

Contractors bankroll big business as overdue payments skyrocket

Contractors who contract through [contractor limited companies](#) are sharing the misery of small businesses in the UK as unpaid bills rocket 40% to £26bn, with almost six out of ten small firms owed money.

These figures, revealed in research by payments firm [Bacs](#), make a mockery of [late payment legislation](#). This was introduced by the government in an attempt to prevent big businesses from using contractors as their piggy banks, by withholding payment and citing their own cashflow problems as the reason.

The research also highlights that the government's [Prompt Payment Code](#) is failing contractors dismally, as they are waiting an average of 41.5 days beyond the agreed payment terms for invoices to be settled.

What's your excuse - cashflow or recession?

Contractors and the small firms claiming monies due are being fobbed off by companies with tired excuses. Bacs reports that 24% are told cashflow is the reason they have not been paid and 16% are told it's due to the economic downturn.

The national average of outstanding payments was £38,000 per small and medium enterprise (SME) – up £8,000 on the previous year's figures. In some areas of the country this has mushroomed with SMEs in the Midlands, for example, owed an average of £69,000.

[Umbrella company contractors](#) who are guaranteed payment by their umbrella company should be feeling reasonably secure, but if their umbrella company starts having its own cashflow issues because big clients are paying late, then problems could quickly arise.

Contractors should take control

According to Bacs' managing director Michael Chambers, businesses should be taking responsibility to help themselves where they can: "While the Government has bought in a system of paying public sector invoices within ten days, surprisingly, three quarters of British SMEs haven't replicated that and still offer lengthier payment terms."

Unsurprisingly, Chambers also gives a plug for his own service: "Encouraging payment straight into bank accounts by Bacs Direct Credit could also help to shorten delays and avoid 'cheque in the post' excuses."

There are steps contractors can take to [ensure their client or agency is creditworthy](#) before taking on a new contract, and for those midway through a contract there are signs that contractors can spot, which will provide early warning of any potential payment problems.

A further alarming figure is that, according to Bacs' research, only 20% of UK SMEs are planning to credit check new customers. Considering that thorough credit checks are relatively inexpensive and are a fraction of the cost of what could be lost if a major client defaults, contractors should take note and consider credit checking their clients, agencies and umbrella companies.

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Michael Chambers, Bacs

Interest on late payments

According to [legislation passed by the government](#), small businesses, like contractor limited companies, are entitled to charge interest at 8% plus the reference rate, which for the period 1 January 2009 to 30 June 2009 is 2%.

But the legislation is deeply flawed, as most contractors would not want to impact on their relationship with their client by imposing late payment charges, particularly as there would be a queue of replacement contractors happy to take on a new contract.

And as Phil McCabe, spokesman for the Forum of Private Businesses comments: "Late payment and bad debt are the scourge of business owners. Often, they are major factors behind businesses being forced to close.

"The amount of money owed to small firms has soared over the past year as big businesses seek to create credit lines for themselves by squeezing their suppliers," he continues. "In addition, despite the Government's pledge to pay its suppliers within 10 days, public organisations continue to be among the worst culprits."

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