National Audit Office

Report
by the Comptroller
and Auditor General

Cabinet Office and Department for Business, Innovation & Skills

Paying government suppliers on time

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Report by the Comptroller and Auditor General

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Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

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This report examines implementation of the prompt payment policy by central government departments, including the case for the prompt payment commitment, departments' reported performance, action to ensure subcontractors benefit and the role of the centre of government.

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Contents

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Key facts

80%
percentage of undisputed invoices that departments aim to pay within 5 working days

4,000
number of small and medium-sized enterprises that ceased trading in 2008, citing late payment as the cause

£40bn
annual payments to suppliers by central government in 2012-13

4 million	electronic transactions paid by our 4 case study departments in 2013-14
520,000	paper invoices paid by our 4 case study departments in 2013-14
15 departments	who **reported** meeting the 5-working day target in 2013-14 for all transactions (of 17 main departments)
3 to 7 weeks	time taken by our 4 case study departments to pay 80% (by value) of paper invoices, commonly used by small and medium-sized enterprises
30 days	maximum time allowed for main contractors on government contracts to pay their subcontractors
0 of 4	number of departments we looked at that monitor their suppliers' compliance with contractual requirement to pay subcontractors within 30 days
20 of 44	number of central government's strategic suppliers that have signed the Prompt Payment Code

Summary

1 In March 2010 the government announced that departments would aim to pay 80% of undisputed invoices within 5 working days. This was a revision of the original prompt payment commitment introduced in 2008 to pay 90% of invoices within 10 working days. Government also announced that departments would require their contractors on all new contracts to pay subcontractors within 30 days. Prompt payment is intended to improve the cash flow of companies doing business with government departments, in particular the UK's 5 million small and medium-sized enterprises (SMEs).

2 The government believes a culture of late payment is preventing UK businesses, especially SMEs, from investing in growth and fully contributing to economic recovery. SMEs generate half of the annual turnover of UK businesses, but they often lack access to credit and may get into financial difficulties because of late payment by customers: a survey in 2014 suggested that late payment was a major factor in 1 in 5 UK corporate insolvencies.

3 Central government spends £40 billion a year on goods and services, of which about £4.5 billion is spent directly with SMEs. An additional £4 billion is spent with SMEs indirectly – where SMEs are subcontractors to government contracts.

4 The Cabinet Office has had responsibility since 2010 for the development and implementation of the prompt payment policy in the public sector and for government's procurement strategy. The Department for Business, Innovation & Skills (BIS) is responsible for overseeing prompt payment in the private sector and for encouraging the growth of SMEs.

5 This report examines:

- the case for the prompt payment commitment and whether the guidance and reporting requirements for departments are clear (Part One);
- government departments' reported performance against the 5-day target (Part Two);
- government action to ensure subcontractors benefit from the prompt payment policy (Part Three); and
- the role of Cabinet Office and BIS in supporting and monitoring the drive for prompt payment within government and the private sector (Part Four).

As part of our audit, we looked in detail at how 4 departments have implemented the prompt payment policy. These were: Ministry of Defence (MoD); Home Office; Department for Business, Innovation & Skills (BIS); and the Cabinet Office.

Limitation on scope

6 This report focuses mainly on implementation of the prompt payment policy by central government departments. We have also considered, to a more limited extent, government work in relation to prompt payment by the private sector. We have not examined the wider public sector (for example, local authorities and NHS trusts), which spends an additional £147 billion each year on goods and services.

Key findings

Prompt payment commitment

7 **UK business welcomes the government's commitment to pay 80% of undisputed invoices within 5 working days. This is significantly quicker than usual commercial payment terms of 30 days or more.** Business representatives told us that prompt payment by government helps businesses better manage their cash flow. It also helps tackle the culture of late payment by setting a positive example (paragraphs 1.2 to 1.12).

8 **Government has not been able to provide us with its estimates of the costs and benefits of the prompt payment commitment.** The commitment should lead to fewer business failures and reduce suppliers' costs, but BIS and the Cabinet Office were unable to locate the official papers setting out the policy's original objectives and its estimated costs and benefits. We estimate that if all departments paid all invoices in 5 working days, rather than taking the 30 days allowed by statute, this might benefit suppliers by reducing their interest costs by up to £88 million a year. However, we also estimate that paying suppliers early might lead to a one-off increase of up to £2.5 billion in government's working capital requirement. Assuming this is financed by an increase in national debt, we estimate this would cost government around £55 million a year in increased interest payments. Although our rough estimates suggest the commitment offers a net benefit, we have not quantified all costs and benefits so the net position is unknown (paragraphs 1.14 to 1.21).

9 **Government has not evaluated the prompt payment commitment to determine its effectiveness in helping small businesses.** SMEs tend to sit at lower levels of the supply chain and SMEs' representatives believe some large contractors hold on to cash paid promptly by government in order to boost their own working capital, rather than passing it down the supply chain. Despite this, government has not evaluated the impact of either the current or previous prompt payment commitment (paragraphs 1.17 to 1.18 and 3.5 to 3.8).

On departments' reported performance

10 **A lack of readily accessible guidance on what to report has led to variations in departments' reporting of their performance against the prompt payment target.** Guidance from 2010 requires departments to report their performance against the 5-day target both in their annual accounts and on their website, but this guidance is available only through an official 'archive' website. Most departments do report their performance in their annual reports, but every year a minority do not. For example, in 2013-14 only 14 of the 17 main departments reported their 5-day payment performance in their accounts. Two others published their performance on their website only. In addition to meeting the basic reporting requirement, some departments choose to publish other useful information. In 2013-14, for example, 8 departments reported their performance in paying suppliers within 30 days, and 7 reported the interest they paid on late payments (paragraphs 1.22 to 1.27).

11 **Departments are reporting good performance against the target, but headline performance in our 4 case study departments is skewed by a high volume of low-value electronic transactions with a few large suppliers.** Fifteen out of 17 departments reported that they met the target in 2013-14. In calculating performance, departments measure the volume rather than the value of invoices paid. Individual orders for low-value but high-volume items, such as train tickets and purchases made using a government procurement card, are each counted as a separate invoice; these goods and services are mainly provided by a small number of suppliers who invoice electronically. Except for the MoD, the departments we looked at have e-invoicing arrangements with only a small minority of their suppliers, yet e-invoices accounted for between 64% and 89% of their 2013-14 invoices. All 4 departments can achieve, or get close to achieving, the prompt payment target simply by paying their e-invoices promptly (paragraphs 2.2 to 2.3 and 2.7 to 2.10).

12 **Gaps in, and non-compliance with, central guidance means the 4 departments we examined have overstated their performance, and reported performance is not comparable between departments.** The 5-day target applies only to undisputed invoices, but 'disputed' is poorly defined. We found wide variation in the interpretation of this term and a lack of reliable data about the number of invoices excluded from reported performance. There is also inconsistency about when departments 'start the clock' for the 5-day period: some departments count only the days taken to pay once all approval processes are completed. Two of the 4 departments we looked at allow the operators of their shared service centres 6 working days to pay invoices, but count this performance as meeting the target (paragraphs 2.5 to 2.6 and 2.14 to 2.17).

13 **The 4 departments we looked at do not record the date they first receive paper invoices.** Suppliers have a statutory right to claim compensation if departments take longer than 30 calendar days to pay from the day of invoice receipt. The 4 departments we looked at record the date an invoice arrives at the team that pays invoices, but not when invoices are first received by the department. Such information is needed if compensation claims are to be swiftly concluded (paragraphs 2.16 to 2.23).

On the payment of SMEs and subcontractors

14 **SMEs report that although government pays more quickly than the private sector, the public sector still often pays late.** Three recent surveys indicate that SMEs are paid after more than 30 days approximately one-third of the time by their public sector clients. None of our 4 case study departments measures its own performance in paying SMEs. SMEs typically use paper invoices, and we found that it took the 4 departments we looked at between 3 and 7 weeks to pay 80% of the total value of their paper invoices in 2013-14 (paragraphs 2.2, and 2.18 to 2.19).

15 **In the absence of evidence that SMEs are benefiting from prompt payment by departments, we believe there is a risk that prompt payment mainly boosts the working capital of larger companies.** Only 11% of government procurement spend is directly with SMEs. Many SMEs do business with government as a subcontractor to larger companies above them in the supply chain. Although the 4 departments we looked at have all included a standard clause in their contracts requiring main contractors to pay their subcontractors within 30 days, none of the departments monitors whether their contractors are complying. This means companies at the top of government supply chains should receive payment within 5 working days but there is little pressure for them to release that cash to pay their own suppliers on time. Our 4 case study departments lack information about who their subcontractors are or whether they are being paid on time by the main contractors (paragraphs 1.8, and 3.2 to 3.8).

16 **There is little evidence that wider initiatives aimed at improving prompt payment of suppliers and subcontractors have had significant impact on payment performance in public sector supply chains.** Although companies that have signed the voluntary Prompt Payment Code tend to pay their suppliers more promptly, fewer than half of the government's most important suppliers have so far signed the Code. The Code lacks guidance on what constitutes fair payment terms, and there are no effective sanctions if a signatory does not comply with it. Although the evidence is limited, there are some indications that the Cabinet Office's Mystery Shopper Service, which investigates complaints from government suppliers while protecting their identity, has a low profile among subcontractors, and those who have heard of it fear that making a report will lead to a loss of business. Government has not evaluated the effectiveness of project bank accounts, a payment mechanism that enables government to pay subcontractors at the same time as the main contractor (paragraphs 3.9 to 3.17).

Role of the centre of government

17 **The Cabinet Office, representing the centre of government, has shown little strategic leadership on prompt payment in the public sector, until recently.** Although guidance on performance measurement and reporting exists, the guidance is not readily accessible, which is leading to inconsistent reporting by departments. The Cabinet Office has not monitored departments' compliance with the guidance, nor has it identified or shared with departments good practice in the processing of invoices. Furthermore, it has not actively encouraged prompt payment reporting by the wider public sector (paragraphs 1.16 to 1.18, 1.26 to 1.27, 2.6 and 4.2 to 4.8).

18 **The Cabinet Office and BIS are currently reviewing the prompt payment policy for the public and private sectors.** Alongside the Small Business, Enterprise and Employment Bill currently under consideration by Parliament, associated secondary legislation contains measures recommended by Lord Young, the Prime Minister's Special Advisor on Enterprise, intended to improve prompt payment by the public and private sectors. The Cabinet Office told us the measures will clarify responsibilities for monitoring prompt payment in the wider public sector. BIS is consulting on a requirement for large companies to report their payment practice. The Cabinet Office also plans to reissue the guidance for departments on reporting prompt payment performance and to monitor departments' compliance with the new guidance (paragraphs 4.5 to 4.7).

19 **Limited progress has been made in introducing electronic invoicing.** Electronic invoicing can reduce processing times and costs for both suppliers and customers. In 2010 the government said departments would explore the use of electronic invoicing for all suppliers. Although the 4 departments we looked at use electronic invoicing with some high-volume/low-value suppliers, none of them routinely allow small suppliers to submit e-invoices. Secondary legislation is under development which will make the acceptance of e-invoices by public bodies mandatory in due course (paragraphs 2.13, 4.6 and 4.9 to 4.12).

Conclusion on value for money

20 UK business welcomes the government's commitment to pay 80% of undisputed invoices within 5 working days. However, there is little evidence that the commitment is having the intended effect of helping SMEs. There is a risk that the main effect is to boost the working capital of main contractors rather than benefiting other businesses in the rest of the supply chain.

21 Almost all departments have publicly reported good performance against the target, which covers £40 billion of government annual procurement spend. However, government's method of measuring performance is flawed and is not adhered to by the 4 departments we looked at, meaning that their reported performance is overstated. Very large numbers of electronic invoices from a few suppliers, and delays in 'starting the clock', mean these departments can meet the target even while most suppliers, including SMEs, are receiving a significantly lower standard of performance than is being reported. We conclude that the Cabinet Office cannot demonstrate that the implementation of the prompt payment commitment is achieving its intended purpose and therefore providing value for money.

