Options assessment

Title:	Late Payments – Primary Legislation
Type of measure:	Primary Legislation
Department or agency:	Department for Business and Trade
IA number:	DBT-054-25-DIME
RPC reference number:	RPC-DBT-25033-OA(1)
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1. Summary of proposal

1. The Options Assessment (OA) considers seven policy proposals which form part of a package designed to address poor business-to-business (B2B) payment behaviour, including late payment, long payment terms, disputed payments, and unfair practices around retention payments in construction contracts.

2. The policies include:

   - Changing maximum payment terms, removing the exemption that allows businesses to agree payment terms beyond the current maximum.
   - Introducing a deadline for disputing invoices, requiring businesses to raise disputes earlier.
   - Making the statutory interest that businesses can charge to compensate for invoices paid late mandatory.
   - Requiring additional reporting from large businesses, relating to their statutory interest liabilities.
   - Introducing penalty fines for persistently late-paying large businesses.
   - Creating additional powers for the Small Business Commissioner (SBC), including powers to assure payment practices and performance data reported by large businesses.[1]
   - Banning or protecting retention payments being withheld in construction contracts.

3. The policies build on and extend existing regulations, making changes to the existing statutory framework. Some policies can be implemented through secondary legislation, but others require primary legislation.

4. The OA estimates a total Net Present Social Value (NPSV) of -£1,175.04m, and a total Equivalent Annual Net Direct Cost to Business (EANDCB) of £136.07m – see Table 1 and Table 2. The majority of business impacts result from changes to retention payments in construction contracts. The NPSV and EANDCB of this policy alone are -£1,080.46m and £125.49m respectively.

Table 1 – Policy NPSVs (£m)

#	Policy	Low	Central	High
1	Maximum payment terms	-£3.18	-£3.53	-£3.88
2	Invoice dispute deadline	-£22.37	-£24.85	-£27.34
3	Mandatory statutory interest	-£22.40	-£24.88	-£27.36
4	Additional reporting on statutory interest	-£10.37	-£22.32	-£25.52
5	Penalty fines	-£1.92	-£1.92	-£1.92
6a	Additional SBC powers	-£1.22	-£1.36	-£1.49
6b	SBC assurance of reporting data	-£7.99	-£15.72	-£18.10
7	Retention payments	-£85.78	-£1,080.46	-£8,172.83
	Total	**-£155.24**	**-£1,175.04**	**-£8,278.45**

[1] The OA assesses these policies separately: 6a – Additional SBC powers and 6b – SBC assurance of reporting data.

Table 2 – Policy EANDCBs (£m)

#	Policy	Low	Central	High
1	Maximum payment terms	£0.37	£0.41	£0.45
2	Invoice dispute deadline	£2.60	£2.89	£3.18
3	Mandatory statutory interest	£2.60	£2.89	£3.18
4	Additional reporting on statutory interest	£1.20	£2.59	£2.97
5	Penalty fines	£0.00	£0.00	£0.00
6a	Additional SBC powers	£0.10	£0.11	£0.12
6b	SBC assurance of reporting data	£0.87	£1.70	£1.95
7	Retention payments	£9.96	£125.49	£949.23
	Total	**£17.70**	**£136.07**	**£961.07**

5. The OA monetises costs and benefits where possible, using data where available, and making assumptions elsewhere. Some of the assumptions have been tested with stakeholders as part of pre-consultation engagement, but significant uncertainty remains in places. The estimates of costs and benefits will need to be developed further through the consultation and Regulatory Impact Assessment.

6. The total NPSV for the policies is negative, because benefits are largely non-monetised. The policies are however judged to represent value for money, given the overall impact of poor B2B behaviour on the UK economy, estimated at £10.7bn per year – see Table 4. Considering the central estimates of NPSV, the policies would need to result in an 10.9% reduction in the costs of poor B2B behaviour to break even.

2. Strategic case for proposed regulation

Problem under consideration

7. UK businesses often supply goods and services on ‘trade credit’, where payment is deferred rather than requiring ‘cash on delivery’. This can lead to:

    - **Late payment.** Where businesses fail to pay an invoice within agreed payment terms.
    - **Long payment terms.** Where businesses agree to being paid very slowly after providing goods or services.
    - **Disputed payments.** Where businesses disagree on how payment terms have been applied or whether invoices have been correctly paid.
    - **Unfair practice around retention payments.** Specific to the construction sector, where retained money can be lost through upstream insolvency or subject to late, partial or non-payment.

8. These problems are distinct but inter-related examples of poor business-to-business (B2B) payment behaviour. Because trade credit represents a transfer between businesses, poor B2B payment behaviour creates ‘winners and losers’. Debtor businesses (receiving trade credit) are advantaged by additional liquidity, while creditor businesses (giving trade credit) are disadvantaged by reduced liquidity.

9. Importantly, poor B2B payment behaviour can significantly disrupt creditor businesses’ cash flows, undermining investment and growth, and have a net negative impact on the wider economy. SMEs are particularly exposed to these problems as they often have lower cash reserves to act as a buffer.

Evidence supporting the problem statement

Current B2B payment behaviour

10. Poor B2B payment behaviour has been a longstanding and widespread issue for UK businesses, particularly affecting SMEs. Some improvements have been made in recent years, but significant problems remain.

11. Smart Data Foundry research, using invoice data supplied by Sage, analyses trends in B2B payment behaviour towards small and micro businesses between 2010 and 2022 – see Figure 1 and Figure 2.[2] [3]

12. The research shows that average payment times to small and micro businesses have decreased since 2010, falling from 81 days in 2010 to 32 days in 2021. The research largely attributes this change to increased uptake of technologies like digital invoicing which can reduce administrative overheads and errors, and make payment processes more efficient.

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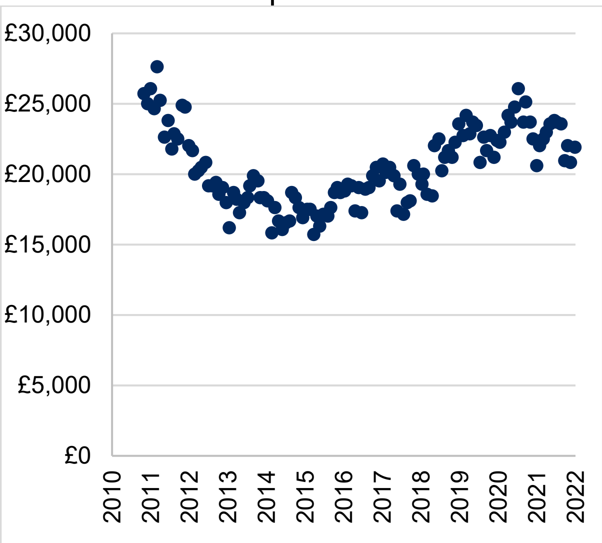
[2] Sage / Smart Data Foundry (2022) – Payment Speed and Timeliness for UK Small & Micro Businesses – https://cms.smartdatafoundry.com/wp-content/uploads/2022/11/221103-late-and-slow-payments-part-one-Final59.pdf
[3] Sage / Smart Data Foundry (2022) – Shedding light on late payments for UK small and micro businesses – https://www.sage.com/en-gb/-/media/files/company/documents/pdf/sustainability-and-society/shedding-light-on-late-payments-for-uk-small-micro-businesses-ebook-november-2022.pdf

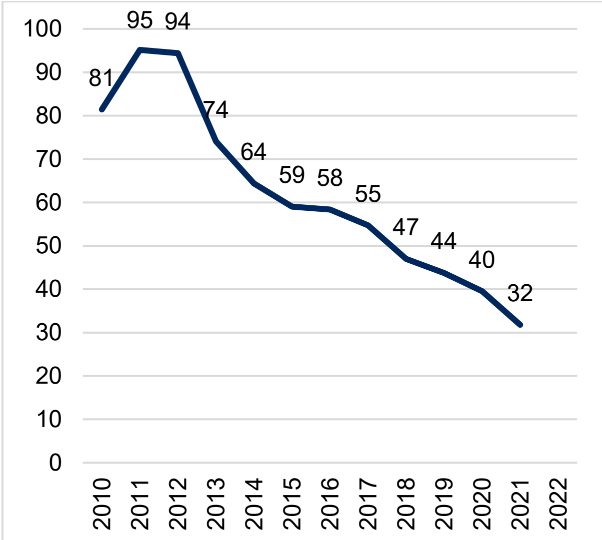
13. The overall prevalence of late payment and the amount of money owed however has largely stayed the same. In 2020, 40% of invoices involving trade credit were paid outside of agreed terms; and in 2022, small and micro businesses were owed on average £22,000 in late payments.

Figure 1 – Average overdue invoice amount per business



Source: Sage invoice data

Figure 2 – Average days to be paid



Source: Sage invoice data

14. Following the introduction of *The Reporting on Payment Practices and Performance Regulations 2017*, large businesses in the UK are required to regularly publish information relating to their payment practices and performance. The reporting data shows similar trends in B2B payment behaviour, with some improvements and some persistent problems.

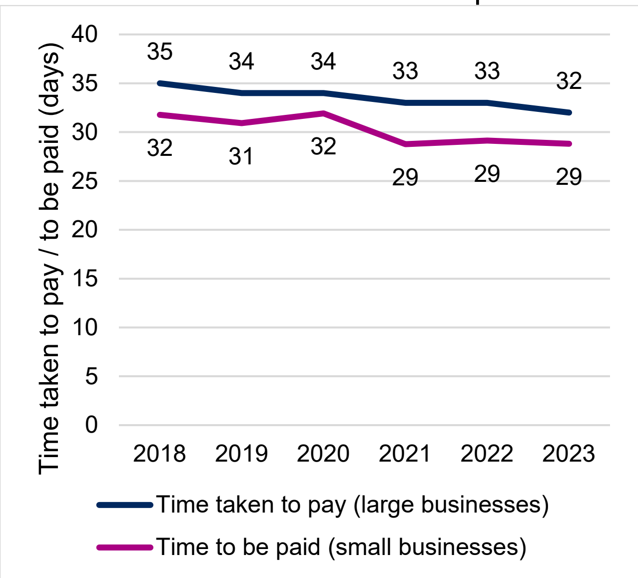
15. The data shows that large businesses' average payment times have fallen from 35 days in 2018 to 32 days in 2023; and the average percentage of invoices paid late has fallen from 25% in 2018 to 18% in 2023 – see Figure 3 and Figure 4.[4] [5] This represents an improvement, but still means that nearly 1 in 5 invoices paid by large businesses are paid late.

16. Importantly, these values represent average (median) B2B payment behaviour across large businesses, which can sometimes underplay very poor payment performance at the extremes. Figure 5 highlights this, showing that between 2018 and 2023 12%-14% of invoices paid by large businesses were paid in longer than 60 days, meaning creditor businesses are sometimes waiting 2 months or more to be paid.

