HOUSE OF COMMONS

Business, Energy and Industrial Strategy Committee

Oral evidence: Small businesses and productivity, HC 807

Tuesday 9 October 2018

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Watch the meeting

Members present: Rachel Reeves (Chair); Stephen Kerr; Peter Kyle; Sir Patrick McLoughlin; Albert Owen; Mark Pawsey; Anna Turley.

Questions 207 - 342

Witnesses

I: Paul Antino, Managing Director, NRT Building Services Group Ltd; Tim Hopkinson, Director, Poppleton; Tony Davis, Managing Director, AMD Electrical; Martin Burton, Contracts Director, Arnold James Ltd.

II: Kelly Tolhurst MP, Parliamentary Under-Secretary of State, Minister for Small Business, Consumers and Corporate Responsibility; Rannia Leontaridi, Director, Business Growth, Department for Business, Energy and Industrial Strategy.

Examination of Witnesses

Witnesses: Paul Antino, Tim Hopkinson, Tony Davis, and Martin Burton.

Chair: Thank you very much for coming to give evidence to the Select Committee this morning, on small and medium businesses, productivity and late payments. We have a number of questions to get through, and after this session we are seeing the Minister, Kelly Tolhurst, so we will get started straight away. Mark Pawsey has the first question.

Q207 **Mark Pawsey:** I wonder if each of you could tell us a little bit about the nature of the businesses that you are involved in, but also the nature of late payments, what late payments are, and the impact they have on each of your businesses.

Martin Burton: My name is Martin Burton. I am contracts director for a company called Arnold James, based in St Albans. Our turnover is around £3.5 million, mainly working with provincial builders. Late payment means, to us, that regularly the monthly payments that are the lifeblood of the company tend to get deferred for six or eight weeks, and then we end up with retention problems at the end of the job, which is generally around 2.5% of the contract value.

Mark Pawsey: I think we have some questions on retention separately. With my questions, I really want to focus on late payments.

Martin Burton: It is generally where the builder just holds back—retains—the monthly payments. They can use excuses like holidays, sickness or the director not being in the office to authorise things. It is generally just excuses to put off payment.

Tony Davis: I work in the electrical industry. We are a subcontractor, so we work mainly for main contractors, never directly for the client. Late payments, which are frequent, range between, if you are lucky, 35 days on a 30-day contract, to, more realistically, around the 45 to 60-day mark being a regular payment date. That can be anything from £100,000 to £200,000 a month, which is at least 15 to 20 days late. Subsequently that pushes all of my payments back to my wholesalers. That is not so much the wages; those have to be paid on a monthly basis, bang on the first day of the month. Fortunately I have a good relationship with my wholesalers, and I can have a discussion with them and push that back to 60 days-plus, in some cases.

Tim Hopkinson: Good morning. I am Tim Hopkinson, director and part-owner of a ventilation business based in north Wales, called E Poppleton & Son. As well as a contractor, we are a manufacturer. Late payment typically means working in contracts for in excess of 70-day payment terms. We can be exposed to costs for in excess of 100 days. That has a serious impact, clearly, on cash flow and our ability to invest in training and growth for the business.

Paul Antino: My name is Paul Antino. I am managing director and part-owner of NRT Building Services Group, and we are an electrical contractor. As with most of the gentlemen here, our average payment terms are between 45 and 60 days. We have had, in the past 12 months, two of our existing clients ask us to go to 90 days, which we have declined and have now had to remove ourselves from working for those two companies.

Q208 **Mark Pawsey:** Mr Davis, you spoke about 30-day payment terms. We have been hearing a lot about late payments, but a payment is only late if it is made after the agreed period that it is due. Is part of the problem here that small businesses such as those that you represent are not clear enough in the terms that they give to their customers? Does the customer, when you start dealing with them, understand the basis on which you are expecting to be paid?

Tony Davis: Absolutely, because our customers are the main contractors, who issue us with a contract for that particular project, and in there it will state the payment terms of that contract. Normally it states 28 days from receipt of invoice, which is generally at the end of each month. At the end of each month we produce an application for payment, and then an invoice is based on that application. That is submitted.

Q209 **Mark Pawsey:** That is quite interesting, because that means that it is not payment 28 or 30 days from the date on which the goods were delivered or supplied. The terms of the contract postpone the date at which you can generate your invoice. Is that what you are saying?

Tony Davis: Absolutely. We do a month's work, we claim for a month's work, we invoice for a month's work and we then expect to get paid 30 days after. Effectively, at the start of each contract, at the first payment we would have done 60 days' worth of work and materials. That is standard form.

Q210 **Mark Pawsey:** That is an issue in the construction industry. Mr Hopkinson, you said that you were a bit more outside of the construction industry. Is it more usual for people to raise an invoice on the date that the goods are delivered?

Tim Hopkinson: I am actually in both; I manufacture and install, so I am part of the construction industry, but when I talked about exposure being in excess of 100 days, what I actually meant is I will draw materials out of stock to manufacture, and then I will take those materials to site. I am unable to claim for the cost of those materials until they are on site, and, as Tony Davis said, at the end of the month in which I undertake work, I then apply for moneys, my tier 1 contractor clients then value that, and their value may be different to my application for payment. Based upon their valuation, I am then able to invoice.

Q211 **Mark Pawsey:** Mr Antino, you said that you were invited to do some business with people who wanted to pay you in 90 days, and you walked away. If customers are not paying on correct terms, why are you guys doing business with them?

Paul Antino: These were two existing clients where we had a track record of working for them for 24 months, on an average of 45 to 60, and then they wanted to push the payment terms out on any future projects. At that point we said, "It's not for us." As an SME, which is what we are, we spend a lot of money investing in training and apprentices.

Q212 **Mark Pawsey:** Sure, but we are hearing lots of accounts of SMEs struggling with customers who do not pay on time. Why do businesses not simply walk away and say, "If you are not willing to pay us on the terms that you have agreed, we are not going to do business with you"? Mr Burton, why did you not walk away?

Martin Burton: It has to be a commercial decision. Some of the clients that you work with—the builders—you have commercial relationships with them and, at the end of the day, we have to do business.

Q213 **Mark Pawsey:** Sure, but there is a bargain; the bargain is that you do the work and they pay you on time. If they do not pay you on time, why do you carry on doing the work?

Tony Davis: Because they are all the same. Sorry for cutting across. In the 31 years I have been in the industry, I have probably worked for 100 different clients. I can count on one hand how many clients would actually abide by the terms of the contract, with no fuss, no nonsense, and pay you on time. If I were to walk away from 95 clients, I might as well just go and claim benefits somewhere, because I would not be working for anybody. They are all the same.

Q214 **Mark Pawsey:** If everybody in the supply chain took the same view, then there would not be a problem, would there?

Tony Davis: Exactly, but the trouble is not everybody is of the same view, and the whole construction industry would collapse if, as subcontractors, we took that stance and walked away from everyone. There would be no work done.

Q215 **Mark Pawsey:** Would you accept that occasionally contractors are a little bit lazy in enforcing their payment terms? That is the point I am making. Do you think contractors and suppliers could be a little tougher with some of their customers?

Tony Davis: Not at all, no. It is not a question of being lazy. We apply for our money. We then have regular conversations, albeit by email—it is very rare you can talk to anyone by phone these days—about your payment terms, what you have agreed on that payment for that month and when you expect to get it. The trouble is that everything seems to go silent towards the end of the month. The closer the payment date gets, the more quiet the conversation becomes, until it goes to 40 days and there is still no reply, and then 45 days and still no reply. Eventually, when you start threatening withdrawal of labour, et cetera, you might get somebody stand up and say, "It'll be in your bank tomorrow."

Q216 **Mark Pawsey:** Is that a common attitude that others have experienced? If you threaten to cease supply, to put the customer on stop, that has the desired effect of getting a payment made?

Tim Hopkinson: Absolutely.

Tony Davis: The fundamental problem is that you need continuity of work. Construction is extremely lumpy. When you get to the end of a contract, you have to have another contract ready. It is not always prudent to turn around to the client and say, "I'm sorry; I can't work under those terms." You need that work.

Q217 **Sir Patrick McLoughlin:** On the company that you said tried to move you to 90 days, is this a growing trend you are seeing? Where is that company now getting supplied from? Are they being supplied on a 90-day term?

Paul Antino: I do not actually know. That is a good question. Probably the answer is yes, because we have worked hard to establish ourselves, but what you will find in our industry is that the companies that will take the biggest risks will normally be the companies that have just set up. They will have been made a promise of a glorious job, they have not got the years of experience and they will take that job. However, what you often find is that whatever changes the Government try to introduce are normally pushed to the lowest level. I will give you an example: going back to the question that was raised about we do not walk away, why do we not just get rid of the apprentices that the Government want us to have? The training would be one of the first things that people cut back on.

Secondly, we are noticing now, since the training levy has changed—and we employ our own apprentices and have done for 15 years—that some of the large companies, when they want to pay us, are now deducting a 2.5% training levy, which is probably to cover the bill that they are having to incur, yet we are already picking up the bill for 15 apprentices that we have ourselves. You often find that whatever pressures are applied to the tier 1s, they are normally fed all the way down to the bottom.

Q218 **Stephen Kerr:** Have you put your customers on stop because of non-payment, and what were the consequences to the trading relationship you have with those customers?

Martin Burton: It takes a dent, without a shadow of a doubt, because you are accused of being "contractual" at that point, because there are those provisions within contracts—seven-day notice of suspension, withdrawal of performance. Your client does not like it. They do not necessarily pay you any quicker. Sometimes they will just wear it until they are ready to pay you.

Tony Davis: They then issue delay costs on you, because you have delayed the contract. I have done it twice in the 18 years I have had this business.

Q219 **Stephen Kerr:** You have twice put them on stop.