Recommendations

22 The Cabinet Office should strengthen its strategic leadership of public sector prompt payment:

a Set out the **principal objectives** of the 5-day payment commitment and its estimated costs and benefits.

b Revise the **guidance on the measurement and reporting** of prompt payment performance to:

- count the days taken to pay an invoice from the date the invoice is first received by the department, to bring UK practice into line with EU legislation;
- provide a clearer definition of a disputed invoice;
- require public sector bodies to extend their reporting to include the value of invoices paid within the target period, the number of disputed invoices, performance in paying in 30 days, and interest and penalties paid; and
- ensure that all public sector bodies report performance in a consistent location.

c Seek assurance that departments and other public bodies are **complying with the updated guidance**.

d Actively identify and disseminate **good practice** in prompt payment across government and the wider public sector.

e Develope a **strategy to encourage** the wider public sector to pay their suppliers promptly and report their performance in doing so.

23 BIS and the Cabinet Office should:

f Assess the best way to extend **the use of e-invoicing**, bearing in mind its costs and benefits to government and to suppliers.

g Better **promote the existing initiatives** intended to ensure subcontractors are paid on time: the use of project bank accounts, the Prompt Payment Code and the Mystery Shopper Service.

24 Government departments should:

h Comply fully with **performance measurement and reporting requirements** set by the centre of government.

i Ensure the **date invoices are first received** is accurately recorded.

j Monitor **compliance by key contractors** in paying subcontractors within 30 days.

Part One

Development of the prompt payment policy

1.1 This part of the report covers the development of the government's policy to pay its suppliers promptly.

Importance of payment on time

1.2 Cash flow is the lifeblood of any business. Businesses need cash to buy supplies, pay employees, service debt and invest in equipment and training; this cash usually comes from receipts for sales.[1] However, when selling to other businesses, companies usually make sales on credit, receiving payment only after they have supplied goods or services and invoiced the customer. Payment is normally due within an agreed number of days after the invoice date. A recent survey of small businesses suggests that they most commonly seek payment in 28–30 days (73%). A further 7% require payment within 7 days, 15% between 15 and 21 days, and 5% agree payment terms of more than a month.[2]

1.3 When a business incurs the cost of providing goods and services upfront, being paid on time is very important. If payment is not received within the agreed payment period, the supplier incurs additional costs chasing payment. Reduced cash flow may mean planned investment in the business cannot go ahead and may prompt the need to borrow more. In extreme cases, late payment can result in a profitable company going bust and this can have a knock-on effect triggering the insolvency of other companies further down the supply chain. To avoid the downsides of late payment, businesses may be able to use a factoring service which, for a fee, will exchange unpaid invoices for cash. This can be especially attractive where the agreed payment terms are long. However, when using a factor, the supplier suffers a discount on the value of the unpaid invoice.

1.4 A survey of 275 insolvency practitioners in January 2014 found that late payment was a major factor in around 1 in 5 of the corporate insolvencies they handled.[3] This suggests late payment played a key role in around 3,000 of the 15,200 corporate insolvencies in England and Wales in 2013-14.

1 Other sources of cash include loans from banks or private investors, and equity (cash in return for shares in the company).
2 Federation of Small Businesses, *The FSB 'Voice of small business' member survey – UK*, 2013. Based on 4,063 respondents offering credit (excluding "other" and "it varies" responses).
3 R3 (Association of Business Recovery Professionals), press release 11 April 2014. Based on a survey of R3 members.

1.5 The government has said it is committed to tackling the UK's culture of late payment, which it says is preventing businesses – and small and medium-sized enterprises (SMEs) in particular – from investing in growth and contributing to economic recovery. By October 2013 there were around 5 million SMEs in the UK, accounting for 99.9% of private sector businesses. They employ more than 14 million people, and generate around half of UK businesses' turnover. Business representatives, especially those representing SMEs, are concerned about the common practice of customers disputing invoices close to or after the payment period has ended,[4] overly long payment terms in some industries (for example, up to 120 days in construction), and pressure on some suppliers to discount the sum they are owed in return for being paid on time.

1.6 Research by Bacs Payment Schemes Ltd, the company responsible for Direct Debit in the UK, found that the total value of overdue invoices owed to UK SMEs increased from £18.6 billion before the 2008 credit crunch, to more than £30 billion by early 2014 (**Figure 1**).

1.7 SMEs are particularly vulnerable to slow payment because they often lack access to alternative sources of finance to cover delays in payment. At the same time, however, they tend to have little scope to demand timely payment from the larger businesses they supply because they rely on the continuing custom of those businesses to survive. Of 5,000 SMEs surveyed between April and June 2014, 10% said that cash flow or issues with late payment was a major obstacle to running their business.[5] And following the 2008 financial crisis, 4,000 UK SMEs cited late payment as the reason for ceasing to trade.[6]

Prompt payment policy

1.8 Central government spends £40 billion a year on goods and services, of which about £4.5 billion (11%) is spent with SMEs. At least another £4 billion is spent indirectly with SMEs – where SMEs are subcontractors on government contracts.

1.9 By law, public sector organisations cannot agree payment terms that exceed 30 calendar days.[7] However, the government recognises the importance of cash flow to UK businesses, especially SMEs, so it aims to pay most invoices more quickly than the 30-day legal requirement.

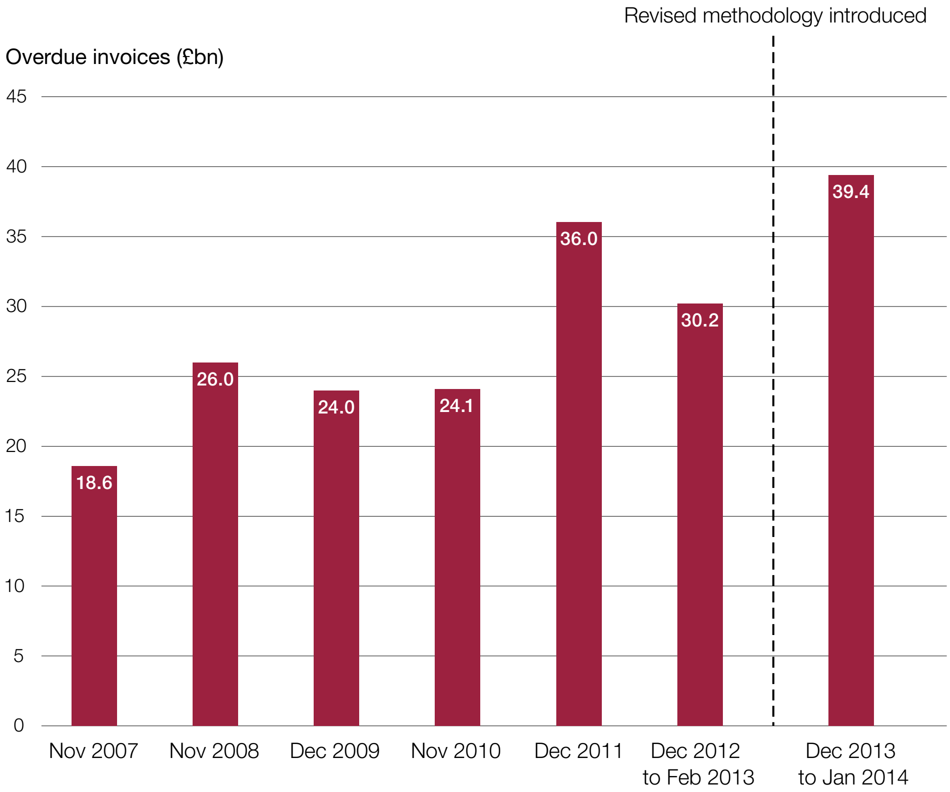
1.10 Government first introduced prompt payment targets for Whitehall departments in 2008. At this point the aim was to pay 90% of undisputed invoices within 10 working days. In 2010 the government announced a revised target requiring departments to pay 80% of undisputed invoices within 5 working days.[8] At the same time, government announced that all new contracts signed by departments would require the main contractor to pay their subcontractors within 30 calendar days (**Figure 2** on page 14).

4 Debbie Abrahams MP, *The report from the all-party inquiry into late payments in small and medium-sized enterprises*, July 2013.
5 BDRC Continental, *SME Finance Monitor*, Q2 2014.
6 Department for Business, Innovation & Skills, *Building A Responsible Payment Culture, A Discussion Paper*, December 2013.
7 Late Payment of Commercial Debts Regulations 2013.
8 HM Treasury, *Budget report 2010*, March 2010.

Figure 1

Estimated level of overdue invoices owed to UK SMEs, 2007 to 2014

The banking industry body, Bacs, says the level of overdue invoices owed to SMEs has increased significantly since 2008



Note

1 From 2008 to 2013, results were based on 500 interviews and extrapolated to reflect all UK SMEs. A revised method was used in 2014 that cannot be directly compared with earlier years.

Source: Bacs Payment Schemes Ltd

1.11 The government's commitment to pay the majority of invoices within 5 working days is significantly better than the standard payment terms used in many UK business sectors. Contracts between private businesses commonly require payment within 30 calendar days of the invoice date, and in some sectors longer payment periods are the norm.[9] Unlike government, businesses do not tend to pay their suppliers in advance of the agreed payment period.

1.12 Business representatives told us they strongly supported government's prompt payment commitment and welcome any measure that helps their members to better manage their cash flow. They also told us that when government pays promptly it makes it harder for private firms to insist on slow payment terms and to claim they cannot pay invoices more quickly.

9 The Construction Supply Chain Payment Charter, which was agreed with the sector by the Department for Business, Innovation & Skills (BIS) in April 2014, requires signatories to pay suppliers within 60 days, reducing to 30 days by 2018.

Figure 2

Legislation and commitments relating to central government's payment of its suppliers

Standard payment terms (legal requirement)

The standard terms and conditions in most central government contracts require payment within 30 calendar days. This complies with EU Directive 2011/7/EU. However, public sector organisations are free to agree shorter payment periods with their suppliers.

Prompt payment (government commitment)

All central government departments aim to pay 80% of undisputed invoices within 5 working days.

Prompt payment of subcontractors (government commitment)

Central government departments' contracts include a clause requiring suppliers to pay their subcontractors within 30 calendar days.

Interest and penalties after 30 days (legal requirement)

Suppliers have a statutory right to claim interest and penalties on invoices paid after 30 days (unless the contract specifies a different period).

Source: Budget Report 2010, Late Payment of Commercial Debts (Interest) Act 1998, Late Payment of Commercial Debts Regulations 2013

Roles and responsibilities

1.13 Two government departments play central roles in relation to the prompt payment policy:

- The Department for Business, Innovation & Skills (BIS) developed the original 2008 prompt payment policy for the public sector, and the accompanying performance measurement guidance. In 2010 this responsibility transferred to the Cabinet Office. BIS continues to be responsible for prompt payment policy for the private sector, and for encouraging the growth of SMEs.
- The Cabinet Office has had responsibility for the prompt payment policy in the public sector since 2010. It is also responsible for government's overall procurement strategy, including the commitment to increase the proportion of government business with SMEs to 25%,[10] and for the performance of shared service centres, which include teams responsible for processing suppliers' invoices.[11]

In addition, HM Treasury has a cross-government responsibility for public finances, including managing working capital, and for ensuring government policies are value for money for the taxpayer.

10 The commitment to increase the proportion of government business with SMEs to 25% includes subcontracting and other indirect spending.

11 There are currently 6 major shared service centres providing a wide range of services (including procurement, bill paying, human resources, finance and payroll) for a number of departments and agencies.

