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Prompt Payment Code

3.15 pm

Stephen Metcalfe (South Basildon and East Thurrock) (Con): I beg to move,

That this House has considered the matter of stimulating growth through better use of the Prompt Payment Code.

Thank you, Mr Deputy Speaker, for allowing me to open this debate. I also thank the Backbench Business Committee for seeing the importance of the issue and allowing us to put our concerns on the record. Let me express my gratitude to my hon. Friend the Member for South Northamptonshire (Andrea Leadsom) and the hon. Member for Oldham East and Saddleworth (Debbie Abrahams) for their support in the debate, as well as to the Federation of Small Businesses, the British Chambers of Commerce and the Forum of Private Business for their assistance in preparing for the debate. I also express my gratitude to the many others who wanted an input but did not want to put their name to the motion for fear that there might be prejudice as regards future business.

Let me digress briefly. Had I not been fortunate enough to obtain the debate, I would have been in Basildon, so I want to pass on my unreserved apologies to Councillor Mo Larkin, mayor of Basildon, who is this afternoon receiving a British Empire medal from the Duke of Gloucester for her good works in the community, and to the Royal Anglian Regiment, who today marched through the town as part of their homecoming celebrations. I am sure that the whole House will join me in paying tribute to them and all other serving personnel who take such great personal risks so that we can enjoy freedoms at home.

Today, I want to draw the House's attention to the issue of late payments in the public sector and the associated supply chain. It is a problem crippling small and medium-sized enterprises up and down the country and its implications for our economy should not be underestimated. Last year, the amount of money owed to SMEs beyond agreed payment terms reached an all-time high of £33.6 billion. It does not

look like it is getting any smaller, either. Only today, I received an e-mail from Bacs informing me that that figure has gone up by £2 billion in the last six months.

Some 94% of businesses surveyed by the British Chamber of Commerce have experienced late payment, with 34% stating that they had been paid late by a public sector body. A similar survey conducted by the Federation of Small Businesses found that 70% of businesses believe late payment to be on the increase and a third admitted paying their suppliers late because their clients had withheld payments. The statistics show that late payment is on the up and a recently conducted survey showed that between 2009 and 2011 late payment increased across the board in the public and private sector. Late payment by local authorities went up by 8% to 33%. In schools and universities, there was an increase of 9% to 31%. Similarly, Government agencies and quangos saw a 9% rise from 2009 to 39%. The statistics speak for themselves.

Some say that the main problem lies with big business, not Government. Although big businesses are undoubtedly the worst offenders, the Government clearly have a role as a lead buyer of goods and services. The culture of

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late payment seems to have become an accepted norm and it has done so at the expense of our small and medium-sized enterprises.

Fiona Bruce (Congleton) (Con): As someone who has run a small business for 25 years, I commend my hon. Friend for initiating the debate. With regard to public sector contracts, does he agree that one of the problems is that small businesses are so glad if they obtain a contract with the public sector that what I might call the balance of power is so weighted against them that they dare not insist on any payment terms at all and will accept whatever they are given? Is it not a matter of honour that the public sector should lead the way and pay promptly?

Stephen Metcalfe: I could not agree more. Even when there are agreed terms between a supplier and a contractor, those can be changed at the drop of a hat. Businesses are afraid of causing too much trouble because they want to see that repeat business coming back time and again, so we must do something about that. There is an ethical element to it, as well as a business element. The statistics show that. They are shocking and the problem is worsening.

This should be a wake-up call for us all, the Government included, not because the Government are not playing their part, but because we must not forget that behind every statistic and every number are people—people struggling to make ends meet, people desperately trying to keep their businesses afloat, and people losing their livelihoods. I know that this Government want to help people such as Matthew, who is a member of the Federation of Small Businesses. He is finance director for a small company that builds specialist equipment for public works. He entered into a contract with an agreed 60-days term, he invested a large sum of money to prepare for the work, and two days into the contract he received a letter stating that those terms had been changed to 100 days and that he had no right of appeal. As a result, he had to lay off three of his workers, he had to dip in and extend his overdraft, and he is currently owed £200,000.

This case study is not an isolated example. It powerfully demonstrates the devastating impact that late payments can have on small and medium-sized enterprises. Late payment costs business dearly and is an unmoving barrier to growth. Indeed, aside from access to finance, and/or the collapse of its market, late payment and non-payment of invoices is likely to have the biggest impact on a business's viability and ability to grow. As the numbers show, the problem is not simply going to disappear. It requires concerted action, which must be led by the Government.

Let me be clear. I am not suggesting that we need new legislation. I am sure we all agree that we have enough rules and regulations, some better than others. Rather, as the title of the debate suggests, I am advocating better use and more effective implementation of the prompt payment code as a means of both

assisting our SMEs and stimulating growth in our country. The prompt payment code is about encouraging and promoting best practice between organisations and their suppliers. Any organisation can sign up to the code, and those that do so undertake to pay suppliers on time within the

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terms agreed at the outset of the contract, give clear guidance to suppliers on payment procedures and, to encourage good practice, request that lead suppliers promote the adoption of the code throughout the supply chain.

The principles of the prompt payment code should be applauded. My concern is that its implementation and application are often found wanting. The evidence tells us that it is not enough to encourage a culture of prompt payment. The uptake of the code among large organisations is poor and contractors further down the supply chain are under no obligation to pass on the favourable terms that they receive. In a world in which cash flow is king, it is not sufficient merely to encourage best practice. We need a system in which the reality matches the rhetoric.

The current arrangements also make whistleblowing extremely difficult for small and medium-sized enterprises, particularly in small or narrow supply chains. The mystery shopper arrangement, whereby businesses can report incidents of late payment, is not appropriate for those in particularly narrow chains. If there are only three businesses in a supply chain, it becomes all too easy for the main contractor to identify the whistleblower. The risk of losing business as a result is one that many SMEs cannot afford to take. Many members of the Federation of Small Businesses have attested to that.

Even when SMEs do confront contractors, the result is not always positive, as my hon. Friend the Member for Congleton (Fiona Bruce) pointed out. I was shocked to read about another FSB member who challenged a business that paid him 58 days late, which resulted in him incurring £3,500 in bank charges. He was told by the company that basically he should be grateful for the work. I think that we all agree that that is unacceptable.

I am not suggesting that the PCC is redundant. Indeed, central Government have demonstrated that, when adhered to, it can be very effective at the first-tier level. Having made a staunch commitment to the principle of the PCC, central Government now make between 98% and 99% of all payments to primary contractors on time. But we must not stop there. Promptly paying top-tier contractors is all well and good, but if they are not obliged to pass on those terms to suppliers, and those suppliers are not obliged to pass them on to their suppliers, the benefit of prompt payment can be entirely lost. We need a system in which the favourable terms offered by Whitehall cascade right down the supply chain to the smaller SMEs or individual contractors. We must facilitate the creation of a system that drills all the way down to the bottom of the supply chain.

Unfortunately, late payment is not confined to public sector contractors; the problem also arises in the plethora of public sector organisations outside Westminster. The House might be surprised to learn that not all local authorities and public bodies are signed up to the prompt payment code. Countless examples of late payment, or even non-payment, have been identified in the public sector, and I am sorry to say that the NHS is a particularly bad example. Since 2009, the incidence of late payment in the NHS has increased by at least 8%. I am sure we all agree that that is completely unacceptable.

Mrs Eleanor Laing (Epping Forest) (Con): I congratulate my hon. Friend on bringing the debate before the House; it will be very popular with small businesses in

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my constituency, which he knows extremely well. Does he agree that, although it is sometimes difficult to put pressure on commercial organisations to adhere to the prompt payment code, it is absolutely

unacceptable for any organisation in receipt of taxpayers' money, either in the first instance or further down the supply chain, not to adhere to it? The Government already have the power to take action, not by statute or new rules and regulations, but through their buying power as a commercial organisation, and they should do so now.

Stephen Metcalfe: I could not agree more. One of the key things we can do, at virtually no cost to the Government, is ensure that all public sector bodies in receipt of public funds sign up to the code.

Late payments are stifling the ambitions of small and medium-sized companies. Those companies are increasingly becoming embroiled in a vicious cycle of late payment. They are paid late, then they pay their suppliers late, and they in turn pay their suppliers late. Billions of pounds are being withheld from our economy by some of the organisations that have the deepest pockets, as has been mentioned. Why are they withholding payments? I do not know. Whatever the reason—malice, poor practice or inefficiency—it must change.