Tony Davis: I have withdrawn labour from site twice, because the payment had gone to 90 days on both occasions, and I have never worked for those clients again.

Q220 **Stephen Kerr:** It does not work to put people on stop, then.

Tony Davis: No, they will just use it for a delay cost, and they will throw another charge at you at the end of the job.

Q221 **Stephen Kerr:** Is that in the contract? Can they do that?

Tony Davis: Some of the contracts we read are 300 pages long, and we are construction men; we are not lawyers. By the time you have gone through it, you probably would not have taken the contract on in the first place.

Q222 **Stephen Kerr:** Do you have someone who goes through contracts?

Tony Davis: Not to that level, no.

Q223 **Stephen Kerr:** So you do not know all of the obligations.

Tony Davis: No. We have a basic knowledge, reading them over the years, but there is always an extra page.

Q224 **Stephen Kerr:** Is that a tactic? Do large companies use that?

Tony Davis: Absolutely.

Q225 **Stephen Kerr:** They use the tactic of complex contracts that they know you do not have the resources to look through?

Tony Davis: Absolutely.

Stephen Kerr: Is that a fair—?

Paul Antino: That’s a fair comment, yes.

Q226 **Stephen Kerr:** Tim, you began to talk about the impact of late payments on your business. I would like to hear something more from you all, if you do not mind, on what the fact that you are consistently being paid late means to your companies.

Martin Burton: Generally, we are on 30 to 60 days with all of our suppliers. If our payment terms go out beyond those terms and conditions, we will go on stop. It restricts our ability to purchase the materials to progress the works. It also restricts our ability to employ more apprentices, and cuts down on our training budgets and investment within the company, because we have to finance that shortfall.

Q227 **Stephen Kerr:** It affects the cash flow of your businesses, which has a knock-on on everything else you want to do in the business.

Martin Burton: It does.

Q228 **Stephen Kerr:** That is something you live with and have factored into the way you run your business?

Martin Burton: You have to factor in a certain amount of manipulation of the money, yes, over the period of the contract.

Tony Davis: I am at a stage now in my business where I either stay where I am or I make the next step, the next step being to employ more people and go for bigger contracts. I have a business partner, and we have had many discussions about whether we bother to make that next step, and whether we bother to invest in more employees and more apprentices, because the situation in my opinion is getting worse from late payments.

We do contracts up to £600,000 or £700,000 in total for the project. The next step is to take on contracts of £1 million-plus. I am loath to do that because of the issues of late payment.

Q229 **Stephen Kerr:** You have made two points there that are very important. This is stopping you from growing your business.

Tony Davis: Absolutely, yes.

Q230 **Stephen Kerr:** It is getting worse.

Tony Davis: I think it is getting worse, yes.

Q231 **Stephen Kerr:** Over what period do you think it has got worse?

Tony Davis: I would say probably the last five years. Since the last recession, when obviously construction prices were low because everyone was fighting for the same projects, the tier 1s and some clients have tried to keep those prices at recession costs. They know they got the job done then, so why can they not get it done now? Of course, then we were not paying any great wages, certainly no bonuses, and the wholesalers and the manufacturers were keeping their prices low; they have of course increased theirs.

Q232 **Stephen Kerr:** It is all part of the race to the bottom.

Tony Davis: Absolutely.

Q233 **Stephen Kerr:** Tim and Paul, do you have anything to add?

Tim Hopkinson: In essence, it stops our ability to grow; you're absolutely right. That means our inability to invest in apprenticeships and training and our inability to invest in technology and training, and we as a supply chain and SMEs fall behind the major contractors that are leading the way in the use of technology. We are unable to keep pace, and that is a fundamental problem of being further down the food chain in the construction industry. We physically cannot grow.

Q234 **Stephen Kerr:** You are at the mercy of the tier 1s.

Tim Hopkinson: Yes, absolutely. That affects the industry as a whole. The industry as a whole then becomes less productive and is unable to continue to invest in infrastructure.

Q235 **Stephen Kerr:** Do you have anything else, Paul?

Paul Antino: No, just the same. Over the years, we have worked hard to get ourselves to where we currently are as a business. We had two companies. One went bust on us in the early years and we managed to ride that out. The second time I saw a problem on the horizon, which was when Connaught went, and they had a local authority contract and were only paying 10 times a year. The two times they were reporting to the City they would not pay anybody on the supply chain. Clearly I saw that as a long-term risk, and now we will not work for anybody that we cannot get a level of insurance on in terms of our debts.

Q236 **Stephen Kerr:** That is a pretty common tactic, is it not?

Paul Antino: Yes.

Q237 **Chair:** When our Select Committee looked at the collapse of Carillion, one of the things we heard about was that you could get paid sooner if you were willing to take a discount on your level of payment. Do you experience that at all? I think it was called an early payment facility.

Tony Davis: Not really so much these days. That was probably a tactic more 20 years ago than it is now. They do not want to pay you any quicker, that is for sure, even if you do give them a discount. They have got a discount; they will just hold back your money in the first place. They do not really need the discount, to be honest. They will just keep it in retention.

Paul Antino: That is still operating. A company called Mears still operates that system. If you want to be paid early, by credit card, you will have to give them a form of discount, yes.

Q238 **Chair:** What is early?

Paul Antino: Whatever your contractual relationship is—

Q239 **Chair:** Do you do work for Mears?

Paul Antino: No, we do not work for Mears, because they are one of the companies that did not tick the box for us as a business. They operate very largely in the area where we reside and operate, but we will not work with them.

Q240 **Chair:** With Mears, if you want to get paid on time, or early—

Paul Antino: Probably their minimum payment terms are 60 days from the end of the month, so in theory that is 90. If you want to come in on that, you are going to have to take a credit card payment, which I believe is tiered depending on which day of the month you are prepared to take it.

Q241 **Chair:** What sort of discount do you have to accept?

Paul Antino: The last time we were approached, it was ranging up to 3%.

Q242 **Chair:** What are your margins? Would they be much more than 3%?

Paul Antino: Not much more than that.

Martin Burton: It is a practice that is common across the major contractors. It is called supply chain finance, and they use it to finance their business. They push your payment terms out. Carillion was probably the worst abuser at 120 days, but Willmott Dixon does a similar thing as does Kier, and I believe Mace does as well—not as drastically as the Carillion finance package.

Q243 **Chair:** Is it about 3%, again, as Mr Antino was saying?

Martin Burton: It was an average, yes. You can bring it back to 30 days, but it will cost you, considerably.

Q244 **Peter Kyle:** Mears has the contract to maintain all social housing in Brighton and Hove. It is one of the biggest public sector contracts that we have in the city of Brighton and Hove, which means that public money is being used in this coercive way down the supply chain, which a lot of people are going to be very concerned about. Are you aware of any other companies that do this using public contracts, in order to be coercive with the supply chain?

Paul Antino: No.

Q245 **Chair:** Mr Burton suggested that Kier was also one.

Martin Burton: Kier is one of the more favourable or amenable.

Q246 **Peter Kyle:** It is an interesting angle that public money is being used in this way down the supply chain.

Martin Burton: Once we end up in the supply chain, the terms and conditions of the main contract are not what we operate on. There are subcontracts below that. They are generally referred back to a standard contract, but then they will have their own terms and conditions that overlay and supersede those. The payment terms are a critical factor in that.

Q247 **Peter Kyle:** Are there any of you who have not been subject to additional charges—charges for invoicing and charges for different parts of the invoicing process and payment process? Have you all been subject to those charges?

Martin Burton: Yes, at some point.

Q248 **Peter Kyle:** Can you briefly tell us what those charges are, and how big they are in proportion to the money you obtain? How much is it affecting you?

Martin Burton: If you bring your payment as forward as it can be, I seem to remember it was around 7% you would be deducted, which would then go down the longer that you allowed the main contractor to keep the money in their account. If you wanted to be paid around 30 or 35 days, you would be looking at around 3% to 1.5% as a deduction, whereas beforehand with a standard MCD that would be 2.5%. That would be quite attractive to you. If you wanted to bring it forward—I think the earliest was 20 days at one stage—that is when you would be paying the premium.

Q249 **Peter Kyle:** I do not want to turn this into an auction, but do any of you have a bigger story or incident or case study than that?

Tony Davis: It is generally the same for me. The main contractor's discount is normally 2.5%, but can be as high as 7% or 7.5%. They still do not abide by the payment terms anyway. The main contractor's discount is just applied now as a norm. It used to be for prompt payment, and various things like that, but it now just seems to be part of the estimating and contract process. It is just stuck on there for the contractor to take off the top.

Tim Hopkinson: It becomes part of the negotiation, at award-winning stage. I have not accepted discounts for early payment. I have been offered them on numerous occasions, generally at the sort of levels that Martin talked about—2.5% to 3% for 30-day payment instead of 60 to 70-day payment—but I have not accepted it, because fundamentally the most important thing when we submit an application for payment is that it is valued properly and it is not discounted at that point in time.

Q250 **Peter Kyle:** Is it fair to assume that the companies that would be tempted by it are the ones that have cash flow issues?

Tim Hopkinson: Probably, yes.

Q251 **Peter Kyle:** Therefore, it is the vulnerable companies, and would contribute to the weakening of a company.

Tim Hopkinson: Yes.

Q252 **Peter Kyle:** So the system as it stands is actually being punitive towards the companies who can least afford that.

Tim Hopkinson: Correct.

Q253 **Peter Kyle:** We have heard that there are other charges in other sectors, such as a company having an electronic invoicing system but charging suppliers to register with the electronic system. Is that something you have experienced?

Tony Davis: I have not, no.

Q254 **Albert Owen:** The four of you have highlighted the problems and concerns you have as companies. Moving forward to try to find some remedies for this, again, Mr Antino, you said in response to an earlier question that you just did not bother with a company in future, but they carried on regardless. Again, we need to try to stop that. To be fair to the Government, they have identified this as a problem and set up a commissioner. Have any of you used the Small Business Commissioner?