Benefits and costs of the policy

1.14 The policy of paying government's suppliers promptly should bring financial benefits to UK businesses; if invoices are paid more quickly this enables businesses to reduce their overdrafts, thereby reducing their interest payments. Prompt payment should also reduce the cost to businesses of chasing public sector bodies for payment of overdue invoices, and the wider economy will benefit from fewer failed businesses.

1.15 In terms of costs, the working capital government has available to fund its operations falls when it pays its suppliers promptly. If government has less cash than it needs (in part because it has paid its suppliers promptly), it will need to borrow to make up the shortfall, or else reduce its spending elsewhere in the short term. Furthermore, departments told us they incur extra administrative costs when paying invoices more promptly, although cost estimates are not available. The Cabinet Office and BIS argue that, in theory, these costs will be offset somewhat by suppliers offering lower prices to reflect their reduced interest costs. However, we have seen no evidence that this occurs in practice.

1.16 To ensure value for money from the prompt payment policy we would expect BIS and the Cabinet Office to:

- have quantified the cost to taxpayers and benefits to businesses of the prompt payment policy, before implementing it in 2008 and revising it in 2010 (paragraphs 1.17 to 1.18);
- monitor the actual cost and benefits of the policy during its operation (paragraphs 1.19 to 1.20); and
- check that the performance reported by departments and other public sector bodies is accurate and is consistent with the guidance (paragraphs 2.5 to 2.18).

No data on costs and benefits

1.17 Officials told us that the policy was intended to help businesses, particularly SMEs, in order to boost economic growth.[12] However, the government has no record of the policy's original detailed objectives or the estimated costs and benefits of the policy prior to implementation. Neither BIS nor the Cabinet Office were able to provide us with the original business cases for the prompt payment policy. BIS told us that although a business case had been prepared for the 10-day target introduced in 2008, they were unable to locate a copy. The Cabinet Office also could not provide us with any analysis underpinning the decision to reduce the payment target from 10 to 5 working days in March 2010.

12 SMEs employ 14.4 million people and have a combined turnover of £1,600 billion, according to BIS's *Business Population Estimates for the UK and Regions 2013*, October 2013.

1.18 Although a prompt payment commitment for central government has existed since 2008, the government has never evaluated the policy to determine whether it is in fact benefiting SMEs and whether the benefits outweigh the costs.

National Audit Office (NAO) estimates of costs and benefits of the prompt payment commitment

1.19 It is government's task to estimate the costs and benefits of its policies. However, in the absence of any government information which quantifies the benefits and costs of prompt payment, we have generated our own rough estimates. We estimate that if all departments paid all invoices in 5 working days, rather than taking the 30 days allowed by statute, the benefit to businesses from reduced interest costs would be around £88 million a year.[13] It is harder to quantify the benefit of the reduced cost to businesses of chasing overdue invoices, or the wider economic benefits of fewer business failures, and we have not sought to do so.

1.20 We estimate that paying invoices within 5 working days rather than the statutory limit of 30 days may have led to a one-off increase in government's working capital requirement of up to £2.5 billion.[14] In the current fiscal environment it is reasonable to assume this increase in working capital is met through increased borrowing,[15] and we estimate the cost of the interest on this additional debt is around £55 million a year.[16] We have not sought to quantify all the stated costs and benefits of the policy, so the net position is unknown, and our estimates are based on simplifying assumptions, which means they are subject to inherent uncertainty.

1.21 Prior to the introduction of the 10-day target and in response to the 2008 financial crisis, the government announced that all departments would pay suppliers "as soon as possible".[17] The Cabinet Office and BIS told us that, as a result, they believe the incremental costs of moving initially to a 10-day target in October 2008, and then to the 5-day target in 2010, were small since most departments were reporting they were already close to meeting the 10- and 5-day targets when they were introduced. This suggests that the most significant impact of the policy on government's working capital was in early 2008 when the first commitment to pay as soon as possible was made. Neither the Cabinet Office nor BIS could provide any documentation relating to the decision to pay suppliers as soon as possible.

13 This figure is based on a reduction in businesses' working capital requirements (see Footnote 14) and typical business overdraft rate (£2.5 billion x 3.5% = £88 million). See HSBC interest rates at: www.business.hsbc.co.uk/1/2/interest-rates/finance-borrowing (accessed November 2014). Some SMEs may pay higher rates, while others have no overdrafts.

14 This increase in government's working capital requirement arises from bringing forward the annual procurement spend of central government by 23 days (£40 billion x 23/365 days = £2.5 billion).

15 An increase in working capital adds to the government's borrowing requirement unless government can raise taxes, collect debt more quickly or spend less in other areas. At the time of writing, in February 2014, our report on *Managing debt owed to central government* (HC 967) found that a lack of attention to debt meant that government's working capital was larger than necessary.

16 This is based on the government's increased working capital requirement (Footnote 14) and the 10-year Government Bond interest rate in November 2014 (2.19% x £2.5 billion = £55 million).

17 Hansard, 8 October 2008, columns 268-9.

Reporting requirements for central departments

1.22 Current reporting guidance, developed in March 2010 by the Office of Government Commerce (then an agency of HM Treasury), instructed departments to report their prompt payment performance in their annual report and on their website. However, this guidance is now available only through an official 'archive' website.

1.23 In 2013-14 all but 1 of the main 17 departments publicly reported their performance in some form. However:

- only the Department of Energy & Climate Change met the requirement to report its performance in both its annual report and on its website;
- thirteen departments reported their annual performance only in their annual report;
- the Ministry of Justice reported its annual and monthly 5-day payment performance only on its website;
- the Department for Work & Pensions reports its latest monthly performance on its website rather than its annual performance; and
- the Department for Environment, Food & Rural Affairs (Defra) has not reported its 2013-14 performance either in its annual report or on its website.

The Cabinet Office intends to tell departments they should publish 5-day payment performance information either in their annual report or on their websites from 2014-15.

1.24 In practice, when compiling their annual reports, departments follow guidance issued annually by HM Treasury, which sets out the required content. The requirement to report prompt payment performance was removed from the 2013-14 version of the guidance following a modification of the Companies Act 2006. The Cabinet Office told us that this did not affect the requirement on departments to report their performance publicly.[18] However, 3 departments that had previously reported their prompt payment performance in their annual reports ceased doing so in 2013-14.[19]

18 During 2014, the Companies Act requirement to report prompt payment performance in companies' annual accounts was repealed in order to reduce the regulatory burden on companies.
19 These departments were the Ministry of Justice, Department for Work & Pensions and Defra.

1.25 The Cabinet Office has not set out detailed guidance on which aspects of prompt payment performance should be reported, other than to indicate that the former 10-day performance should not be reported on. Some departments have helpfully gone beyond the basic requirement of reporting their 5-day performance. In 2013-14 for example:

- performance in meeting the statutory requirement to pay invoices within 30 days was reported by 8 of the 17 main departments; and
- interest paid on payments made after 30 days was reported by 7 departments.

Payment and reporting by other public sector bodies

1.26 This report is primarily concerned with payment by central government departments. We did not examine prompt payment by the wider public sector, for example local authorities and NHS Trusts, which spends £147 billion a year on goods and services. In a 2011 survey, local government and health trusts were more than twice as likely to be described by the SME respondents as poor payers compared with central government and its agencies. By paying its suppliers promptly, central government can set an example to other parts of government.

1.27 Other central government bodies, such as agencies and non-departmental public bodies, are encouraged to report their prompt payment performance on the government website (www.gov.uk). We reviewed the latest annual reports of 36 bodies sponsored by our 4 case study departments and found that 16 of the 25 BIS bodies reported their performance against the 5-day target, while only 2 of the 11 bodies sponsored by other departments did so.

1.28 The government also encourages, although it cannot compel, wider public sector bodies such as NHS trusts and local authorities to publish their prompt payment performance data on the website data.gov.uk. However, as at January 2015, there were no recent reports from such bodies on the website. The Cabinet Office told us it is responsible for monitoring the prompt payment reporting in the wider public sector until the Small Business, Enterprise and Employment Bill passes into statute. At that point, responsibility will pass to the relevant lead department, for example the Department for Communities and Local Government in the case of local authorities.

Part Two

Performance in paying invoices promptly

2.1 This part of the report examines performance reported by the 17 main departments in paying 80% of undisputed invoices within 5 working days. It also presents our detailed findings on the performance of 4 departments.

Reported performance, 2010-11 to 2013-14

2.2 Since the revision of the 10-day target in 2010, departments have reported good performance in paying undisputed invoices within 5 working days. In 2013-14, 15 of the 17 main departments reported, either publically or internally, that they met the 80% target. Reported performance ranged from 77% to 98% of invoices paid within 5 working days (**Figure 3** overleaf). However, while recent surveys tend to suggest that central government and agencies are better at paying on time than businesses, they also indicate that government performance may not be as good as departments' reported statistics indicate:

- a 2012 Department for Business, Innovation & Skills (BIS) telephone survey of 500 small and medium-sized enterprises (SMEs) with employees found only 6% of SMEs reported that public sector bodies paid invoices within 10 days, and 32% reported payment in more than 30 days;[20]
- a 2012 British Chambers of Commerce survey to which 5,343 businesses responded found that 34% of public sector bodies paid late (compared with 62% of private sector customers);[21] and
- in 2013, 8,737 members of the Federation of Small Businesses reported that central government paid late 29% of the time (compared with 36%–51% of private businesses).[22]

20 Available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/34807/12-p75c-sme-business-barometer-june-2012.pdf

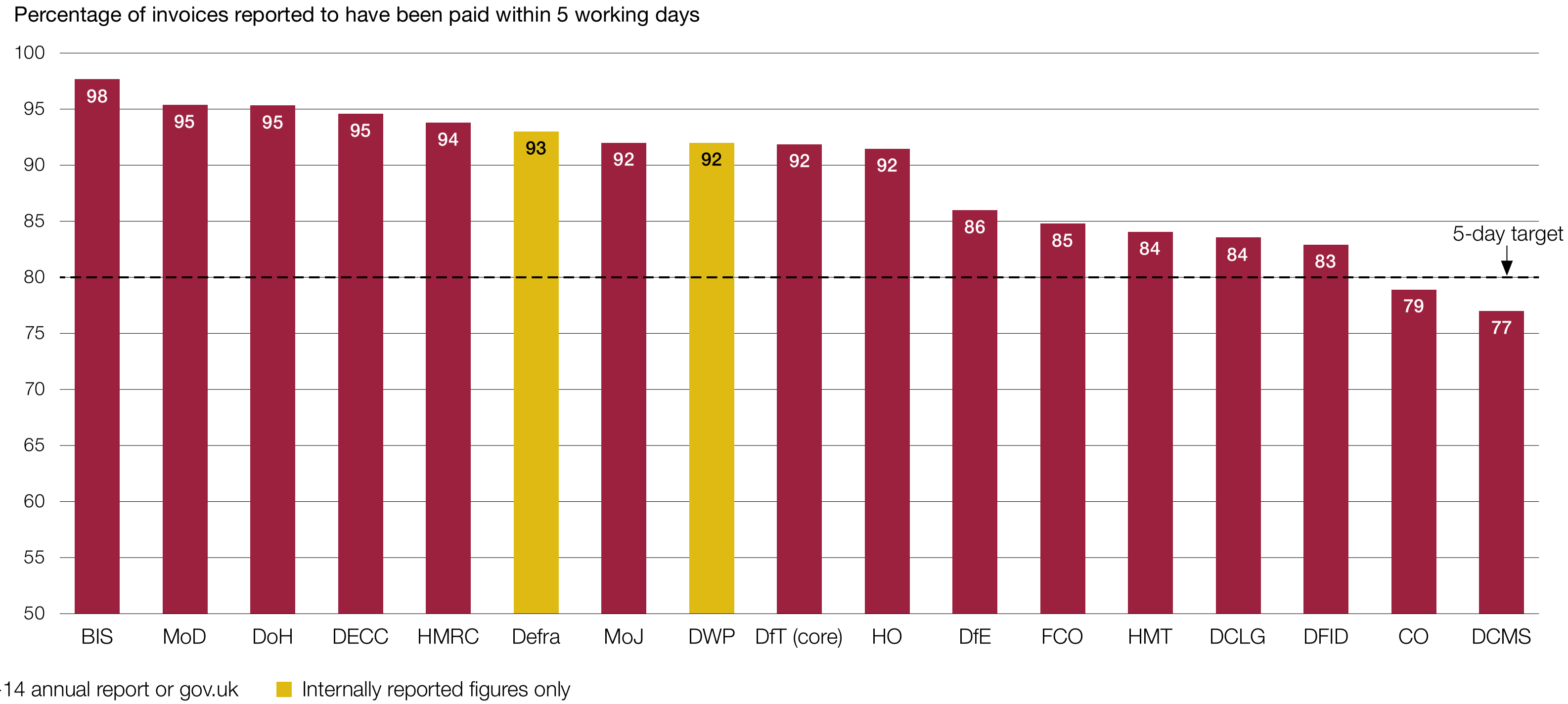
21 Available at: www.britishchambers.org.uk/assets/downloads/policy_reports_2012/12-09-25%20Supply%20Chain%20Survey.pdf