Anne Marie Morris (Newton Abbot) (Con): I am sure that my hon. Friend is aware that the Late Payment of Commercial Debts (Interest) Act 1998 provides for statutory interest on unpaid invoices and an administration charge. That could be used against larger companies that do not pay their debts. If it became more public that there was not only outstanding debt, but an additional sum, particularly if it was noted in the auditor's report, that would give shareholders power to disavow those companies that are not playing properly and fairly.

Stephen Metcalfe: My hon. Friend is entirely right. The danger always is that because small and medium-sized businesses, which rely on these large organisations for their very lifeblood, do not want to end up in discussions about charging them interest and administration fees, they bite their lip and put up with it. That is why it falls to us and to the Government to make sure that such bodies in receipt of public funds pass the money on through their obligations, not through the businesses that are affected by trying to threaten them with interest or administration charges.

Oliver Colvile (Plymouth, Sutton and Devonport) (Con): It is important that I declare an interest in that I am not only a member of the FSB but have shareholdings in a business that I set up before I came here; people can read about that in the Register of Members' Financial Interests. There are two key issues: first, companies can set up special vehicles that make sure that they will not be affected by such provisions; and secondly, people sometimes get scared about losing the contract and the money in the first place.

Stephen Metcalfe: Absolutely; that is key. Small businesses are often fragile at best. They live hand to mouth. They do not, in the main, have huge cash reserves. They rely on the payments that are coming in to be able to pay their staff, pay their suppliers, and pay their bills. They are not big businesses' banks, but that is how they are being used at the moment. The money is kept in the coffers of larger organisations, and that stifles the growth of the small end of our economy.

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Mr Robin Walker (Worcester) (Con): Given the disproportionate impact of small businesses on employment and on giving people a chance to work, does my hon. Friend agree that it is vital that we free up that cash to flow through to the small businesses that can create many more jobs in all our constituencies?

Stephen Metcalfe: Of course. Small businesses are the lifeblood of this country. One of my favourite statistics is that if every small business employed one extra person, we would have an employment surplus of about 1.5 million people. We need to encourage these businesses and help them to grow, especially where there is a problem accessing reasonable-cost finance, whether that be through overdraft or loan. This money is rightfully theirs, and it could flow back to them to stimulate growth.

We must tackle this problem, and, as I said, we do not need new legislation in order to do so; indeed, it would probably hinder the process. Through better use and implementation of the prompt payment code, we can help to stimulate growth and end the tyranny of late payment. I would like to make some suggestions to the Minister. They come out of discussions with the FSB and other organisations. First, it is imperative that all public sector organisations in receipt of public funds sign up to the prompt payment code. Secondly, there should be a named person within the Department for Business, Innovation and Skills who is responsible and accountable for late payment in the supply chain of all public sector contracts, and their name should be published in all public contracts.

Thirdly, all private sector companies used by the public sector should, without exception, sign up to the prompt payment code, if not in its entirety, then at least when engaged in public sector works. This should form part of all contracts and become accepted practice, and it should be part of any pre-qualification questionnaire. There should be a commitment that any favourable terms received would be passed down the supply chain, and all tender documents must contain a commitment to pay on the same terms throughout the supply chain.

Fourthly, in addition to the above, every public sector primary contractor must have a contract reporting officer enabling small businesses further down the supply chain to report any instance of late payment with a degree of anonymity. The officer must ensure that Government payment terms are adhered to, right down to the end of the supply chain.

Finally, as my hon. Friend the Member for Newton Abbot (Anne Marie Morris) suggested, adherence to the code must be demonstrated through reporting. All companies used by the public sector and all public sector organisations should be required to publish their payment performance, and this should be monitored periodically by their auditing body.

I believe that these proposals are both risk free and relatively cost free for the Government. In this fragile, post-recession period, they are vital if we are serious about stimulating growth. The SMEs at the bottom of the supply chain and, indeed, some of the larger businesses near the top are being strangled by late payment in public sector contracts. Addressing that issue would unleash a wave of opportunity and support SMEs that are flagging under the burden of late payment.

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Henry Smith (Crawley) (Con): I am very pleased to say that one of my local authorities, West Sussex county council, introduced a prompt payment code voluntarily some years ago. It realised that supporting local small enterprises in particular is good for the local economy, which, of course, benefits through business rates.

Stephen Metcalfe: My hon. Friend is entirely right. My concern is based on my experiences. One of my councils, Thurrock, has a 97% target to pay within agreed terms but, unfortunately, a recent cabinet report demonstrated that only four out of five invoices are being paid on time. It assures me that things are getting better, but that demonstrates the challenge. It is great to have a target, but we have to make sure that it happens, because it is the companies' money—it belongs to them. If we want them to thrive in our local communities and the supply chain, we have to play our part and release the billions of pounds that are locked up back into the economy.

Anne Marie Morris: My hon. Friend's suggestions are welcome and well received, but may I trouble him to consider some additional help with regard to situations involving private sector companies only? Much of what he is talking about involves relationships with public sector bodies, which makes life easier.

If my hon. Friend agrees, as he has suggested, that reporting is a way forward, does he also agree that, on the requirements for audited accounts, the payment arrangement and any outstanding debt should be published not in the board's report, but in the auditor's report, which would carry an awful lot more weight?

Stephen Metcalfe: That is an excellent suggestion and one that should certainly be explored. I am sure that we are all conscious of burdening business with yet more regulation but, because of the impact that late payment has on SMEs, that would be well worth exploring.

Toby Perkins (Chesterfield) (Lab): I congratulate the hon. Gentleman on securing this debate. He has made a number of sensible points, but it is interesting that his focus seems to be on contracts involving public money, as though people have a responsibility to pay on time only if public money is involved somewhere along the chain. The FSB has identified that 77% of businesses say that the private sector is the main problem, so does he agree that his suggestions for reporting should apply right across business, not just if there is public money involved?

Stephen Metcalfe: I entirely agree—the hon. Gentleman makes a very good point. I am focusing on the public sector because we have most control over it. I did say earlier that the private sector is the worst offender and that we need to address that as well. Following this debate, I hope we will come up with some suggestions in that regard.

I want to focus my final remarks on the public sector. As I have said, the Government have set the tone and provided a model of best practice, but we cannot stop there. This is not just a commercial problem, but an ethical problem. We have to remember that much of the money that is outstanding to our small and medium-sized enterprises is our money. It is collected from us as

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taxpayers and it is spent on our behalf, so it is only right to expect any organisation to pass on that money as quickly as possible.

I believe that my proposals are entirely necessary and that they would go some way to addressing the problem. I hope that suggestions will be made this afternoon on how we might address other parts of the problem and I look forward to hearing the ideas and experiences of other hon. Members. At the end of the debate, I hope that the Minister will be able to give us some positive news and say that he will pass on some of our suggestions to the Chancellor in advance of his autumn statement. Ultimately, there are billions of pounds locked up in our economy that are owed and could be paid across to stimulate some real growth.

Several hon. Members*rose*—

Mr Deputy Speaker (Mr Nigel Evans): Order. I would like to give Members some guidance on how the debate will be conducted. I am looking to call the Front Benchers no later than 4.30 pm, and I know that the Minister will be keen to give Mr Metcalfe a couple of minutes at the end to wind up. I will try to do that without imposing any time limits, but I ask Members please to show some time restraint, because there are a few who wish to contribute to this debate.

3.40 pm

Debbie Abrahams (Oldham East and Saddleworth) (Lab): I reiterate my thanks and congratulations to the hon. Member for South Basildon and East Thurrock (Stephen Metcalfe) and his colleagues on securing this debate. I also congratulate his constituent on receiving the British Empire medal, which is fantastic.

I am pleased to speak in this debate and to raise the important issue of late payments to small and medium-sized enterprises, and the role that the prompt payment code has in addressing that. The impact of late payments on the cash flow of SMEs and their ability to survive in this difficult economic climate has not received the attention that it deserves. I am glad that this debate has been secured to raise it.

As has been mentioned, sustained growth in the economy ultimately depends on the contribution of SMEs and we need to do everything in our power to support them. As some Members will know, I have

campaigned on this issue for 15 or 18 months. I launched a campaign called “Be Fair, Pay On Time” in response to a constituent who came to one of my surgeries shortly after I was elected in January last year. He was a haulier who said that his company was on the brink of folding because of the late payments that he was having to deal with. In some cases, he was having to extend the contracted time for payments to 90 days—three times the period that had originally been in the contracts. I decided to identify how extensive the issue was. A stream of small businesses came to me just from within my constituency, but none of them wanted to speak about the issue on the record because of the fear of reprisals, including being blacklisted.