[4] Time taken to pay (large businesses) / Invoices paid late (large businesses) is based on DBT analysis of reporting regulations data. The analysis considers median values, rather than means.

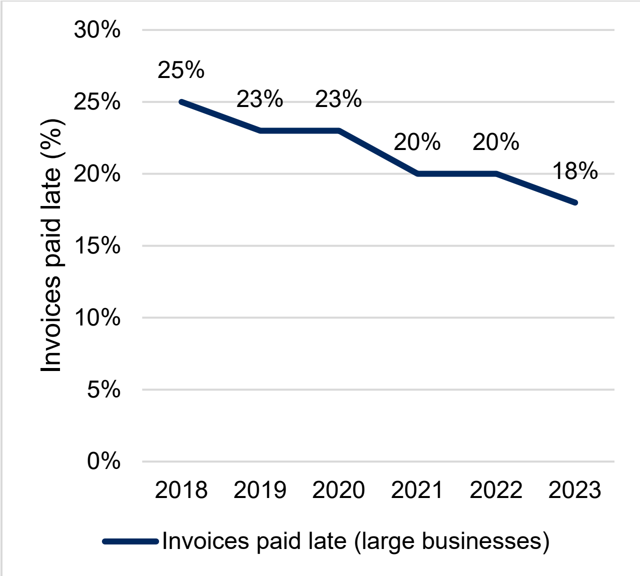
[5] Time to be paid (small businesses) is based on Xero Small Business Insights data – Xero Small Business Insights | Xero.

Figure 3 – Large businesses time to pay / Small businesses time to be paid



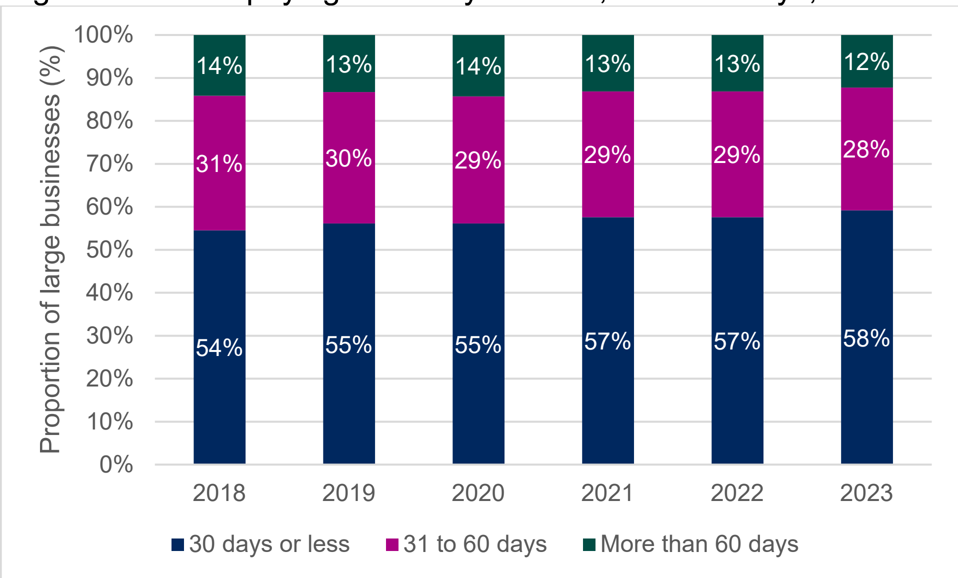
Source: Reporting regulations data and Xero Small Business Insights data

Figure 4 – Large businesses invoices paid late



Source: Reporting regulations data

Figure 5 – Large businesses paying in 30 days or less, 31 to 60 days, or more than 60 days



Source: Reporting regulations data

17. Survey data further highlights poor B2B payment behaviour across UK businesses, and the impact on SMEs:

- Intrum's European Payment Report (EPR) regularly surveys businesses across Europe, and examines trends in payment behaviour. The 2024 EPR found an 18-day 'payment gap' for B2B payments in the UK, with average B2B payment times of 60 days, 18 days higher than average payment terms.[6]
- The SME Finance monitor regularly asks businesses to what extent different problems represent an obstacle to running their business over the next 12 months.

[6] Intrum (2024) – European Payment Report 2024 – European Payment Report 2024 | Intrum UK

Between 10% and 15% of SMEs described cash flow issues and late payment as a major obstacle in 2022 and 2023.[7]
- The Federation of Small Businesses regularly surveys its members about issues that they face. In 2022, on average 52% of FSB members said they experienced late payment in the last 3 months, with 25% saying that instances of late payment had increased.[8]

18. Overall, the evidence suggests that while there have been some improvements in B2B payment behaviour, more could still be done address imbalances between creditor and debtor businesses, and move to a more equitable distribution. In particular, more stringent measures could address the 'worst cases' of poor B2B behaviour, where for example business regularly pay their suppliers in more than 60 days, or pay upwards of 1 in 5 invoices late.

Large businesses' B2B payment behaviour

19. B2B payment behaviour differs by business size. In theory, larger business can use their market power or positions in supply chains to gain an advantage, either negotiating longer payment terms, or paying late with limited consequences. This means that SME creditors are often most affected by poor B2B payment behaviour.

20. Experian data confirms this difference in B2B payment behaviour by size, showing that the likelihood of paying suppliers late increases with business size.[9] Large businesses are twice as likely as smaller businesses to pay their suppliers late on average – only 33% of large business pay on time, compared to between 65% and 68% of micro and small businesses – see Figure 6.[10]

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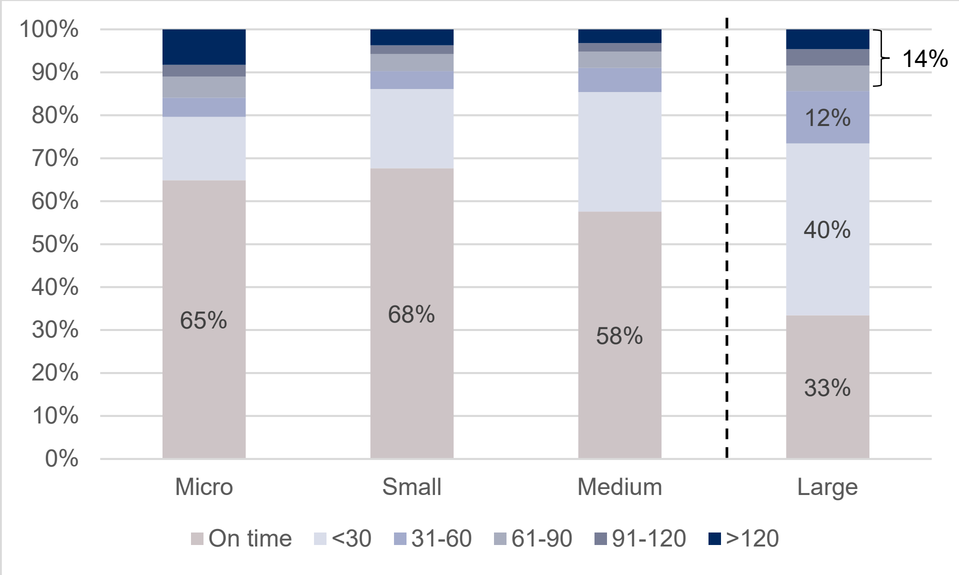
[7] BVA BDRC (2024) – SME Finance Monitor (Q4 2023 Report) – https://www.bva-bdrc.com/wp-content/uploads/2024/03/BVABDRC_SME_FM_Q423_Full_Report.pdf
[8] FSB (2023) – Time is Money: The case for late payment reform – https://www.fsb.org.uk/resource-report/time-is-money.html
[9] Experian data is provided to DBT under license. It comprises anonymous, business-level data, across a range of financial indicators. Late payment is described by the Days Beyond Terms variable, which provides banded values – 0 days late (on time), <30 days late, 31-60 days late, 61-90 days late, 91-120 days late, >120 days late.
[10] Based on February 2024 Experian data.

Figure 6 – Average length of late payment (Days Beyond Terms) – February 2024



Source: Experian data

21. DBT research also confirms that smaller businesses perceive larger businesses as having significantly more bargaining power in contractual negotiations around payment terms. The research included in-depth interviews with business owners, asking different questions about payment practices and performances.

22. One of the interviewed businesses operated with 4 employees and an approximate turnover of £1.5m in the pharmaceutical sector, dealing almost exclusively with large businesses and multinational customers. When asked about the typical payment terms that the business offers, they explained that in most cases they have little to no control over this decision:

> *"We don't [offer payment terms]. They dictate to us. It's quite simple, if we don't accept their terms then they'll bin us. It's standard for the industry. For all SMEs...we've got no power. All our quotations say 30 days but they're ignored. Every purchase order comes in with 45 days, or more usually 60 or 90 days. If we don't like it that's fine - they'll get somebody else."* [11]

23. Large businesses are also more likely to account for a greater share of B2B transactions in the economy by value, given they account for a greater share of turnover.[12] DBT Business Population Estimate (BPE) data shows that although large businesses only account for 0.3% of the economy by number of businesses, they represent 51% of turnover in the economy – see Figure 7.

24. Combining Experian and BPE data provides an illustrative estimate of the share of late payments in the economy that can be attributed to large businesses – see Figure 8. The analysis suggests that late-paying large businesses are responsible for the majority of the invoices paid late in the economy – 65% compared to 35%, nearly twice as much.