Tony Davis: No.

Q255 **Albert Owen:** Do you know much about it?

Tony Davis: No.

Q256 **Albert Owen:** Would you have confidence in a third party?

Tony Davis: No.

Q257 **Albert Owen:** Are companies that you have signed up with members of the Prompt Payment Code?

Tony Davis: I would not know, to be honest. I am assuming they are, because if they do not sign up to these codes, they are not allowed to bid for certain contracts. Most of my sector is hospitals and schools. We dabble in a bit of domestic housing, et cetera, but it is mainly schools and hospitals. I do not know much about their contract with the client, but I am assuming they have to sign up to certain things in order to be able to bid in the first place.

Q258 **Albert Owen:** What about anybody else? Is there any experience with companies that have signed up to the Prompt Payment Code?

Paul Antino: One of the things we have success with, when we do have a money issue, is the Government's online small claims website. That is very good.

Q259 **Albert Owen:** Again, I am concerned that you have not heard about the Small Business Commissioner, because it is there for you guys, at the end of the day.

Martin Burton: I do not think the Small Business Commissioner covers construction.

Q260 **Albert Owen:** The Government have appointed one, and it is there to help small businesses. We have spoken to the Commissioner; he is keen to make himself known to you all, to regulate it and to try to resolve this matter.

Tim Hopkinson: As Martin said, the Small Business Commissioner's remit is not necessarily construction. Yes, it is small businesses but—

Tony Davis: The construction sector is taken out of that, I think.

Q261 **Albert Owen:** Is that the case?

Tony Davis: That is our information this morning, yes.

Albert Owen: Okay. We will look into that.

Martin Burton: If I may, the Government did introduce the Construction Act; the only trouble is that they left one bit out, which was the retention side of things. They gave us the mechanism in the scheme to be able to have staged payments. That is manipulated within contracts, but it is a backstop. The one thing that the Construction Act does not deal with is the retention issue.

Q262 **Sir Patrick McLoughlin:** Is that something you think the Aldous Bill is going to deal with?

Martin Burton: The Aldous Bill is an attempt to try to deal with it, yes.

Q263 **Sir Patrick McLoughlin:** That will answer your problem.

Martin Burton: The problem with retentions is not, actually, the retention itself. The retention is a problem when it is abused. It is the vested interest of the principal contractors who have got the money and hang on to the money for as long as they possibly can.

Tony Davis: Going back to the late payment issue, quite frankly there are laws in place that we can follow for late payments. They are there and have always been there, but in reality we cannot use them.

Q264 **Albert Owen:** You made an honest statement there. You said that you are not lawyers and it is too legalistic. The idea of a commissioner or a third party is to resolve these disputes on your behalf and on the other side's behalf as well.

Tony Davis: It would be a possibility if he had construction as part of his remit. We believe he does not.

Q265 **Albert Owen:** For those who are not involved in construction, why have you been hesitant?

Martin Burton: We are all involved in construction.

Tim Hopkinson: I am in both manufacturing and construction, but I work under construction contracts. Even though I manufacture, I work under construction contracts, so it is one and the same.

Q266 **Albert Owen:** What do you think should change, then? You said that there are plenty of current laws, so what should change for you to access the system so that you can resolve these matters? What do you think needs to change? Is it cultural? Is it legal?

Tony Davis: It is very simple. Take the money away from tier 1s. Money is the only issue. They have all the money and they do not want to distribute it down the line. Take the money away from the tier 1s. I believe there are a few solutions about—maybe a client bank account where money is drawn down from that, but as an individual, as a subcontractor, it is the bank account for my money, not via the tier 1 process, because as soon as you give money to somebody else, he does not want to give it; he just holds on. An extra day for him can be, even at our low interest rates at the moment, quite favourable.

Q267 **Albert Owen:** Is that something the rest of you support?

Tim Hopkinson: Yes. Whether it is retentions, late payment or undervaluation, at the end of the day it is working capital and it is working capital that clearly the tier 1s want, and we need to run our businesses.

Q268 **Albert Owen:** What else do you think the Government can do then?

Tim Hopkinson: We need Government to legislate, but not only to legislate but thereafter, with someone like the Small Business Commissioner, to police. Unless it is policed and enforced, then it will continue to be a challenging industry where we struggle to invest in growth, invest in apprenticeships and invest in training.

Q269 **Albert Owen:** Does anybody else want to add anything?

Martin Burton: In construction we have two diametrically opposed parties, if you like, that cannot play nice. That is why we had the Construction Act to give us a set of rules to work within. The only thing it missed was the final part of the jigsaw, which was sorting out retention. We need to sort out the vested interest in retentions, so that it takes away the issue of the major companies actually wanting to hang on to that cash, and they instead distribute it when it should be paid in accordance with the contract, 12 months after the end of practical completion, which is the defects liability period. If no claims are made on that retention fund, it should be automatically released back into the companies that are waiting for it.

You mentioned Carillion earlier on. The retention fund that Carillion had was £800 million. That is an enormous amount of money to have been lost to the economy, the Treasury and to the man in the street—the workers. They lost their wages. It was not just the companies like ourselves or some of the larger mechanical and electrical companies. It was £800 million lost to the economy, the Treasury and to the working man; something has to be done about that.

Q270 **Anna Turley:** While we are on retention, we have made a few references to it and it is interesting to hear the emphasis on the abuse of it. We did some research previously through this Committee that found that three-quarters of contractors that we surveyed had had experience of retention in the last three years—an average of 5% of payments being withheld. It is a serious issue in the construction sector. Could you say a little bit more in detail about your experience of retention, and perhaps a bit more about your ideas of what can resolve it? Martin, I will start with you, as it is an issue that is dear to your heart.

Martin Burton: Currently, with a single builder our company has carried out five jobs over the last three years. The value of that turnover is about £1.5 million. At the moment, we are owed £37,500, in round figures, in retention. Some of it has been outstanding for over six months. For a company that has a £3.5 million turnover, that is a big chunk of money.

Q271 **Anna Turley:** What mechanisms do you have to challenge that and to fight back?

Martin Burton: The builder's QS will value the work. Generally, they value it down and then we have to argue it back under the terms and conditions of the contract. I have had to go to adjudication with one particular builder who grossly undervalued just one single variation that we did on a particular project, and the adjudicator put that right for us. It is time and expense that we should not have to go to.

Valuations should be fair and reasonable. The essence of British contract law is that it should be fair and reasonable. The way we are treated in some instances is simply not that. We need that backstop. Somebody needs to actually put this right. Carillion could happen again and another major company could go down and another £800 million could disappear from the economy. You have the opportunity now to do something about it.

Q272 **Anna Turley:** What is the solution? Is it an adjudicator that is perhaps cheaper and comes in earlier, in terms of earlier intervention?

Martin Burton: Adjudication as a process has generally been hijacked by the legal profession, because they saw it as a step down from arbitration. I tend to do my own adjudications and hopefully I have been fairly successful with what I have done, because I do not go after questionable decisions. If I am sure of something, I will go after it.

That is not the answer. What we need is something that works—something akin to the tenant deposit scheme, where the money is put into a central facility. The client can make a claim on that if there is a defect and the contractor does not deal with it. Contractors are honourable people. We will go back and we will put right any mistakes that are made, generally. I cannot speak for everybody, but I know that we would and so would my colleagues here. If that money was then secured in that way, it takes away that vested interest from the principal contractors in actually dealing with that money. There is no interest in it for them, and it would be automatically released at that period.

Paul Antino: Just on the retentions, as a business we currently have £252,000 of retentions being held, of which £117,000 is work currently ongoing and £135,000 is jobs that are finished. There are two things. As a business, we tend to look at where the Government are going to go in terms of new business. One of them we have moved into is new housing—electrical working in housing—but then you get penalised by that, because most retentions are 12 months and house builders are applying two years.

The other thing you have with retentions is sometimes your money can be held through no fault of your own, because on a construction site there could be 20 different trades that have participated, and your money could be held because somebody has not resolved a dripping tap, for example. You are not necessarily rewarded for your good performance. You can be punished for your good performance based on somebody else's bad performance.

Q273 **Sir Patrick McLoughlin:** If we were able to contact all your suppliers, would they say you were good payers?

Tony Davis: Mine would say no, generally, because mine is a knock-on effect from my payment terms with the contractor. Like I say, fortunately I have a very good relationship with my wholesalers that supply me with materials and we have a discussion should there be a late payment on the table. We will discuss it from there and they are generally quite amenable. After 60 days then it starts to get a little bit fraught. If I have not paid them within 60 days, then tension tends to rise, but fortunately it has not really come to that as yet.

Tim Hopkinson: We try to make sure our suppliers are on pretty much the same payment terms that we are on, but we pay them on time and we pay them full value. If our applications are reduced or we are paid late, then we still pay our suppliers on time.

Tony Davis: That is the one thing with me. I do not hold retention on my subcontractors, which could be data installers or security. Because we are electrical contractors, we have to take on the package.

Q274 **Sir Patrick McLoughlin:** Are you saying it is mainly a problem with the bigger companies?

Tony Davis: Absolutely, yes, down to subcontractors. They class my subcontractors as sub-sub, so they would not deal with them directly. Because I am an electrical contractor, I have the responsibility on most projects for fire alarm, security, data, as well as electric. I do not carry out the function of those other three, so I employ other firms to do that for me; I pay them but I never hold retention on those firms. I take the retention for the whole project as an umbrella over all of my subcontractors.

Sir Patrick McLoughlin: This is an issue for the main subcontractors.

Tony Davis: Those of us who deal directly with tier 1s.

Martin Burton: It is not necessarily the larger contractors. It is a cultural thing that comes right the way down the food chain. You have the principal contractors for the majors, as we term them, but then you have provincial contractors that deal with the smaller projects—the local businesses—but the culture is the same.