That was until two brave constituents, Ann and Harry Long, came to see me and said that they would be happy to raise the profile of the problem. At the time, they were still trading, but shortly after they came to see

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me and said that they would go public, they had to put their company into receivership. After 35 years of trading as a plumbing and heating company, they were feeling the effects of late payments and their company went bust.

Ann told me that larger companies have the buying power to stretch out the time that it takes to pay their bills to smaller companies such as Harry’s and hers. She said that for most of the time that they had been in business, they had worked with many good local companies that, like them, held strong, honest values about paying suppliers on time. Ann believes that that was because their client base was made up of companies like theirs—local SMEs that cared. However, she said that when the recession hit, the only companies that seemed to have work were the larger businesses, so she and Harry had to try to win work with them. By the end of last summer, they had accrued debts of £150,000 because of late payments or payments that were not made at all. With that cash-flow issue, they could not continue.

Fiona Bruce: I want to put on the record my entry in the Register of Members’ Financial Interests. I have been the part-owner of a small business for some 25 years.

The hon. Lady’s point is pertinent. She talked about the impact of late payment on cash flow and referred to her constituents, who are a husband and wife running a small business. There is an enormous impact on the health and well-being of individuals who run small businesses when they come under this kind of pressure, because many small businesses are run by families. Often, both parties are in the business and no other form of income is coming into the home, so the only thing that stands between them and bankruptcy is that home itself. That is why we ought to be concerned that the small businesses in our communities—there are some 4,000 in my constituency alone—are supported properly in the immense work that they do to keep our economy going.

Debbie Abrahams: The hon. Lady makes a very reasonable point, and that was certainly the case with the Longs—indeed, their daughter was also involved in the business. I secured a Westminster Hall debate on this issue to try to raise its profile, and Ann and her daughter came to that. As I have said, however, the story of Ann and Harry is not unique. My constituency has a high level of micro-businesses—more than 85%—a large percentage of which have gone into administration, primarily as a result of late payments.

The hon. Member for South Basildon and East Thurrock has already mentioned some of the data, but I remind hon. Members that according to data from BACS—the bankers’ automated clearing services—£36.4 billion is owed to small and medium-sized enterprises, affecting more than half of SMEs. That figure has increased over the past 12 months from £24 billion owed, which affected one third of companies. To put that into perspective, high street banks lent £56 billion to small businesses last year—this is not an insignificant problem.

According to BACS data, the average SME is owed £36,000 at any one time, and on average waits 58 days for payment—nearly double the contract terms. Over the past year, 158 million hours were lost by SMEs chasing overdue bills. The most recent survey from the

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Federation of Small Businesses suggests an even worse picture, with 73% of businesses being paid late over the past 12 months, and one in five claiming that half of all invoices are paid late. Interestingly, 70% of businesses say that the problem has worsened over the past 12 months, and that the private sector is the biggest culprit. I re-emphasise the point raised by my hon. Friend the Member for Chesterfield (Toby Perkins), but we should not be pitting private sector against public sector as this goes across the board. There are issues with both sectors, but we must recognise that according to FSB members, the private sector is the largest culprit.

In November 2010, the economy watch panel from the Forum of Private Business said that late payments had shown a “continued decline”. In addition, small businesses reported that payments are now typically made after 50 or 60 days, rather than 30, meaning that more than a third of a company’s turnover is tied up in late payments. The most recent analysis indicates that 42% of SMEs believe that late payment is an attitudinal issue because it is seen as not important.

The FSB survey indicates that manufacturing is the worst industry sector for making late payments, followed by the construction sector. Although the private sector is the worst culprit, as has been mentioned, there are also issues in the public sector about failing to pay promptly. Again, new businesses are those most likely to be affected.

The impact of late payment can be disastrous: it is estimated that 4,000 businesses folded during the 2008 recession as a result of late payments. Small businesses do not have the cash-flow buffers of larger businesses, which often means that they pay their suppliers later than they would like, and a downward spiral develops.

The 2001 barometer from the Department for Business, Innovation and Skills showed that 42% of employers mentioned cash flow as an obstacle to success in their business. Of those who identified cash flow as an issue, 80% mentioned fluctuating income combined with steady outgoings. The next biggest issue was problems with cash flow due to late payments, and more than half of those sampled in that survey claimed that late payments were a particular problem.

The knock-on effects of late payments include the ability of SMEs to access capital from banks and other financial institutions, and in the FSB’s recent survey, nearly one in five businesses cited poor cash flow as the reason their loan application was unsuccessful. Some 13% of businesses refused additional finance said they had had to lay off staff, and a worrying 40% had ongoing financial concerns.

There is growing evidence that late payments to SMEs are hurting our economic recovery. Data from the Office for National Statistics show that SMEs make up 98% of the total number of organisations in the UK economy, providing 59.1% of all private sector jobs, 45% of all employment, and generating 46% of the UK’s income from the private sector—a massive £1,558 billion. If the growth and survival of SMEs is threatened, it is inconceivable that that will not impact on the country’s economic performance as a whole.

The previous Labour Government responded to the needs of SMEs on late payments by introducing legislation that allowed companies to charge interest and obtain compensation on overdue payments. Following the global

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financial crisis, we worked alongside business organisations and the **Institute of Credit Management** to launch the prompt payment code that we are debating today. I will not go into the details, because the hon. Member for South Basildon and East Thurrock has described them, but the code is clear on committing businesses and the supply chain to prompt payments, and on businesses applying it reasonably.

Currently, less than a fifth of large firms and only 25% of FTSE 100 companies are signed up to the PPC. The potential impact is clear. Not only does the PPC commit the signatory to pay on time; it also commits the signatory's supply chain. If major businesses signed up to the code through their supply chains, the business coverage would be huge, so this summer, I invited the 75 FTSE 100 companies that had not signed up to the PPC to do so. That was part of joint campaign with the **Institute of Credit Management**, the FSB and the Forum of Private Business, and I am very grateful for their support.

Fourteen further FTSE 100 companies have signed up to the PPC, but disappointingly, six have refused to sign, even after they were given a second bite of the cherry—I sent a reminder believing that they had overlooked my first letter. The key reason that non-signers gave was that they were international companies, but many international companies had signed up, so that does not wash. One company said it did not see why it should sign. A major supermarket not only refused to sign, but in more recent weeks has said that it is increasing its contract terms without negotiation by 150% to 75 days, just because it can.

Wayne David (Caerphilly) (Lab): I am sure the House would like to know the name of the supermarket chain to which my hon. Friend refers.

Debbie Abrahams: It is easy to find out—the company is Sainsbury's. That has been reported in national press, so I am not telling tales.

Staggeringly, the remaining 55 companies did not bother to reply. It is unacceptable for companies to fail to pay suppliers on time or to jack up the payment terms just because they can and because they have the power to do so. It reflects a selfish, I'm-all-right-Jack attitude. There are direct parallels in such attitudes and behaviours to the culture associated with undeserved bloated bonuses and boardroom pay.

As business leaders, with all the rights and rewards associated with their position, those companies must recognise that they have responsibility, including to our wider society. We are one nation, where rights and responsibilities apply to everyone. The wealthy and powerful are not exempt. They need to lead by example, sign up to the PPC and demonstrate acceptable ethical business practice. The code is corporate social responsibility in action.

Caroline Dinéage (Gosport) (Con): I congratulate the hon. Lady on her incredible work to support small and medium-sized enterprises on prompt payment. I am a small business owner—I have been since I was just 19 years old, which obviously was not very long ago. When companies complain to the big beasts, they are

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told, "If you don't like it, go somewhere else. If we don't like it, we can take our business elsewhere." They need to have a slightly more sensitive attitude to small businesses.

Debbie Abrahams: I agree absolutely with the hon. Lady. It is an attitudinal issue, and I hope debates such as this and other action will shift attitudes and the culture to acceptable practice.

