

# **PROMPT SUPPLIER PAYMENTS**

**Version 1.1 (04/2020)**

**Reference number/version: v1.1**

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| <b>Departments:</b>         | <b>Finance</b>      |
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| <b>Effective from date:</b> | <b>1 March 2020</b> |
| <b>Review date:</b>         | <b>1 Sept 2020</b>  |

**1. PURPOSE AND SCOPE**

Mears Group PLC is committed to paying all suppliers to terms. The standard payment terms in operation are 30 days nett monthly for suppliers, and 35 days nett monthly for subcontractors.

Some of our subsidiaries have a statutory duty to report payment practices and performance on a six-monthly basis, as prescribed by the Department for Business, Energy & Industrial Strategy Reporting guidance.

The BEIS standard is that 95% of invoices should be paid within 60 days. This standard is of particular relevance in relation to the procurement of central government contracts in excess of £5 million per annum. The Cabinet Office Procurement Policy Note 04/19 sets out guidance to Contracting Authorities on how to take into account suppliers' approach to payment in the procurement of major contracts. It sets out levels of payment performance at which prospective bidders will either be deemed compliant or non-compliant.

The payment performance for our largest subsidiary, Mears Limited, in respect of the most recent six-monthly periods is shown below:

**1 July – 31 December 2019**

|  |         |
|--|---------|
| - Average time to pay suppliers:             | 39 days |
| - Proportion of invoices paid within 30 days | 36%     |
| - Proportion of invoices paid in 31-60 days  | 51%     |
| - Proportion of invoices paid in 61 days +   | 13%     |

**1 Jan – 30 June 2019**

|  |         |
|--|---------|
| - Average time to pay suppliers:             | 57 days |
| - Proportion of invoices paid within 30 days | 16%     |
| - Proportion of invoices paid in 31-60 days  | 41%     |
| - Proportion of invoices paid in 61 days +   | 43%     |

The above statistics indicate that Mears has paid between 75% and 95% of all supply chain invoices within 60 days in at least one of two six month reporting periods. In line with Procurement Policy Note 04/19, Mears must put in place a compliant action plan that details how it intends to improve its payment performance.

Accordingly, this plan sets out the measures Mears is putting in place to monitor and improve supply chain payment processes and performance.

## **2. RESPONSIBILITIES**

The Central Finance team are responsible for delivering this plan, in particular the Head of Group Tax and Accounting, the Head of Ledgers and Financial Controls and the Accounts Payable Manager.

## **3. IDENTIFICATION OF PRIMARY CAUSES OF FAILURE TO PAY 95% OF ALL INVOICES WITHIN 60 DAYS**

Mears is responsible for processing and paying approximately 120,000 invoices on a monthly basis. These invoices range from one-off purchases of products through to complex purchases of works comprising labour and materials.

Analysis of the 13% of invoices that were paid outside 60 days (1 July – 31 December 2019) indicates that the majority of these cases arose from the following 3 causes:

- Non-compliance of supplier with Mears' invoicing requirements (in particular, submission of invoices that do not quote / match to a valid Mears purchase order)
- Delays in invoices arriving into the Mears Accounts Payable team
- Disputes / queries.

A summary action plan in relation to each area is set out below

## **4. ACTION PLANS**

### **4.1 Non-Compliance with Mears Invoicing Requirements**

Mears payment procedures preclude its officers from paying suppliers unless invoices can be matched to a valid Mears purchase order. Given that Mears works in the public sector (and that public monies are spent in pursuance of Mears' activities), the above control is of paramount importance.

There is evidence that a significant proportion of those invoices paid in more than 60 days do not contain a valid Mears purchase order. This creates an inevitable delay as Mears Accounts Payable staff must communicate with the nominated supply chain representative to obtain this information.

Mears will commit to the following monitoring / identification actions

- Monitoring of compliance / non-compliance with requirement for purchase order information (ongoing)
- Identification of supply chain partners who habitually fail to provide valid purchase order (ongoing)
- Identification of the extent to which variations to invoices appropriately reference Purchase Orders (and any subsequent audit trail relating to changes in requirements)
- Identification of trends (ongoing)
- List of invoices - referenced against company - where PO number cannot be matched (provided weekly and released to relevant supply chain representatives)

Based on the above information, Mears will

- Issue revised and clear communication re invoicing requirements to those supply chain partners who habitually fail to provide valid POs

- (Where applicable), increase level of onboarding of suppliers on to eProcurement system
- Issue revised and clear communication to all relevant Mears' staff (e.g. those who are in regular contract with supply chain partners) as to the importance of quoting valid PO numbers
- (Where applicable) provide guidance on complex invoices / variations

#### 4.2 **Delays in invoices reaching accounts payable team**

There is evidence that a significant proportion of those invoices paid in more than 60 days have not been sent directly to the Accounts Payable team. This is based on the fact that there are obvious discrepancies between date of invoice and date received by Accounts Payable team. This time lag creates an inevitable delay in the process.

Mears will commit to the following monitoring / identification actions

- Monitoring of number of invoices on which there are discrepancies between issue and receipt dates (ongoing)
- Identification of whether there are 'habitual offenders' in respect of a) supply chain partners or b) Mears departments / teams / individuals for whom invoices are typically delayed in reaching Accounts Payable

Based on the above information, Mears will

- Issue revised and clear communication re invoice submission requirements to those supply chain partners and / or Mears departments where there is a lag between issue and receipt dates
- Provide training / re-training (where applicable) to Mears staff on processes around checking, submission and circulation of invoices
- (Where applicable), increase level of onboarding of suppliers on to eProcurement system, thereby allowing invoices to be generated / submitted electronically.

#### 4.3 **Disputed or queried invoices**

There is evidence that a proportion of those invoices paid in more than 60 days have been subject to disputes. The incidence of disputes increases the risk that suppliers are paid in periods in excess of 60 days. It also increases the risk that Mears pays suppliers outside agreed terms.

Mears recognises that disputes are often complex and distinctive. However, it also recognises that categorisation of the reasons for disputes will provide a basis for resolution.

Mears will commit to the following monitoring / identification actions

- Monitoring of number of invoices on which there are documented disputes (ongoing)
- Categorisation of typical reasons for disputes
- Identification of the extent to which there are habitual offenders in respect of a) supply chain partners or b) Mears departments / teams / individuals for there are a higher than average number of invoices disputed

Based on the above information, Mears will

- Review its processes in the light of common / typical issues for disputes emerging
- Provide training / re-training (where applicable) to Mears staff on processes around raising and resolving disputes
- (Where applicable), review escalation procedures relating to the resolution of disputes.

**5. REPORTING AND MONITORING OF PROGRESS**

On a six-monthly basis Executive Management will review progress and performance in relation to the prompt payment of suppliers. This will be reported to the audit committee.

Approved by:



Andrew Smith  
Chief Finance Officer