Q275 **Sir Patrick McLoughlin:** Would you say this is more of a culture particularly relating to the construction industry?

Martin Burton: Yes, absolutely.

Q276 **Chair:** We have heard similar stories from other sectors as well, but the construction industry certainly has a reputation for these sorts of practices. Martin Burton mentioned Carillion before and the worry of something like that happening in the future and taking out other small businesses, as Carillion did. Paul Antino has mentioned Mears and their supply financing or early payment facility. Are there other majors, tier 1s or even subcontractors that you would not work with that have that reputation in the industry?

Tony Davis: Absolutely. I will not work for Kier at all, because we talk a lot in the electrical industry. We have meetings at the ECA quite frequently and poor-paying builders are quite often bandied around the meeting, so we stay away from players that certainly have a reputation, and Kier is one of those.

Q277 **Chair:** Is that because of their standard terms or that they do not meet their standard terms?

Tony Davis: No, standard terms generally seem to be the same throughout the industry. It is not what is written on the paper; it is what happens in practice.

Q278 **Chair:** What happens in practice with Kier?

Tony Davis: What happens in practice is the same excuses all the time: why they do not want to pay you on 30 days and why they want to stretch it out to 45 days. It could be something as basic as the wrong date on your invoice or you valued to a day, say the 28th of the month, and they wanted it valued to the 30th of the month. These are the pathetic answers that we get back all the time.

Tim Hopkinson: I think the payment terms are generally a good indication of whether or not you want to work with somebody and the risks associated with their longevity. There are quite a few that have terms in excess of 30 days—a lot of them, if not most of them.

Q279 **Chair:** You would prefer not to take work from somebody who is not going to pay you in 30 days, obviously, but do you have a cut-off point?

Tim Hopkinson: We would all prefer not to work beyond 30 days, to be perfectly honest, but it is like most things. It is a judgment call at the time. It depends very much on how much you need that work to sustain the business going forward.

Chair: Thank you, all four of you, for coming in to give evidence today. It was very helpful for us and for our inquiry. Thank you for being so honest and upfront about some of the challenges you face. I hope that when you see our report you will be pleased with some of the recommendations we make. Thank you again for your time this morning.

Examination of Witnesses

Witnesses: Kelly Tolhurst MP and Rannia Leontaridi.

Chair: Welcome, Minister, and welcome, Ms Leontaridi. Minister, you have been on this side of the table asking questions to Ministers when you were on this Select Committee and I hope you enjoy your time on that side of the table equally. Congratulations on your appointment to this role and we are very pleased to have you in front of us this morning.

This is the final evidence session that we are conducting in our inquiry looking at small businesses and issues around productivity and particularly late payments. We have had a very good evidence session this morning with four subcontractors in the construction industry, with lots of tales of late payments and the practices of some of the major companies in that sector. We have a number of questions for you this morning and we will start with Albert Owen.

Q280 **Albert Owen:** Can I also welcome you back to the Committee? The questioning now is less hostile than when you were on it, Minister. The first question is on productivity and, as the Chair said, we have had a number of evidence sessions. We have heard from several small businesses that most small businesses do not even understand the concept of productivity, let alone how to measure it. What support and tools can you give SMEs to ensure that they can measure their own productivity and, importantly, improve it?

Kelly Tolhurst: First of all, I am very pleased to be here this morning. It is really strange to be having my first Select Committee as a Minister for the very Select Committee that I was on. I just have to say there was a mini-reunion last week of some of the old members of the BIS/BEIS Select Committee.

Absolutely, you are right. In actual fact, I would say that up until recently "productivity" has not been a buzzword, and it has very much become at the forefront of what Government are talking about and all the research that is being carried out. Because of the make-up of our small business economy, being that 99.9% of our business environment is small business, for them to identify what productivity is and how it affects their business is a challenge. Because in some cases productivity is such a crude measure, for them sometimes it is difficult to see, especially with micro-businesses, which we know are the bottom 10% in terms of productivity, on our long tail. We know that 10% of those are our small businesses and micro-businesses. It is about changing the culture and it is about making sure productivity is something that people need to be considering. Now there is a tool with the ONS, which companies can plug their data into to see how they rank in the productivity scale and maybe give them some ideas on how to do that.

With regard to productivity, as we all know, we are not there. It is an ongoing process. It has been ongoing. When I was on the Select Committee before, we had the productivity review. I remember sitting around this table to look at the Government's strategy on that at the time, which was a really big scope. There is still more work to do. Probably you want to question me a bit more on what I have said or ask me some questions.

Q281 **Albert Owen:** Again, it is a cultural thing. In one of the sessions, I remember being told by some of the witnesses that it might not be a problem. You just have these international comparisons. Businesses are starting up very quickly, they are doing okay and they are paying their taxes. You said it is a buzzword. In this Palace of Westminster we talk about it a lot. Businesses may not be getting it in the same way that we want them to get it, so what ideas, tools and support are you giving them specifically?

Kelly Tolhurst: You are right. Working in the small business sector prior to coming here, very rarely did we discuss productivity. What we are doing is a form of engagement with all the stakeholder bodies and anyone who is engaged with those stakeholder bodies—for example, bodies like the FSB. I know that does not cover the whole market, but we are having dialogues with those organisations all the time. We are trying to get it on the scale.

Through the business support that we give, now it is a run-of-the-mill conversation. We have identified, and some of the research shows, that especially for the small businesses and micro-business sector there are things like technology and leadership. They sound very simple things, but they can have a massive impact. Just to give you an example, last week I was talking to QuickBooks, who do the accountancy package, which they now have an app for. That is very much targeted at the self-employed, maybe in a very micro-business environment, but it enables them to do their invoicing and accounting better, which in a sense makes them more productive. I know that is very minor.

We need to work out how to get the big firms more productive, because what we have seen through the evidence is that there is a range of large companies in the low-productivity band as well. It is not just isolated and small businesses.

I would agree with your comment about how, when we are compared, we are not doing well in regard to productivity, in the sense of, "How do you compare it?", given the make-up of our economy, the size of our service sector, the different sectors, which technologies and how they are moving forward. It is complex. It is not a straightforward solution.

One of the reasons I came into politics was around wanting to try to push through what I think. I have my own views on certain things, which I am going to hope to influence in the background. The Government have made some announcements on extra investment and focus around leadership and management, and to gain on some of the experience and some of the really good work that has already been going on.

Q282 **Albert Owen:** I am going to come back to digital and leadership in a second. You mentioned the FSB, and you are dealing with these organisations. Do you think sometimes you should be broadening that and going direct to some of these micro-businesses that you are talking about? Some of the defensiveness—I would not say hostility—came from those very organisations, rather than the individual set of companies.

Kelly Tolhurst: Absolutely. Especially in my role, as Small Business Minister, you are quite right that the stakeholders are important, but there are many of their members that will not listen and engage with them. I can speak from my own experience. In 17 years of working for myself, I had very little engagement with those organisations, so they were not speaking for me over that period. It is really important to speak with those micro-businesses. A big part of what I want to do going forward is engagement around that.

I personally am concerned about the micro-business sector, because they are the ones that are most isolated, and my own feeling is that they are the ones where we are probably seeing some of the biggest and the quickest impact. Overall, if we concentrate across the range of businesses, we should be able to start to raise our productivity. Again, it is complex. There will be different measures for different sizes, but it is something that we are all committed to driving up. I do not have the silver bullets here, but it is not going to end; it is something that we are going to continuously look at.

Q283 **Anna Turley:** Thank you very much. Welcome, Minister. We have had quite a few witness sessions and evidence from different groups and small businesses, and one of the things that has come through really strongly is the importance of the local emphasis—so, local growth hubs and local enterprise partnerships. It is about bringing people together but particularly also fostering and supporting that peer-to-peer support, enabling people to support each other. What extra support and funding could you give, particularly to local enterprise partnerships in the first instance, and growth hubs, but also particularly to support businesses to support each other in the local area?

Kelly Tolhurst: As you know, we have the 38 growth hubs throughout the country. I am telling you stuff you already know, but they are funded by Government, through the LEPs, and through the private sector and engagement on the ground wherever they are. We know that the 38 growth hubs across the country are focusing on a range of different things and are set up in different ways, so it is a really diverse market. A benefit of the local growth hubs is that they are reacting to the local economy and maybe the needs of the local environment. We have committed to another £12 million investment in those growth hubs, which will continue until 2020. That is a commitment from us to those growth hubs.

In regards to some of the other announcements last week, we have allocated another £20 million to strengthen local networks. Let us be straight about this: Government telling business how to operate does not always resonate with the people out there in small businesses. I use this analogy all the time, but when businesses speak to Government, it is generally because they have to pay money or we are telling them to do something. It is really important that we are supporting them, but doing it at a local level.

We also have the mentoring programme. We have over 100 signatories already signed up to provide mentors. It is about making sure that this filters out to every region, through every growth hub, and that we are targeting as many people as we can. That is always a challenge. I will not sit here and say that it is straightforward, because it is not. Small business owners in particular are so busy running their businesses that it is quite a challenge to get in front of them. One of my personal interests in this area is monitoring how we are communicating, how we are getting that information out, how we are making the most of the gov.uk website and how we are working with other Departments to filter that information through.

It is difficult for small businesses, even when they are dealing with a local growth hub. Will all businesses locally know about a local growth hub, even though they have been in place since 2014? It is an ongoing challenge, but we are committed to keeping up that pressure.

Q284 **Anna Turley:** You have talked about some of the resources that are available to SMEs, but a lot of SMEs have raised concerns about the longevity of the scheme and the longevity of the commitment of the funding. In particular, some of it is reliant on EU funding. How can you ensure that support for SMEs is consistent and long term, and that we match the funding that is currently coming from the EU?