22 Federation of Small Businesses, *The FSB 'Voice of small business' member survey – UK*, 2013.

Figure 3

Central government departments' reported performance in paying 80% of undisputed invoices within 5 working days, 2013-14

All but 2 departments reported that they exceeded the 80% target



Notes

1 BIS = Department for Business, Innovation & Skills; MoD = Ministry of Defence; DoH = Department of Health; DECC = Department of Energy & Climate Change; HMRC = HM Revenue & Customs; Defra = Department for Environment, Food & Rural Affairs; MoJ = Ministry of Justice; DWP = Department for Work & Pensions; DfT = Department for Transport; HO = Home Office; DfE = Department for Education; FCO = Foreign & Commonwealth Office; HMT = HM Treasury; DCLG = Department for Communities and Local Government; DFID = Department for International Development; CO = Cabinet Office; DCMS = Department for Culture, Media & Sport.

2 With the exception of our 4 case study departments (BIS, Cabinet Office, MoD and Home Office), we have not examined these performance figures. Departments have applied different performance definitions and their results are not directly comparable (see paragraph 2.5 to 2.18).

3 Defra and DWP did not publicly report their annual performance in their 2013-14 annual report or website, but monitor performance internally. DWP reports its latest available monthly performance on its website.

4 The DfT performance figure excludes its agencies. If these are included, the performance figure is higher than quoted above.

5 The DfE performance figure is taken from its draft Annual Report 2013-14.

6 Published figures have been rounded to the nearest percentage point.

Source: Departments' annual report and accounts 2013-14, and departments' internal systems

2.3 Departments told us that there is a risk that pressure to pay invoices faster might mean fewer pre-payment checks are carried out, which increases the risk of error or fraud. The Cabinet Office told us, for example, that it places greater priority on making the necessary checks before paying invoices rather than meeting the target. Recent history underscores the importance of checking invoices. The Ministry of Defence (MoD) told us that it has recovered £3.6 million erroneously paid twice and now routinely checks for duplicate invoices. In July 2013 the Ministry of Justice announced that it had found significant overbilling in contracts dating back to 2005. Later in 2013 the Ministry of Justice, the Cabinet Office, Home Office and Department for Work & Pensions together reviewed 60 contracts and found 34 had issues with billing to some extent.[23]

2.4 Median reported performance on prompt payment across central government was steady from 2010-11 to 2012-13. It then rose to 92% in 2013-14 (**Figure 4** overleaf). Prior to 2013-14, the Department for Education reported against the older 10-day payment target rather than the extant 5-day target.

Compliance with the guidance

2.5 In 2010 BIS prepared and agreed with other departments a performance measurement standard for the 5-day target. We examined the performance of 4 departments (BIS, the Cabinet Office, the MoD and the Home Office) to understand how departments are implementing this guidance.

2.6 Neither BIS nor the Cabinet Office seeks assurance on whether departments are complying with the guidance. None of our 4 departments complied fully with the measurement standard. For example, 2 departments have agreed alternative performance standards with the operator of the shared service centre that pays their invoices. The Cabinet Office and Home Office allow their operator 6 working days to pay undisputed invoices, but they count this performance as meeting the 5-day target. Departments are reluctant to amend these service levels with their shared service centres because it could increase the cost of their contracts. These and other deviations from the guidance (**Figure 5** on page 23), mean that all 4 departments have overstated their performance. Furthermore, because departments do not compile their performance statistics on a consistent basis, their reported results cannot be fairly compared.

Types of invoice

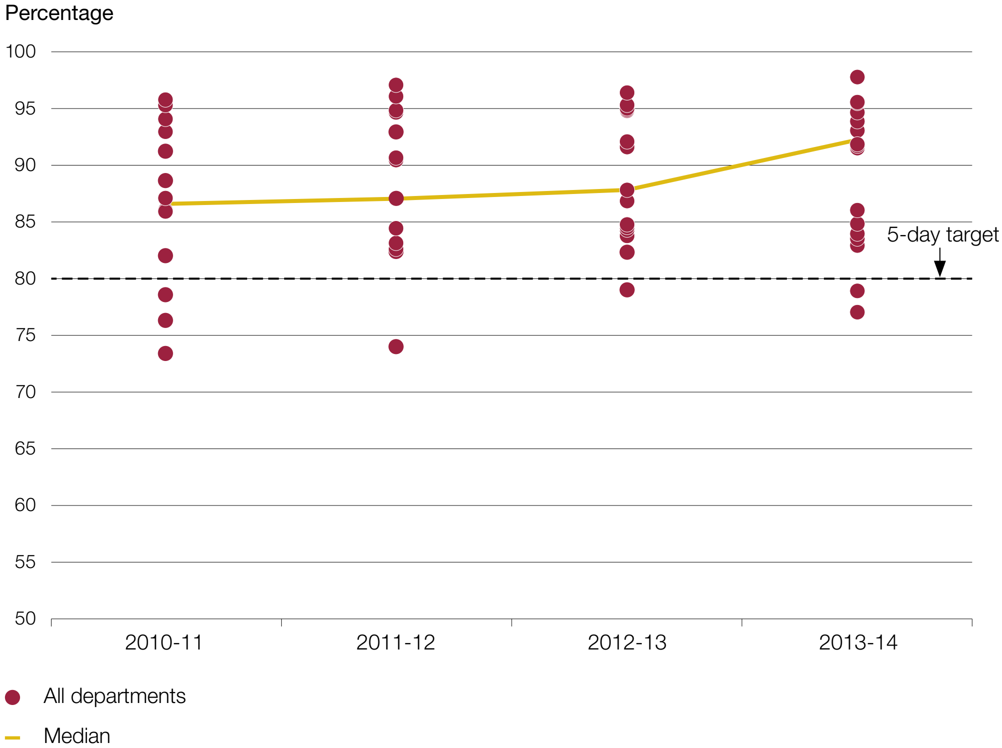
2.7 Departments receive invoices either in paper format (received by post or printed from a 'pdf' file received by email); or as an electronic invoice (e-invoice) which is automatically uploaded into the department's financial system. Typically, e-invoices are paid more quickly than other paper invoices. This is because they require no manual rekeying, and can often be matched automatically against spending approvals and records of goods and services received.

23 Comptroller and Auditor General, *Transforming government's contract management*, Session 2014-15, HC 269, National Audit Office, September 2014.

Figure 4

Departments' reported payment of undisputed invoices within 5 working days, 2010-11 to 2013-14

Departments' reported performance improved slightly in 2013-14



Note

1 Of the 17 main departments, 14 are included in 2010-11, 15 in 2011-12 and 2012-13, and 17 (including internally reported figures) in 2013-14. DfE will report its performance against the 5-day target for the first time in its 2013-14 annual report.

Source: National Audit Office and departments' annual report and accounts, 2010-11 to 2013-14

Performance based on number of invoices

2.8 When the first prompt payment target was introduced in 2008 departments lacked a way of distinguishing SMEs' invoices from other suppliers' invoices. BIS believed SME invoices accounted for a higher proportion of invoices by number than by value, so it directed that performance should be calculated based on the number of invoices. There is an inherent challenge in defining the target so that it provides an accurate picture of performance across departments, whose suppliers vary widely in the quantities and the values of invoices submitted.

Figure 5

Compliance with common measurement standard for prompt payment performance

All 4 of our departments deviated from the BIS guidance on measuring their performance

BIS 2010 measurement standard	NAO assessment of compliance by case study departments
Include working days only	**All complied.**
Include procurement card and electronic transactions	**3 complied.** By not including procurement card transactions, Home Office slightly understates its performance.
Day of invoice receipt is Day 1	**3 complied.** Home Office counts day of receipt as 'Day 0', thereby allowing an extra day.
Allow 2 days for normal bank payment	**3 complied.** The Cabinet Office does not include bank clearance time, thereby allowing up to 2 extra days.
Measured from receipt at authorised location	**None complied fully.** All 4 departments mainly measure from receipt by shared service centre (which is not necessarily the 'agreed location' for all invoices), thereby allowing an unknown number of extra days (see paragraphs 2.16 to 2.18). On some departments' websites it is hard to find the address to which suppliers should send invoices for payment.
Exclude disputed invoices	**None complied fully,** although there is no clear definition of what constitutes a disputed invoice (see paragraphs 2.14 to 2.17).

Source: National Audit Office, based on review of 2013-14 invoice data from 4 departments

2.9 The departments we looked at have a small number of contracts for high-volume, low-value goods and services such as train tickets and office stationery which are invoiced electronically. Each individual order under these contracts is treated as a separate invoice when calculating performance. Some departments also count each purchase made using a government procurement card as a separate invoice. This approach, which is in line with the BIS guidance, significantly boosts the number of transactions used to calculate performance.

2.10 **Figure 6** on pages 24 and 25 shows the proportion of e-invoices to paper invoices based on a) the total number of invoices, and b) the total value of invoices. Electronic transactions represented 88% of all invoices paid in 2013-14 by our 4 departments: percentages range from 64% for the Home Office to 89% for the MoD. In the case of BIS, for example, 80% of its invoices by number are e-invoices but these invoices only represent 1% of its total invoice value. All of BIS's e-invoices are purchases made using a government procurement card.[24] In the case of the Cabinet Office, its travel contractor's electronic transactions account for 60% of its invoices but only 1% of its procurement spend. The high number of e-invoices means BIS and MoD can meet the target simply by paying their e-invoices promptly, while the Cabinet Office and Home Office can get close to the target by doing the same.

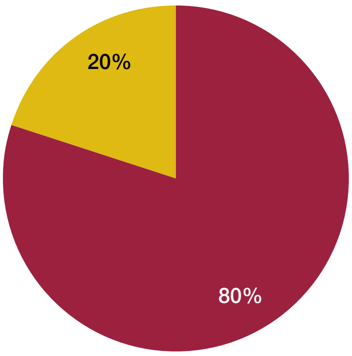
24 Or similar method, for example, where payment information is already lodged with suppliers.