We can also take action as individuals. As much as I have enjoyed shopping in Sainsbury's in the past, I will not be doing so in future. I hope others follow suit. It would be absurd if people went to the checkout and said, "I'll pay my bill in the next 75 days." I hope others vote with their feet, but I also hope that shareholders—not just Sainsbury's shareholders, but shareholders of the 61 FTSE companies that have refused to sign the PPC or failed to respond to the invitation to sign—will show their strength of feeling at

their next annual general meeting, in the same way they showed their feelings about boardroom pay. The business community as a whole should put pressure on their peers. We can do a lot collectively.

I am very pleased, as I have said, that we are having this debate today, and I recognise the support for it on both sides of the House. I am also grateful to the Minister for the announcement this morning that he has written to FTSE 100 and 250 companies, but why has it taken until now? I mentioned my Adjournment debate in September last year. All the right responses were given to my recommendations, but I then got a letter from the Minister at the time which said that he was sorry, but that we could not bring forward the EU directive on late payments to 2013. Instead, we would wait until we had to do so in 2014. That does not show support for our SMEs.

I am also concerned by the Prime Minister's announcement last month that he was supporting a "reverse factoring" scheme. This allows big businesses to notify their bank as soon as a supplier's invoice has been approved. The bank, reassured the bill will be paid, will then extend a full, immediate advance of the bill to the supplier but they will charge interest. That is interest on money that is already owed to them. It is outrageous, and I really do not understand the Prime Minister's position on it. The scheme would be redundant if businesses just paid their suppliers on time.

Another area in which the Government have not done as much as I would have liked is the public sector, and I agree with the hon. Member for South Basildon and East Thurrock on that point. There are concerns that public sector cuts are contributing to late payments to contractors. The NHS, local authorities and Government agencies have all increased their late payments by between 4% and 9% since 2009. Labour set standards for Departments with the goal of paying at least 80% of undisputed invoices within five days and to include clauses in contracts with suppliers to ensure that subcontractors were paid at least within 30 days. Unfortunately, it appears that this is not now happening, and it is estimated that £3.7 billion worth of invoices were not paid within the five-day target and 10% were not paid in 30 days between May 2010 and May 2011.

As the hon. Gentleman mentioned, effective monitoring and reporting is the key and must be put in place. I hope that one of the recommendations that are taken forward is the requirement for an annual report to the House on

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progress in this area. I also support his suggestion to examine what we can do to ensure that payment terms in contracts include the supply chain. I hope that the Government will commit to that today.

I want to be clear. This is not about pitting private against public, or large against small. It is about doing what is right and fair. It cannot be right that large companies by virtue of their wealth and power can ignore their contractual obligations and put such financial pressure on small companies to the point where they become insolvent. As the FSB has said, this is not just an economic issue, "it is ethically wrong". The PPC is an important tool. Like a kitemark, it helps identify those companies which recognise their role and responsibilities in paying their suppliers on time. I hope that after today's debate, the Government will not only tackle late payments by Departments and sort supply contracts out, but will get squarely behind the need to tackle late payments to SMEs and support the PPC.

Several hon. Members—

Mr Deputy Speaker (Mr Nigel Evans): Order. There are three Members left who wish to contribute and we have 32 minutes left, so please keep the time in mind.

3.59 pm

Andrea Leadsom (South Northamptonshire) (Con): I am delighted to co-sponsor this debate with my hon. Friend the Member for South Basildon and East Thurrock (Stephen Metcalfe) and the hon. Member

for Oldham East and Saddleworth (Debbie Abrahams). They have both made incredibly valuable contributions to this vital debate about how we can ensure that businesses not only survive during a very difficult economic period, but grow. As my hon. Friend said in his opening remarks, if every small business employed an extra person, we would be short of workers in this country to the tune of 1.5 million people. We want to do everything we can to enable them to expand and grow.

I also agree with my hon. Friend and the hon. Lady that this is a matter of culture. It is ethically right, in terms of corporate and social responsibility—not to mention good business practice—that companies should pay each promptly and with the genuine desire to ensure that they meet their bills. I highlight the fact that approximately half of all small and medium-sized enterprises do not have any agreed payment terms. That goes to the heart of the problem of the power of big companies over small businesses. A small company will often be so grateful for winning a contract that it will not insist on payment terms, so there will be no contractual basis under which it can require a large company to pay up on time. That is a fundamental problem. The Federation of Small Businesses and the CBI could do more to ensure that there are agreed standard payment terms that all businesses should sign up to, so that it becomes much more a matter of course and not a matter of who has the upper hand.

Fiona Bruce: May I commend the Law Society in that respect? Many years ago, it required all lawyers, before embarking on work for a client, to set out in writing what their payment terms would be. That has gone a long way towards clarifying, for all sides, exactly what the expectations are. That practice, which is now embedded in our profession, would be a fine example for other professions and trades to consider.

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Andrea Leadsom: I thank my hon. Friend for that interesting point. Today, I want to give three examples of bad practice to highlight this issue. The previous speakers have done a great job in pointing out some of the very concerning statistics. With the autumn statement fast approaching, they have also made it clear how relatively easy it would be for the Government to take action and insist that all public sector organisations abide by prompt payment terms, and to do more to embed that in the culture of the private sector.

Toby Perkins: Does the hon. Lady agree that there are two facets to the issue? First, big businesses set up unreasonable terms and conditions saying, “We are going to pay you over a very long period of time. If you don’t want that, go and deal with someone else.” Secondly, terms and conditions that might be considered more reasonable are put in place but not adhered to. Companies can string payment out for days and even weeks after the agreed terms. I caution her that different industries and different contracts require different payment terms because of a variety of complexities about how a contract might function. That is why it is difficult to legislate on this matter, but does she recognise that central difference?

Andrea Leadsom: I recognise that absolutely. In fact, last night I was speaking to Philip King, the chief executive of the **Institute of Credit Management**, which implements the prompt payment code on behalf of the Government. He explained that payment terms of a set number of days are not required for every business employing good practice; it is simply that they should say what their payment terms are and stick to them. Whether those terms are 30 days, 60 days, 90 days or whatever, once they have been agreed they should stick to them—that is key.

Small business trade bodies could have a naming and shaming website to enable their members to report bad practice without the fear of losing business by criticising their creditor. I will go on to give clear examples, because I agree with other hon. Members that it is difficult to get businesses to speak out for fear of losing business. However, I have one constituent who supplies the NHS and he wanted to tell the story of his company, Q Technologies. The company creates specialist medical equipment that enables surgery to take place with a much lower risk of MRSA and other infections. It is, therefore, life-saving medical equipment. The business employs 14 people and supplies a number of NHS trusts and hospitals around the UK. His overdue and late payment situation with those trusts is that he currently has £76,000 outstanding on a 30-day invoice that was raised in April, and was therefore due to be paid in May for the

supply of specialist operating theatre equipment at a hospital in the north-west. The equipment enabled the continuation of vital hip, knee and shoulder surgery.

My constituent also has a £36,000 payment over 60 days late on a 30-day invoice for vital operating theatre ventilation equipment. This was supplied at short notice in an emergency to a hospital that specialised in spinal surgery. Q Technologies took the equipment out of another hospital, so that there was no disruption to this vital spinal surgery, yet when the chief executive tried to sort out the delay to the invoice being paid, he was told by the NHS trust that managers of three different NHS departments could not decide whose

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budget the money should come out of. Rather than sorting it out and paying him, therefore, they just did not pay him. The bill was finally settled only after he threatened the trust with legal action.

The snapshot position of moneys owed to Q Technologies—a company that employs 14 people—by the NHS is £130,000. That is money outstanding over 60 days. The chief executive, Andrew Kemp, writes:

“I am a massive fan of the NHS but a massive critic of the way in which some Trusts manage their work. We try and support the NHS in every way that we can - often delivering equipment at very short notice and often on trust. We always hope that such co-operation and trust will be reciprocated back to us but sadly it often isn't. Poor cash flow kills businesses, whatever the Balance Sheet might look like. A big debtors' list doesn't pay the monthly bills and it forces us to keep more cash in reserve than we would like. It would be so much better if we could use some of it to grow and expand our business and employ two or three more people - but with the NHS being so tardy over payments we just don't feel confident enough to do so... As a taxpayer I cannot understand why the Government...is presiding over such a situation. None of it makes sense”.

That is a pretty appalling indictment of a public sector body that is simply not paying its bills.

A second example was brought to me by a constituent at a drop-in surgery in Brackley in my constituency. She had been commissioned to carry out work by a Fortune 500 company that in turn was commissioned by the Ministry of Defence to deliver a significant IT solution. My constituent runs a small family business with two employees. The contract, which was for £250,000, was a significant sum. She came to me in desperation as the invoice to the Fortune 500 company for work done was six months overdue. Her bank was about to foreclose on the business, as it had run out of patience with her overdraft.