Kelly Tolhurst: You are right; a lot of the funding provided is European funding. We will be consulting on a shared prosperity fund by the end of the year, in regards to the funding around that. I cannot give you those answers today, but that is something we will be consulting on. In regards to making sure the money is filtered out to those hubs, fundamentally, we have always had a BIS/BEIS Department. We recognise that business growth, economic growth, is absolutely important for our country and the delivery of our services. As Small Business Minister, and hopefully the voice within Government for small business, part of my job will be to do what I can internally to champion and make sure we are still able to provide the services required.

In regards to longevity of initiatives, one thing that is quite important is that, whenever we are spending any kind of Government money, it cannot be on initiatives that do not work. It is right that they are evaluated. It is right, if they are not providing the right level of outcomes, that we assess whether there is a better way of doing it. It is a frustration, sometimes, for businesses that they do not know what particular initiative suits them, or an initiative was there and it has stopped. But it is still the right course of action to try things; if they do not work, reassess and put something else in.

There was the announcement last week from the Chancellor, in regards to the funding for mentoring and a similar project to Be the Business. We have seen some good results and good outcomes from Be the Business. We know that it is a good model and we are learning lessons, so we are going to put some money into trying to deliver that for the sector. It is trial and error. Over all the years I have been involved in business, as I am sure Peter will agree—he will probably give me some grief later—there have been a number of different initiatives, but it is about making sure we have the right one. Some of them are still going, in some shape or form.

Q285 **Albert Owen:** Coming back to two issues you raised, Minister, first of all, you highlighted the importance of digital skills, as did the witnesses who gave evidence to us. Many of them have said that the skills base is just not there at the moment, and it needs to be helped and supported. You mentioned, and I will come back to it, the Chancellor's announcement. If the Chancellor was listening to this, would it be a good idea for him, in his Budget, to have some tax credits for small businesses, so they can upskill their workforce with digital skills?

Kelly Tolhurst: On digital skills, literally everyone has to be able to do it now in business. That is where we are. Everybody, in that sense, has to be able to operate a computer. We still have—and even I have seen this—some businesses operating on a paper invoice or paper receipt system, which, at the very, very basic levels, is not necessarily the right way forward, so digital skills are important.

One thing we can talk about is the £100 million going into the national retraining scheme, which is focused on upskilling people.

Q286 **Albert Owen:** On the practicality of that, many of the businesses have told us that to move up, to scale up, they really need to get involved in more digital communications. They either do not have the software or are time-constrained. They need to upskill so they can use their time more effectively, when it comes to robotics, 5G and various things. There are issues there. Is this fund available so that they can apply for grants to improve their digital base?

Kelly Tolhurst: It is upskilling, so it will be tailored to what the person is asking for, basically. You are right, but you will also find, going back to the local level, through the growth hubs, peer-to-peer networks and private sector organisations, there is a lot of support. I am not saying that it is always in the right place, but there is support out there. It is not just about what we are doing in regards to going to companies to offer retraining. It is about harnessing and making sure that that support comes to one place, so businesses that want to do that are talking to people on the ground who are able to signpost them and offer them those services.

Q287 **Albert Owen:** That is all there. They just really need some more cash—this is what they are saying to us—to upgrade their equipment, in many ways, as well. This is the question, and I know you cannot answer for what the Chancellor is going to do, but is a tax credit a good idea?

Kelly Tolhurst: Personally, I would say that there is a whole host of different things that would enable a company to upskill in digital. It is something that companies have to do. Part of what a small business does is change to fit with the current environment. If businesses do not do that, they either fail to grow or disappear. That has always happened. There is a responsibility for Government to make sure that we are enabling and helping, but there is also a responsibility for those entrepreneurs and business owners to understand that they are operating in a competitive market. There are a number of tools that are used to do that.

Albert Owen: I am just relaying what we have been told by many of those businesses.

Kelly Tolhurst: No, absolutely.

Q288 **Albert Owen:** A grant is something that would be simple for them to apply for and they could use it to upskill. On the management thing, again, you quite rightly mentioned it. One of the issues that we heard from businesses was that the setup is quick; they are very successful in this country at starting up new businesses, but when it comes to scale-ups there is a bit of an issue there regarding leadership and management training, because of costs, again, but also time constraints. What is your view on that, and how do you think Government can specifically help them?

Kelly Tolhurst: With scale-ups, just to give you some information about one of the SME support services we provide, we have the business support line. A large proportion of those businesses are starts-ups; a large proportion are businesses that have been operating for less than three years. That is another direct route in for scale-up, so that is literally sitting in your office and getting on the telephone. Particularly with scale-ups, one of the things we are doing, going back to the announcements from the Chancellor last week—

Q289 **Albert Owen:** Do you want to tell us what that was? Some of us might have missed it.

Kelly Tolhurst: Yes, sorry. I will tell you what it was. It was a package of £31 million, £11 million for a small business leadership programme, which aims to train 2,000 business leaders and 10,000 by 2025, £20 million to strengthen local networks, and the mentoring programme, which I mentioned earlier. We have over 100 mentors signed up for it. We have companies like Amazon, GSK, KPMG and Siemens. We want an extension of that, so that is part of it. Also, on the back of the productivity review, more will be coming.

Part of my role as Small Business Minister is to co-chair the scale-up taskforce, and these are real issues that we will be looking at. We are focusing on a scale-up week. As a constituency MP, I have seen the challenges that there are for scale-ups, because I have worked with some businesses at a local level. Some of the technology I do not understand—it is not my bag; I am a marine surveyor—but I have seen the speed with which they grow. Part of what we are doing is about finance and access to finance.

Q290 **Albert Owen:** I am sure that announcement will be much welcomed by the sector, but again, access to it is the concern at the moment. It is about applying for those grants and getting them quickly, so that they can move their businesses forward. Perhaps you could respond to that, but I have a final point. Is the fund that you have just mentioned, from the Chancellor's announcement, for Scotland and Wales as well as England?

Kelly Tolhurst: In regards to access, it was just announced last week, so how that is to be delivered will be worked through. I have to say, this is already in place, so we are trying to expand what is already in place in regards to that. Sorry, what was the second part?

Q291 **Albert Owen:** The second one was about Scotland and Wales. Is it a UK fund?

Kelly Tolhurst: Yes, it is a national fund.

Q292 **Sir Patrick McLoughlin:** Can I clarify a couple of points? You referred a little while ago to the £100 million. What is that for?

Kelly Tolhurst: That was the national retraining scheme.

Q293 **Sir Patrick McLoughlin:** How do you get into that? Who is that supplied by?

Kelly Tolhurst: It is a DfE lead; it is not a BEIS lead.

Q294 **Sir Patrick McLoughlin:** It is through colleges.

Kelly Tolhurst: It is through colleges and business schools, which tap into the local growth hubs.

Q295 **Sir Patrick McLoughlin:** Sometimes, my worry is that there are so many schemes around that they get lost, and people do not know how to get into them. Then there is the £31 million, which is what you say the Chancellor announced last week, going to 2025. That is seven years away. That is not very much money, is it, over a seven-year period?

Kelly Tolhurst: No, sorry. It was 10,000 by 2025. The hope of the £11 million was to reach at least 10,000 by 2025.

Q296 **Sir Patrick McLoughlin:** Ten-thousand what?

Kelly Tolhurst: Ten-thousand businesses or leaders. Sorry, that is what it was. In regards to how people know about all these different schemes, I will go back to what I was saying. There are the growth hubs; there is our website, gov.uk, and the business support hotline. As MPs, we all engage with our local growth hubs or LEPs, which are absolutely valuable in this space. It is a partnership with Government. They should really be, to all intents and purposes, one-stop shops or places to get some advice if you are a business. You can do that on the business support line and the website as well. This is all there. We have a responsibility to make sure that it gets out there, and to promote our growth hubs and what our LEPs are doing, which is different throughout the country.

When I have met businesses, especially in my constituency, the people who engage with those hubs and the support that is there always want more, but generally they feel there is an opportunity to get access. A fundamental thing is making sure we are reaching those hard-to-reach businesses. That is something we have to do more work on.

Q297 **Sir Patrick McLoughlin:** The LEPs are very variable.

Kelly Tolhurst: Absolutely.

Sir Patrick McLoughlin: Have you thought of asking the LEPs to provide you a report as to what they are doing on this across the country, and perhaps a report every six months to update you? Is the Department already asking for this, specifically on this subject?

Kelly Tolhurst: Part of my role as Small Business Minister is going to be looking at how our business support is delivered. I will be visiting growth hubs. Last week, I was with Birmingham and Greater Manchester LEPs in a forum with some businesses and with the local authorities, listening to some of the support on the ground that is being delivered, up in that part of the country. I am quite interested to delve more deeply into the growth hubs, to see what individual growth hubs are doing. That is something I would like to do; I can say that, and I think it is really important. It is Government money; it is Government support, whether it is coming via LEPs or directly. I go back to what I was saying. It is right that we monitor and see how those LEPs and growth hubs are performing. That is something that officials are also monitoring and are very close to. As a Minister, yes, it is something I absolutely need to be on.

Q298 **Stephen Kerr:** I was glad that Albert asked the question as to whether this includes Scotland and Wales. Many times, as a member of the Select Committee, I hear that initiatives are being launched and money is being spent and targeted, and I am often not clear whether it does include Scotland. I will ask you a very simple question, Minister. How far can we go, in terms of co-ordinating what we are doing with the Scottish Government? If you are a small business in Scotland, the landscape is cluttered. Sir Patrick already highlighted that it is cluttered in England; my goodness, it is cluttered to the max in Scotland. What can we do to improve the co-ordination between what BEIS and the Scottish Government are doing?