Figure 6
Type of invoices paid in 2013-14 by our 4 case study departments

For all 4 departments we looked at, e-invoices represented a significant proportion of the invoices by number but a much smaller proportion by value

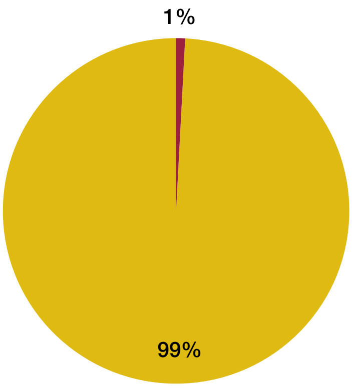
BIS invoices

a By number of invoices paid



Type	Number
Electronic transactions	73,126
Paper invoices	18,771
Total number of invoices	**91,897**

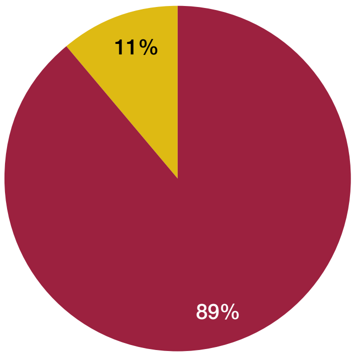
b By value paid



Type	Value (£m)
Electronic transactions	13
Paper invoices	988
Total value of invoices	**1,002**

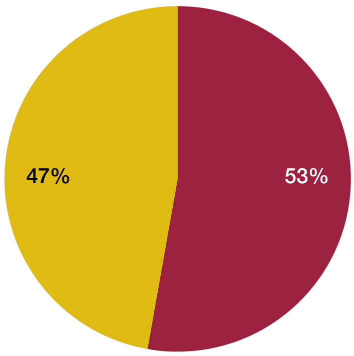
MoD invoices

a By number of invoices paid



Type	Number
Electronic transactions	3,472,004
Paper invoices	430,607
Total number of invoices	**3,902,611**

b By value paid



Type	Value (£m)
Electronic transactions	10,686
Paper invoices	9,367
Total value of invoices	**20,053**

Notes

1 Electronic invoices include credit card purchases and any transactions which can be uploaded to department's financial systems without rekeying.

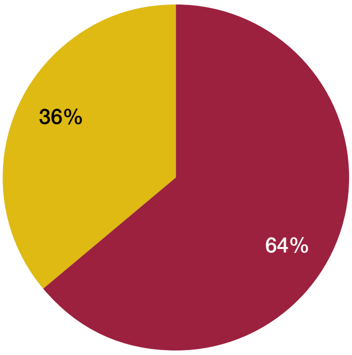
2 Paper invoices include 'pdf' files transmitted by email as these require rekeying.

3 Figures shown are for non-disputed invoices only.

Source: National Audit Office

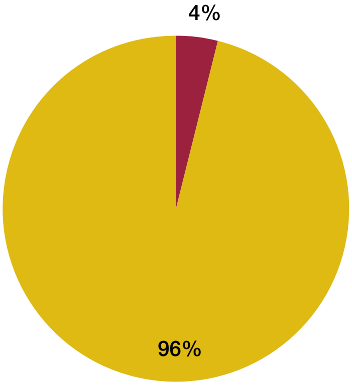
Home Office invoices

a By number of invoices paid



Type	Number
Electronic transactions	102,290
Paper invoices	57,357
Total number of invoices	**159,647**

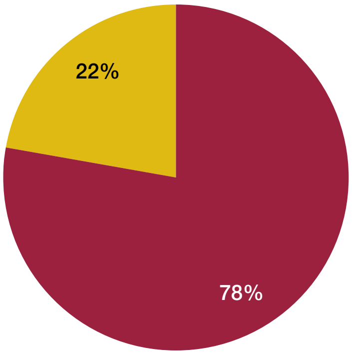
b By value paid



Type	Value (£m)
Electronic transactions	59
Paper invoices	1,537
Total value of invoices	**1,596**

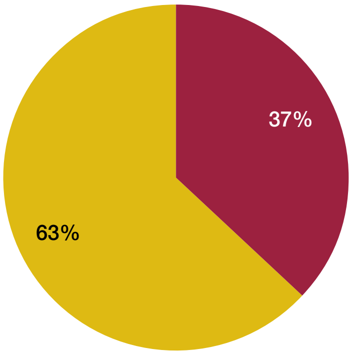
Cabinet Office invoices

a By number of invoices paid



Type	Number
Electronic transactions	33,534
Paper invoices	9,185
Total number of invoices	**42,719**

b By value paid



Type	Value (£m)
Electronic transactions	114
Paper invoices	196
Total value of invoices	**310**

Performance recalculated based on value

2.11 We recalculated the performance of our 4 case study departments based on the value of invoices paid rather than the number. On this basis, only BIS met the 5-day target in 2013-14, with MoD taking 7 working days to pay 80% of its total invoice value, and Home Office and Cabinet Office taking 18 working days (**Figure 7**). The 4 departments spent £24 billion on procurement in 2013-14, of which £10.6 billion was paid more than 5 working days after the recorded date of invoice receipt, and £476 million of this was paid after 30 calendar days.

Speed of payment of paper invoices

2.12 With the exception of the MoD, the departments we looked at have e-invoicing arrangements with only a small minority of their suppliers. The very high number of e-invoices (which can be paid swiftly) masks slower performance in paying paper invoices in some of the departments. Although BIS pays 80% of its paper invoices by day 5, the Cabinet Office takes nearly 3 weeks to do so (**Figure 8** on page 28).

2.13 The slower speed in paying paper invoices matters because none of the 4 departments we looked at routinely allows all suppliers (including SMEs who do low volumes of business with the department) to submit e-invoices. Many SMEs are therefore forced to submit paper or pdf invoices and so are paid more slowly (see paragraphs 4.9 to 4.12 below).

Disputed invoices

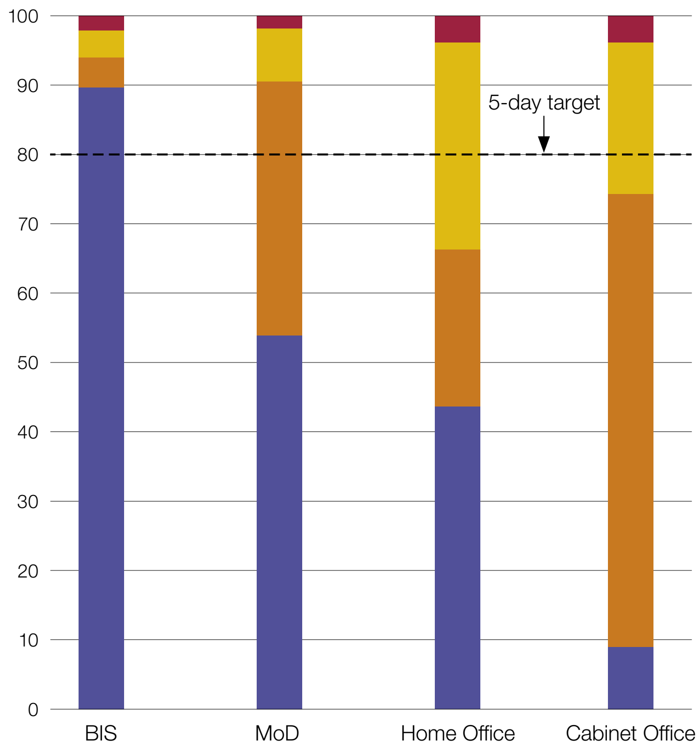
2.14 Departments are permitted to exclude disputed invoices from their performance statistics because correcting errors, making additional checks to investigate possible fraud, or settling contractor performance issues is likely to take longer than 5 days to resolve and complete payment. The BIS guidance defines 'disputed' invoices as usually caused by price, quality or quantity issues. The guidance also allows departments to use other criteria as the basis for excluding invoices from reported performance, for example invoices delivered to the wrong address.

2.15 Our 4 case study departments lack complete and consistent information on the number of invoices that were disputed, how long they were disputed for and why. The limited information that is available suggests that the overall number of invoices which are formally treated as disputed is low. Of greater concern, however, is the large number of paper invoices we found, which are not formally disputed but which are subject to long delays before the clock is started for the purpose of calculating prompt payment performance.

Figure 7

Speed of invoice payment of 4 departments by value, 2013-14

Only BIS met the 5-day target when performance is measured by the total value of invoices paid



	BIS	MoD	Home Office	Cabinet Office
More than 30 calendar days	£22m	£373m	£69m	£12m
11 working days – 30 calendar days	£40m	£1,521m	£545m	£68m
6 to 10 working days	£45m	£7,356m	£412m	£202m
1 to 5 working days	£938m	£10,802m	£796m	£28m
Total number of invoices	**92,146**	**3,902,611**	**165,509**	**42,719**

Notes

1 The figure assesses performance based on the cumulative value of (disputed and undisputed) invoices paid.

2 Performance is measured from the department's recorded date of invoice receipt.

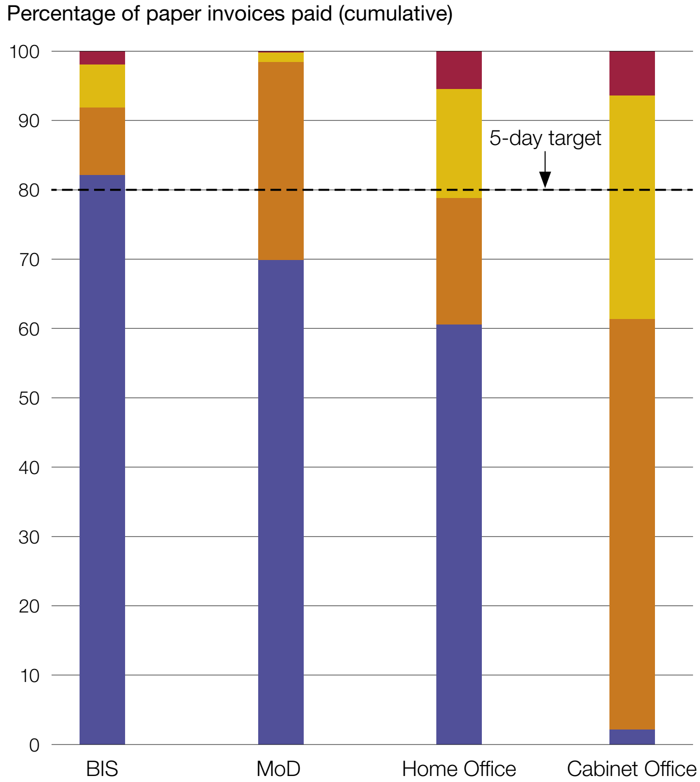
3 These data include private and voluntary sector suppliers only.

Source: National Audit Office analysis of departmental data

Figure 8

Speed of payment of paper invoices by 4 departments, 2013-14

Departments are slower to pay paper invoices than e-invoices



	BIS	MoD	Home Office	Cabinet Office
More than 30 calendar days	357	665	3,322	585
11 working days – 30 calendar days	1,186	6,082	9,570	2,964
6 to 10 working days	1,848	122,786	11,115	5,435
1 to 5 working days	15,629	301,074	36,902	201
Total number of paper invoices	**19,020**	**430,607**	**60,909**	**9,185**

Notes

1. This figure measures performance in paying paper invoices (both disputed and undisputed) received by post or email.
2. Performance is measured from the department's recorded date of invoice receipt.
3. These data include private and voluntary sector suppliers only.

Source: National Audit Office analysis of departmental data

Delays in 'starting the clock'

2.16 The departmental data presented so far in this report are based on the date departments record receiving an invoice at their bill paying team, rather than the date they first receive the invoice. In practice, we found significant delays between the date departments first receive an invoice and the date the invoice arrives at the bill paying team, which are not counted in the reported performance figures (**Figure 9**). This approach differs from BIS guidance (and EU directives for the purpose of counting the 30-calendar-day period), which requires payment performance to be calculated from the date an invoice is first received at the appropriate address specified by the department.[25]

2.17 Departments legitimately reject some invoices on arrival, for example if they lack essential information needed to process them (for example, a contract reference) or have a major error. The clock then starts once the missing information, or a corrected invoice, is received and passed to the bill paying team. However, most delays we found in starting the clock were not of this type (see Figure 9) and there is a risk that invoices are rejected so as to boost reported performance. Of the 4 departments we looked at, 3 require some invoices to be initially submitted for approval to a team that is not the bill paying branch. The days taken by these parts of the process are not counted in the prompt payment statistics, irrespective of whether or not there is a valid dispute.

