# Late Payments Are Forcing Businesses to Make Tough Decisions

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Latest research from Bacs Payment Schemes Limited (Bacs) reveals that more than three quarters (76 per cent) of UK businesses are being forced to wait at least a month beyond their agreed contract terms before getting paid.

The knock-on effect of this is that business owners have to make tough decisions in order to make it through the month. Some 20 per cent of directors, in companies that experience late payments, say they have taken a cut in salary in order to keep cash inside their businesses.

Over a quarter (26 per cent) are having to use their overdrafts to make ends meet and one in ten are experiencing one or more of the following challenges every month: difficulties in paying staff on time, factoring invoices and difficulties paying regular bills. Some 23 per cent claim the late payment situation is forcing them to pay their own suppliers late.

Phil Orford, chief executive of The Forum of Private Business, said:

"Late payment remains a key issue for many of our members. These latest findings from Bacs also suggest it continues to seriously affect a small business's ability to fund business growth.

"Being paid late or having to deal with longer payment times can severely hamper any business, large or small. Alarmingly, this culture of late payment has a ripple effect down the whole supply chain with many small firms admitting to paying their suppliers late due to business liquidity issues created by outstanding payments."

The Bacs research shows that although the overall late payment burden shouldered by UK companies has fallen, the percentage of companies affected by late payments is virtually unchanged.

The Bacs figures reveal that SMEs (companies employing fewer than 250 people) are owed £32.4 billion – down from £39.4 billion in January 2014. Corporates (companies employing 250 or more people) on the other hand are owed around £9.1 billion, up from £6.7 billion in January 2014. In total the amount owed in late payments stands at £41.5 billion, down from £46.1 billion in January 2014.

While the overall figure has fallen, the data shows that 59 per cent of companies surveyed are impacted negatively by late payments. This is in line with January 2014 findings which showed the figure standing at 60 per cent.

These difficulties are made worse by the revelation that SMEs are facing additional costs of around £677.00 a month which are directly attributable to late payments – this equates to around £8.2 billion a year. Of this, some 63 per cent is associated with administration time spent chasing late payments, or around £5.2 billion annually.

The average late payment burden shouldered by SMEs now stands at £31,901. This puts many SMEs perilously close to bankruptcy with £50,000 being the maximum that SMEs in the survey say they could bear before going to the wall. More worryingly, 25 per cent of SMEs state that £20,000 or less is enough to jeopardise their business prospects.

Larger companies with 250 or more employees are faring little better. The Bacs research shows that the number of corporates affected by late payments has remained static (80 per cent) since the last survey in January 2014.

While almost 40 per cent of businesses are aware of government measures to help companies minimise their exposure to late payments, 72 per cent were unconvinced that these measures would speed up payments to them. And some 59 per cent claimed to be unaware of these measures.

Mike Hutchinson from Bacs, said: "The ongoing issue of late payments means that businesses across the UK are facing some tough choices about how to use the cash available to them. They are concentrating on keeping their own businesses afloat rather than paying suppliers, and so the vicious circle continues.

"Taking advantage of automated payments like Direct Debit can go a long way towards helping companies keep control of their monthly cash flow and help them manage their outgoings more efficiently."

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**About Bacs:**

Bacs has been maintaining the integrity of payment related services since 1968, with responsibility for the schemes behind the clearing and settlement of UK automated payment methods, Direct Debit and Bacs Direct Credit. More than 100 billion transactions have been debited or credited to British bank accounts via Bacs since its inception; in 2014, 5.8 billion UK payments were made this way; a new record was also set in November 2014, with 98.6 million transactions processed in a single day, as well as the value of transactions processed reaching £52.3 billion, another new record, in April 2014.

The company, owned by 16 of the leading banks and building societies in the UK, Europe and the US, is a not-for-profit entity and has maintained carbon neutral status since 2012.

For further information please visit www.bacs.co.uk

**More about Direct Debit:**

A Direct Debit is an instruction from a customer to their bank or building society authorising an organisation to collect varying amounts from their account, normally for regular payments for everything from household bills to charitable donations. Eight out of 10 British adults have at least one Direct Debit commitment, with 71 per cent of household bills paid this way; 68 per cent of people in GB prefer to pay most bills by Direct Debit, and the number of people who feel positively towards Direct Debit reached 85 per cent in 2014. More than 3.6 billion Direct Debits were processed in 2014, and Direct Debit payments are protected by the Direct Debit Guarantee, a money back consumer safeguard.

For more information about Direct Debit, visit www.directdebit.co.uk

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