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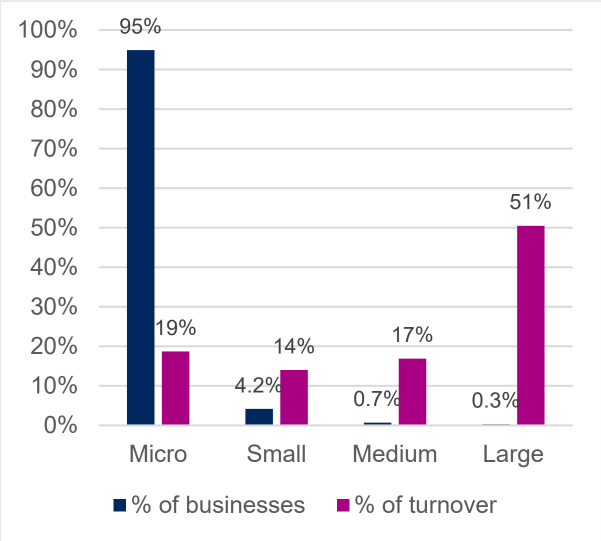
[11] DBT (2024) – *Understanding Variations in Payment Performance and Practices across Business Sectors and Sizes* – [Late payments research: performance and practices across business - GOV.UK (www.gov.uk)]

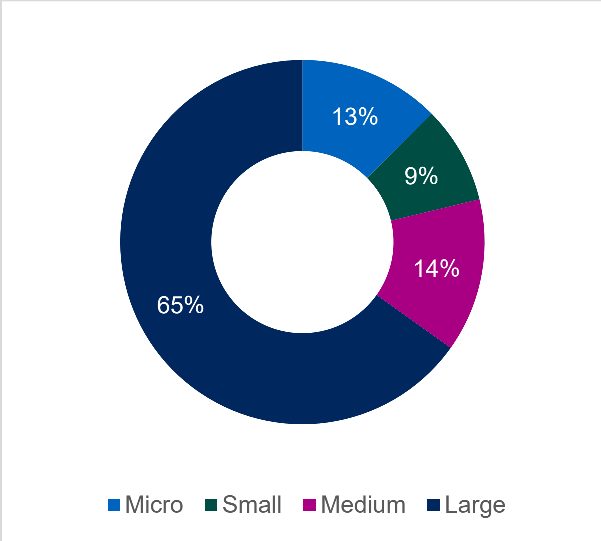
[12] Profit = Turnover - B2B transactions - Other expenses. In theory, for a given level of profit and other expenses, B2B transactions will move in line with turnover. In practice, turnover is only partly correlated with B2B transactions, and represents an imperfect proxy.

Figure 7 – Number of businesses vs. business turnover, by business size – 2024



Source: BPE data

Figure 8 – Approximate share of late payments (proxied by turnover), by business size – 2024



Source: BPE data and Experian data

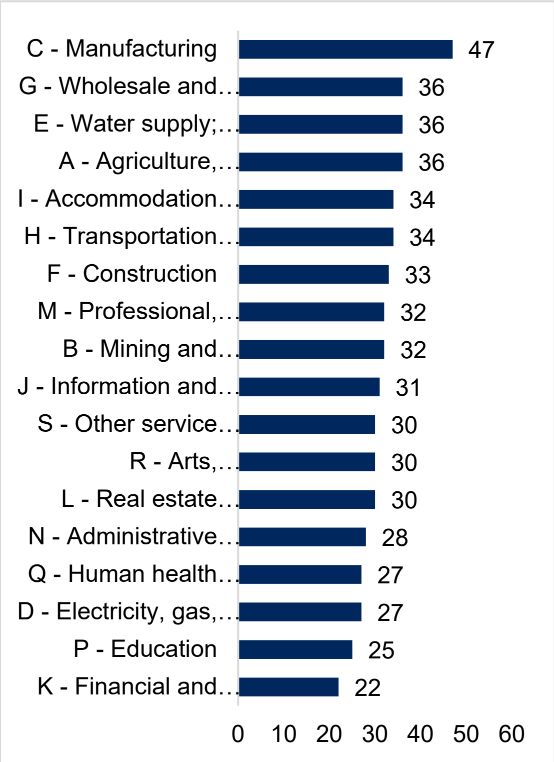
25. This highlights that policies which focus on addressing poor B2B behaviour across large business are likely most impactful – given poor B2B payment behaviour is more pronounced across large businesses, and large businesses are overall responsible for a greater share of B2B transactions in the economy.

Sectoral B2B payment behaviour

26. There are also pronounced and persistent differences in payment behaviour across different sectors. Goods sectors, like manufacturing and pharmaceuticals, have much higher payment times than Services sectors, like financial services and insurers. Industry standards are the single biggest driver of payment terms across sectors and highlight a failure in the current 'bottom-up' approach to improving performance.[13]

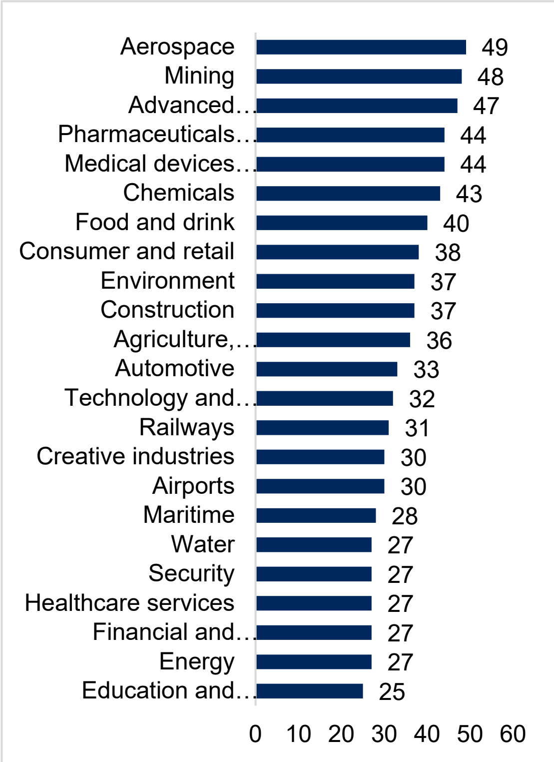
[13] DBT (2024) – *Understanding Variations in Payment Performance and Practices across Business Sectors and Sizes* – [Late payments research: performance and practices across business - GOV.UK (www.gov.uk)]

Figure 9 – Large businesses time to pay broken down by SIC Section code – 2023



Source: Reporting regulations data

Figure 10 – Large businesses time to pay broken down by DBT sectors – 2023



Source: Reporting regulations data

Retention payments

27. The Government undertook a review of retention payments in the construction industry, which concluded in January 2018. This included publication of the BEIS Research Paper – Retentions in the Construction Industry, alongside the Government response to the consultation and a consultation impact assessment.[14] Headline findings include:

- **The use of retentions in the construction sector.** Retentions were the most used form of insurance against defects, with 75% of construction businesses having experience of them in the last three years. The average level of retention withheld was around 5% of the contract value. The Impact Assessment estimated that the total amount held in retentions in the construction sector in England each year was £3.2 billion to £5.9 billion, with a central estimate of £4.5 billion (in 2015 prices).
- **Poor retention payment practices.** Late payment of retentions appeared to be commonplace in the construction sector, affecting 71% of contractors surveyed with experience of having retentions held. More than half of the survey participants reported experience of partial or full non-payment of retentions.
- **Insolvency.** Most firms who hold retentions do so in a main bank account, making the contractors owed those retentions unsecured creditors in the event of client insolvency. 44% of contractors surveyed had experienced non-payment of retention monies because of upstream insolvencies. While this occurred on only around 1% of

[14] Consultation document collection available at https://www.gov.uk/government/consultations/retention-payments-in-the-construction-industry

all their contracts, the value lost is still significant, with on average around £27,000 lost per year for affected contractors (in 2016 prices). This loss is relatively more important to small firms, who face greater cashflow pressures.

- **Impacts of retentions.** The impacts of poor retention payment practices and the risk of non-payment due to insolvency include higher business overheads, weakened relationships throughout the construction supply chain, increased costs of construction projects as firms price in the risk of losing retentions, and constrained business growth.
- **Conditional payment.** Some construction customers may be making payment of the retention conditional on the performance of obligations under another contract. 65% of respondents believed non-payment of retentions due to obligations under another contract not being met was significant. This is contrary to the requirements under the 2011 amendments to the Housing Grants, Construction and Regeneration Act 1996.

Need for government intervention

Previous government intervention

28. Government has previously introduced a range of both legislative and non-legislative measures aimed at addressing poor payment behaviour – see Table 3. These measures include creating a statutory framework with legal redress mechanisms, establishing codes of practice and a non-departmental public body, requiring both businesses and government to publish information about their payment behaviour, and making good payment behaviour a pre-requisite for bidding on public sector contracts.

Table 3 – Previous government interventions

Legislation or policy measure	Description
The Housing Grants, Construction and Regeneration Act 1996 – Part 2: Construction Contracts	The Act created a specific payment and dispute resolution framework for the construction sector, intended to ensure fair and prompt payment through the supply chain, and the right to dispute resolution via adjudication. The Act established rights to staged payments; rights to be informed when invoices would be paid and any amounts to be withheld; the right to suspend performance for non-payment; and it also made certain payment provisions in contracts unlawful (for example 'pay when paid' clauses).
The Late Payment of Commercial Debts (Interest) Act 1998[15]	The Act created the UK's first statutory framework to address poor B2B payment behaviour. The Act sets default payment terms at 30 days unless otherwise agreed; prevents payment terms longer than 60 days unless explicitly negotiated and not 'grossly unfair'; and allows businesses to charge interest and claim debt recovery costs on late payments.
Prompt Payment Code (2008)	The Prompt Payment Code (PPC) outlines a voluntary set of standards for good B2B payment behaviour, including paying 95% of invoices within 60 days, and 95% of invoices to small businesses within 30 days. The code is administered by is administered by the Small Business Commissioner (SBC) and has over 5,000 signatories. The PPC has recently been replaced by a new Fair Payment Code which will be operational from February 2025.
Public sector payment targets and reporting (2010 and 2015)	The government introduced its first prompt payment targets as part of Budget 2010. The targets required that all central government departments aim to pay 90% of undisputed invoices within 5 days, and 100% of undisputed invoices within 30 days.[16] Budget 2015 took this further, requiring all government departments publish prompt payment data, including the percentage of invoices paid with 5 and 30 days.
Small Business Commissioner (2017)	The SBC was created under Part 1 and Schedule 1 to *The Enterprise Act 2016*, as a non-departmental public body with a statutory function to help resolve payment disputes that small businesses have with larger customers. The SBC also has non-statutory functions including administering the PPC and driving UK business towards better payment behaviour more generally.
The Reporting on Payment Practices and Performance Regulations 2017	The Regulations require large businesses to publish information on their payment behaviour twice yearly, including their standard payment terms, average payment times, payments made within 30 / 31-60 / 61+ days, and the percentage of payments made late. The data can be used by small businesses to check when large businesses typically pay their suppliers, and help inform small businesses' decision-making.
The Procurement Act 2023	The Act requires businesses bidding for large government contracts (over £5m) to demonstrate they pay their own invoices within an average of 55 days, tightening to 45 days in April 2025, and to 30 days in the coming years. Bidders for government contracts will also be required to meet the existing requirements to pay at least 90% of invoices within 30 days.
The Reporting on Payment Practices and Performance (Amendment) Regulations 2024 and 2025	The 2017 reporting Regulations were amended in 2024 through a Statutory Instrument to require reporting businesses to publish information on the value of invoices paid within different timeframes and the value of invoices paid late. The Regulations were amended again, through a second Statutory Instrument in 2025, which introduces a reporting requirement in relation to practices, policies and payment performance for retentions in any qualifying construction contracts.