Figure 9

Examples where reported performance understates the time taken to pay

Ministry of Defence

The MoD requires suppliers without a national contract to obtain signatures from local departmental staff by post before resubmitting their invoice to the appropriate local MoD finance team for payment. For these invoices (280,000 invoices a year, totalling £3.5 billion), the MoD calculates its prompt payment performance from when the local finance team asks the central bill paying team to make payment. On this basis, it calculated that 99.7% of these invoices were paid within 5 days in 2013-14. However, based on the suppliers' invoice dates, we estimate that only 14% of invoices were paid within 5 days and that it took nearly 5 weeks to pay 80% of these invoices.

Cabinet Office

Between October 2012 and February 2013 a supplier submitted 12 invoices for transcription services totalling £28,800. On 11 March 2013, the supplier contacted an official seeking help in getting the invoices paid. On 9 April, the official sent 4 invoices to the bill paying team for initial processing, approved 2 invoices for payment and asked the supplier to send copies of the remaining 6 unpaid invoices, which could not be found. Using its internal criteria, the department calculates that it paid the invoices in between 1½ and 5½ weeks. However, based on the supplier's invoice date, we estimate that it took between 12 and 39 weeks to pay these invoices.

Home Office

The Home Office requires invoices for legal services to be approved by finance and contract staff before they are paid. An invoice for £720 was received by the UK Border Agency on 19 June 2013 and forwarded to the Home Office bill paying team on 10 July. Payment was approved on Thursday 11 July and the supplier received the cash on 15 July 2013. Using its internal criteria, the Home Office treated the payment as made in 3 working days because it 'starts the clock' the day after the bill paying team receives the invoice. However, based on the UK Border Agency date stamp, we calculated that it took 17 working days (3½ weeks) to make payment.

Source: National Audit Office sample of invoices from case study departments

25 Directive 2011/7/EU.

2.18 We sought to analyse the 4 departments' performance without these delays in starting the clock. We were unable to reliably identify the date when paper invoices were first received by departments as paper invoices are rarely date-stamped on first arrival at the department except at the bill paying branch. We therefore assumed that the date of first receipt was the supplier's invoice date plus 2 days for posting. Our analysis (**Figure 10**), based on the date we assume invoices were first received, indicates that our case study departments actually took between 3 weeks (BIS) and 7 weeks (Cabinet Office) to pay 80% of paper invoices by value in 2013-14, rather than the shorter timeframes reported.[26] It is important to note that suppliers do not always submit invoices on the date shown on the invoice: some may collect low-value or similar invoices to send in a single large batch, or may backdate their invoices to when the goods were delivered. Nevertheless, we consider that in the absence of reliable data about the date paper invoices are received, our analysis provides the best indication of departments' performance in paying SMEs and the majority of other private and voluntary sector suppliers, according to the EU payment standard.

2.19 If the prompt payment policy is to have its intended positive impact on SMEs then departments need to ensure paper invoices are paid promptly. They also need to know who their SME suppliers are. Only 2 of our 4 case study departments (Home Office and MoD) are able to identify payments to SMEs, but neither calculates its performance in paying SME invoices.

Interest and penalties on late payments

2.20 Since 1998 suppliers have had a statutory right to claim a penalty of between £40 to £100,[27] and interest at the base rate plus 8%, on each invoice unpaid 30 calendar days after the date it was first received (unless the parties agree alternative terms). In 2013-14, just 8 departments reported the percentage of invoices they had paid after 30 days (ranging from 0.01% to 1.4% of invoices), and 7 departments reported the interest they had paid (from £nil to £132,000).

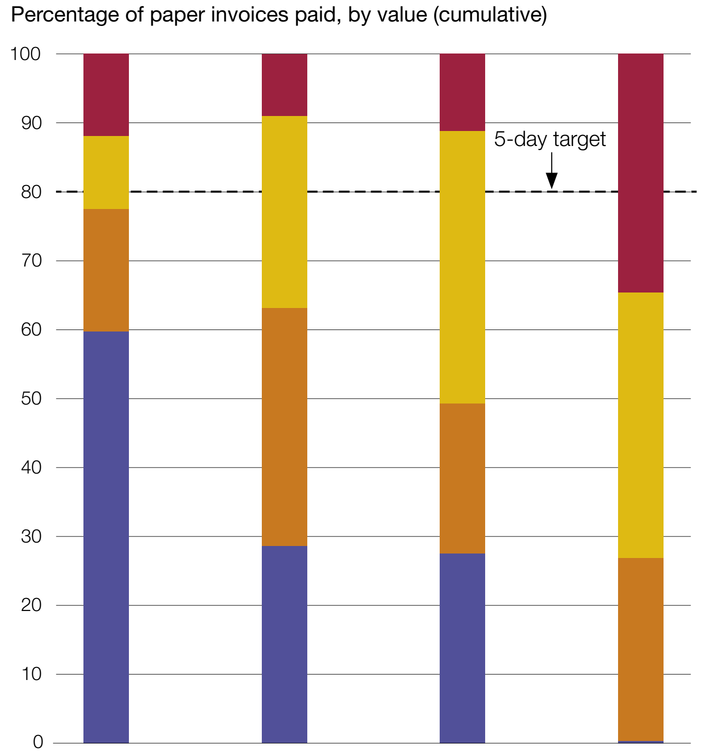
2.21 Although the reported percentage of invoices paid late and the amount of interest and penalties paid by departments are low, these figures should be treated with caution. Departments and business representatives told us that suppliers are often reluctant to enforce their right to interest for fear of damaging customer relations.

2.22 Business representatives have publicly called for all public bodies to pay interest and penalties automatically on any payments made after 30 days. To make such a policy work, departments would need to be more diligent about recording when invoices are first received. As explained at paragraphs 2.14 to 2.17, there is uncertainty over the date invoices are first received by departments.

26 We found similar results when we analysed by the volume of paper invoices paid.
27 The size of the penalty depends on the invoice value. See *The Late Payment of Commercial Debts Regulations 2013*, SI 2013 395.

Figure 10
Performance in paying paper invoices, by value, measured from invoice date plus 2 days, 2013-14

Four departments took between 3 weeks and 7 weeks to pay 80% of the total value of paper invoices



	BIS	MoD	Home Office	Cabinet Office
More than 30 calendar days	£123m	£842m	£197m	£68m
11 working days – 30 calendar days	£109m	£2,605m	£695m	£75m
6 to 10 working days	£183m	£3,237m	£384m	£52m
1 to 5 working days	£617m	£2,682m	£484m	£1m
Total number of paper invoices	**19,020**	**430,607**	**60,909**	**9,185**

Notes

1 To estimate the actual date an invoice was first received we added 2 days to the invoice date to allow for posting, unless the department's database records earlier receipt of an invoice.

2 This analysis may understate departments' actual performance because we could not take account of cases where suppliers backdate invoices, delay posting or have to reissue a defective invoice.

3 Performance is measured from the invoice date identified on the invoice, plus up to 2 days, which may not accurately reflect the date the invoice was first received.

4 These data include private and voluntary sector suppliers only.

5 These data include both disputed and undisputed invoices.

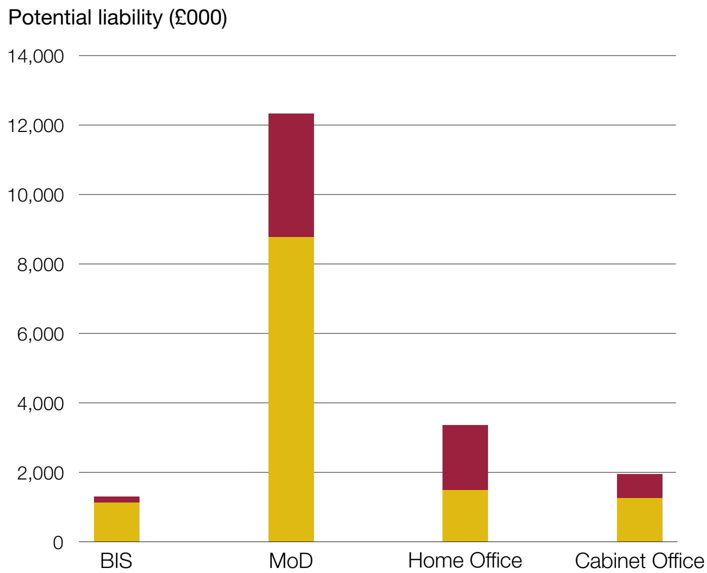
Source: National Audit Office analysis of departmental data

2.23 To estimate the impact of such a policy we used data from our case study departments, and assumed the date the invoice was first received was the date of the invoice plus 2 days for posting. On this basis, we estimate that up to £1.8 billion-worth of invoices in 2013-14 (or 7% of the total value) may have been paid after 30 days by the 4 departments we looked at. We estimate the resulting liability to interest and penalties would have been around £18 million (**Figure 11**).

Figure 11

Estimated potential liability in 4 departments for invoices paid after 30 days, 2013-14

Suppliers can require departments to pay interest or penalties on late payments, which if enforced we estimate would have totalled £18 million in 2013-14



	BIS	MoD	Home Office	Cabinet Office
Penalties (£000)	167	3,541	1,863	683
Interest (£000)	1,129	8,780	1,491	1,270
Invoice value (£m)	123	1,312	208	73
Number of invoices	2,875	60,368	39,047	14,875

Notes

1 Potential liability comprises interest at 8% above base rates calculated from the suppliers' invoice date plus penalties of £40 to £100 per invoice depending on the invoice value.

2 In practice, few suppliers make use of their rights to penalties and interest. In 2013-14, the Home Office and BIS paid no interest, while MoD paid £4,000 and Cabinet Office £132,000.

Source: National Audit Office analysis of invoices paid in 2013-14 by 4 case study departments

Part Three

Performance in paying subcontractors promptly

3.1 This part of the report examines the government's efforts to ensure that the benefits of its prompt payment policy are passed on to subcontractors.[28]

3.2 Many government supply chains resemble an inverted funnel with a few large main contractors working directly for the government, who are supplied by several tiers of smaller subcontractors, including small and medium-sized enterprises (SMEs), below them. If government's prompt payment policy is to benefit SMEs, main contractors must pay their subcontractors within agreed timescales.

3.3 However, businesses are keen to preserve their cash position and delaying payment to subcontractors is an easy way to do this. Business representatives we interviewed believe large contractors at the top of supply chains are among the worst late payment offenders, and that they use their supply chains as a source of cheap cash. Although we cannot verify this claim, it is supported by 2 recent industry surveys of government suppliers:

- a significant proportion (between 28% and 51%) of specialist subcontractors reported being paid beyond 30 days on public sector contracts in quarterly surveys of 7,000 suppliers carried out in 2014;[29] and
- of 174 specialist engineering firms subcontracted to central government, 72% reported experiencing payment delays on some projects.[30]

3.4 The rest of this Part sets out 4 ways government aims to help ensure subcontractors are paid on time.

Paying subcontractors within 30 days

3.5 From March 2010 the government required departments to include a standard clause in all new contracts requiring contractors to pay their subcontractors within 30 calendar days. All 4 of our case study departments have included this clause in their standard contracts.

