Greater freedom for invoice finance

Businesses will be freed from restrictive clauses in contracts that prevent them from gaining invoice finance when new measures come into force early in 2016.

More than 44,000 businesses currently receive over £19bn of funding through asset finance, but the size of the market is limited by clauses designed to prevent a supplier from sub-contracting work.

These clauses have the unintentional consequence of blocking invoice-finance arrangements and will be nullified by new rules, which will retain a customer's right to prevent traditional sub-contracting arrangements.

The move will be made under the Small Business, Enterprise and Employment Act 2015, which allows the business secretary to introduce such measures.

Small business minister Anna Soubry said: "Small businesses are the economic backbone of Britain and we will do everything possible

to make sure they continue to grow and create jobs. By scrapping restrictions on invoice finance, thousands of firms across the country could benefit from faster access to hard-fought funds.

"While invoice finance may not be right for everyone and is absolutely no excuse for late payment, I want small businesses to have the option of using it to increase their cashflow."

Opinions

A move to prevent clauses restricting businesses from seeking asset finance is good news for UK businesses.

As government recognises, invoice finance is a key source of funding for SMEs in particular, and taking effective action against bans on the assignment of invoices will allow more businesses to unlock the funding tied up in their unpaid invoices.

Bans on assignment are often imposed by large companies on their smaller suppliers. With the work being done on late payment and now on ban on assignment, government has shown it is committed to addressing poor payment practices and getting a fairer deal for smaller businesses.

It is a complex area and we look forward to seeing the detailed regulations, but the government must be congratulated for the focus on this important area.

Jeff Longhurst
Chief executive officer,
The Asset Based Finance Association

The decision to outlaw the ban on terms in contracts to prevent businesses from choosing who they want to go to for invoice financing is overwhelmingly positive.

It is something that we have been calling for and will empower businesses to take more control over their finances. Access to finance can be very challenging for small firms – 38% of our members who applied for finance were refused in the second quarter of this year.

It is important that small businesses have clarity around exactly which types of contracts will be affected.

We agree with government's stance that invoice financing should never be used as an excuse for late payment. We welcome the steps being taken to improve payment culture, including the recently announced plans for a small business commissioner, and the strengthening of the Prompt Payment Code.

John Allan
National chairman,
The Federation of Small Businesses

Opinion

Credit in the new non-household water market

In 2008 the £330m non-household market for mains water and waste opened to competition in Scotland. These customers can now select from one of 18 retailers to provide their water services, including billing and credit management. In April 2017 the £2.5bn English market will fully open.

Currently, most regional water companies operate an integrated wholesale and retail business with domestic customers serviced alongside business customers.

In order to ensure a fair competitive landscape, the non-household retail operations will be partially or fully separated from wholesale and household retail, creating an incumbent non-household retailer with 100% regional market share on day one of the market. This includes credit management activities.

This will result in many of the newly-separated retailers creating non-household credit management teams or outsourcing that capability. New entrants will also need to develop credit-management capabilities.

With 100% of the debt risk sitting with the retailer, credit management becomes a key element of profitability and competitiveness as the wholesale bill must be paid in full.

While the incumbent retailer is required to supply customers, understanding credit risk allows levels of discount to be adjusted to retain profitable customers and, hopefully, lose non-payers to other retailers.

For new entrant retailers or incumbent retailers operating out of their original area, knowing the credit risk will also allow them to reject or impose special conditions, such as payment in advance, on customers.

Segmentation, such as this, will be key to ensure the process for recovery for owner-operator paper-shops with a £500 annual bill and industrial customers with a multi-million pound annual bill are well targeted.

Charles Vincent
Managing director,
Ascendancy Water