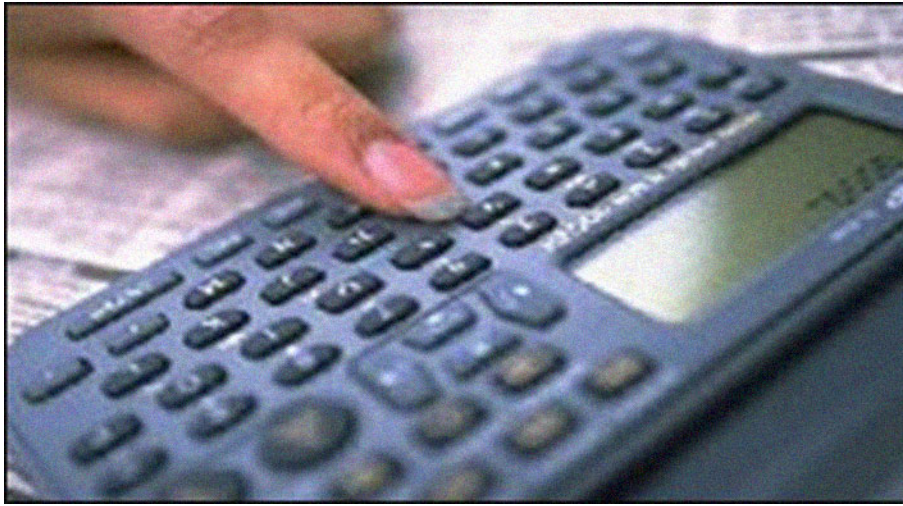


In Our Best Interests



Since the introduction in 1998 of The Late Payment of Commercial Debt (Interest) Act 1998, and it coming to full maturity, creditors have viewed it with mixed blessings. Part of the reason for this has been the way in which the Act was initially framed. That is to say its introduction in three parts. First only SME's could use it on the large companies; then SME's could use it on large companies and other SME's and finally every company irrespective of size could use it on each other. Add to this the necessity of having to calculate interest at two rates, that is bank rate at a specific period in the invoices life plus the additional 8% allowed by the Act it all becomes a potent mix of confusion. To compound this confusion the final element requiring calculation, to offset collection costs was compensation which is based on a sliding scale.

www.opsi.gov.uk/si/si2002/20021674.htm

No great problem when dealing with one invoice but add multiple invoices issued in different months then things start to get complicated, only the more sophisticated accounts programs can make such calculations effortlessly. Alternatively you could build a spreadsheet to do the calculations for you as long as you get the syntax right to perform the required calculations. In both cases you will need to keep a regular up-to-date record of bank base rates, based on which for different invoice dates the calculations can be performed.

Phew is it worth it? Yes it is.

The Late Payment of Commercial Debt (Interest) Act 1998 is the law of the land and as such it overrides any contract that you may negotiate independently. The law of the land says that interest and compensation can be charged once any invoice is 30 days old and as such supersedes any other payment terms that either buyer or seller wish to contract for. Say your customer insists on a 90 day repayment arrangement and to get the order you sign a contract to that effect. Well the good news is that such an arrangement is not worth the paper it's written on if you don't want it to be. Your decision is, did I do this willingly or was I coerced? Am I making enough profit out of the deal to make it worth my while? Will my customer pay me in 90 days time or will he delay further? Two other factors also contribute to the problems associated with such an Act. First many SME's are afraid to make such charges in case future orders fail to materialise. Secondly, the additional administration problems have been seen by many companies as having little or no value.

Are you sure it's worth it? Yes it is.

It is a proven fact that recalcitrant debtors respond more quickly to a demand for payment that includes interest and compensation and that in many cases the interest and compensation was paid without question. But businesses are not taking full advantage of the legislation as reported recently by the Credit Management Research Centre at Leeds University.

www.crmc.co.uk/october_2006.pdf