The 100 Group

The Rt Hon Greg Clark MP
Secretary of State
Department of Business, Energy and Industrial Strategy
1 Victoria Street
London
SQ1H 0ET

19 October 2016

Dear Secretary of State

Research into the cost to businesses of the proposed new payment reporting requirements.

Please find attached a letter sent to Corinne Brook (Policy Lead for Prompt Payment at Department of Business, Energy and Industrial Strategy), which is a follow up to our previous letter setting out our concerns with the proposed new payment reporting requirements for large companies.

On an NPV basis our best estimate of the cost to the FTSE 100 of meeting the proposed requirements is around £100 million. The cost to the broader UK business environment is likely to be a multiple of this figure as large UK companies exist outside the FTSE 100. This is much higher than the previous cost estimates produced by BEIS. We strongly ask BEIS to consider this cost and the impact it may have on jobs and investments, and on the perception of adding red tape, when deciding if the benefits of the proposed requirements are justifiable.

We support the government's initiative to improve the transparency of payment terms and to assist small suppliers in receiving payments on time. However, the mechanism to achieve this needs to be cost effective and fit for purpose. We think the appointment of the Small Business Commissioner and its mediation role for payment disputes is more appropriately targeted at the real issue. This is likely to be more cost effective and less time consuming for large companies who already pay suppliers on time, and also require small companies to consider their responsibilities before escalating a dispute.

Please feel free to contact us through the 100 Group's website, www.the100group.co.uk, should you wish to discuss our comments.

Yours sincerely,

Russ Houlden

Russ Houlden
Chairman
Financial Reporting Committee

Matthew Lester
Chairman
Investor Relations & Markets Committee

The 100 Group

Corinne Brook
Policy Lead for Prompt Payment
Department of Business, Energy and Industrial Strategy
1 Victoria Street
London
SQ1H 0ET

19 October 2016

Copy sent to the Secretary of State, Department of Business, Energy and Industrial Strategy

Dear Corinne

Research into the cost to businesses of the proposed new payment reporting requirements

We sent you a letter on 19 September 2016 highlighting our concerns with the proposed payment reporting requirements for large businesses. We are writing to you again as we have carried out further research into the proposed requirements, and we wanted to share the results of that research with you.

On an NPV basis our best estimate of the cost to the FTSE 100 of meeting the proposed requirements is around £100 million. The cost to the broader UK business environment is likely to be a multiple of this figure as large UK companies exist outside the FTSE 100. This is much higher than the previous cost estimates produced by the Department of Business, Energy and Industrial Strategy (BEIS). We strongly ask BEIS to consider this cost and the impact it may have on jobs and investments, and on the perception of adding to red tape, when deciding if the benefits of the proposed requirements are justifiable.

The estimated NPV cost of £100 million is based on a representative sample of 11 of the 100 companies in the FTSE 100. One-off costs to meet the proposed requirements range from £10k to £1,000k, with an average cost of £189k. Ongoing costs to meet the proposed requirements range from £5k to £150k annually, with an average cost of £41k annually. The range of costs from our research demonstrates the difference in size and complexity of companies, the capability of current systems to produce the data, and group structures. We understand that BEIS's research sample only includes two FTSE 100 companies which we consider unrepresentative of the diverse nature of the FTSE 100. An overview of our research is set out in more detail in appendix A.

The majority of responses to our research consider the guidance that will supplement the reporting requirements important so companies can a) ensure they are ready to report when required to do so, and b) determine any refinement to their cost estimation. Any delay of this guidance, which we understand is now due to be released in January 2017, may impact companies' ability to produce robust reporting.

We understand that BEIS held a stakeholder meeting on 13 October 2016. We would like to confirm the following with you:

- **Timing of reporting** - the requirement will become live for large companies on 6 April 2017. Therefore, companies will be required to report on the first 6 months of the first financial year starting after 6 April 2017.
- **Location of reporting** - Companies will not be required to report this information in their Annual Report. Instead, companies will submit this information on a semi-annual basis to a government-run digital portal.
- **Assurance** - There will be no requirement for a company to have this information assured by a third party. Not requiring companies to obtain assurance on the

reported information will reduce ongoing costs. However, some companies may still choose to obtain assurance to ensure the information is robust and meets the statutory requirements.