[15] First introduced in 1998; amended 2002, when the 2000 EU Late Payment Directive was transposed into UK law; amended again in 2013, when the recast 2011 EU Late Payment Directive was transposed into UK law.
[16] The target was originally to pay 80% of invoices within 5 days, which was later increased.

Limitations of previous government intervention

29. Poor B2B payment behaviour remains widespread in the UK, despite previous government intervention. This could be in part due to limitations in the design and implementation of previous regulations, particularly *The Late Payment of Commercial Debts (Interest) Act 1998*, *The Reporting on Payment Practices and Performance Regulations 2017*, *The Housing Grants, Construction and Regeneration Act 1996 – Part 2 Construction Contracts*, and the scope of the SBC defined under *The Enterprise Act 2016*.

30. The current statutory framework designed to address poor B2B payment behaviour faces the following challenges:

    - **Non-binding maximum payment terms.** Although the statutory framework introduces maximum payment terms of 60 days after which interest begins to accrue, this limit can be circumvented by businesses agreeing longer terms as not 'grossly unfair'. In practice, payment terms longer than 60 days are often unfair to creditor businesses, but the imbalance of market power between larger and smaller businesses means these terms are agreed anyway. Ambiguity around what constitutes 'grossly unfair' payment terms also means that businesses do not want to challenge longer payment terms, either informally or through a legal process.
    - **Creditor businesses under-utilising statutory interest.** While statutory interest on late payments can create financial incentives for businesses to pay on time, statutory interest is rarely charged or collected by creditor businesses. This is largely because businesses do not want to risk customer relationships and lose out on future business.[17] Overall, this means that statutory interest creates limited financial incentives for businesses to pay on time.

31. The current reporting regulations which require businesses to publish information on their payment performance and practices face the following challenges:

    - **Low compliance rates.** Less than 50% of businesses in scope of the reporting regulations currently publish the required information on their payment practices and performance.[18] This is especially challenging if non-compliant businesses are typically those with poor B2B behaviour, who purposefully choose not to report.
    - **Poor quality and low trust in the accuracy of reporting.** Currently, checks or verification of businesses' reporting data is limited to internal company director sign-off. This means that businesses might submit incorrect information or use complex reporting structures across parent and subsidiary companies to 'mask' poor performance. Overall, this undermines the usefulness of the data.
    - **Limited incentives for improvement.** Although reported average payment times and invoices paid late have been improving, some businesses continue to exhibit poor payment behaviour. This suggests that the competitive pressure on businesses with poor payment performance introduced by the reporting regulations is in some

[17] DBT (2024) – *Understanding Variations in Payment Performance and Practices across Business Sectors and Sizes* – Late payments research: performance and practices across business - GOV.UK (www.gov.uk)

[18] DBT analysis of reporting regulations data shows that 6,074 businesses submitted at least one valid report in 2023. DBT analysis of Inter-Department Business Register (IDBR) data and Financial Analysis Made Easy (FAME) data shows that between 13,071 and 14,949 businesses are in scope of the reporting regulations.

cases not enough to change behaviours – and more stringent measures might be needed.

The SBC, established to support small businesses in payment disputes and generally encourage better B2B payment behaviour, faces the following challenges:

- **No powers to launch autonomous investigations.** The SBC's primary tool for dealing with poor B2B payment behaviour is through a complaints scheme. Currently, the SBC can only launch an investigation when a small business (the complainant) makes a complaint. In many cases, businesses might choose not to raise a complaint, fearing the impact it might have on their relationship with customers. The SBC cannot investigate matters of its own volition based on information it receives from small businesses, third parties, or anonymous information.
- **No powers to compel engagement with investigations.** The SBC currently relies on the cooperation of debtor businesses (the respondent) in their investigations, and a successful investigation often needs businesses to provide information or engage constructively with the SBC. Where businesses choose not to engage with the SBC's investigations, the SBC has no powers to compel or engagement or to compel the disclosure of information relevant to its investigations.
- **No powers to resolve disputes after investigation.** The SBC currently relies on the cooperation of the respondent after an investigation has been completed. This means that the respondent might choose not to comply with a recommendation following an SBC investigation with limited consequences. These recommendations could include paying an outstanding invoice, or paying creditor businesses interest or other compensation.

32. The current statutory framework designed to address poor B2B payment behaviour in construction contracts faces the following challenges for retention payments:

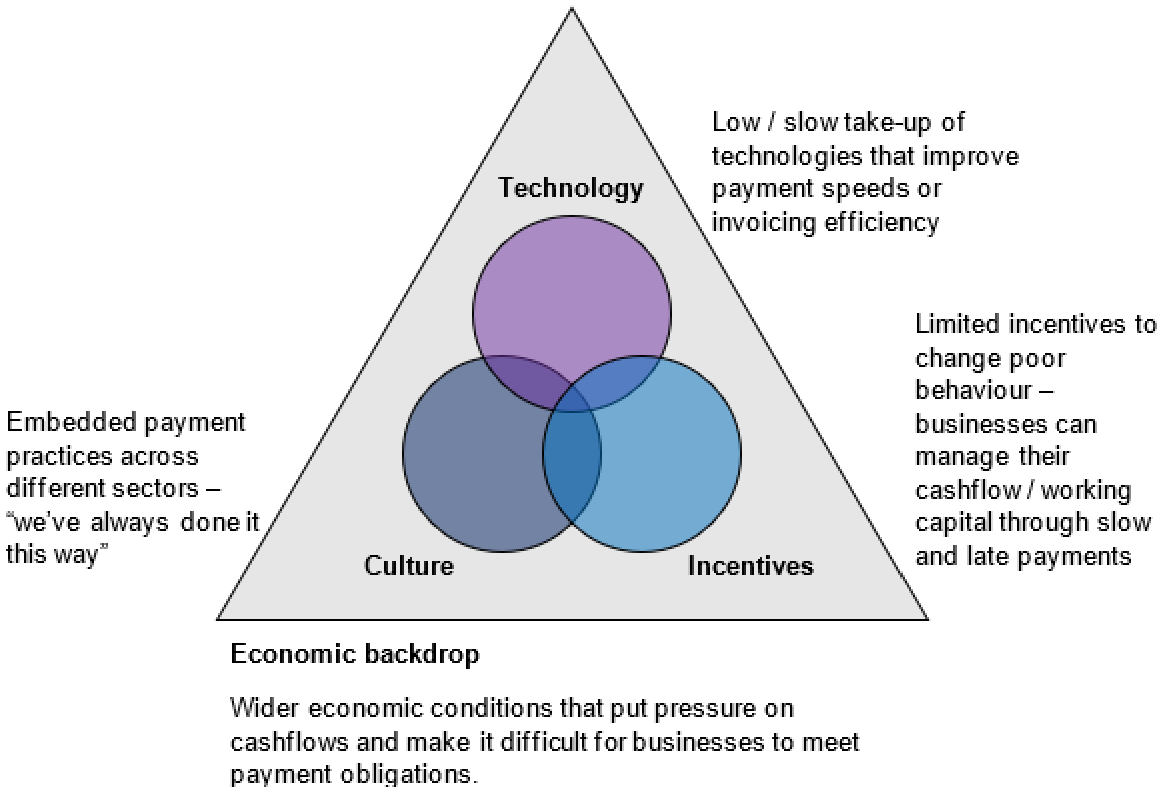
- **No safeguards for upstream insolvency.** Businesses are sometimes exposed to losses where businesses higher up the supply chain who are holding retention payments become insolvent. This means that invoices where money has been retained go either fully or partially unpaid, and affected businesses have no protection or recourse to recover any money.
- **Persistence of 'pay when paid' practices.** Although these practices were made unlawful by the statutory framework, higher tier construction businesses still apply a 'pay when paid' approach – paying their suppliers when they themselves receive payment.
- **Legalistic behaviour when applying the statutory framework.** Debtor businesses often push the legislative framework to its limit, using tactics which although permissible under law generally frustrate the process, delaying or otherwise dissuading creditor businesses from pursuing retained payments. Common practices include contract clauses linking payment triggers or events which the debtor business controls; subtle 'flexes' in the contract to ensure that debtor businesses receive longer payment terms than creditor businesses, to help control cash flow and pass risk down the supply chain; and using retentions as a lever in wider payment negotiations.
- **Lack of transparency around payment triggers.** The standard contractual event which triggers the release of the first half of retained payments is practical completion – the point at which a building is accepted by the owner. It is often not

clear or transparent when this event has taken place, making it difficult for creditor businesses to effectively recover retentions. There can be even greater difficulties in obtaining the second half of the retention, once the defects liability period has ended (typically 12-24 months post-practical completion, during which the creditor business is liable to remedy any defects), and the responsible project team has been dispersed.

Market failures

33. Poor B2B payment behaviour can have a variety of causes, including technology, culture, incentives, and wider economic conditions.

Figure 11 – Causes of poor B2B behaviour



34. DBT research found that cash flow issues themselves were seen as the most significant driver of late payment, where late payment at one point in the supply chain leads to more late payment elsewhere. In some cases, however, businesses can pay late or impose long payment terms on purpose, using trade credit as a form of 'free finance'. The research also found industry standards were the single biggest factor for businesses when deciding on payment terms, highlighting importance of culture and what other businesses are currently doing.[19]

35. Market failures relating to poor B2B payment behaviour typically result from either asymmetric information – where creditor businesses do not have enough information about their customers' B2B payment behaviour to make informed decisions; or unequal market power – where some businesses can use their size or position in supply chains

[19] DBT (2024) – *Understanding Variations in Payment Performance and Practices across Business Sectors and Sizes* – [Late payments research: performance and practices across business - GOV.UK (www.gov.uk)](https://www.gov.uk)

to gain favourable trade credit terms, at the expense of creditor businesses. Both of these problems lead to similar outcomes, where debtor businesses are unfairly advantaged in terms of additional liquidity, and creditor businesses are unfairly disadvantaged in terms of reduced liquidity.

36. Previous government interventions have focussed on both types of market failure. The reporting regulations have targeted information asymmetry, making information about large businesses B2B payment behaviour publicly available and helping smaller businesses make informed choices. The statutory frameworks for both poor B2B payment behaviour generally and construction practices specifically have targeted unequal market power, restricting certain unfair practices and introducing redress mechanisms to disincentivise poor B2B payment behaviour.

Impacts if government did not intervene

37. The impacts of poor B2B payment behaviour include direct costs to businesses and wider economic costs. Direct costs to businesses include lost time spent managing outstanding invoices, and the cost of raising additional finance to cover cash flow shortfalls. Wider economic costs include lost output from foregone investment and in the worst cases business closures.

38. DBT research suggests that late payments cost UK businesses and the wider economy £10.7bn per year.[20] The research considers different costs that businesses could incur when dealing with poor B2B payment behaviour – for example, needing to chase outstanding invoices – alongside wider economy costs – like business closures and forgone investment.

