

Tesco knowingly delayed payments to suppliers

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BREAKING

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Tesco "knowingly delayed paying money to suppliers in order to improve its own financial position", the supermarket ombudsman has found.

The Grocery Code Adjudicator, Christine Tacon, said the supermarket seriously breached the industry's code of conduct to protect grocery suppliers.

She found extensive evidence that Tesco had acted unreasonably when delaying payments to suppliers.

Tesco apologised for the practices, saying they had harmed its suppliers.

Tesco remains under investigation by the Serious Fraud Office (SFO) into alleged accounting irregularities.

The grocery ombudsman's investigation began in February 2015 following the revelation of an accounting scandal at Tesco.

In September 2014 a £250m black hole was found in the company's accounts - a sum later revised up to £326m - because of the way Tesco booked income from its suppliers.

Ms Tacon said: "I received internal Tesco emails which encouraged Tesco staff to seek agreement from suppliers to the deferral of payments due to them in order to temporarily help Tesco margins.

"I also saw internal Tesco emails suggesting that payments should not be made to suppliers before a certain date in order to avoid underperformance against a forecasted margin."

The SFO investigation began in October 2014.

Laith Khalaf, senior analyst at Hargreaves Lansdown, said stockbrokers believed Tesco would be hit with a substantial fine from the SFO.

"Cantor Fitzgerald are suggesting Tesco could face financial penalties in excess of £500m for its accounting misdemeanours, pending the publication of the forthcoming Serious Fraud Office investigation," he said.

"The company is not out of the woods yet, but has at least started on the slow path of recovery."

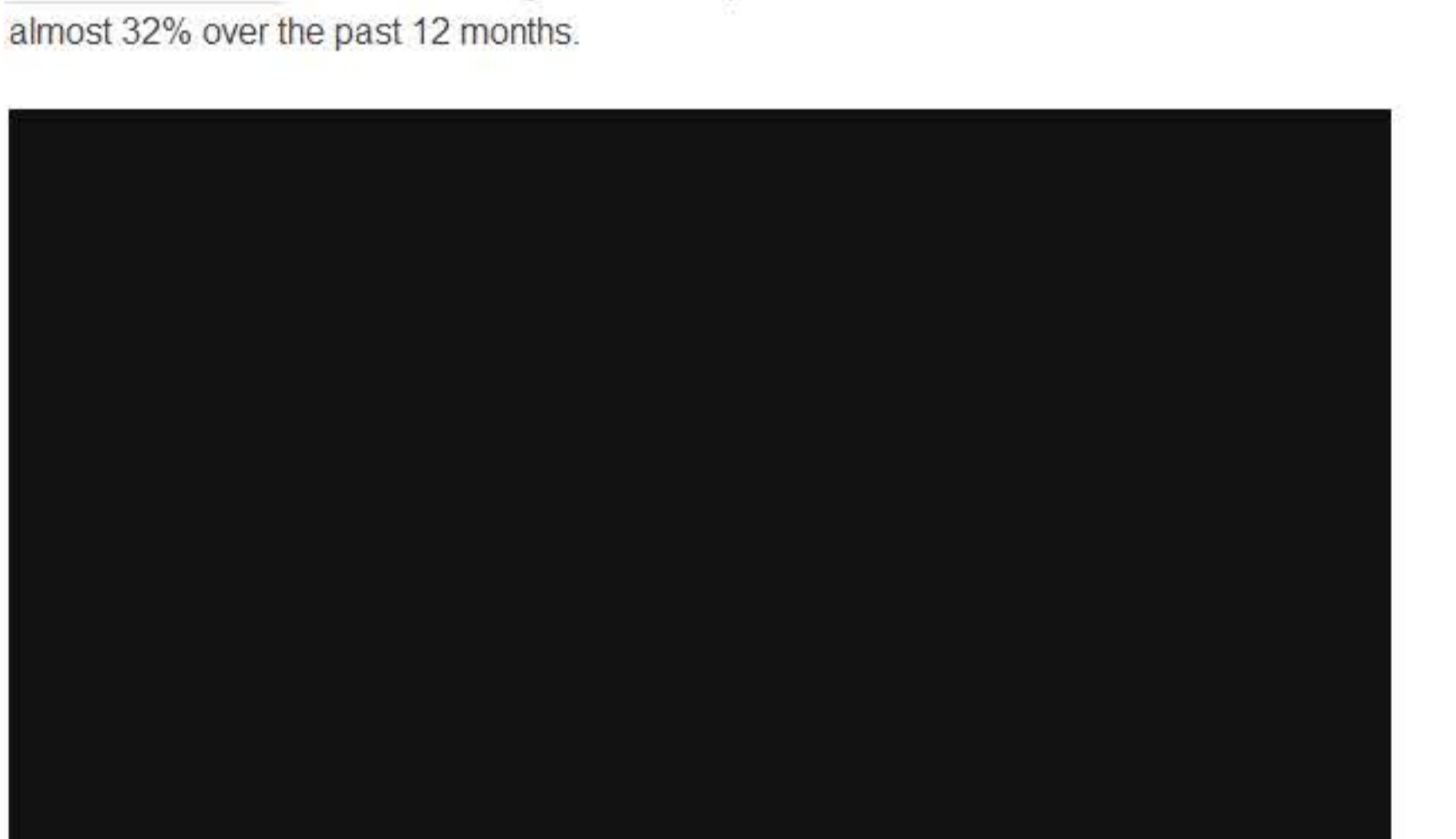
'Damaging consequences'