- **Narrative reporting –** To address the issue of the reporting being 'fit for purpose' companies can explain their results by including narrative to the reporting requirements. However, this is likely to be a further cost burden for companies which is not included in the above cost analysis.

Whilst carrying out our research, we have collated a number of questions on the proposed reporting requirements. These are included in Appendix B. We encourage BEIS to clarify these in the guidance that is to be released in January 2017. Some of the questions identified are due to industry practice and specific business arrangements. It is highly likely that there are other questions unique to industries and businesses that are not included. We strongly encourage BEIS to consult further on the requirements and guidance in order to get a complete understanding of these complexities. Without more considered and prescriptive guidance, we believe the quality of the information produced by companies will be poor, un-comparative, and will not serve the purpose intended.

Our view, as stated in our original response, is that the proposed requirements are disproportionate, will be costly for businesses, and lead to unhelpful misinterpretations.

We support the government's initiative to improve the transparency of payment terms and to assist small suppliers in receiving payments on time. However, the mechanism to achieve this needs to be cost effective and fit for purpose. In 2015 you consulted on the Small Business Commissioner and suggested one of its main functions is to offer mediation to resolve payment disputes between small and large companies. We think this mechanism is more appropriately targeted at the real issue which we understand is to identify large businesses that do not pay their suppliers in line with agreed payment terms or those whose payment terms are unreasonable. This is likely to be more cost effective and less time consuming for large companies who already pay suppliers on time, and also require small companies to consider their responsibilities before escalating a dispute. Once the Small Business Commissioner has gained experience in the role, they may decide that some form of reporting from large companies is still required which is more focused and appropriately targeted than the current proposal.

Please feel free to contact us through the 100 Group's website, www.the100group.co.uk, should you wish to discuss our comments.

Yours sincerely,

Russ Houlden

Chairman

Financial Reporting Committee

Matthew Lester

Chairman

Investor Relations & Markets Committee

Who we are

The 100 Group of Finance Directors represents the views of the finance directors of FTSE 100 and several large UK private companies. Our member companies represent almost 90% of the market capitalisation of the UK FTSE 100 Index. Our aim is to contribute positively to the development of UK and international policy and practice on matters that affect our businesses, including taxation, financial reporting, corporate governance and capital market regulation. Whilst this letter expresses the views of The 100 Group of Finance Directors as a whole, those views are not necessarily those of our individual members or their respective employers.

Appendix A – overview of 100 Group research

Some companies are still considering the costs of meeting the requirement and it is likely the costs listed below will increase. These costs are estimates based on the high-level information received to date. The high-level information is open to interpretation (For example, the invoice metrics specification does not clarify whether the information should be based upon numbers of invoices or alternatively presented by value of invoices). Once the Guidance, due to be released by BEIS in January 2017, is known this is likely to have a further impact on the cost estimates below.

	Costs £k Initial	**Costs £k Annual**
Company A – FTSE 100	19.0	27.0
Company B – FTSE 10	10.0	22.0
Company C – FTSE 10	1,000.0	150.0
Company D – FTSE 10	30.0	12.0
Company E – FTSE 100	30.0	5.0
Company F – FTSE 50	47.0	85.5
Company G – FTSE 50	150.0	TBC
Company H – FTSE 100	30.0	30.0
Company I – FTSE 100	36.2	36.0
Company J – FTSE 10	25.0	25.0
Company K – FTSE 50	700.0	13.0

Average initial cost		= £189k
Average annual cost	= £41k	
Assuming a discount factor	= 5%	
Annual cost in perpetuity		= £820k
Average NPV cost to one company		= £1m
x100 as 100 companies in the FTSE 100		**= £100m**

Appendix B – Summary of Questions

Practicalities

- What are the requirements and the transitional period/timeline for legal entities that become "Large" within a period?
- With the reporting requirements coming into effect from 1 April 2017 and the need to build a solution over the next six months, it is important that a full specification be released no later than the [end of November 2016]
- How confidential will the information be? For example, will it only be accessible by agreed suppliers?
- How will the reporting be submitted and in what format?
- Is it a separate reporting arrangement or should it be included in annual reports or other existing business reporting cycles?
- How many times is the reporting required and when in the financial year?
- In some cases the reporting may be considered market sensitive. What should companies do if this is the case?