Equally concerning, my constituent was adamant that I should not name her company when dealing with this issue on her behalf, because she was terrified of losing future business. I wrote to the company and made a general point about the Government's desire for companies to pay on time, and—surprise, surprise!—within a couple of weeks it paid the invoice. That goes to show that the Government can help not through legislation but by changing the culture, pointing out the unfairness of late payment and insisting on the fair application of the prompt payment code.

My third and final example concerns a legal aid firm supplying a public body. This company wrote to me after hearing about today's debate. It is a small legal aid firm that supplies the Legal Services Commission, an executive non-departmental public body. It reports that the LSC's payment terms are eight weeks—twice as long as is normal—but even then, it does not stick to them. Invoices are refused for flimsy reasons, so that they can be sent back and be delayed for another eight weeks, and sometimes they are mysteriously lost in the office.

The legal aid firm employs nine people, and last year paid nearly £300,000 in partnership tax, national insurance contributions, rates and VAT. The Government will lose out on this revenue, and the tax paid by

the employees, if the LSC's late payment drives the business to the wall, which it threatens to do. The firm wanted its words to go on the record:

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“Although we have explained that we cannot pay the government until the government pays us, that cuts no ice with either the VAT or the PAYE offices, who hound, threaten and fine us if we are a week late in paying.”

Those are three awful examples of how public sector organisations for no good reason are delaying payments to businesses and so existentially threatening their future success and sustainability.

I hope, along with my hon. Friends, that the Government will be prepared to do something dramatic about this issue. It does not require legislation or expensive action by the Government; it simply requires more effort to ensure that the prompt payment code is signed up to by many more companies, and direct action to ensure that all companies in the public sector, whether they are Whitehall Departments or non-governmental departmental organisations, also sign up to prompt payment to small companies on a fair basis.

4.10 pm

Alex Cunningham (Stockton North) (Lab): I, too, congratulate the hon. Member for South Basildon and East Thurrock (Stephen Metcalfe), and other colleagues, on securing this debate.

Listening to today's debate, one cannot fail to be left with the impression that small and medium-sized businesses across the UK are suffering as a result of late payments. In the current economic crisis, that is totally unacceptable. Late payment can cause cash-flow problems, as smaller firms struggle to absorb the impact of late bills, and has the practical effect of making small firms bankrupt larger ones. We are reliant on the SME sector thriving, but the current state of affairs threatens to hold back companies that could otherwise be creating jobs and helping our economy to recover.

Mark Tami (Alyn and Deeside) (Lab): Does my hon. Friend agree that a particular problem for smaller companies is that the Inland Revenue does not allow them time to pay, even though they can demonstrate that they are owed sizable sums of money, before moving against them? Some companies are forced out of business by such action.

Alex Cunningham: That is very much the case: there are plenty of examples in the newspapers of companies going to the wall because they owe the taxman money. Even though somebody else might owe them 10 times as much, they still have to face up to that problem.

From my experience of owning a business before entering this place, I know how difficult it can be for small businesses when clients fail to pay up in reasonable time. Large organisations would have 30, 60 or even 90-day payment periods, and although most kept to their terms, that did not help my cash flow. The nature of my business required me to buy and pay for published materials, printed for my clients, who could then take months to pay me. Sometimes I could be owed as much as £5,000 by one client, or about 3% of my annual turnover. I seemed to spend countless hours chasing cash and monitoring my cash flow, when I should have been working for clients and trying to expand my business. Local businesses on Teesside tell me that they face the same challenges. They just cannot get people to pay up. It never ceases to amaze me that it is the bigger companies that take much longer to pay, with many

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doing so only after delaying tactics and countless promises that the elusive cheque is in the post.

The statistics are troubling: according to the latest BACS figures, more than 1 million SMEs are currently affected by late payment, and the average amount owed to each SME has reached £36,000. Debts to my former business never reached that level, but as much as £15,000 might be owed at any one time, much of it for up to two months. According to BACS, Britain's small businesses spend 110 million hours a year chasing late payments, at a cost of £683 million. It is amazing to think of the other ways in which that money could be invested. The average small firm spends more than 13 working days a year chasing late payments. Research by the Federation of Small Businesses last year found that 73% of small firms reported being paid late. According to figures from the Department for Business, Innovation and Skills, 4,000 small businesses failed in 2008 as a direct result of late payment. The statistic that puts the issue into the sharpest possible light is that the outstanding funds now owed to small and medium-sized enterprises total £36.4 billion—or much more, as the hon. Member for South Basildon and East Thurrock said. I am sure that Members on both sides of the House appreciate that that is not a good state of affairs. A great deal more needs to be done.

I congratulate my hon. Friend the Member for Oldham East and Saddleworth (Debbie Abrahams) on writing to the FTSE 100 companies about the prompt payment code. I can think of no defensible reason why companies of such size and magnitude should not sign up—60 of them either ignored her or refused to sign up—particularly given the leadership role they are supposed to play in our business community.

Sarah Newton (Truro and Falmouth) (Con): The hon. Gentleman makes a powerful point about the impact of large companies not paying smaller companies. Does he agree that we should consider extending the scope of the Groceries Code Adjudicator Bill, which comes before the House in the next couple of weeks, beyond the supply chain in food production to other small businesses that provide goods to supermarkets?

Alex Cunningham: The hon. Lady provides us with a good idea, and I hope that the Minister will take it on board.

I would like to see Members put whatever pressure they can on FTSE 100 companies to pay their bills on time. Worryingly, we do not have a high enough number of new signatories to the code to feel confident that the rate is going up fast enough. A recent answer to a parliamentary question showed that there were 683 new signatories in 2009, just 89 in 2011 and 115 so far this year. Research shows that signatories to the code generally undertake to pay suppliers on time within the terms agreed at the outset of the contract, to give clear guidance to suppliers and to encourage good practice.

I wonder, however, whether getting firms to pay on time in line with their agreements is enough. Those agreements often shackle small businesses to long waits for their money. They do the work, deliver the goods and send in their invoice, yet it can take the client company 90 days from receipt of that invoice to pay up. Should those small businesses be obliged to get into such long-term payment plans? I doubt that a company's

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energy supplier would offer them such generous terms—mine did not—so perhaps we should think again about the pressure that big firms can put on small ones over payment periods.

For now, I call on the Government to do more to get firms to sign up to the prompt payment code. There needs to be more transparency to encourage prompt payment, including through more onerous reporting requirements such as looking at whether payment times and amounts owing to suppliers could be expressed in firms' annual reports.

It is in the interests of small and medium-sized enterprises up and down the country to ensure that prompt payment is better enforced down the supply chains of those firms that win Government contracts. That would create more confidence, allow smaller businesses to expand at a quicker rate and bring about a greater degree of fairness in interactions between big businesses and their smaller counterparts. If the

Government really take the issue seriously, they should at least put their own house in order. A number of Government contractors have been shirking their responsibility to pay smaller sub-contractors on time, yet there is no defensible reason why large companies should not be obliged to provide details of payment policies to suppliers as part of their reporting requirements. The Government need to do more to ensure that their own contractors do right by the smaller and medium-sized enterprises that supply them with services. I would advise the Minister to take a close look at Government contractors who repeatedly pay slowly or late, and to consider stripping them of public sector contracts. The taxpayer should not be subsidising bad business practice.

The Government have suggested a new system in which big businesses notify a bank as soon as a supplier's invoice has been approved. The bank would be given the assurance that the bill would be paid, and would then extend a full, immediate advance of the bill to the supplier at a low interest rate. However, a close look at those proposals shows that they would be a win only for the big company. The system would allow the large companies to keep their money, and allow the banks to charge interest, while the small supplier would have to pay interest on money that they should be able to expect in full payment from their customer, without any interference from the bank. Surely the solution to small firms being ripped off should not end up with them being charged more. The scheme also would not deal with the fundamental problem of large firms failing to pay on time, and its existence would not be necessary if all large companies were paying their bills on time and setting fairer payment terms.

Countless businesses are going to the wall, and many are doing so because they are owed substantial sums of money and cannot recover it. The Government must take action to get large employers signed up to the prompt payment code; they have support from across the House to do so. I also hope that they will ensure that their own contractors play their role in helping smaller companies to grow and meet their bills, which will help to get us back on to a sustainable economic footing.