Table 4 – Estimated impact poor B2B payment behaviour on business and the wider economy (not including retention payments)

Type of impact	Impact	Annual cost estimate (£bn)
Direct costs to businesses	Managing outstanding invoices	£2.3
Direct costs to businesses	Debt collection	£1.1
Direct costs to businesses	Legal costs	£1.2
Direct costs to businesses	Supply chain finance (including invoice discounting and factoring)	£1.2
Wider economic costs	Foregone investment	£1.7
Wider economic costs	Business closures	£3.2
Total	**-**	**£10.7**

Post-implementation reviews of previous government interventions

Overview

39. Recent government interventions have been reviewed through the statutory post-implementation review process. Older regulations have not been reviewed through the statutory post-implementation review process, but have been partially covered by informal review processes.

[20] DBT (2025) – *Estimating the total economic cost of late payments and their impact on the UK economy*

The Payment and Cash Flow Review

40. The Payment and Cash Flow Review was launched in 2022, and aimed to review the different policy measures in place to address poor B2B payment behaviour in the UK.[21] The review published its findings in 2023, and proposed different actions which would help further increase transparency through the reporting regulations, increase enforcement of current regulations, provide more information to businesses and support greater awareness of existing policies, and further improve payment culture in the UK.[22]

41. The review placed more emphasis on policy measures aimed at improving transparency around poor B2B payment behaviour, mainly the existing reporting regulations.

The reporting regulations

42. *The Reporting on Payment Practices and Performance Regulations 2017* were reviewed in 2022, as part of the statutory review process,[23] and again in 2023, as part of a wider Payment and Cash Flow Review, ahead of the Regulations being extended and amended in 2024.[24] A call for evidence and a consultation were completed as part of the review process.[25] [26]

43. The reviews concluded that the reporting regulations remain appropriate and meet their objectives of increasing transparency and public scrutiny of large businesses' payment practices and performance; and helping small business suppliers make more informed decisions about who to trade with, negotiate fairer terms, and challenge late payments.

44. 92% of respondents to the call for evidence either agreed or strongly agreed that the regulations had brought greater transparency to businesses' payment practices and performance, 100% of consultation respondents supported renewing the reporting regulations.

The Small Business Commissioner

45. The Small Business Commissioner (SBC) was reviewed in 2023 as part of the statutory review process. The review considered the effectiveness of the SBC and whether it had met its objectives.[27] A consultation was completed in 2020 and 2023 as part of the process.[28] [29]

46. Responses to the review showed that while there was continued support for maintaining the role of a SBC, a substantial number of respondents to the consultation said that the SBC has had limited impact in general on business relationships. The key reasons for this included:

    - **Insufficient power.** The SBC has insufficient resources or power, and that payment culture could be improved if the policy landscape was clearer and more joined-up

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[21] Prompt payment and cash flow review - GOV.UK
[22] https://www.gov.uk/government/publications/publication-of-the-prompt-payment-and-cash-flow-review
[23] https://www.legislation.gov.uk/uksi/2017/395/pdfs/uksiod_20170395_en.pdf
[24] https://www.gov.uk/government/publications/publication-of-the-prompt-payment-and-cash-flow-review
[25] Statutory review of the Reporting on Payment Practices and Performance Regulations 2017: call for evidence - GOV.UK
[26] Government response to the Amendments to the Payment Practices and Performance Regulations 2017 - GOV.UK
[27] Statutory review of the Small Business Commissioner response to views and evidence - GOV.UK
[28] Increasing the scope and powers of the Small Business Commissioner - GOV.UK
[29] Small Business Commissioner: invitation for views on the statutory review 2023 - GOV.UK

- **Low awareness.** There is low awareness of the SBC, and awareness needs to increase to have more of an impact
- **Lack of cultural change to date.** The cultural practices of some businesses needed to change to improve payment culture with some respondents suggesting a statutory framework for payment times backed up with fines.

47. Overall, the review outlined a commitment to introduce broader powers for the SBC, in line with consultation feedback and the review findings, to support greater and more effective investigation of payment disputes.

Retention payments and construction contracts

48. Responses to the BEIS consultation on the practice of retentions under construction contracts indicated that 82% thought that existing prompt and fair payment measures were ineffective in addressing the challenges of prompt release and security of retentions.[30] Comments suggest existing measures are well intentioned and positive, but only a small proportion are used, many measures are voluntary and are not sufficient to resolve the problems identified with security and prompt payment of retentions.

49. Whilst the Act provides recourse in chasing unjustified non-return of retentions through adjudication, many payees do not pursue dispute resolution. Their principal considerations are the size of costs relative to the claim amount, and the preservation of the commercial relationship with the client in the hope of securing future work. The evidence from the consultations undertaken suggests adjudication is not a cost-effective process where the claim value is less than approximately £30,000. However, retention sums below this amount are vital for SME sub-contractors.

50. *The Reporting on Payment Practices and Performance (Amendment) Regulations 2025* will require the publication of information about retention policies and performance, increasing transparency and encouraging improved payment practices. However, they will not address the problems associated with retentions, including the protection of these during insolvency or from delayed or non-payment.

[30] Retention payments in the construction industry: summary of responses

3. SMART objectives for intervention

Policy objectives

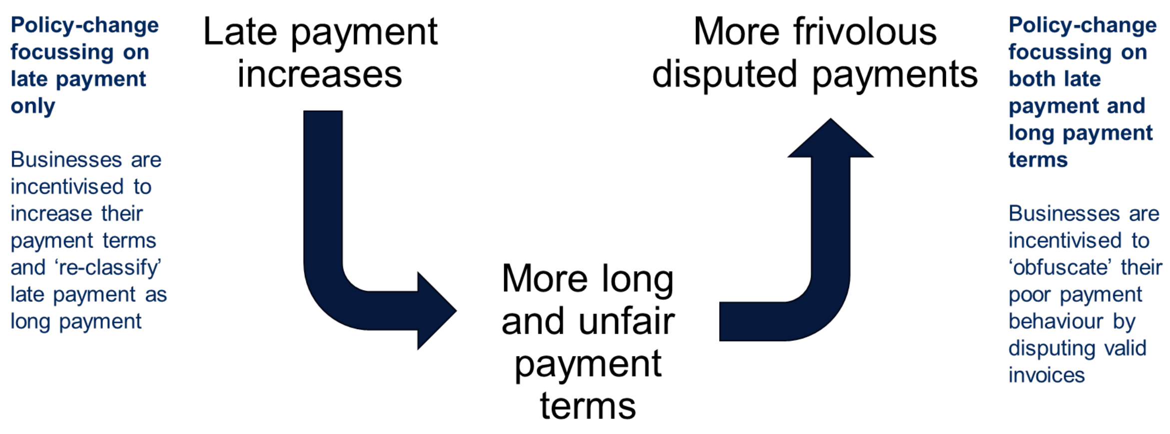
51. The overall policy objectives are to improve B2B payment behaviour, and ensure businesses are paid fairly and on time. Poor B2B payment behaviour is characterised by 4 different but inter-related problems, and the policy measures aim to address them all:

- Reducing instances of late payment
- Preventing unfair and long payment terms
- Preventing frivolous disputed payments
- Prevent unfair practice around construction retention payments

52. The different problems need to be considered together (particularly late, long, and disputed payments) because making improvements in one area only risks displacing rather than resolving the underlying problems. This is because businesses can easily ‘re-classify’ their poor payment behaviour.

53. For example, if a policy-change only focussed on reducing instances of late payment, businesses could circumvent the change by extending their payment terms. A payment made in 90 days, which is subject to 60-day payment terms, is late. A payment made in 90 days, which is subject to 90-day payment terms, is on time. In this scenario, the time that a business takes to pay its suppliers remains unchanged, and the underlying challenges for suppliers’ cash flows is not addressed.

Figure 12 – Relationship between late payment, long payment, and disputed payments



Intended outcomes

54. The intended outcomes focus on addressing poor B2B behaviour, and include:

- More transparency around poor B2B payment behaviour, helping businesses make more informed decisions and negotiate better contracts.
- Increased incentives for businesses to improve their payment behaviour, supported by a robust statutory framework.
- Large businesses engaging more constructively with SBC investigations, and adhering to investigation recommendations.

55. The intended outcomes to address late, partial or non-payment of retention payments are:

- Eliminating the risk of payees losing retention money due to upstream insolvency.
- Reducing the risk of late or non-payment of retentions.
- Decreasing the administrative burden on smaller firms of chasing late or non-payment of retention money.
- Increasing the resilience of construction businesses, especially smaller ones, by improving cashflow.

Alignment with HMG objectives

56. Government objectives focus on 5 different missions that prioritise economic growth, clean energy and net zero, healthcare, crime and policing, and creating opportunities for everyone.[31]

57. Policies to reduce poor B2B payment behaviour support the economic growth mission, and directly address a commitment in the Government's plan for small businesses.[32]

[31] Mission-driven government – The Labour Party
[32] The Beating Heart of our Economy: Labour's Plan for Small Business – The Labour Party

4. Description of proposed intervention options and explanation of the logical change process whereby this achieves SMART objectives

Preferred policy option

58. The preferred policy option introduces a range of new measures, aimed at reducing poor B2B payment behaviour. Table 5 outlines the policy options, and maps them to different objectives around reducing late, long, and disputed payments.

Table 5 – Overview of proposed policy measures

Policy	Late	Long	Disp-uted	Description
1 – Maximum payment terms		X		The policy will amend *The Late Payment of Commercial Debts (Interest) Act 1998*, removing the exemption that allows businesses to agree to payment terms longer than 60 days if considered not 'grossly unfair'. This will effectively limit payment terms between UK businesses to 60 days. The policy will subsequently reduce this limit from 60 days to 45 days, after 5 years.
2 – Invoice dispute deadline			X	The policy will amend *The Late Payment of Commercial Debts (Interest) Act 1998*, introducing a 30-day invoice dispute deadline. Businesses who wish to raise a dispute will need to do so 30 days of receiving an invoice, otherwise they will be liable to pay the invoice in full within the agreed payment terms, alongside any statutory interest or debt recovery costs if the invoice is paid late.
3 – Mandatory statutory interest	X			The policy will amend *The Late Payment of Commercial Debts (Interest) Act 1998*, making the interest rate payable on late payments mandatory. This will increase existing financial incentives to pay invoices on time.
4 – Additional reporting on statutory interest	X	X		The policy will amend *The Reporting on Payment Practices and Performance Regulations 2017* to include additional reporting requirements around statutory interest liabilities. This will further increase transparency around poor B2B payment behaviour and also informs other policies that aim to improve the utilisation and payment of statutory interest.
5 – Penalty fines	X			The policy will introduce new legislation, which gives the SBC powers to issue fines to businesses who persistently pay their suppliers late. The policy will use payment behaviour data submitted by businesses under *The Reporting on Payment Practices and Performance Regulations 2017* to identify and fine persistently late-paying businesses, with fine amounts based on businesses' unpaid statutory interest liability.
6a – Additional SBC powers	X	X	X	The policy will amend *The Enterprise Act 2016* to give additional powers to the SBC. The additional powers would improve the SBC's ability to conduct investigations into poor B2B payment behaviour (beyond its current complaints scheme), allow it to provide legally binding arbitration in disputes, and impose fines or award damages after an investigation or arbitration process.
6b – SBC assurance of reporting data	X	X		The policy will amend *The Enterprise Act 2016* to enable the SBC to assure the payment reporting data that large businesses provide under *The Reporting on Payment Practices and Performance Regulations 2017*. This will improve the quality of reporting data and support the reporting regulations original objectives of improving transparency around B2B payment behaviour.
7 –Retention payments	X [33]			The policy will amend *Part 2 of the Housing Grants, Construction and Regeneration Act (1996)*, introducing requirements on the use of retention payments in the construction sector. At this stage, the preferred option is introducing a ban on the withholding of cash retentions, although a second option will be included in the consultation (the introduction of requirements to protect retention funds from insolvency and late or non-payment).

