

Firms at risk from 'locking up too much cash'

Written by editor

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Businesses in the East of England have increased the amount tied up in 'excess working capital' to £27.9 billion, - a rise of 13 per cent since May - leaving them at risk if growth slows in coming months, says a report from Lloyds Bank Commercial Banking. It says recent sustained growth and the fall in the Sterling has increased the amount of cash tied up in the day-to-day running of businesses and suggests firms could struggle to free up cash either to grow or to weather turbulent financial conditions.

However Karl Leitelmayer, area director for Lloyds Bank global transaction banking in the East, said: "The East of England is the only region in the country that has seen its working capital index reading fall during the past six months (from 112 to 107.8). While this is good news, as it suggests that businesses are recognising the potential challenges on the horizon and are choosing to manage their working capital more closely, firms in the region are still facing pressure to increase working capital."

He added: "By locking up cash in this way, it stops investment in other more productive areas of the business, whether that be investing in new people, creating new products or targeting new markets." Nationally, one in four businesses said their customers had taken longer to pay during the past 12 months, increasing the value of firms' outstanding invoices. At the same time, businesses are continuing to rapidly build up inventory, leading to more cash being locked up in stock.