4.18 pm

Wayne David (Caerphilly) (Lab): The importance to our economy of the small and medium-sized enterprises the length and breadth of the country today cannot be doubted. They are particularly important in south Wales,

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the area that I come from. In the past, the area has traditionally depended on heavy industry, and today it has a large public sector, but even in south Wales there is an increasingly significant small and medium-sized enterprise sector. In fact, it has been calculated that more than half the Welsh working population are now employed in SMEs. It is encouraging that the voice of SMEs is becoming more coherent and more articulate. The Federation of Small Businesses, in particular, has played an important role in ensuring that that has happened.

That process of gaining a voice for SMEs had led to the highlighting of a number of problems that SMEs face. We know that in areas such as south Wales, there is a close relationship between the private and the public sector. The private sector is disproportionately dependent on contracts coming from the public sector, and I think that relationship is sometimes underestimated by central Government in the economic policies they pursue.

SMEs are in some difficulty because of the problems they face in accessing finance—not only start-up finance, but finance to keep expanding their businesses. It is also true, as several Members have said, that late payment is a problem, which has become more acute as the double-dip recession has put more pressures on small businesses.

When I was a Member of the European Parliament for 10 years, I noticed cross-party support—certainly among British MEPs—for European legislation to tackle the growing problem, as it was then, of late payment. We put forward arguments for a directive, which were accepted by the European Commission,

but it has taken a long time—from the period when I was there, 1989 to 1999, to the present—for that European directive to be formulated, approved and brought forward. I am concerned that even after that long period the Government seem determined to delay the directive's implementation for as long as possible. Small businesses are often critical of European legislation and regulations, but this is one example of which small businesses are in favour. The Government indicated that the European directive would be transposed into British law by the first half of 2012, but I am concerned to note that the transposition will not happen until March 2013—the latest moment it could be done under the law.

The directive is an important piece of legislation because it provides for a 30-day period in which bills must be paid, and if they are not paid, compensation can be provided to the small businesses. As other Members have stressed, however, it is a question not simply of legislation but of establishing good practice. The prompt payment code is, therefore, a significant step forward.

I congratulate my hon. Friend the Member for Oldham East and Saddleworth (Debbie Abrahams) on her effective campaign for companies in the FTSE 100 to sign up to the code. I share her concern at the relatively poor and disappointing response from many companies. She cited the example of Sainsbury's, and as I regularly shop there, I am now having second thoughts about whether, as a matter of principle, I should do so, given the lack of a positive response from that very significant company.

Another important aspect of the campaign is that my hon. Friend did not conduct it by herself; she had good support from the **Institute of Credit Management**, the Federation of Small Businesses and the Forum of Private

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Business. That is indicative of the widespread concern about the issue and the effective way in which the campaign has developed. It is, therefore, all the more disappointing that a significant number of large companies have effectively said no to the campaign. I very much hope that they will have second thoughts.

It is vital for the issue to assume importance, and for us to adopt as bipartisan an approach as humanly possible. Supporting small businesses means supporting the lifeblood of our economy, and it is incumbent on all of us to support and encourage them as much as we can. If we are to pull ourselves out of our present economic malaise, we must recognise that small and medium-sized businesses will be at the cutting edge of our economic recovery. Today's debate has illustrated that Members on both sides of the House can unite in supporting such practical measures.

We should not pretend that legislation and regulation are irrelevant. There is work to be done on the implementation of the European directive in particular. As the single market develops, as it surely will, more and more small and medium-sized enterprises will be concerned not just with the domestic British market, but with the European market. We must, if necessary, name and shame people who have eschewed the prompt payment code, but we must also send the clear message from this Chamber that all good companies should give the code their wholehearted support.

4.26 pm

Toby Perkins (Chesterfield) (Lab): It is a tremendous pleasure to respond to this welcome, timely and constructive Back-Bench debate on behalf of Her Majesty's Opposition. I congratulate the hon. Members for South Basildon and East Thurrock (Stephen Metcalfe) and for South Northamptonshire (Andrea Leadsom) on securing the debate. I also join others in recognising the contribution of my hon. Friend the Member for Oldham East and Saddleworth (Debbie Abrahams). She has pursued this issue tirelessly through her "Be Fair, Pay on Time" campaign, for which she has rightly been nominated for a "Grassroot Diplomat" award by the Federation of Small Businesses. She was too modest to mention that, but I wanted to put on record the gratitude of the whole House for the work that she has done.

I welcome the Government's announcement of the potential naming and shaming in the new year of FTSE 100 and FTSE 250 firms that do not sign up to the prompt payment code, in an attempt—for which Labour had called—to change the culture on late payment. I am pleased that Members' collective efforts have finally forced the Government to act. When researching the Twitter feed of the hon. Member for South Basildon and East Thurrock—it is @SMetcalfMP, in case anyone is interested; the hon. Gentleman appears to have last taken to the Twittersphere almost exactly a year ago, to inform the world—

Stephen Metcalfe: May I intervene to reassure the House that that is not my Twitter feed? It is a fake, which is why there are only six tweets on it. It was never me in the first place.

Toby Perkins: They say that impersonation is the sincerest form of flattery. I hope that the hon. Gentleman is flattered that people have taken the time to fake a

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Twitter account for him, if that is indeed what happened. The person who claimed to be him was proud to be the hon. Member for South Basildon and East Thurrock. In any event, I hope that at the end of the debate someone will be able to announce to the Twittersphere that the Government have listened to the voice of tens of thousands of small businesses, and to business organisations such as the **Institute of Credit Management**, the Institute of Chartered Accountants in England and Wales and Bacs which have been calling for leadership from the Government.

While the contribution to Twitter of the hon. Member for South Basildon and East Thurrock may be a matter of some dispute, his contribution to the debate was consistently constructive, and I agree with much of what he said. I agree with him that late payment is on the increase—although welcome steps were taken in an attempt to reduce it, the Government's efforts have fallen back in recent years—and I agree with him about the circular effect whereby companies that receive payment late become late payers themselves. It becomes a culture. Businesses see it as part of the overall negotiation with their suppliers: not only do they negotiate on how much they will pay and for how much they will sell, but they try to extend the time that they have in which to pay and bring forward the time at which they will be paid. It is a completely unconstructive way of operating. I agree with the hon. Gentleman on that issue, therefore.

In pursuing this theme, the hon. Gentleman is very much in tune with my right hon. Friend the Member for Doncaster North (Edward Miliband), who has said that if we are to be one nation, we must have more responsibility at the top and at the bottom. I am delighted that my right hon. Friend has expressed his determination to address the unfair—and, frankly, anti-business—relationship between some big businesses and small firms, and his determination that a one-nation Labour Government will not simply walk by on the other side of the road when confronted by such issues.

This debate has provided stark examples of the sorts of unfairness to which my right hon. Friend has been referring. My hon. Friend the Member for Oldham East and Saddleworth focused on the fact that, as the Federation of Small Businesses has revealed, the private sector is the biggest culprit in this regard. She also referred to her letter to the FTSE 100 companies. The fact that she got 14 FTSE 100 businesses to sign up to the code shows that Members of Parliament can influence business practices without always having to legislate. She has taken direct action and it has changed the way 14 of our FTSE 100 businesses operate.

The hon. Member for South Northamptonshire said the Government need to make more effort to ensure that Government organisations pay on time. That point could go across the agenda. She also rightly said that this is not just a legislative but a cultural issue. She also spoke about stipulating fair terms, as did my hon. Friend the Member for Caerphilly (Wayne David) in respect of those which might apply when the new EU late payment directive comes into force. My hon. Friend mentioned the Government's lack of urgency in the implementation of that directive, and after hearing about the record of one of our major supermarkets, he referred to the possibility of consumers using the performance of major businesses as a factor in deciding where to shop.

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My hon. Friend the Member for Stockton North (Alex Cunningham) rightly said that big firms need to play their part in putting the country on a stable economic footing, not only through their contribution to the economy, but in their relationship with their suppliers. The Government have a role to play in bringing big firms to book and in ensuring that fair terms are agreed in the first place and subsequently adhered to.

The latest Bacs research shows that more than 1 million small and medium-sized enterprises are currently being affected by late payment. Britain's small businesses spend a total of 110 million hours every year chasing late payments, at a cost of £683 million.