Chief executive Dave Lewis said Tesco had changed substantially: "Over the last year we have worked hard to make Tesco a very different company from the one described in the GCA report.

"The absolute focus on operating margin had damaging consequences for the business and our relationship with suppliers. This has now been fundamentally changed."

Mr Lewis said that material changes were made in January 2015 that addressed the majority of the historic practices referred to in the report: "We have changed the way we work by reorganising, refocusing and retraining our teams and we will continue to work in a way which is consistent with the recommendations."

Shares in Tesco closed 2.3% higher at 159.3p in London. The stock has fallen almost 32% over the past 12 months.



Getty Images

Tesco chief executive Dave Lewis said changes had already been made

Ms Tacon's investigation found that even when a debt had been acknowledged by Tesco, on occasions the money was not paid for more than 12 months, with some amounts taking two years to be repaid, the investigation found.

One example involved a supplier owed a multi-million pound sum as a result of price changes being incorrectly applied to Tesco systems over a long period. This was eventually paid back by Tesco more than two years after the incorrect charging had begun.

"I found that delay in payments was a widespread issue that affected a broad range of Tesco suppliers on a significant scale," Ms Tacon said.

"The delay in payments had a financial impact on suppliers, was an administrative burden to resolve, detracted from the time available to develop customer focussed business and had a detrimental impact on some suppliers' relationships with Tesco."

This is the first investigation by Ms Tacon since the creation of her role as Grocery Code Adjudicator.

No fines

Her investigation covers the period from June 2013 until February last year. Tesco provided her team with the findings of its own review, specifically aimed at finding practices which might be in breach of the code.

Ms Tacon cannot fine Tesco as she only acquired this power after the investigation began.

The adjudicator examined three key areas: the length of time taken to pay money due to suppliers, unilateral deductions from suppliers and an intentional delay in paying suppliers in some cases.

On the issue of payment for better shelf positions or space for products, Ms Tacon found no evidence that Tesco breached this part of the grocery code.

However, she found evidence of a range of practices that she would like examined.

Her five recommendations include stopping Tesco from making unilateral deductions from money owed for goods supplied. Suppliers will be given 30 days to challenge any proposed deduction and if challenged Tesco will not be permitted to make the deduction.

Ms Tacon has set a four-week deadline for Tesco to say how it plans to implement her recommendations. She will then require regular reports from the company on its progress.

Business minister Anna Soubry said the adjudicator had conducted a thorough and fearless investigation into a "scandalous situation".

"Tesco say they have changed their practices and I very much hope they have. Paying smaller suppliers on time and treating them fairly is good and proper business. Late payment can hinder the growth and productivity of these suppliers and can threaten their existence," she said.

The sharp fall in Tesco's share price that resulted from the accounting scandal has prompted legal action by a number of institutions and other investors in the retailer.

Stewarts Law said on Tuesday it will be contacting Tesco ahead of starting formal legal action for the group, which had suffered losses running into the tens of millions of pounds following the revelation of the accounting scandal.