Kelly Tolhurst: It is a good question. Our industrial strategy covers the whole of the United Kingdom. It is not just about England; it is about Scotland as well. The formulation of our local and industrial strategies will be key to making sure we are delivering what those sectors and local economies need. You raise a good point. I have not yet considered, in my role as Small Business Minister, how I am going to directly communicate with the Scottish Government in regards to business support; I will be straight with you. I know you are keen to get me up there, Stephen.

Stephen Kerr: I am.

Kelly Tolhurst: I have had lots of requests for that. Fundamentally, I am not looking at it as England, Scotland, Wales; I am looking at the United Kingdom. Most small businesses in this country trade not only with the area in which they operate; they operate nationally. Most small businesses are national businesses. Therefore, the Government's position is that we need to make sure that businesses in Scotland are getting the same support that is on offer throughout the whole of the country. That is a challenge, and something I probably have to do further work on, in regards to your particular question.

Q299 **Stephen Kerr:** That is all music to my ears, as you know. The UK is third best, according to the OECD, when it comes to start-ups, but only 13th when it comes to scale-ups. Why is that?

Kelly Tolhurst: Why is that? There is a whole heap of reasons why that might be. On the scale-ups, we are focusing on access to finance. We have yet another inquiry on access to finance; I remember sitting where you are. We still have to crack that nut. The picture is better than it was. Because of the way information is collated, because of growth hubs, because of the British Business Bank, there are now more opportunities for scale-ups to understand what type of finance they can get access to. We are talking about a broader selection of finance options that are available for scale-ups now.

One particular thing we are doing, as Government, is the project on data. We are working with HMRC around its data, to make sure we are identifying where the high-growth options are and using scientific methods to group those together, so we can target them. We have the patient capital fund, which is particularly focused on high-tech, high-growth areas, which is a £2.5 billion fund, operated with the British Business Bank.

I do believe the British Business Bank is a step change. I will be interested to see what you say, as the Committee. When I was last on the other side of the table, on the Select Committee, the British Business Bank had only just started—it was 2015, 2016. It would be really interesting to see what Peter thinks. I say Peter, because he was on the Select Committee at the time, so he is like an old hand.

Stephen Kerr: He is the designated survivor.

Chair: We are waiting with bated breath to find out what Peter thinks. We usually do not have to wait very long.

Kelly Tolhurst: Sorry, I keep referring to Peter; I am surprised he has not chipped in.

Peter Kyle: Nobody ever asks what I think, you see, so it is quite unusual.

Kelly Tolhurst: No, definitely—that is the way you get things right: talking, listening to what people have to say and then modifying what you need to what we think works. At the end of the day, we are all here because we want our small businesses to prosper and thrive. We have the scale-up task group. Actually, I have one coming up in the next few weeks, I believe. We are particularly focusing on scale-ups.

Q300 **Stephen Kerr:** Going back to the comments you made about capital, about finance, the British Business Bank has estimated that 100,000 small businesses—this is in conjunction with the FSB—have been turned down for business loans by retail banks. There clearly is a critical need for patient capital. The Government invited a number of key people in industry to do a review of patient capital, and they made a number of recommendations, one of which was the creation of a patient capital investment vehicle. That can be given other names as well, but the idea being something at arm's distance from Government that would become a more dynamic provider of patient capital.

I am not aware that the Government have embraced this. This is post the British Business Bank. Is this something the Government are considering in a targeted way? You mentioned using data and records to target these businesses that perhaps need additional support in order to scale up. Are the contents of that review still on the Government's agenda?

Kelly Tolhurst: Sorry, just so I am clear and do not go off on one, because I know I sometimes talk too much, you are particularly talking about patient capital, are you?

Q301 **Stephen Kerr:** I am talking about patient capital. The review that was done by a whole group of industry leaders, which reported in October 2017, made very specific recommendations. The point I am making is that, post the establishment and operation of the British Business Bank, they are looking for something more in terms of the generation and availability of patient capital in a targeted way. Is that still on the Government's agenda? Bearing in mind that we are leaving the European Union and British businesses will not have access to the European Investment Bank, are the Government looking at alternatives in relation to the recommendations of that industry review body?

Kelly Tolhurst: Yes. We have this fund. Part of that is about making sure we deliver it in the most effective way. It is something that we keep under review. That is what you do. We do not just give Government money, say, "Right, okay," and let it go. It is a £2.5 billion fund, which is operated by the British Business Bank, as we know. In regards to your point about small businesses having their loan offers denied—

Stephen Kerr: 100,000 were denied.

Kelly Tolhurst: This is me speaking. I am always really sceptical of those figures, because there are a number of reasons why any business will not necessarily get access to finance or to the type of finance they require. Sometimes, it could well be that they are applying for the wrong kind of finance. As a constituency MP, people say this to me, and you have to drill down; you do need to drill down. Until you see their particular circumstances, you cannot make a decision on whether it was unfairly turned down or not.

Going back to when we looked at access to finance, this is where things have improved. If you were a small business, you might automatically think that the high street banks and retail banks were your first port of call for loans within your network. We have made progress on that, with regards to the type of finance that is there. One of the stats I have seen is that if we can get small businesses borrowing for investing, they can be more productive, so we want access to finance to thrive.

Another thing we have done as Government, and something I have done since I have been the Minister, is where we have changed the rules around the terms for invoice financing. It is still at a cost, but it is another form of finance that can be used for cash flow purposes by businesses that want to expand. As you know, for businesses that want to expand and scale up, generally it is a cash flow problem. There will be reasons for why some of that finance will not necessarily trickle down to the businesses that have been turned down.

Q302 **Stephen Kerr:** Can I ask you specifically about the patient capital review report from October 2017? Are the recommendations of that review still in play with the Government?

Kelly Tolhurst: Yes.

Q303 **Stephen Kerr:** Okay, that is good. When do you expect the United Kingdom to catch up with our international competitors in terms of our ability, reputation and record in scaling up?

Kelly Tolhurst: When? I cannot give you a fixed time. It would be completely wrong to do so. I could tell you what I would like it to be. It is not an excuse, but since coming into this role I have not yet had my first scale-up taskforce meeting. These are questions that I will be asking: how can we make more progress? What can we do? I would love to give you an idea, but I can only say that we understand that it is a key part of being able to address some of the elements in our productivity puzzle. We need to do better; we need to make the most of the resources we have.

I hate to admit it, but since becoming Small Business Minister I have learnt a bit more about what we are actually delivering. As MPs, we are probably all a bit guilty of not necessarily knowing about all the support that is there so we can effectively communicate that in our constituencies. I cannot give you a timeframe, but it is something we identified, with the announcements and the schemes that Government are bringing forward, as a key area in order for us to improve our productivity, which is the most important thing.

Q304 **Albert Owen:** Are you the Minister responsible for post offices?

Kelly Tolhurst: I am.

Q305 **Albert Owen:** On skilling up and digital, it is important that they are not left out of the frame. There is a big pot of money that has gone to help the post office network, but the individuals responsible need leadership skills and digital skills. Can you bear that in mind when there is an allocation? There are businesses closing down, sometimes because of a lack of skills and knowledge as well as business.

Kelly Tolhurst: Okay, that is interesting. I am interested by that.

Q306 **Albert Owen:** There is a new all-party group, which will be lobbying you very shortly.

Kelly Tolhurst: The post offices represent an opportunity for small businesses, especially on our high streets, as we have lost some of our high street banks.

Albert Owen: They have been asked to take on some retail, yet they do not have either the digital skills or the equipment to do it.

Q307 **Sir Patrick McLoughlin:** On the overall way in which the Department is looking at small businesses, there is all the talk about scale-ups, which is the new buzzword, and it is very important that there is proper support given. Of course, there are lots of companies out there that do not want to scale up, but are still very important to the economy. How are you giving support to those and how do you think the Department can reach them? Is it something that should be done more by LEPs and bigger local businesses?

Kelly Tolhurst: If we are looking at small businesses, old established businesses and supply chains, we are into social responsibility for large organisations. I am sure we will come on to that, with prompt payments and what-have-you. There is a social responsibility for the large organisations, we would hope, to work with their supply chains, to make sure they are healthy, growing and investing as well. As a large business, you have a social responsibility. Looking at the way the UK business market is formulated, we have a high proportion of family businesses, which are massively important for our sector. As a group, I think they employ—I might be off with my stat—something like 48% of the private sector workforce. If it is not correct, I am sure I can correct that.

Those traditional businesses, which may have been operating for some time and may be at a mature level, do not necessarily think they need to engage, if they are happily ticking along. The way we are doing it is through the growth network, the growth hubs and our stakeholder representation. As I said earlier, it is difficult to reach them. All I can say is from my own experience. I had been working for 17 years, running my business. I never engaged with the FSB; I never engaged with any Government Department. That is fact. I engaged with my trade body, whether or not I thought its support or advice was right.

That is a challenge for Government: how do we reach those people? With the growth hubs, it is about promotion, advertising, encouraging these peer-to-peer networks and targeting. We were talking about using Government data. We are focusing the Government data at the moment on scale-ups and where the high-growth businesses are. In the future, there might be opportunities, depending on what the outcomes of that data are. We hold so much data; we should be more data-driven in regards to how we target.

Q308 **Sir Patrick McLoughlin:** I will not ask how successful your business was, or whether it would have been better with some Government support.

Kelly Tolhurst: The point of it is the majority of our businesses are small businesses. When you have been working on your own or you are running a small company, you have so much to do and there is so much burden on you to deliver, and sometimes it is helpful to have someone from the outside to give you some advice. We know peer-to-peer networks work. I have seen it with my own eyes, where small business have started up and they get straight into that networking, and because they are straight into networking they have grown quicker and become more productive. The way we target traditional, maybe more long-established businesses is a challenge. It is through a range of support.

I am trying to explain that I understand that it is not straightforward, and that is why you see that, within our Department, we have a really vast range of projects and initiatives, to try to drill down on these areas. As I said earlier, micro-businesses is a particular area that worries me. Being able to get in front of these people is a real challenge. It is an ongoing process. We are not there yet. We are doing well but we have work to do.