28 This report refers to a business with a direct contractual relationship with a department as a 'supplier' or 'main contractor'; while a business with a contract to supply the main contractor specifically with regard to the contract is referred to as a 'subcontractor'.
29 National Specialist Contractors Council, *State of Trade Report* (2013 Quarter 4, April 2014; 2014 Quarter 1, May 2014; and 2014 Quarter 2, August 2014).
30 Specialist Engineering Contractors Group, *Central Government Construction Procurement*, June 2012.

3.6 Critically, however, none of the 4 departments complies with Cabinet Office guidance, which advises them to compile data on whether their contractors are actually paying subcontractors within 30 days. This lack of monitoring by departments makes it easier for main contractors to duck their contractual duty.

3.7 To monitor whether subcontractors are paid within 30 days, departments need to know who their subcontractors are. We have previously reported on the importance of government having visibility of its supply chains and encouraging fair payment practices.[31] However, none of our 4 case study departments was able to tell us who their main subcontractors are.

3.8 We selected 30 contracts from across the 4 departments and asked for details of the subcontractors on those contracts. Departments were only able to identify the subcontractors for 7 contracts. Similarly, the Cabinet Office was unable to provide details of the subcontractors of the 33 strategically important contractors for which it manages government's relationship.

The Prompt Payment Code

3.9 The Prompt Payment Code is a voluntary code which enables organisations to state publicly their commitment to: pay their suppliers on time; give clear guidance to their suppliers on submitting adequate invoices; and encourage good practice throughout their supply chains. The Department for Business, Innovation & Skills (BIS) launched the scheme in its current form in 2008, and the Institute of Credit Management runs it on BIS's behalf. In 2012 research found that signatories to the Code paid suppliers, on average, 12 days faster than non-signatories.[32]

3.10 The Code has been signed by around 1,700 organisations in the public and private sectors including 74 of the FTSE100 companies. By 2010 all but one department had signed the Code. The Home Office signed the Code only in February 2014. In 2009 BIS wrote to all departments asking them to encourage their main contractors to sign the Code. As at August 2014, only 20 of the government's 44 strategic suppliers had signed the Code.[33]

3.11 In early 2013 after the department wrote to big businesses urging them to sign up to the Code, an additional 94 companies signed the Code, taking the total number of FTSE350 company signatories to 126. However, our 4 case study departments make limited use of their procurement webpages to promote the Code: only the MoD states it is a signatory, and none of the 4 departments uses its website to encourage its suppliers to sign up to the Code, for example by providing a prominent link on its website. The Cabinet Office, which manages government's relationships with strategic suppliers, told us it cannot compel suppliers to sign the Code. This is because the Code affects all of a supplier's business activities, not just their public sector business.[34] However, the Crown Commercial Service told us it plans to actively monitor strategic suppliers' treatment of subcontractors in future.

31 Comptroller and Auditor General, *Improving public services through better construction*, Session 2004-05, HC 364, National Audit Office, March 2005.
32 Experian, *Prompt Payment Code: Four year on UK's largest companies pay nine days faster*, December 2012.
33 The 44 strategic suppliers conduct around £10 billion of business with central government each year.
34 Comptroller and Auditor General, *Memorandum on the role of major contractors in the delivery of public services*, Session 2013-14, HC 810, National Audit Office, November 2013.

3.12 Respondents to a BIS consultation said they thought the Code was a helpful initiative but were concerned about low awareness of the Code among businesses and a lack of enforcement. Currently, an organisation with very long payment terms, for example 120 days, can still be compliant with the Code if it pays within the agreed terms; business representatives told us the Code would be improved if it included guidance on what are reasonable payment terms. BIS has begun to issue sector-specific best practice on payment terms.[35] It is also working with the Institute of Credit Management to strengthen the Code. A new Advisory Board, made up of signatories and business representative bodies, will make recommendations to BIS including measures to promote awareness of the Code, improve the monitoring of signatories and strengthen enforcement of the Code. An announcement is expected by spring 2015.

Project bank accounts

3.13 Project bank accounts are ring-fenced bank accounts from which payments can be made simultaneously to all members of the supply chain. They can help ensure subcontractors are paid promptly (since they do not depend on the main contractor passing on the cash). They also reduce the effect on subcontractors if another company higher up the supply chain goes bust. HM Treasury and the Cabinet Office both recommend that public sector organisations require the use of project bank accounts on appropriate projects.[36]

3.14 The Cabinet Office believes that by March 2014 £3.8 billion-worth of contracts let by departments and agencies used project bank accounts; most of these contracts were with the Highways Agency (**Figure 12** overleaf). This compares reasonably with the original commitment made by Government Construction Board members to use project bank accounts on £4 billion-worth of contracts by 2014. The Cabinet Office collects data on the use of project bank accounts but has little information on the extent to which they are helping subcontractors, and whether project bank accounts are being used on all projects that might benefit from them. Among our case study departments, only the Ministry of Defence's (MoD's) Defence Infrastructure Organisation uses project bank accounts. Neither BIS nor the Home Office has used them, although the latter intends to use them for its new facilities management contracts.

The Cabinet Office's Mystery Shopper Service

3.15 The Cabinet Office established the Mystery Shopper Service in 2011 to enable potential or actual contractors and subcontractors to government to raise concerns (anonymously if they wish) about procurement issues, including late payment. The Service aims to resolve concerns by investigating the matter with the relevant department, public sector body or main contractor as appropriate.

35 Available at: www.gov.uk/government/news/government-and-industry-agree-new-construction-payment-charter
36 Office of Government Commerce, *Guide to best 'Fair Payment' practices*, 2007.

Figure 12

Value of central government contracts using project bank accounts, 2011-12 to 2013-14

Four departments/agencies have used project bank accounts

Department/agency	2011-12 (£m)	2012-13 (£m)	2013-14 (£m)	Total (£m)
Department for Transport/ Highways Agency	472	891	1,407	2,770
Ministry of Defence	628	42	297	967
Ministry of Justice	0	11	9	20
Environment Agency	0	4	20	24
Total	**1,100**	**948**	**1,733**	**3,781**

Note

1 The above figures exclude contracts for the CrossRail project, covering spend of £2.6 billion.

Source: Cabinet Office

3.16 Since February 2014 only 4% (23) of the 580 complaints to the Service related to late payment. Of these cases, 11 were from subcontractors working on central government projects, and the remaining 12 were complaints from main contractors working for public sector bodies (for example, NHS Trusts) where the Service has no formal powers. The Small Business, Enterprise and Employment Bill aims to strengthen the Mystery Shopper Service by giving the Cabinet Office additional powers to investigate bad procurement practice, including slow payment, across the public sector.

3.17 It is possible that the low level of complaints about late payment is because the extent of late payment is low. However, although the evidence is limited, we believe there are indications that the low level of complaints reflects a lack of awareness of the Service or subcontractors' fears that making a report might adversely affect their business. For example, a 2014 survey of 216 specialist subcontractors in the construction industry found that 72% had not heard of the Service and a further 15% had heard of it but did not know what it does. Our targeted and open surveys of subcontractors to government (see Appendix Three) also found low awareness of the Service, and 5 of the 33 respondents to our open survey said they would not use it for fear of an adverse effect on their business or because they believed that it would be ineffective.

Part Four

Role of the centre of government

4.1 This part of the report examines the role of the centre of government in monitoring and supporting prompt payment policy across government and in the private sector.

4.2 In general, the strategic functions of government are handled by the Cabinet Office and HM Treasury, but in the case of the prompt payment policy the Department for Business, Innovation & Skills (BIS) also has a significant central role. Our recent report on the role of the centre of government set out 8 'unarguable responsibilities' that enable the centre to coordinate and oversee government activity effectively.[37]

4.3 Two of the 'unarguable responsibilities' that we have identified for the centre are particularly relevant to the prompt payment policy:

- **Providing strategic leadership of cross-government policies or programmes.** This involves clear governance and accountability, centrally stated objectives, performance monitoring and a continued focus on achieving benefits.
- **Identifying and implementing more efficient and effective ways of working.** This includes promoting standardisation and consistency in ways of working across government.

Strategic leadership

4.4 In Part One we described the lack of readily accessible guidance, which is leading to inconsistencies in what performance information departments report where. We pointed out in Part Two our concerns about the accuracy of reported performance but noted that neither BIS nor the Cabinet Office are seeking assurance that departments are complying with the guidance on measuring performance. We also noted that poor record-keeping means the original estimates of the costs and benefits of the prompt payment commitment are unknown, and neither the current commitment nor its earlier variant has been evaluated. Insufficient attention has been paid to the implementation of the policy and, in our view, there is little evidence that its objective to help small and medium-sized enterprises (SMEs) has been achieved. The Cabinet Office and BIS are now working to improve implementation of the policy. The Cabinet Office told us it plans to evaluate the commitment in due course and to extend the powers of the Mystery Shopper Service to proactively investigate areas of concern.

37 Comptroller and Auditor General, *Cabinet Office and HM Treasury – The centre of government*, Session 2014-15, HC 171, National Audit Office, June 2014.

Planned improvements to prompt payment

4.5 The Small Business, Enterprise and Employment Bill is under consideration by Parliament and contains clauses intended to improve prompt payment by the public and private sectors, including:

- improved reporting by the private sector of its prompt payment performance;
- placing a duty on large companies to report on their payment practices (on which BIS is currently consulting); and
- powers for government to set rules for, and investigate, the procurement functions of public sector bodies.

4.6 The Cabinet Office is also developing secondary legislation to implement a range of measures – including recommendations made by Lord Young, the Prime Minister's Special Advisor on Enterprise – which proposes in relation to public sector prompt payment:

- mandatory payment of undisputed invoices within 30 days throughout the supply chain for public sector contracts;
- a requirement for all public sector bodies to report their 30-day payment performance; and
- powers to require public bodies to accept e-invoices.

4.7 The Cabinet Office told us it also plans to publish revised guidance for departments on reporting prompt payment performance, and that it will monitor departments' compliance with that new guidance. BIS is also planning improvements to the Prompt Payment Code (see paragraph 3.12).

Efficient and effective ways of working

4.8 The Cabinet Office is well placed to identify and share good practice in prompt payment by the public sector, but at present it does not take on this role. We found some good practice in supplier payment in the 4 departments we looked at, including the use of shared service centres to process payments quickly and cost-effectively, and clear guidance for suppliers on departments' websites on how to submit invoices (**Figure 13**).

Expansion of electronic invoicing

4.9 E-invoicing (see paragraph 2.7) can provide faster, cheaper and more robust payment systems, and is widely seen as best practice in invoicing. In March 2010 the government said departments would explore the option of using e-invoicing as a way of moving, in due course, towards immediate payment once departments' essential checks are complete.

Figure 13
Good practice in paying invoices promptly

Some departments use their websites and standard order forms to direct their suppliers to:

- submit invoices directly to the shared service centre for payment;
- include the correct purchase order or contract number (with details of the departmental contact); and
- provide a clear description of the goods and services provided and the amount owing.

The Ministry of Defence (MoD) has introduced optical character recognition software, which automates the inputting of paper invoices and reduces the time taken (and therefore cost) of rekeying details.

BIS and the Home Office encourage staff to receipt goods and services on delivery, rather than waiting until the invoice arrives.

The Home Office and the MoD monitor budget centres' performance in paying invoices to identify delays in confirming goods and services received.

The MoD's monthly performance reports monitor 8 different payment streams distinguishing between e-invoices and paper invoices, to enable it to take action if performance dips.

Source: National Audit Office interviews with case study departments

4.10 A 2014 report estimated that introducing e-invoicing might offer savings of up to £10 per invoice for departments and £5 per invoice for suppliers. The report estimated this would generate annual savings of up to £2 billion across the public sector (and around £200 million in central government).[38] It also estimated that further savings of £210 million could be achieved from reduced fraud and error. Validating these estimates is beyond the scope of this report, but we note that among the 4 departments we looked at e-invoices accounted for between 64% and 89% of their 2013-14 invoices, which reduces the potential savings still to be made.