[33] Policies aimed at retention payments address late, partial and non-payment.

Theory of change and logic models

59. The OA groups the theory of change and logic models for similar or related policy measures:

- **Transparency measures.** 4 – Additional reporting on statutory interest, and 6b – SBC assurance of reporting data.
- **Statutory framework and redress measures.** 1 – Maximum payment terms, 2 – Invoice dispute deadline, 3 – Mandatory statutory interest, and 5 – Penalty fines.
- **Small Business Commissioner.** 6a – Additional SBC powers.
- **Retention payments.** 7 – Retention payments.

60. Each theory of change discusses the risks of the policies not achieving the intended policy objectives, including potential unintended consequences and mitigations.

Transparency measures

61. Transparency measures build on the existing reporting regulations, which require large businesses to publish information about their payment behaviour. Assurance of payment reporting data involves the SBC assuring a sample of reporting businesses' payment behaviour data, reviewing the systems and controls that a business has put in place for reporting, and checking the overall accuracy of reported data. Additional reporting on statutory interest requires businesses to calculate and report on additional metrics in their 6-monthly reports, including the total statutory interest they were liable to pay and the statutory interest they actually paid in each reporting period.

62. The policies will require additional inputs from the SBC and large reporting businesses, in the form of undertaking and complying with SBC assurance, and higher reporting costs resulting from the additional reporting requirements. The assurance activities undertaken by the SBC will involve a combination of controls and substantive testing – checking whether appropriate processes are in place and comparing a sample of invoice payment times against reported figures, respectively. The activities associated with the additional reporting requirements are largely already in place, given existing reporting requirements.

63. The outputs of this activity include an SBC opinion on businesses' reporting processes, which could be published, and additional reporting on statutory interest liabilities. The published SBC opinion could include adverse comments, where the assurance identifies issues in a business' reporting.

64. The outcomes of the assurance of payment reporting data are twofold. Firstly, the assurance process itself will lead to increased scrutiny of how reporting data is collated by businesses and overall result in higher quality reporting data, which users can be more confident in. This supports the original outcomes and objectives of the reporting regulations, which involve improving transparency around B2B payment behaviour in larger businesses and helping suppliers make more informed decisions.

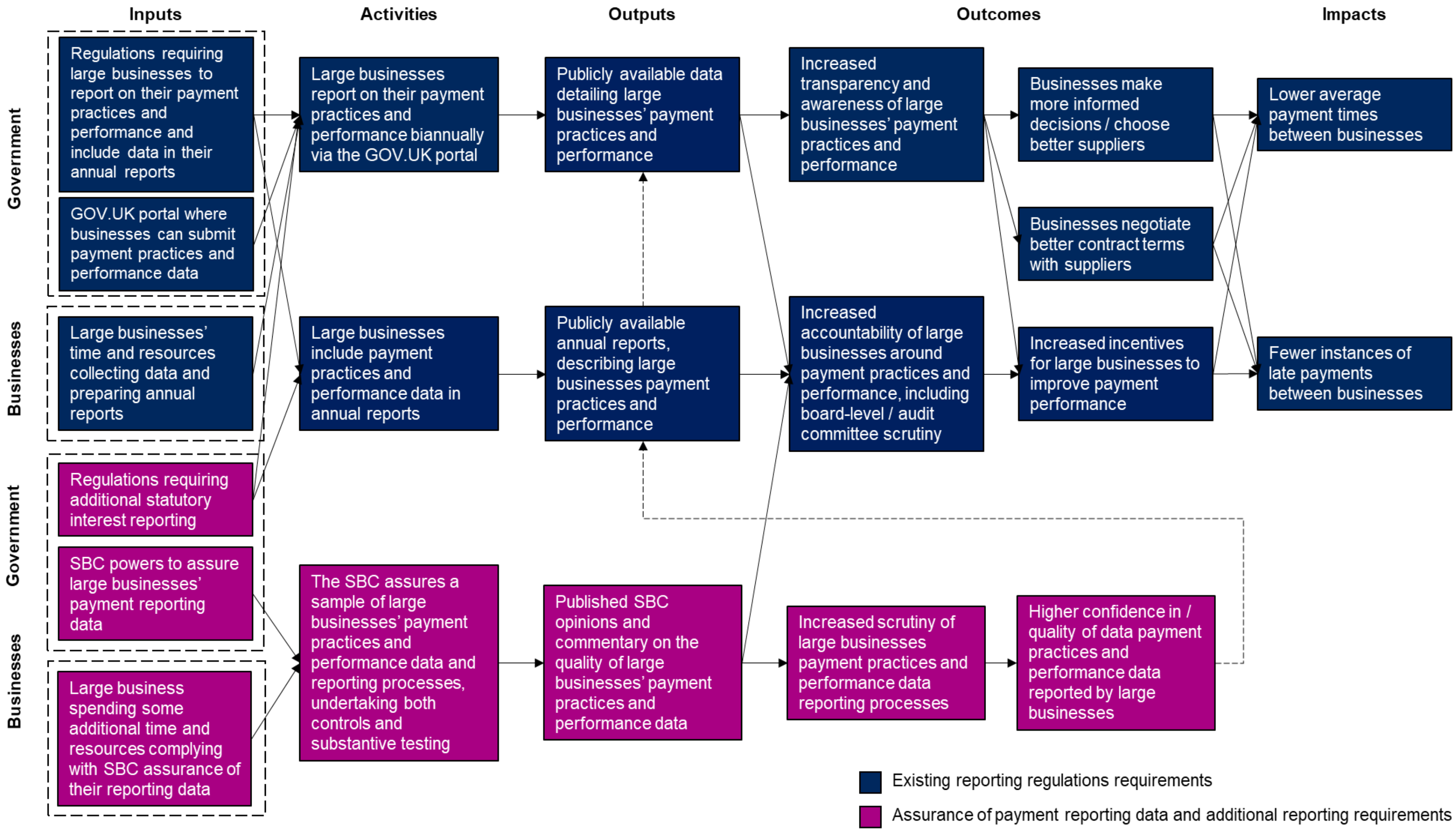
65. Secondly, the assurance process will increase awareness of businesses' reporting data and B2B payment behaviour at board level, including audit committees. Given board of directors' and audit committees' responsibility for corporate governance, increasing awareness of reporting data and B2B behaviour at these levels (beyond single director level) could lead to businesses addressing reporting data issues and poor B2B payment behaviour. Where businesses do change their behaviour, this would support lower average payment times and fewer instances of late payment.

66. The outcomes of additional reporting on statutory interest build on the existing outcomes of the reporting regulations, which increase transparency around B2B payment behaviour and help businesses make more informed decisions and negotiate better contracts.

67. The impact of the policies could be limited if businesses choose not to change their payment behaviour, despite increased transparency around and scrutiny of poor B2B payment behaviour. This is a particular risk if creditor businesses do not have realistic alternatives to contracting with debtor businesses who display poor B2B payment behaviour highlighted by the additional reporting requirements. This might be the case in supply chains where goods or services are purchased by a limited number businesses, which undermines any competitive pressures introduced by transparency measures.

68. Additionally, the overall effectiveness of assuring reporting data will depend on the level of assurance that can be delivered by the SBC, both in terms of its capacity and relevant skills. Assuring only a small proportion of in scope businesses each year would limit the impact of the policy, both in terms of improving the overall quality of reporting data and the extent to which B2B payment behaviour is discussed at board level, including audit committees.

Figure 13 – Transparency measures – Logic model



Statutory framework and redress measures

69. Statutory framework and redress measures build on and change the existing statutory framework, which sets rules around B2B payments. The policies set maximum payment terms at 60 days (reducing to 45 days, after 5 years), which cannot be derogated even if businesses mutually agree otherwise; create powers for the SBC to fine large late-paying businesses; make statutory interest that businesses can charge on overdue invoices mandatory; and introduce a 30-day invoice dispute deadline, before which disputes need to be raised.

70. Policy inputs, activities, and outputs involve businesses applying the new statutory framework as part of contract negotiation or after invoices have been issued; or in the case of fines, the SBC identifying and issuing fines to late-paying businesses.

71. Maximum payment terms will result in businesses being unable to agree payment terms longer than the statutory maximum, where before payment terms could be longer if mutually agreed and considered not 'grossly unfair'. Importantly, businesses have rarely used this provision to challenge unfair payment terms in its existing form, because of the risks associated with legal challenges – which can be costly, have uncertain outcomes, and damage business relationships. The 'hard limit' around payment terms removes these risks, and supports businesses negotiating better contracts with suppliers.

72. Mandatory statutory interest, in conjunction with penalty fines for large late-paying businesses, will increase incentives for businesses to pay on time, incurring a higher financial penalty if an invoice is paid late. Importantly, businesses do not regularly use statutory interest in its current form, largely because of not wanting to damage business relationships –19% of micro business reported they would not formally pursue late payment, with 33% attributing this to customer relationships.[34] Mandatory statutory interest, which places the responsibility on debtor rather than creditor businesses will address this. And a fine regime which makes paying statutory interest a 'cheaper option' for businesses, will increase the incentives for debtor businesses to pay statutory interest (and subsequently pay more invoices on time).

73. An invoice dispute deadline will reduce businesses' ability to use disputes to delay payment of valid invoices. Invoices disputed after the invoice dispute deadline would still be subject to statutory interest and other compensation, removing incentives for businesses to raise frivolous disputes.