The FSB has also been very vocal about this issue. A recent FSB study found that 73% of small businesses had experienced late payment for the supply of goods and services in the past year. Some 77% of its members say private sector organisations are the most likely to make late payments, and two thirds of members report having written off invoices in the previous 12 months, a fifth of which have been for more than £5,000, which is a significant sum for a small business to have to write-off.

Mid-size firms can usually employ credit control staff whose daily task is to try to extract from businesses payments that have already been agreed. I remember once, as a fledgling salesperson, having to go down to my company's credit control office to inquire whether a customer of mine might be able to come off "stop" because they wanted to make a purchase. For me as a young man, that was a terrifying ordeal, because those credit control ladies take no prisoners. I had a tough job persuading Sheila and Gladys in particular that, although the nationwide banks might be a bit slow, they did have the wherewithal to honour our £5,000 invoice. The benefit of history might suggest that Sheila and Gladys were nearer to the truth than I was, but when I had my own business a few years later I soon understood why it took a certain type of person to be a credit controller. I rued the fact that I did not have a Sheila at my side to do the chasing.

The truth is that for small firms the end of the sale is often the beginning of the problems, which is why this debate is so important. The average small firm is spending 13 working days chasing money owed. This time is not being spent on developing sales or marketing strategies, buying more efficiently, training staff, taking on apprentices or developing new product lines; it is simply being spent pursuing money that they are owed for goods or services they have provided. This is not just about the weighted activity that small firms could be doing if they were not chasing money, because some late repayments mean the difference between life and death for firms which, although successful, simply run out of cash. Department for Business, Innovation and Skills figures tell us that 4,000 businesses failed in 2008 simply as a result of late payments. Those businesses were successful in their own right, but were brought down by a lack of cash flow because of not being paid.

The previous Labour Government worked with the Institute of Directors, the British Chambers of Commerce and the **Institute of Credit Management** to set up the prompt payment code in 2008. Is it transparent, but it is under-publicised. It is certainly not a silver bullet, but it is one of the weapons in the Government's portfolio. To put the environment in context, there are 4.5 million small businesses in the UK and just under 6,500 large

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firms. All of us know that small and medium-sized enterprises are very much the lifeblood of the British economy, through their contribution to our tax revenues and to growth, so when we see an issue that is so desperately holding back our small businesses, it is only natural that this House should want to act.

In 2009, Labour's last full year in office, there were 683 new signatories to the PPC, whereas, as has been said, in the first full year of this Government there were just 89. Even now, less than one fifth of all large firms are signed up, so the Government would be right to push for culture change, which is of course a part of the solution. The fact is that under this Government the situation has got worse. Intrum, Europe's leading credit management services provider, says that in the past two years the UK's payment index score

has been progressively getting worse; in 2010, British and German performance was pretty much neck and neck, but in the past two years Britain's score worsened, going from 150 to 161, whereas the Germans' score went down to 147. German businesses have a known advantage: German small firms now know they will get paid earlier, giving them a clear commercial advantage over British firms.

In this period, too little progress has been made. Progress has been faltering on the PCC and, as has been said, on the EU late payment directive, a key weapon in Government's armoury, we have seen U-turns and obfuscation. In September 2011, the previous but one Minister, the right hon. Member for Sutton and Cheam (Paul Burstow), said in answer to Labour calls for action that he would transpose these rules into UK law early. He then performed what many hon. Members will feel was a deeply unhelpful U-turn and wrote to MPs to clarify his earlier statement, saying that this would happen at some point by March 2013. Since then, we have had it confirmed that it will not happen a single day early and, as my hon. Friend the Member for Caerphilly said, some are sceptical about whether it will be properly in place by the date when it should be. The directive should now be in place by March 2013—the latest possible date. That sends a negative message from the Government about the importance they place on this issue, about which hon. Members have spoken so powerfully in this debate.

The supply chain finance scheme potentially reinforces the problem; it could positively institutionalise late payment as an acceptable business practice. Under the scheme, a bank is notified by a large company that an invoice has been approved for payment. The bank is then able to offer a 100% immediate advance to the supplier at lower than normal interest rates—but none the less, with interest—knowing that the invoice will ultimately be paid by the large company. That could exacerbate the problem, because large companies could further extend their payment terms as a result, potentially affecting suppliers outside the agreement and exacerbating an existing culture of slow and late payment.

It is not just Labour saying that. Janet Barton, a freelance credit controller and specialist in helping businesses manage their cash flow, has said:

“I have no idea why the Prime Minister thinks this is such a good idea. The large companies get to hold on to their money.”

Phillip King, chief executive of the [Institute of Credit Management](#), said that his preference would simply be for people to pay on time.

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One-nation Labour believes that everyone should play by the rules. It is unfair that local family firms should be threatened because large companies effectively use SMEs' money to bankroll themselves. In government, we passed the Late Payment of Commercial Debts (Interest) Act 1998, which enables firms to charge interest and obtain compensation on overdue payments from customers. We set targets in the March 2010 Budget, tightening rules on late payment by the public sector and setting Departments the goal of paying 80% of undisputed invoices within five days and requiring them to do so within 10 days.

We realise that the problem cannot be resolved by legislation alone and that is why we set up the prompt payment code to make a moral case for large businesses to pay their suppliers on time and in a fair and responsible way. We worked alongside business bodies such as the Institute of Directors, the British Chambers of Commerce and the [Institute of Credit Management](#) to launch the code and to get 650 companies signed up. The code does not lay down specific tight deadlines on when payments must be made or place undue burdens on businesses. For large businesses with huge cash flows, it is not an onerous measure to sign up to. That is why we entirely support the spirit of the motion.

One-nation Labour's approach would be about much more. We have a small business taskforce that is informed by people throughout the business environment who consider how all Labour's policies impact on small businesses. We want to see more transparency to encourage prompt payment, including reflecting in reporting requirements such as payment performance and policies in firms' annual reports and accounts.

We will encourage Labour MPs to champion the prompt payment code on behalf of SMEs in their constituencies and to try to ensure that as many companies as possible in their constituencies are signed up. We are calling on Ministers to ensure that prompt payment is better enforced down the supply chains of all those firms that win Government contracts. Government contractors who repeatedly pay slowly or late should be stripped of public sector contracts.

We recognise that legislation alone is not the answer to the problem and we need the Government to demonstrate real leadership, making it clear to big businesses that late payment is not acceptable. We do not feel that Ministers have done enough to sign firms up to the prompt payment code.

A push on the prompt payment code is overdue but it is just the tip of the iceberg. The Government ultimately must decide whose side they are on. Will they send a one-nation message that they will support British firms in accessing their own money or will the collective voices of those small firms have to harry them along every small step on the way? The time for action is now.

4.42 pm

The Minister for Universities and Science (Mr David Willetts): On behalf of what I guess we must now call the one nation coalition Government, I welcome this excellent Back-Bench debate, which has raised a very important issue of great concern to businesses, especially small businesses. I particularly congratulate my hon. Friend the Member for South Basildon and East Thurrock (Stephen Metcalfe) on his opening speech, in which he set out some important policy challenges, which I would like to touch on in my remarks. He spoke with passion

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and was right to do so, because when we talk about finance for business we must understand that despite our endless ingenious schemes to encourage bank lending and access to finance from the City, one of the best forms of financing for businesses is for them to win contracts and get paid for them. That is an extremely effective form of financing for small businesses and we strongly support it.

There was a slight theme in today's debate about confusion of identity. It is good to know that the person who has tweeted in my hon. Friend's name is not him—I hope the Chief Whip knows that, too. We then heard from the hon. Member for Oldham East and Saddleworth (Debbie Abrahams), who is no longer in her place—perhaps she has gone off to tweet. She spoke very well and correctly made the point that although the intention of this debate was to discuss the public sector, we should not forget the importance of improving the performance of the private sector. There is a lot to do in that sector and we are committed to doing it.

We then heard an excellent speech by my hon. Friend the Member for South Northamptonshire (Andrea Leadsom), which included some powerful examples of the kind of problems that small businesses face. I thought, to be honest, that her examples, from Q Technologies and its experiences of dealing with the NHS to experiences of being paid for legal aid, were, quite simply, shocking and indefensible. I do not think that any Minister with responsibility for this sector would wish to defend that. It is very important that the message goes out loud and clear from the debate today that public agencies are expected to pay bills promptly. It is minimum good practice, which we expect across the public sector.

