome. Instead Government should accept that almost a decade of encouragement has made only a limited difference to late payments and that the time for meaningful legislative action is now upon us.

### **Do you think that the legal definition of when a payment term is considered to be 'grossly unfair' to the supplier is clear?**

3.35. Rather than a complicated three-pronged definition subject to legal interpretation, it would be far simpler if Government simply legislated for a specific number of days i.e. 30 days and that anything above this be considered "grossly unfair".

3.36. Indeed, by following the AAT suggestion of legislating, with enforcement by the Small Business Commissioner, much of the existing legislation in this area would no longer be necessary.

### **Are additional measures needed to give confidence in the Prompt Payment Code as a statement of good practice?**

3.37. AAT is proud to be a signatory to the PPC and believes it not only sets a good example to AAT's customers but to AAT members and staff.

3.38. However, the effectiveness of the code is currently undermined by the fact it is being signed by two types of organisations 1) those who already took this issue seriously and were unlikely to have had any issues with payment practices in the first place and 2) those who believe that because it is voluntary and there is no penalty for non-compliance. It can be signed but does not have to be taken seriously e.g. Carillion, GSK etc.

3.39. If Government is serious about improving UK payment practices, then the code must be put on a statutory footing for all companies employing more than 250 employees.

3.40. The code should also be updated to require all payments to be made within 30 days rather than the current 60 days with a subsidiary commitment to "*work towards paying within 30 days.*"

3.41. Finally, a simple financial penalty regime must be introduced to ensure large companies take the issue seriously. There can be little doubt that one of the driving forces behind the successful implementation of GDPR this year was the substantial fines being threatened for non-compliance. It is time Government recognised that whilst some companies will always do what's right and some will change their behaviour due to encouragement and examples of best practice, there are many that will only act when there is a tangible threat to their bottom line.

### **Are there any steps that could be taken to encourage more businesses to identify breaches of the Prompt Payment Code by signatories?**

3.42. This question presupposes that the PPC will continue in its current format. AAT strongly suggests that it does not (3.29). If the PPC became a legal requirement then any breaches would be brought to the attention of the Small Business Commissioner who would then be able to impose a fine where certain criteria were met i.e. the breach was not an isolated incident, was not due to a clearly identifiable administrative fault by either party etc.

### **Should the Prompt Payment Code be moved to the responsibility of the Small Business Commissioner?**

3.43. This would make sense if doing so was accompanied by an increase in the Small Business Commissioner's powers to act. Otherwise it merely shifts the problem from one entity to another. Should the PPC be placed on a statutory footing, with the payment term being halved from 60 to 30 days, then there is a very strong argument for moving responsibility to an enhanced Commissioner who would have responsibility for enforcement and imposing fines.

**What role could business representatives and sector bodies take in fostering a responsible payment culture? How could they use existing late payment measures, namely the Small Business Commissioner, payment practices reporting requirement and Prompt Payment Code?**

- 3.44. There is a role for the likes of the CBI to do more in this area. Promoting best practice and highlighting that companies should not be taking more than 30 days to pay their suppliers would be a helpful start.
- 3.45. This is something that AAT has undertaken in the past, highlighting to its 140,000 members that AAT is not simply a signatory to the PPC but that they should consider signing up themselves and setting out the reasons why. Likewise, AAT will shortly be alerting members to the existence of the Small Business Commissioner and is likely to subsequently continue to do so.
- 3.46. The role of such bodies is to communicate the merits of such action and to raise awareness.
- 3.47. AAT notes the implied suggestion that such bodies also be responsible for enforcement but does not believe it is the role of professional bodies to undertake enforcement. Instead, this should be a role for the Small Business Commissioner.

**What is your experience of measures to improve payment practices in other countries?**

- 3.48. AAT has very limited experience of payment practices in other countries.