Details of the reporting requirement

- What is considered "paid", when payment is initiated or monies cleared in the supplier's bank account?
- Is it applicable to report the net value of the invoice i.e. how do we include deductions?
- Is this based on the numbers of invoices or value of invoices?
- What is the definition of "date of issue" and "date of invoice"? – As there can be lag between when suppliers and customers receive them back from suppliers.
- Does the term "Third party" include all external suppliers to the company? For example, does this include payments to Councils, Government agencies etc.
- Does this apply to payments to suppliers for both Goods for resale and Goods/Services not for resale but internal consumption and running operations?
- The invoice metrics requirements initially ask for payments made in the reporting period, thereafter they ask for invoices due in the period – these are potentially two different datasets, is that the intention?
- For "payments due: a) paid within 30 days" – is the assumption 30 days from invoice date, not the due date?
- How is VAT treated? For example, a payment system only includes VAT
- Further clarity is needed on what costs are included and excluded. These include:
    - One Time Vendor Payments,
    - Manual Payments (e.g. Charities and Donations),
    - Card payments,
    - Payments of rebates,
    - Payments of temporary/agency worker timesheets via posted invoices,
    - Payments made directly from banking portals,
    - Payments made to UK vendors via AMEX,
    - Self-billing- the invoice date on a self-billed invoice is created by the customer at the point of payment and as such may not provide an indicative view of the length of time it takes for a supplier to be paid.
    - Electronic invoice uploads – may contain multiple invoice documents for a calendar month or earlier periods which are input on the same day , this can result in documents being reported as paid late but in reality they have been paid on time.
    - Supplier invoice errors and disputed invoices - if an invoice is in dispute this may result in an invoice being reported as overdue based upon the invoice date, and some organisations may take the view that the due date should be determined when

the invoice dispute has been resolved. Is it appropriate to amend the ageing in this way?
  - Credit notes- may prevent invoices due for payment not being cleared until the credit has been fully utilised.
  - Local authorities invoices are issued as payable immediately and therefore may be reported as paid late, as they cannot reasonably be expected to be paid on the day issue.
  - Recurring payments- paid in instalments may have one invoice date for multiple payments throughout the year, and could be misreported.
- We have identified some industry practices that will need to be considered, these include:
  - How to report the netting of invoices between customers and suppliers?
  - Do we need to identify domestic supplier payments and imports?
  - How do we identify the beneficiary country in certain inventory ownership models (e.g. Inventory may be bought from a UK supplier but on behalf of a non-UK factory).

Fit for purpose

- Reporting metrics should be simple and cost effective. Suggestions would include:
  - Allow reporting on a group level basis and not by individual entity.
  - Reporting to be against standard payment terms only (as currently) and not by period `buckets`.
  - Exception process for some supplier payment classifications.
  - Only those SME suppliers who have formally registered their entitlement to the reporting company should be included.
  - Materiality tolerances accepted considering the complexities of such reporting.
- We do not believe this reporting will necessarily provide a meaningful representation of payment performance to those small and medium sized suppliers to which prompt payment terms really matter. For example:
  - Normally every business has valid disputes or partial payments, is there a specific reason to exclude them?
  - Aside from specific contractual obligations (e.g. government related contracts) it should also take into account the type of vendor – e.g. our payment terms for SMEs are relatively short, but are usually longer for large corporates on a commercially negotiated basis.
  - The reporting does not reflect that in the majority of cases, late payment of invoices is due to the vendor failing to present a valid, timely invoice. The user of the report will assume that the customer (large business) is always accountable for late payment. The reporting should show the impact of late receipt of invoice, in order to ensure that we are isolating/reporting on sole instances where the customer (large business) is wholly responsible for late payment.