The hon. Member for Stockton North (Alex Cunningham) also drew attention, rightly, to the importance of the performance of the private sector. We heard from the hon. Member for Caerphilly (Wayne David) and I hope, if time permits, to touch on the EU directive and what we are doing about it. Finally, we heard from the Opposition spokesman, the hon. Member for Chesterfield (Toby Perkins), whose recollections of his experiences with Gladys and Sheila brought the House to life.

Let me make it clear where the Government stand on this important issue. We understand that we are committed to supporting small business by ensuring that businesses get prompt payment. Small and

medium-sized businesses are responsible for almost half of the £900 billion private sector output of this economy and 60% of private sector jobs. Cash flow is critical for them. That is why, as the British Chambers of Commerce recently set out in their prompt payment report, there are two main challenges, which we are determined to address—first, payment terms which are too long, and secondly, payment terms which are not adhered to. The estimate from the BCC is that UK SMEs are owed almost £36.4 billion in overdue payments, mainly by large companies. This is unacceptable and it needs to improve.

Opening the debate, my hon. Friend the Member for South Basildon and East Thurrock said that the position was deteriorating. There are different ways in which it could be measured. The latest late payment index from Experian shows that UK businesses paid their bills approximately 1.3 days earlier in the third quarter of 2012, compared with the same period last year, but we are not complacent. We know that we still have to do a lot better.

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We already have in the UK legislation that gives businesses a statutory right to claim interest from other businesses for the late payment of commercial debt, and we would encourage companies experiencing late payment to use those legal powers that exist. Part of the problem is that many businesses fail to agree payment and invoicing terms before entering into a transaction. That is an area where business practice can improve. But businesses overwhelmingly tell us that they do not want new legislation. We heard that in many of the contributions from hon. Members in all parts of the House this afternoon, so the challenge for the Government, which we accept, is to take positive action, leading by example as a payment exemplar and working to educate businesses and change the culture of late payment.

We entirely accept that the Government must set a good example. Central Government Departments now aim to pay 80% of undisputed invoices within five days. Indeed, in September this year my Department, BIS, paid more than 90% of invoices within this deadline.

Andrea Leadsom: It suddenly occurred to me that I would never be forgiven if I did not mention at this point that my district council, South Northamptonshire, is among the top 10 best payers in the country.

Mr Willetts: Excellent. I join my hon. Friend in congratulating her council on that excellent performance.

We need to go further. This is a point that was made in several interventions. Let me make it clear. To ensure that the benefits of prompt payment are felt throughout the supply chain and reach small businesses, all Departments have included a clause in their contracts that requires main contractors in turn to pay their suppliers within 30 days. That is a major step forward, but they now have to deliver on it.

To ensure that is delivered, on 9 March this year the Minister for the Cabinet Office and Paymaster General, my right hon. Friend the Member for Horsham (Mr Maude) announced that the Government's mystery shopper service would be extended to include issues relating to unfair practices in the supply chain. Suppliers can use the service anonymously to escalate concerns about problems in Government supply chains to the Cabinet Office.

My hon. Friend the Member for South Basildon and East Thurrock asked what the Government could do and whether we should identify individual officials and their Departments. We think that the mystery shopper service, which has a direct e-mail connection to the Cabinet Office, where concerns can be pursued, is an effective way we can hold individual Departments, their suppliers and linked public service organisations to account.

In addition, we are committed to ensuring that the prompt payment code is adopted by as many organisations as possible. Signatories to the code commit to paying suppliers within agreed and clearly defined terms and to ensuring that there is a proper process for dealing with any issues that arise.

We are coming up to the fourth anniversary of the code and continue to work with industry bodies to encourage their members to sign up. Only this week, the Minister of State, Department for Business, Innovation and Skills, my right hon. Friend the Member for Sevenoaks

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(Michael Fallon), who has responsibility for business and enterprise, wrote to the FTSE 350 chief executives to encourage those that have not yet signed up to do so. I commend his excellent letter to the House. If it has not already been placed in the Library, I will ensure that it is. It contains a real sting in the tail because it says that there is significant public interest in the issue of late payment, and that in order to recognise companies' efforts, he intends to publicise the names of all FTSE 300 companies that have signed up to the code, and to acknowledge those that have not, early in the new year. That is an important step forward.

Debbie Abrahams: I welcome what the Government are doing, but will the Minister explain why they have taken so long to respond in that way?

Mr Willetts: Frankly, I do not know the exact history, but I can say that we are taking this action now. We have already taken other actions, such as the intervention by my right hon. Friend the Minister for the Cabinet Office and a steady increase in payments to the prompt payment code. As I was so generous to the hon. Lady, in her admittedly brief absence from the Chamber, I hope that she will not be too grudging about the actions we are now taking.

Let me refer briefly—I think it is important to allow my hon. Friend the Member for South Basildon and East Thurrock time to speak at the end—to the EU late payment directive, which a few hon. Members have mentioned. We support the revision of the directive because it seeks to introduce a number of improvements to the original. That will save business money and help create a level playing field for UK suppliers trading across the single market. We believe that the recast directive essentially recognises current UK legislation and practice as an exemplar and mirrors existing UK provisions. Indeed, we have introduced across the public sector targets that are in many ways more onerous than those set out in the directive.

Toby Perkins: The Minister is basically saying that the directive will make relatively little difference because the Government are already doing that, broadly speaking, so I am confused about why there has been such resistance to implementing it and why they will not do so until March 2013.

Mr Willetts: Let me explain that point. Our intention is to transpose the directive by 16 March 2013. That is a commitment I can give the House. However, it is a long-standing commitment of this Government not to gold-plate EU legislation. We do not implement early or rush to implement EU legislation. We comply with the legal requirements. We have confirmed many times our intention to transpose the 2011 EU late payment directive by 16 March. However, our approach, learning from the process in many other countries, is that we do not feel obliged to rush to implement any EU directive before the deadline by which it has to come into force. We in BIS try consistently to apply that approach, which I commend to the House.

I congratulate hon. Members on leading this debate. We recognise that changing the culture of late payment is a challenge that requires both Government and business

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to play their part. We expect business to do so, and we expect Government and all public sector bodies to do so too.

4.55 pm

Stephen Metcalfe: I thank all hon. Members for their contributions to the debate, which has been very interesting and enlightening. It is rewarding to see such support for addressing this problem from Members on both sides of the House.

I congratulate the hon. Member for Oldham East and Saddleworth (Debbie Abrahams) on her valuable campaign. I very much wanted to quote a lot of her statistics in my opening remarks, but felt that that would be stealing her thunder. I wanted to allow her to talk about that aspect. It is shocking that so many large companies have not signed up, and we must encourage them to do more. She was right to point out that it is an attitudinal problem that we somehow have to break. I am conscious that I spent a lot of time talking about the public sector, but of course the public sector is a large buyer from the private sector, and that is where the problems start.

My hon. Friend the Member for South Northamptonshire (Andrea Leadsom) made some excellent points and highlighted particular cases in her constituency that well demonstrate the problems we are facing. The hon. Member for Stockton North (Alex Cunningham) stressed that small businesses should not be acting as the banks for big business, thereby payrolling them.

The hon. Member for Caerphilly (Wayne David) talked about legislation that he would like to be implemented soon. The problem with legislation is that, regardless of whether it is on the statute book, if suppliers are too afraid to utilise it, then it will not necessarily solve the problem. Suppliers will be afraid of rocking the boat, biting the hand that feeds them, or whichever metaphor one wants to use. Instead, therefore, we need to change the culture. The hon. Member for Chesterfield (Toby Perkins) talked about one nation. In fact, this is about one notion, “Pay up and pay now”, because that is what will release the funds into our economy.

I thank the Minister for his very constructive remarks. I hope that he will look back at the debate to see whether there is anything further we can do. I was pleased to hear that he agrees that the public sector should pay—that is always a good start. He said that payment terms have got better and that people are now paying 1.3 days earlier, but it is also the case that the amount owed has increased above the agreed terms. The problem with the mystery shopper system, as I have heard from some people who did not wish to be named, is that in very short or narrow supply chains it is very easy to identify who phoned in and made the complaint.

Whether in the public or the private sector, people need to change the culture; they need to pay their invoices and pay up, because that will release billions of pounds into the economy and deliver what we want. Change the culture, release the funds, let us drive some growth. I thank everyone very much for their constructive comments.

Question put and agreed to.

Resolved,

That this House has considered the matter of stimulating growth through better use of the Prompt Payment Code.