**What measures may be effective in addressing lengthy payment terms?**

- 3.49. To reiterate, AAT makes three key suggestions for reform that should be introduced as soon as is practicable.
- the terms of the PPC should be halved from companies having a maximum of 60 days to pay their suppliers to 30 days
  - the Code must be made compulsory for all companies employing more than 250 employees
  - large late paying companies must face the prospect of substantial fines, imposed by the Small Business Commissioner.
- 3.50. AAT put these suggestions to a diverse range of SMEs and received unanimous support. For example:
- 3.51. Kate Bell of [Zip Us In](#), a micro-business based in Salisbury said;  
*“As a start-up company, late payment caused me several difficulties but even now, as a firmly established and successful company, late payment can have a big impact on me and my company. AAT’s recommendations to halve maximum payment terms from 60 to 30 days and to require all companies with 250+ employees to sign the Prompt Payment Code are definitely steps in the right direction but enforcement is also key. Imposing obligations is great if companies meet these obligations but there needs to be strong enforcement action against those that don’t – an initial warning followed by a fine for non-compliance would seem like a sensible option.”*
- 3.52. Leanne McConnell of [Virtually Perfect](#), Eastbourne, said;  
*“My business partner and I have sometimes had difficulties getting money owed which probably wouldn’t have happened if there was a legal requirement to pay within 30 days and the realistic threat of a meaningful fine if it wasn’t paid. That’s why I support the AAT recommendations for change and really hope the Government is listening.”*
- 3.53. Caroline Danks of [Caroline Danks Fundraising](#), based in Cornwall said;  
*“I strongly agree with AAT, there is absolutely no justification for payment terms of 60 days or longer. Given payment can be made almost instantaneously, five working days seems like a reasonable maximum and that’s why Government departments have recently committed to paying their suppliers within this timeframe. That said, I do recognise that some larger companies may also have cash flow issues and that taking a bit longer may be necessary. Recognising this, it seems more than reasonable to suggest an absolute maximum of 30 days but certainly nothing more. My own payment terms are 14 days and although most suppliers pay on time we do have late payments from time-to-time which can be a real headache as its my only income.”*

**Do you think the measures recently announced to improve board level responsibility will have an impact? Does more need to be done to ensure that payment behaviour is considered at board level?**

3.54. These changes are very unlikely to have a negative impact but similarly they are unlikely to make much of a positive difference either. As stated above at 3.33, further enhancements and constant meddling in this area – like the changes to board level responsibility - are unlikely to produce the desired outcome. Instead Government should accept that almost a decade of encouragement has made only a limited difference to late payments and that the time for legislative action is now here.

**What are the main barriers in using technology to enhance the payments process? What could be done to encourage greater take up by SMEs?**

3.55. Cost is often put forward as a reason for failing to adopt technology, but a more likely barrier is a lack of awareness of the available options.

3.56. AAT's 4,250 licensed members have proved particularly adept at encouraging many of their 400,000+ clients to take up accounting packages from the likes of QuickBooks, Sage and Xero. These packages automatically manage invoicing both in relation to issuance but just as importantly being able to establish when an invoice has been opened and paid as well as sending automatic reminders when it has not been.

3.57. AAT recognises that not all SMEs have an accountant and that is why it established [www.informi.co.uk](http://www.informi.co.uk), a free, independent SME resource which includes free information and advice on a wide range of SME issues, not just finance, ranging from marketing and management to sales and administration.

3.58. Informi also includes a comprehensive section on payment terms and information about utilising online accounting packages to create and issue invoices, usually with a facility that generates automatic email reminders for overdue payments.

3.59. Informi received almost 30,000 unique visitors last month which not only demonstrates the success of the site but a large appetite for such information from a very large SME audience.

**Are you aware of the finance options available to help manage long payment periods?**

3.60. Yes, but such options should not have to be utilised, Instead, meaningful reform would ensure no SME had to wait more than 30 days for payments and therefore such options, often costly, would be unnecessary.

**Have you faced any barriers to accessing appropriate finance?**

3.61. Although AAT has not faced any problems, some of our members clients do which is why we alert our members to a range of options. It is also why we include relevant information on [www.informi.co.uk](http://www.informi.co.uk) as detailed above.

**Have long payment periods impacted your investment plans for growth? If so, how?**

3.62. Again, although AAT has not faced any problems, some of our members have and many of their clients have had their growth plans impacted due to a lack of available funds for investment. If SMEs are not receiving the money they are owed it is not difficult to understand why this impacts upon investment plans.

3.63. Late payment creates many problems, from the trivial to the ultimate destruction of an otherwise healthy business. The impact on growth, productivity and financial success should also not be underestimated.



#### 4. About AAT

- 4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and over 90,000 student and affiliate members worldwide. Of the full and fellow members, there are more than 4,250 licensed accountants who provide accountancy and taxation services to over 400,000 British businesses.
- 4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

#### 5. Further information

If you have any queries, require any further information or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy:

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