Q309 **Sir Patrick McLoughlin:** Are you aware of the Goldman Sachs 10,000 Small Businesses project?

Kelly Tolhurst: Yes.

Q310 **Sir Patrick McLoughlin:** Do you think that could be something that could be encouraged more across the piece in some of the large companies? I think in the Midlands of Rolls Royce; I think of Toyota, Bombardier and all their suppliers. The amount of suppliers that companies like that will have will be thousands.

Kelly Tolhurst: Absolutely. This is part of the £11 million fund that was announced last week by the Chancellor around the leadership programme. The Goldman Sachs project has been very successful. We have learnt a lot from that project. Part of that £11 million is looking at how we can improve it, extend it and operate a system to do exactly that, and hopefully target those family businesses or those mature businesses that have perhaps stagnated. We do know, and the evidence is suggesting, that leadership is a key element in whether a business becomes more productive or whether a business grows.

Last week someone challenged, when we were talking about leadership, and said, "I fundamentally disagree that the UK has bad leadership." That is true. There are great examples of leadership. We are still one of the best places to do business and we still have some amazing companies. A lot of our start-ups and family businesses have been or are some of our most successful companies, so it is not one rule, but we have identified improving leadership. If you look at family businesses through time, you can see a business that has been started by one generation of the family, and then in the next generation, because you have new skills coming in, you see it fly. This is why we need to operate those programmes, and that is why we have identified it, because of programmes like the Goldman Sachs one. We are learning from that and trying to tailor our support to make sure we are plugging the gap where we believe the need is.

Q311 **Peter Kyle:** Congratulations on the new job. It is great to see you on that side of the table. With regards to prompt payments, which we are coming on to now, the Small Business Commissioner says that he quite fancies the powers to fine companies that step outside of the code and do exploit the supply chain. Do you agree?

Kelly Tolhurst: If we look at prompt payments and what we have, obviously we have the Prompt Payment Code. We now have the role of the Small Business Commissioner, and part of the idea of the Small Business Commissioner is to work with the large companies and the smaller companies—fewer than 50 employees is what the Small Business Commissioner covers—to improve culture and to help to resolve some of the disputes those small businesses have.

Q312 **Peter Kyle:** The commissioner told this Committee that he would quite fancy the power to fine companies that really do step over the line. Is that something that you would be open minded to or that you think we should be looking at?

Kelly Tolhurst: Obviously we have announced the call for evidence on the late payments, which obviously is something that we are looking at with some of the questions we are asking about the powers of the Small Business Commissioner and where we go with that. A lot of that will depend on the outcomes of that review.

Q313 **Peter Kyle:** Are you personally open minded to it, or do you think it is a non-starter?

Kelly Tolhurst: The Small Business Commissioner has been in post since the beginning of the year. We are in October now. It is still early days. I would like to see him become more prominent, in the sense of the Small Business Commissioner being more universally known by business as a tool and as a facility there. We need to re-evaluate the success, and we are modifying it, but that is part of the call for evidence and we await the outcome of that.

At the end of the day, we want to encourage businesses to have better payment practices. The Government's position is that it is not acceptable. We are looking at ways with the call for evidence. We know that it is a challenge to business. Again, it is not straightforward because this is not a new scenario. We have had, for many years, issues around payments. Whether blunt tools are the right way to do it, I do not know. I am encouraging as many organisations as possible to respond to the call for evidence.

Q314 **Peter Kyle:** I hear you. I hear that you are not answering the question.

Kelly Tolhurst: The answer is that I do not know. I do not know, because the Small Business Commissioner might want to fine.

Peter Kyle: He does.

Kelly Tolhurst: But there are many reasons why he might not want to do that. At the moment, he is working on the basis of relationships and culture, and trying to achieve good practice through using relationships, encouragement and a change of culture. It changes his position very much; that is a blunt tool.

Q315 **Peter Kyle:** He is working within the code. There are many very well-known companies that are not subscribed to the code. Carillion was subscribed to the code; they were breaking their own terms, which, at times, was 120 days. Does the code have any credibility whatsoever?

Kelly Tolhurst: We announced last week that the Small Business Commissioner will now sit on the Prompt Payment Code board. We will now investigate all complaints of signatories of the code, and there will be regular reviews of the signatories on the code. That is just part of what we are doing ahead of the call for evidence.

Q316 **Peter Kyle:** If I was a business watching this session—and I am sure that there are some businesses watching this session—and I was stepping outside of the code, I do not think I would be having a sleepless night tonight having heard your evidence.

Kelly Tolhurst: We have the position where we have asked companies. We have changed what the large companies have to do with the reporting. As of the end of June, 6,500 companies had reported. We reckon that by November we should have the 15,000 businesses that are in scope. I can give you an example around Diageo. It has signed up to the Prompt Payment Code, but its reporting showed that maybe that was not the case. Because of that, it has changed its payment runs in order to help small businesses; they have realised that and made a change. Fundamentally, we need to change culture.

Q317 **Peter Kyle:** On that, then, the problem with this is there is a perverse market failure within the sector itself. The sector itself, as a whole, is doing this to itself. You have larger companies that are exploiting smaller companies yet are dependent on the companies that they are exploiting, so there is clearly a market failure. My final question to you is this: do you think the situation that has evolved—this dysfunction within the payments system—is giving you the steel to be a little bit more interventionist?

Kelly Tolhurst: When you are talking about sectors, what are you talking about?

Peter Kyle: The private sector. We have heard from the construction sector within the private sector today, and we have heard from other sectors as well. It is rife.

Kelly Tolhurst: That is right. That is why we have the call for evidence. That is where we are.

Q318 **Peter Kyle:** Do you feel as a Minister that you have licence to be bold?

Kelly Tolhurst: The Government have been clear that it is unacceptable.

Peter Kyle: It is still happening.

Kelly Tolhurst: It is still happening. It is very difficult, and small businesses are restricted if they are absolutely reliant on those businesses that they deal with. We have had some changes. We have put in the prompt reporting out of the last review into payment practices. We have still not cracked the nut. I understand that. We have the Small Business Commissioner. The objective has been to change the culture, and that is obviously the first thing. Government can legislate wherever. Is it right to legislate? That is always a question to be asked. That is part of what the call for evidence is.

I will give you my example. I do not know if I spoke to you here. I took a decision when I was running my business not to supply one of my biggest potential customers. I took that decision because I did not want be used as a bank, because actually there were rebates and 120-day payments. I decided I was better off having 100 businesses that were giving me the same turnover as a larger business would. That is a restriction to growth. That stops businesses growing. That stops businesses being able to invest. I want to be absolutely sensible about this as a Minister and make sure that any interventions we do make as Government are the right interventions, and that actually you bring the sector with you as well. We need to get the sector to recognise that in some cases their supply chains and the pressure that their supply chains are under are not correct.

Who knows? Will we legislate in the future? Part of the call for evidence is asking for views on that. It is a challenging area. It is not off the Government's agenda and I want to do as much as I can in this area, but I am not going to sit here and say, "Just legislate," because sometimes the legislation does not work. Legislation actually has to be enforced, and there are lots of different elements to that, so it is right that we try to change the culture. That is happening in some respects. What the Small Business Commissioner would say if he was sitting here, which he has said in the conversations I have had with him, is that he has been involved in some cases that have not been strictly under his remit, because people have come to him and he has had contacts and being able to get involved. Just having those conversations, without legislation, has enabled change; it has enabled those large companies to change the way they are working.

Q319 **Albert Owen:** You are absolutely right to tell the Committee that the role of the commissioner is underdeveloped and it needs to grow in time, but surely as legislators we can make enabling legislation, which gives him the suite of tools to use at his own discretion. One of them would be fining, so yes, there would be the cultural aspect to it, and naming and shaming, but also there would be the ability to fine. That is important, and maybe you could take that as part of your call for evidence from this Committee. That is what we have been hearing from the small businesses, but also the commissioner himself wants these powers. Whether he tells you or not, he has told us; you can take our word for it that he does want those powers. You could be the champion of small businesses if you were to enable the commissioner to have those powers. It would take some legislation from the House but it is doable; we did it with the Groceries Code Adjudicator, for instance, enhancing its powers.

We have just taken evidence from the construction sector. They are exempt. The commissioner does not have responsibility for that sector. Peter highlighted Carillion working the system, and there are other companies that are doing that. Could you take that on board and consider the construction sector as part of the remit of the Small Business Commissioner?

Kelly Tolhurst: Absolutely. One thing I cannot be clear enough about is that I understand the challenges out there. I am only new to this role but I understand the payments sector. One of the elements that I keep talking about is non-payment.

Q320 **Albert Owen:** So it is "absolutely" to the construction sector being considered to be part of the remit.

Kelly Tolhurst: It is a call for evidence. Around the construction sector at the moment, as you know, there was the review that ended last year. The reality of it is that there are two opposing sides at the moment in the industry. I can tell you something that is particularly happening around that. Richard Harrington, my fellow Minister in the Department, is holding a roundtable at the end of this month or in the early part of November with the industry. It is not off the table. It is not an industry that I have particular direct experience of. It is complex. There is a range of different practices that are going on within the sector that we need to fully understand. We need to fully understand what the consequences are of making any changes, but fundamentally the drive is to make sure that our small businesses are not in these desperate positions. We understand that 33% of businesses say that late payments and retentions are an obstacle for their businesses.

Q321 **Albert Owen:** On that specific point—you are doing the call for evidence and I do not know when that closes—can you bear in mind the evidence that this Committee has heard as well, and the request that we have made to you today?

Kelly Tolhurst: Yes, absolutely.