74. Although statutory framework and redress measures can effectively change business behaviours, they could introduce unintended consequences which mean that policy objectives are not fully met.

75. In particular, more stringent redress measures like penalty fines and mandatory statutory interest make late payment more costly for businesses could lead to more risk averse behaviour. Businesses might set higher payment terms to reduce the likelihood of paying late, which runs contrary to the policy objective of preventing unfair and long

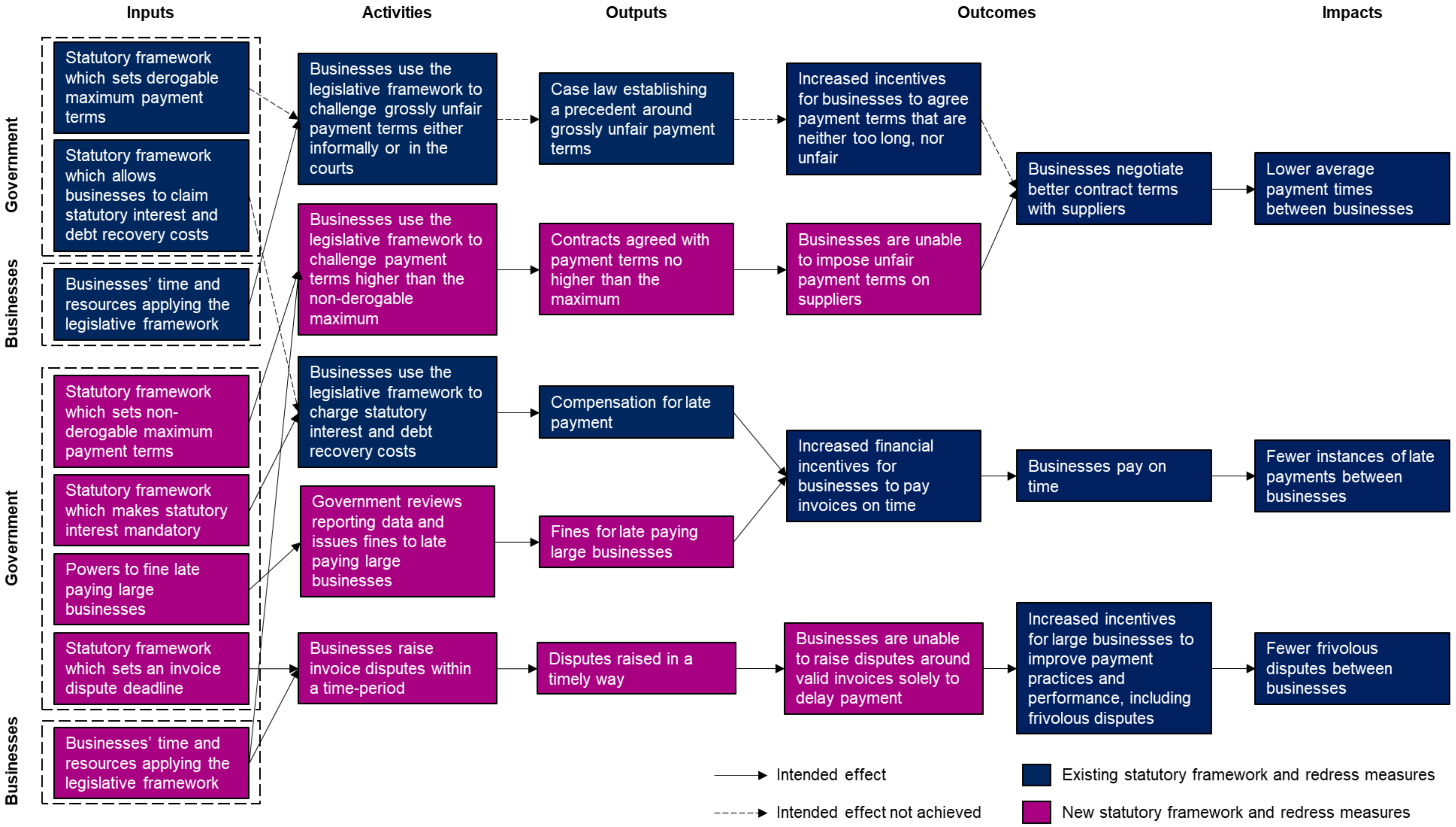
[34] DBT (2024) – *Understanding Variations in Payment Performance and Practices across Business Sectors and Sizes* – [Late payments research: performance and practices across business - GOV.UK (www.gov.uk)]

payment terms. Maximum payment terms which cannot be derogated mitigate the risk the policies leading to substantially higher payment terms on average, but payment terms could tend still towards the maximum.

76. Additionally, more stringent redress measures could also lead to more disputed invoices, as businesses attempt to avoid financial penalties. Currently, statutory interest is not payable on disputed invoices, meaning businesses can frivolously dispute invoices to effectively defer statutory interest and delay payment. An invoice dispute deadline only partly mitigates this risk, requiring businesses to raise disputes earlier than they might have otherwise done, but does not altogether prevent frivolous disputes.

77. Finally, more stringent redress measures could also lead to businesses wilfully misreporting their B2B payment behaviour under the reporting regulations, given the link between penalty fines and reported information, like percentage of invoices paid late and unpaid statutory interest liability. This is partially mitigated by the SBC assuring payment reporting data, but misreporting could still take place where the not all businesses are subject to assurance each year.

Figure 14 – Statutory framework and redress measures – Logic model



Small Business Commissioner measures

78. Small Business Commissioner (SBC) measures build on the existing remit and powers of the SBC.[35] The policy creates additional powers for the SBC to conduct investigations into poor B2B payment behaviour, impose fines at the end of an investigation, and allow it to make legally binding arbitration in disputes between small and large businesses.

79. The policy will require additional inputs both from the SBC and small and large businesses, in terms of administering and engaging with higher numbers of SBC investigations. Higher numbers of SBC investigations are supported by powers which allow the SBC to launch investigations from third-party or anonymous information, not just direct complaints from small businesses.

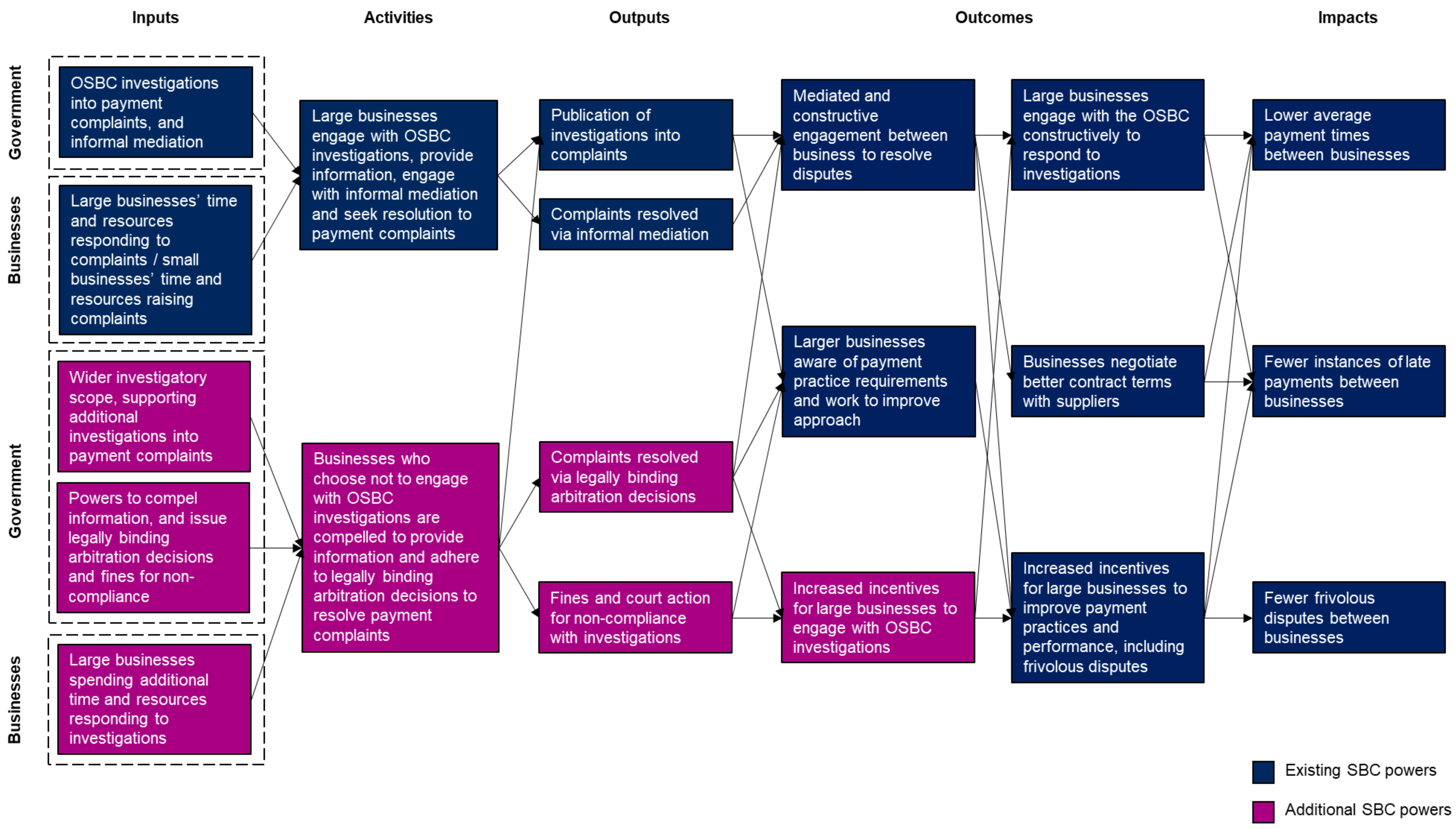
80. Policy outputs will include the publication findings from SBC publications, small business complaints resolved by either informal mediation or legally binding arbitration decisions, and fines and court action for non-compliance with investigations.

81. The outputs support the overall policy outcomes which involve large businesses engaging constructively with SBC investigations – with additional powers compelling engagement where large businesses have previously been unwilling; and increased incentives for large businesses to improve their B2B payment behaviour – incentivised by the risk of an adverse SBC investigation or arbitration decision.

82. Importantly, for additional SBC powers to be effective, the SBC needs to be sufficiently resourced to handle additional investigations and more complicated processes resulting from arbitration. Where the SBC does not have capacity to meet increased demand, the overall impact could be limited. In particular, overall low levels of investigation or arbitration decisions could result in limited incentives for businesses to improve their B2B payment behaviour, if they perceive an adverse outcome from the SBC as a low risk or not credible.

[35] 6b – SBC assurance of reporting data is considered under transparency measures.