4.11 BIS established a joint cross-government and industry working group in 2011 to help extend e-invoicing, but the group has not yet produced a strategy document or set a timetable. A draft EU directive is currently under discussion with member states which calls for all public bodies to accept e-invoices.

4.12 None of the 4 departments we looked at routinely allows small suppliers to submit e-invoices (although they do use electronic invoicing with some large high-volume/low-value suppliers). The MoD has a stated policy of moving all its national suppliers to e-invoicing. It encourages suppliers on most major new equipment and other national contracts to submit e-invoices, but it requires suppliers wishing to invoice electronically to make an application to do so and, if accepted, to pay a subscription charge. Currently, 67% of its suppliers submit e-invoices, although a large number of suppliers continue to use paper invoices, using a standard MoD form. None of our other 3 case study departments has a policy of moving suppliers to e-invoicing, which is currently used by less than 14% of their suppliers – typically big suppliers with a high volume of transactions.

38 Stephen McPartland MP, *Electronic Invoicing: The next steps towards digital government*, April 2014.

Appendix One

Our audit approach

1 We examined departments' performance in paying suppliers' invoices promptly, with particular focus on 4 case study departments.

2 We organised our work around 4 main questions:

- Has government adequately defined its policy objectives and evaluated results to date?
- Do departments accurately measure and report their prompt payment performance?
- Are departments ensuring that their subcontractors are being paid on time?
- Is the centre of government providing effective oversight and support for departments?

3 Our audit approach is summarised in **Figure 14**. Our evidence base is described in Appendix Two.

Figure 14
Our audit approach

The objective of government

Central government's objective is to improve the cashflow of small and medium-sized enterprises by aiming to pay 80% of undisputed invoices within 5 working days, all invoices within 30 calendar days, and to ensure that the benefits of prompt payment are passed down the supply chain to subcontractors.

Our study

This report examines departments' performance in paying invoices promptly, with particular focus on 4 case study departments' efforts to ensure that the benefits of prompt payment are passed on to subcontractors; and the centre of government's role in monitoring the prompt payment policy and promoting improvements in performance.

Our evaluative criteria

Has government adequately defined its policy objectives and evaluated results to date?

Do departments accurately measure and report their prompt payment performance?

Are departments ensuring that their subcontractors are being paid on time?

Is the centre of government providing effective oversight and support for departments?

Our evidence

(see Appendix Two for details)

We reviewed:

- policy documents, Hansard, white papers and other publicly available documents;
- data on central and wider government procurement spending; and
- BIS and Cabinet Office guidance to departments including the performance monitoring and reporting requirements.

We reviewed central government's reported performance since 2010-11 from departments' published annual reports and accounts.

We also analysed (for case study departments):

- their actual performance on all suppliers' invoices paid in 2013-14 based on the agreed methodology; and
- a sample of 200 invoices to identify common reasons for delays in payment.

We evaluated departments' performance:

- we analysed the results of industry surveys of subcontractors;
- we carried out our own survey of subcontractors. including a judgement sample of contracts;
- we interviewed departmental contract management staff; and
- we reviewed previous NAO reports on construction and project/contract management.

We examined the role and effectiveness of the centre of government including:

- interviewed BIS, Cabinet Office and HM Treasury staff;
- a review of Mystery Shopper Service cases;
- reviewed departmental websites; and
- interviewed trade associations to identify best practice.

Our conclusions

UK business welcomes the government's commitment to pay 80% of undisputed invoices within 5 working days. However, there is little evidence that the commitment is having the intended effect of helping SMEs. There is a risk that the main effect is to boost the working capital of main contractors rather than benefiting other businesses in the rest of the supply chain.

Almost all departments have publicly reported good performance against the target, which covers £40 billion of government annual procurement spend. However, government's method of measuring performance is flawed and is not adhered to by the 4 departments we looked at, meaning that their reported performance is overstated. Very large numbers of electronic invoices from a few suppliers, and delays in 'starting the clock', mean these departments can meet the target even while most suppliers, including SMEs, are receiving a significantly lower standard of performance than is being reported. We conclude that the Cabinet Office cannot demonstrate that the implementation of the prompt payment commitment is achieving its intended purpose and therefore providing value for money.

Appendix Two

Our evidence base

Method 1: Analysis of 2013-14 invoices

1 We obtained a download of all suppliers' invoices paid by our 4 case study departments (BIS, Cabinet Office, MoD and Home Office) during 2013-14, and summary information on debit card and MoD electronic transactions. We obtained copies of the original invoice for a sample of at least 50 invoices per department (Method 2) and checked whether the recorded invoice received date and other key details were accurately recorded on the departments' prompt payment calculations, to gain assurance that the data in the downloads were reliable.

2 We excluded payments made to other public bodies, which departments include in their reported performance. Although many of these payments are made on submission of invoices, they were predominantly (by value) payment of grant rather than payments for specific services.

3 We developed a standard spreadsheet to analyse the 4 departments' data on a consistent basis and to recalculate their payment performance during 2013-14. For both paper invoices and electronic transactions, we calculated the number of whole or part working days between:

- the suppliers' own invoice date (which may not always reflect the actual date of transmission to the department);
- the invoice received date as recorded by the department; and
- the date the department's bank was authorised to pay the supplier.

In line with the assumption made by departments, we added 2 working days to reflect the normal time needed for payments to clear (unless an immediate payment method had been authorised).

4 Departments also provided us with details of invoices that were on 'hold' due to a dispute with the supplier, error on the invoice or because departmental staff had not completed the necessary purchase and payment approvals. However, each department has adopted a different approach and we were unable to meaningfully compare performance between departments or evaluate whether the department or the supplier was responsible for the delays.

Method 2: Sample of invoices

5 We analysed a minimum of 50 invoices from each department to identify the reasons for any delays in completing payment and confirm that the prompt payment data supplied to us by departments were reliable. We used the random sample of procurement transactions selected for the NAO's annual audit of the departments' accounts and drew additional samples from the prompt payment data (see Method 1) of transactions which were paid after 30 days or were shown as being on 'hold'.

Method 3: Interviews

6 We interviewed staff from 3 departments with responsibility for the prompt payment policy and its implementation (in Cabinet Office, BIS and HM Treasury). We also interviewed a wide range of staff within our 4 case study departments and in the shared service centre which houses their bill paying teams and analyses prompt payment performance. The departmental officials we interviewed included staff responsible for: contracting; authorising invoices for payment; and the accounting function.

7 We met with Lord Young of Graffham (the Prime Minister's Special Advisor on Enterprise), the Confederation of British Industry, Federation of Small Businesses, British Chambers of Commerce, Institute of Credit Management, and Oxygen Finance Limited.

Method 4: Document analysis

8 We analysed a range of documentation available on the internet, or provided by interviewees (Method 3). This included:

- 2009 performance measurement guidance issued by BIS on the 10-working day target and the June 2010 guidance on the 5-day target;
- cases investigated by the Mystery Shopper Service relating to late payment by departments or their subcontractors;
- the Cabinet Office assessment and data on the use of project bank accounts by central government;
- information available to suppliers on departments' websites; and
- staff instructions on processing invoices.

9 We reviewed government, parliamentary and other literature on the issue of late payment and the advantages of e-invoicing (**Figure 15** overleaf).

Figure 15
Literature reviewed

Comptroller and Auditor General reports

Transforming government's contract management, Session 2014-15, HC 269, National Audit Office, September 2014.

Transforming contract management in the Ministry of Justice and the Home Office, Session 2014-15, HC 268, National Audit Office, September 2014.

Cabinet Office and HM Treasury – The centre of government, Session 2014-15, HC 171, National Audit Office, June 2014.

Memorandum on the role of major contractors in the delivery of public services, Session 2013-14, HC 810, National Audit Office, November 2013.

Improving access to finance for small and medium-sized enterprises, Session 2013-14, HC 734, National Audit Office, November 2013.

Government cash management, Session 2008-09, HC 546, National Audit Office, October 2009.

Central government's management of service contracts, Session 2008-09, HC 65, National Audit Office, December 2008.

Good Practice Contract Management Framework, National Audit Office, December 2008.

Improving public services through better construction, Session 2004-05, HC 364, National Audit Office, March 2005.

Departmental and parliamentary publications

Stephen McPartland MP, *Electronic Invoicing: The next steps towards digital government*, April 2014.

Department for Business, Innovation & Skills, *The Construction Supply Chain Payment Charter*, April 2014.

Small Business, Enterprise & Employment Bill 2014.

Department for Business, Innovation & Skills, *Building a Responsible Payment Culture, A Discussion Paper*, December 2013.

Debbie Abrahams MP, *The report from the all-party inquiry into late payments in small and medium-sized enterprises*, July 2013.

Specialist Engineering Contractors Group, *Central Government Construction Procurement*, June 2012.

Office of Government Commerce, *Guide to best 'Fair Payment' practices*, 2007.

Industry and academic research

Nick Wilson, *Trade Credit in the UK Economy (1998–2012)*, Leeds University Business School, May 2014.

R3 (Association of Business Recovery Professionals), press release 11 April 2014.

BDRC Continental, *SME Finance Monitor*, April 2014.

National Specialist Contractors Council, *State of Trade Report 2014 Quarter 4*, April 2014.

Experian, *Prompt Payment Code: Four years on UK's largest companies pay nine days faster*, December 2012.

Federation of Small Businesses, *Late Payment*, May 2011.

Source: National Audit Office

Appendix Three

Consultation with government subcontractors

Targeted survey

1 We carried out a targeted survey of subcontractors that were working on our sample of 30 contracts signed by one of our case study departments. Due to the lack of information held by departments on their subcontractors, we were only able to invite 141 subcontractors to participate in the survey. Of these, 23 responded (a 16% response rate).

2 Just one of the respondents had heard of the Cabinet Office's Mystery Shopper Service. All but one of the respondents confirmed that their contract specified that they should be paid within 30 days or less. Two-thirds of the respondents (15) said they had never been paid late. Of the 8 who reported being paid late:

- 4 reported being paid late occasionally;
- 2 respondents said they were 'always' paid late by up to 2 weeks; and
- 2 cited more significant delays on individual payments subject to a dispute.

On relative payment speeds, none of the respondents reported slower payment on public sector projects compared with the private sector.

Open consultation

3 We also carried out an open survey to which we invited any subcontractor to central government to respond. We received 33 responses and these were less positive than our targeted survey:

- 42% (14) said their contract included a clause stating they would be paid within 30 days (or on completion);
- 73% (24) reported being paid late at least half of the time for work on their most recent government contract; and
- 17% (4) who had been subcontracted to central government before June 2010 thought payments were made more quickly now than they were before June 2010.

4 We asked the 22 respondents who had worked for both the private and public sectors who they thought paid faster. Of these, 6 thought central government paid faster and 6 thought the private sector paid faster. The remaining 10 had not noticed any difference between the two sectors. However, other surveys have suggested that central government and agencies are better at paying on time than businesses.[39]

5 Just 2 of our 33 respondents had used the Mystery Shopper Service. Both found it to be very effective. However, almost two-thirds of our respondents had not heard of the Service. Of the 10 who had heard of it, but had not used it, 5 said that they would not use it, either because they feared it might adversely affect their business or would be ineffective.

6 The results of these 2 surveys need to be treated with caution: the response rates were low so the findings cannot be assumed to be representative of the whole population of subcontractors to central government. Our departments' inability to identify their subcontractors may have biased our targeted survey towards well-managed contracts. Some subcontractors may have been reluctant to report their concerns to us (despite assurances that their identity would be protected). This means there may be hidden problems that the targeted survey did not pick up. On the other hand, subcontractors who have been paid late may have been more inclined to participate in the open survey, in order to register their dissatisfaction, than those who have not experienced payment problems.

39 See paragraph 2.2.

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