Q322 **Mark Pawsey:** First, may I apologise for missing the first part of your evidence session? I want to follow on the point from Albert Owen and remain with the construction industry. You are aware that we heard from them in the earlier session, and we heard a lot about the problem of retentions. Members of this Committee sat on a Joint Committee looking at the issue of Carillion. We were reminded today that the Carillion retention fund was £800 million. Having gone into liquidation, that has now disappeared and is not available to businesses that supplied them. I know that retentions are part of the consultation. Are you minded to make any change there? What is your view of the proposal of a deposit scheme for the retention to be held in a separate bank account, in the same way as exists for deposits in the private rented sector?

Kelly Tolhurst: I was talking about this roundtable with the industry that Richard Harrington will be chairing. The review finished last year and we are a year on from that; it just shows you that there is no consensus, and that is a point that needs to be highlighted.

Q323 **Mark Pawsey:** There are not many people, Minister, who think that a deposit scheme of the type we have heard about would be in any way unfair.

Kelly Tolhurst: No, absolutely. It is one element, but there are other views out there about what potentially could be put in place. Other people have given more dramatic advice on what they think should happen. We have heard from small business and we have heard from the supply chains about the problems that are caused. It is more complex, not being part of the Small Business Commissioner's area. The confidence I am trying to give you is that the reason we are looking at it is because we want to find a proper solution. It is right that we look at all those options. I could tell you personally what I think should be done but that would be me speaking personally rather than in terms of where the Government are, so it would be wrong of me to do that. Where we are is that there are opposing views and we need to come to a resolution. Will Government act if we cannot get into that position? I would hope we will.

Q324 **Mark Pawsey:** Our colleague Peter Aldous is bringing forward a Bill on this issue. Do you have any thoughts about the proposals contained in his Bill?

Kelly Tolhurst: I do not know if you have actually looked at Peter Aldous's Bill but it is a very narrow Bill. My position on it is that we have had the review; we are still consulting; we are still looking. We have not said that we do not want to tackle this area. This is an area that we are tackling. The roundtable is not just happening because I was coming here today; it is part of the programme of work through which we are trying to look at recommendations to bring forward to ease that sector.

What I am saying is all fluffy and I am sure the construction sector will say, "The Minister is sitting there and she is not really giving us anything." I am trying to be absolutely upfront about where we are and where the Government want to go. It has not been kicked into the long grass. It is about trying to get consensus. When you have opposing views, if you go down one road it does present issues. It is easy for us to sit here, with good detail, and talk about blunt instruments, and then have issues further down the line, so it is right that something as complex as the construction payments sector is given the time and space required to come up with a proper solution.

Q325 **Chair:** The Government have a target that the percentage of central Government procurement spending with small and medium-sized businesses increases to 33% by 2022. Is that still the Government's target?

Kelly Tolhurst: Yes.

Q326 **Chair:** Over the last three years, the proportion of spending with small and medium enterprises by the Government has fallen from 27.1% to 22.5%. If it is on a downward trajectory and has fallen by almost five percentage points in the last three years, are you confident that you will get to a third by 2022?

Kelly Tolhurst: It is our target, it is an ambitious target and it is right that we are focusing on that.

Q327 **Chair:** Is there focus on it, Minister, if it has fallen in the last three years? Is there focus on it, or do new measures need to be taken or efforts made across Government to get to that target?

Kelly Tolhurst: I am not making excuses, but I have been made aware that one of the reasons that that element has fallen is that some of those businesses that were regarded as small businesses have now become big businesses, so they are out of that figure. I do believe that it is a target.

Q328 **Chair:** It is a target, Minister. The question is whether it is going to be met.

Kelly Tolhurst: It is a focus, absolutely. Think of the dialogue that is being filtered down to local authorities and what we are saying to local authorities about local authority spend. It definitely still is a focus.

Q329 **Chair:** Who in Government is responsible for that target?

Kelly Tolhurst: The Cabinet Office is responsible for that target under procurement. One of the things that the Prime Minister has done is put a champion in each Department.

Q330 **Chair:** Who is the champion in your Department?

Kelly Tolhurst: Me. I am the Small Business Minister.

Q331 **Chair:** In your Department, what proportion of BEIS procurement is with small and medium enterprises?

Kelly Tolhurst: I do not have the exact figure, so I cannot give you that. Maybe this is an opportunity for my director to come in.

Rannia Leontaridi: We have about 23%.

Q332 **Chair:** Has that gone up or down?

Rannia Leontaridi: It has gone up.

Q333 **Chair:** Do you know where it was three years ago?

Rannia Leontaridi: I can come back to you.

Q334 **Chair:** That would be really helpful. If BEIS is doing something that is working and increasing the share of procurement spent on small and medium enterprises, perhaps that is a learning for the rest of Government. That is still 10 percentage points off the target that needs to be met in four years' time now. Minister, are you confident that your Department will meet that target of 33% of procurement by 2022?

Kelly Tolhurst: It is our target. We will be measured on it, so yes, that is what we have to do. We are taking it seriously. We have appointed a small business champion in Emma Jones to be the voice within the Cabinet Office in regards to procurement. I do not know if any of you have met her, but she is a really strong advocate for small businesses and a great person to be in that role. It is very much part of our agenda. I will go back to the Prime Minister appointing a Minister within all of the Departments to focus on this particularly and drive particular SME agendas. It has long been a complaint of any Government, for however long I have been interested in what happens, that it is only the big companies. It is very much part of what I want to see in the development and growth of our small businesses.

Q335 **Chair:** Yes, but at the moment we are moving in the wrong direction. The biggest customer for Carillion was the Government. Most of its work was with the Government. As we know, although it was a signatory to the Prompt Payment Code, it was not meeting those obligations in practice. What work have Government done since the collapse of Carillion to ensure that those people who Government do business with are meeting the Prompt Payment Code? Is that something that you, as Small Business Minister, are urging Government to do? Have Government done that?

Kelly Tolhurst: In regards to Carillion, you are absolutely right in what you have said. In regards to Government suppliers being part of that Prompt Payment Code, this is one of the reasons that we had this announcement last week around making sure that we are looking into all complaints about signatories to the code and making sure that there is a review of the signatories on that code. Absolutely, as Small Business Minister, I am going to be encouraging all Departments, and especially the Cabinet Office, in regards to that, to make sure that we are investigating these signatories. That is common sense.

Q336 **Chair:** Two businesses that gave evidence to us this morning in the construction section said that they would not work with Mears or with Kier because of their payment terms. Mears and Kier have a huge amount of work with Government, both central and local. Will you, as Minister for Small Businesses, look at Kier's and Mears' payment terms to see whether they should be a provider for Government, given that they are not, according to businesses that we heard from this morning, paying their smaller suppliers on time?

Kelly Tolhurst: I have given you an example about Diageo. You are right that we have to lead by example as Government. If we have got Government suppliers, we need to be encouraging them to be operating best practice.

Q337 **Chair:** You can do more than encourage. It is not just that you could ask them to do something; you could say to businesses, "If you want Government work"—and many businesses do; in fact, many businesses rely on Government work, including those two companies, Kier and Mears, who I have mentioned and, when they were still in existence, Carillion. One way you could get them to pay their suppliers on time is to say that they will not get Government work unless they meet those requirements of the Prompt Payment Code. Is that something that the Government would be willing to do?

Kelly Tolhurst: Last week we announced that we would be putting a non-executive director in all Government Departments to take responsibility for how the Department pays their own contractors, so that is happening. There was a clear message sent by the Chancellor that we are expecting the private sector to do that. We would like to see the private sector nominate its own non-executive directors to particularly focus—

Q338 **Chair:** With respect, I did ask you a specific question. Would Government consider saying to businesses that they will only get Government work if they sign the Prompt Payment Code and then meet the obligations set out in the Prompt Payment Code?

Kelly Tolhurst: First of all, I was just outlining what we did last week and where we are focusing. That shows you that Government are not happy with the position and are challenging that. In regards to further legislation, as I have already highlighted—

Q339 **Chair:** I do not think this would require legislation, Minister.

Kelly Tolhurst: It may well do. I have to say that I am not a procurement specialist in law. How Government contracts are awarded is part of the call for evidence. I agree that as Government we should be encouraging our suppliers, in any way or form, to act in the best way possible. We are trying to do that by leading by example.

Q340 **Chair:** Are the Government a signatory to the Prompt Payment Code?

Kelly Tolhurst: The Government are a signatory to the Prompt Payment Code.

Q341 **Chair:** Do you meet the obligations?

Kelly Tolhurst: Most Departments do quite well in regards to that. One of the things we announced last week, again, was our own target within the Cabinet Office of 90% of undisputed invoices to be paid within five days. We are sending a strong message. There are questions to ask. If Government are going to be paying invoices within five days, how that money filters down the chain is an interesting dialogue, and there will be questions to be asked of contractors and suppliers.

Q342 **Chair:** The Government are such a huge purchaser of goods and services from the private sector, and can do an awful lot to improve the practice in the private sector by just saying to businesses, "You will not win Government work unless you sign the Prompt Payment Code and live up to its obligations." When you see things such as the collapse of companies like Carillion—because there will always be businesses that collapse, including businesses that get Government work—at least then you will not have the situation that smaller companies get brought down with them. I hope that is something that in your role—and you are clearly a passionate advocate for small businesses, Minister—you could prompt other Government Departments to do more on, to give more work to small businesses and also to ensure that Government work only goes to businesses that meet the high standards that we rightly expect of all our businesses.

Kelly Tolhurst: Yes, and on that, I absolutely agree that as Government we expect our suppliers to treat their supply chains well. We are trying to lead by example. It is right that more questions are asked and it is right that as the Small Business Minister I make sure that I am trying to represent those views within Government as well.

Chair: This is our last evidence session on this. I am sure we will be making recommendations to Government as well as to businesses, and I hope you will be able to take those on board and use them to drive up performance in Government as well as in the business sector. Thank you, Minister. Thank you as well, Ms Leontaridi.