



Payment policies and performance reporting

Be prepared and be efficient

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The new rules on reporting payment practices are here

Regulations introduced earlier this year make it mandatory for larger businesses to report on their payment practices, policies and procedures, including presenting statistics on their actual payment performance. The new rules, which take effect for accounting periods beginning on or after 6 April 2017, are aimed at reducing late payment to suppliers, particularly small businesses.

What the new rules will mean for the business and its leaders

The information will be published on a government website, where it can be easily compared with the data from other businesses.

It is a criminal offence, punishable by a fine, for every director of the business not to publish their report within 30 days of the filing date or to file a report which is misleading, false or deceptive.

The public reporting of your payment practices, particularly of larger corporates to SMEs, is likely to attract significant media scrutiny. Experience shows, from Minimum Wage to Gender Pay Gap, the reputational damage for both businesses and their leadership teams can be significant.

Reporting details in brief

All companies and LLPs that meet two out of three size thresholds will need to make six-monthly reports on the government website. The thresholds are: annual turnover of £36 million, balance sheet total of £18 million, and 250 employees. Every company or LLP within a group meeting the threshold has to report separately.

Which contracts should be reported on?

Businesses that meet the threshold need to report on a contract if it satisfies all the following:



What needs to be reported?

3

Statements on whether suppliers can e invoice; whether they are offered supply chain finance; whether the business charges suppliers to remain on their list; and the names of any payment codes the business is a member of.

2

Statistics on the average number of days taken to make payments; the percentage of payments made within 30 days - 60 days and longer; and the percentage of payments not made within agreed terms

1

Narrative descriptions of standard payment terms and the process for resolving payment disputes

A checklist to be prepared and be efficient



Have you assessed which of your entities are in scope for payment performance reporting?



Have you identified the data sources you need for reporting, and tested the validity and availability of the data?



Could you define a process for producing the report and assess the associated cost for each entity?



Can your process help you benchmark your payment performance and assess its impact on your reputational risk?



Does the process enable you to forecast the working capital implications of your payment policy and of any changes to your payment practices?

Examples of first reporting periods

Financial year beginning	First reporting period	First report to be published by
6 April 2017	6 April to 5 October 2017	4 November 2017
1 May 2017	1 May – 31 October 2017	30 November 2017
1 July 2017	1 July – 31 December 2017	30 January 2018
1 October 2017	1 October 2017 – 31 March 2018	30 April 2018
1 January 2018	1 January – 30 June 2018	30 July 2018

Grasp the opportunity to optimise working capital and improve supplier management

Managing this compliance requirement effectively and acting on the information extracted can bring tangible benefits to a business. First, it can help manage the reputational risk that the disclosure might bring. Second, it gives an unprecedented opportunity to review and upgrade working capital practises, generating cash flow and financing efficiencies.

1

Can you cope with your payment policy reporting obligations?

Collecting accurate, timely information is a challenge for all businesses. Outdated finance systems, data extraction challenges, and aligning different areas of finance and procurement, are all adding to the cost and complexity of compliance.

Managing processes effectively by using a service provider's automated solution can address the complexities of implementation while keeping on top of regulatory changes.

2

How could a managed system help you meet these obligations while delivering tangible benefits?

Behind the compliance there is an opportunity: to smartly analyse the data collected to meet the reporting requirements in order to improve payment processes, create working capital efficiencies, and assess supplier policies.

Changes to a purchase-to-pay cycle to improve payment performance can have a significant impact on operational working capital needs. KPMG typically identifies between 10-15% of gross working capital.

3

Are you ready for the reputational risk that comes with increased reporting?

Payment practices reporting is the latest in a stream of initiatives that puts larger business conduct under the media spotlight. Public awareness of how the business treats its smaller suppliers is likely to become a major reputational issue.

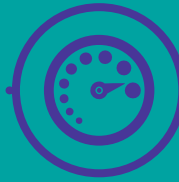
The directors are also on the line. Sales and commercial practices and payment policies may not have been discussed at board level, but board members will be held accountable for them, with directors carrying personal legal liability if the reporting is not complete or is inaccurate.

Three quick wins



Introduce reporting that's fit for the future

Regulations and reporting requirements are constantly changing. Keep an eye to future reporting needs by making best use of a managed service. This can use automated data extraction to ease the cost of reporting and be flexible to adapt to future additions and changes.



Define and test your payment policy

Get your payment policy in place, ensuring you get top management buy in by making them aware of the risks involved. Test current performance with existing data to identify reputational risks quickly.



Be proactive to be more efficient

Reporting is about more than compliance. The financial data extracted to meet reporting requirements contains valuable insight, that used the right way can help you improve working capital and supplier performance.

How KPMG makes a difference

We have tried and tested technology that allows you to deploy a reporting solution more quickly and cost effectively than an in-house approach.



We can implement a managed service that removes the reporting burden completely, freeing you up to focus on your key business issues.



We can work with your payment data to find opportunities to improve working capital efficiency at no additional cost.



Our sector expertise allows us to benchmark your payment practices and working capital efficiency against your peers.



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