Figure 15 – Small Business Commissioner – Logic model



Retention payments measure

83. This measure will introduce a change to the use of retention payments in the construction industry, via either a ban or a Retentions Protection Framework.

84. The required inputs will be government changing legislation, business time and resources to understand the new requirements, change contracts and provide or access alternative insurance mechanisms if needed.

85. Business activity will comply with the new legislation, changing practices to use alternatives to retentions under a ban, or to protect retention payments in line with the Retentions Protection Framework. As a result, payers (client businesses) will continue to have insurance against defects in buildings, via retention payments or choosing to seek alternative surety or quality driven mechanisms. Retention payments (if used) will be protected for payees (contractor businesses). The overall cost of these for individual firms, particularly SMEs, is likely to be limited. The main costs of compliance are likely to be borrowing to make up for cashflow, or the costs of surety, as adapting contracts and payment systems will be relatively straightforward and borne by others (most construction contracts use standard forms of contract, and the bodies that own these will adapt them if required by law). However, these costs will be balanced by the benefits to firms of retentions withheld against them being protected, and the risk of these being lost mitigated at no cost to the firm.

86. Business activity which is not compliant with new legislation will result in disputes, which will be resolved via existing construction dispute resolution processes.

87. A key outcome following from this is a reduction in risk of loss of retention payments due to upstream insolvency and risk of late or non-payment of retentions, because retention payments will either be banned or protected. A further outcome is a reduction in the costs and administrative burden of pursuing retention payments. Outcomes of interest to government are fairer contract terms, more transparent practices and stronger, more collaborative relationships in the construction supply chain for the public and private sectors.

88. The impacts of this policy measure will be increased financial resilience of small construction firms, due to accelerated payments and reduced costs, and increased confidence of firms to invest in innovation, skills and capital equipment due to their finances being stronger and contractual terms being improved. This will improve productivity, performance quality and safety.

89. The risk of non-compliance by firms with the options has also been considered. The risks for the two shortlisted options, and the mitigations, are set out below.

Ban on Retentions

90. A risk is that firms do not comply with the legislation, either deliberately or through ignorance. Given the high profile the consultation and any changes will attract within the industry, and the consequential updates to standard construction contracts, deliberate non-compliance will be the main risk. This will be mitigated through the established

adjudication process that exists within the industry to resolve payment disputes, and to which firms have a statutory right of recourse to under the Housing Grants, Construction and Regeneration Act 1996. Early case law will also discourage deliberate non-compliance.

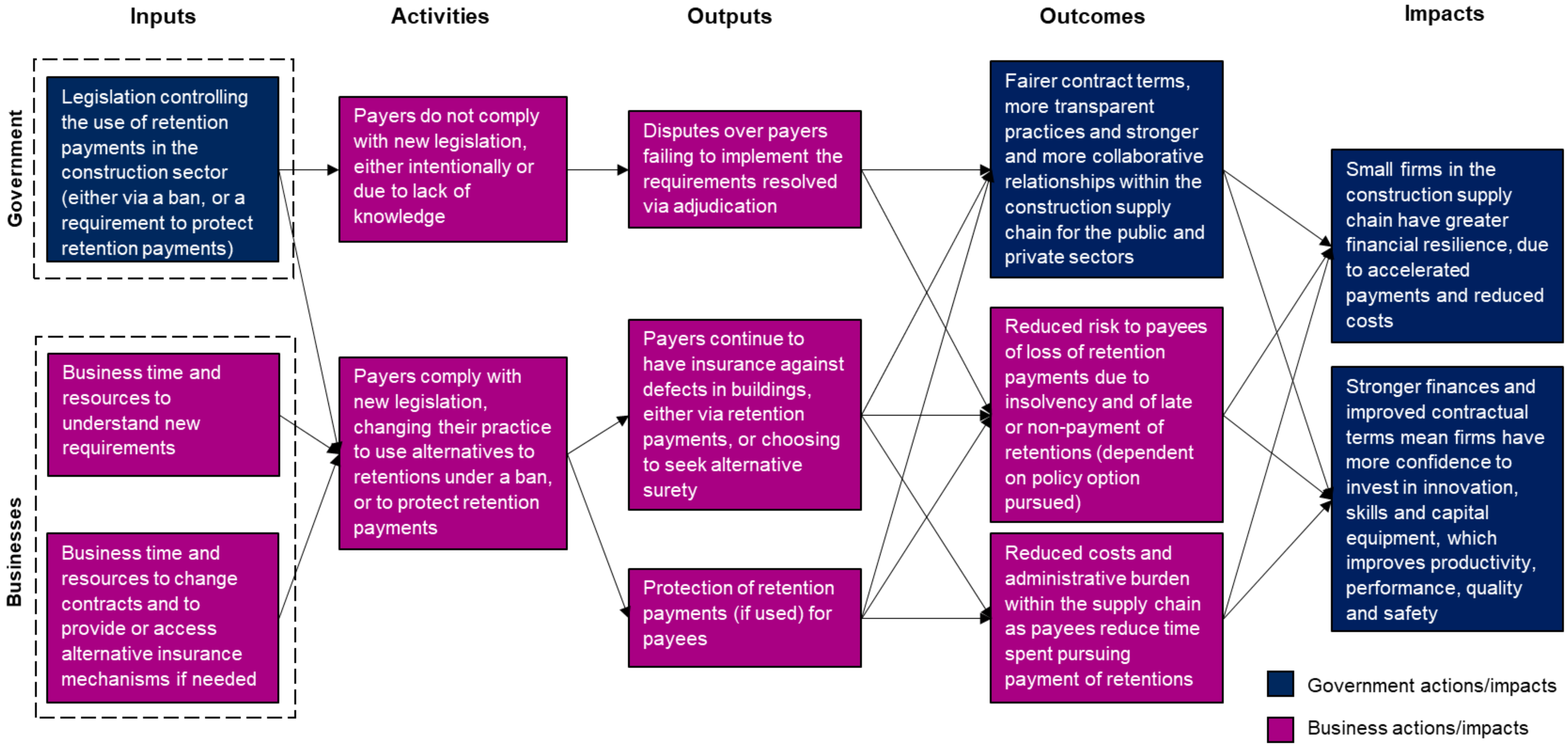
91. A more significant risk is judged to be that firms would seek to adjust the schedule of payments under the contract, to move payments to later periods, creating a cashflow impact on firms in the supply chain. Firms at higher tiers of the supply chain will face a cashflow impact due to no longer being able to withhold retentions, as well as loss of commercial leverage, and potentially additional surety costs. Adjusting payment schedules would be the logical response. This circumvention risk is judged to be material but is not likely to outweigh the potential benefits to be gained through protecting retentions from insolvency and abuse.

Statutory Retentions Protection Framework

92. The main compliance risk is judged to be firms either not, or delaying, placing cash retentions in a trust account, either deliberately or through ignorance, as this would be a more complex set of rules to comply with than a ban on retentions. This would be mitigated through including a requirement on the firms withholding retentions to provide information on the form of protection for the retentions to the firm it is withheld from. Failure to do so would mean the payee could seek to enforce this via adjudication, and ultimately the courts. If a Retentions Protection Framework is adopted, this will also remain subject to reporting requirements under the Reporting on Payment Practices and Performance Regulations 2017 and Limited Liability Partnerships (Reporting on Payment Practices and Performance Regulations 2017, which have been amended by Statutory Instrument No.75 2025 to require reporting on retentions withheld under construction contracts.

93. The risk of firms seeking to adjust the schedule of payments will also arise in relation to this option, as first will lose the cashflow benefits of retentions through placing these in trust, or being required to obtain a form of surety. Firms may also choose to avoid these costs and administrative burdens by ceasing to withhold retentions. In either case, it is likely that some firms would seek to adjust payment schedules to compensate for these costs. However, the same rationale applies as in relation to the ban, that this is not likely to outweigh the potential benefits the legislation will provide.

Figure 16 – Retention payments – Logic model



5. Description of shortlisted policy options carried forward

Policy 1 – Maximum payment terms

Policy detail

94. The policy will amend *The Late Payment of Commercial Debts (Interest) Act 1998*, removing the exemption that allows businesses to agree to payment terms longer than 60 days if considered not 'grossly unfair'. This will effectively limit payment terms between UK businesses to 60 days. The policy will subsequently reduce this limit from 60 days to 45 days, after 5 years.

95. Initially this policy will introduce a 'hard limit' on payment terms, which will prevent businesses negotiating payment terms longer than 60 days. This would reduce businesses' freedom to contract, but protects against unfair contractual terms. The policy focuses on the earliest stages of B2B payments, specifically before a contract is signed, reflecting that some poor B2B payment behaviour is facilitated by unfairly negotiated contracts which can purposefully exploit supplier trade credit.

96. The policy takes a staggered approach to implementation, recognising that businesses need to time to prepare for changes that impact their day-to-day workings. A 45-day limit on payment terms would lead to a reduction in average payment terms across the UK as many businesses currently have terms beyond 45 days. The policy also aligns with public procurement policy, which requires businesses to demonstrate good payment performance as part of bidding for public sector contracts. Specifically, from October 2025, public authorities must consider whether suppliers are paying all of their invoices within an average of 45 days, and 95% of invoices within 60 days as part of procurement activity.[36]

97. The policy will have differential impacts on different sectors, particularly those currently characterised by longer payment terms. The policy could make exceptions for certain sectors, where 60- or 45-day payment terms are untenable. Currently, the OA does not explicitly consider sectoral exemptions, but these will be explored further through the consultation process and subsequent Regulatory Impact Assessment.

98. The OA considers 4 sub-options, including the preferred option and a Do Nothing option. The sub-options vary the extent to which the policy reduces maximum payment terms, ranging between 60 days and 30 days.

- **A – 60-45-30 days.** The 'not grossly' unfair exception is removed in FY26/27, introducing a 'hard limit' on payment terms of 60 days. This limit is reduced to 45 days in FY30/31, and then 30 days in FY35/36.
- **B – 60-45 days (Preferred).** As in Option A, but the limit on payment terms does not reduce below 45 days in FY30/31.

[36] PPN 018: How to take account of a supplier's approach to payment in the procurement of major contracts - GOV.UK

- **C – 60 days.** As in Option B, but the limit on payment terms does not reduce below 60 days in FY26/27.
- **D – Do Nothing (Baseline).** No change to current limits on payment terms.

Table 6 – Maximum payment terms – NPSVs (£m)

Option	Low	Central	High
A – 60-45-30 days	-£6.13	-£6.81	-£7.49
B – 60-45 days (Preferred)	**-£3.18**	**-£3.53**	**-£3.88**
C – 60 days	-£0.51	-£0.57	-£0.62
D – Do Nothing (Baseline)	£0.00	£0.00	£0.00

99. The preferred option has an NPSV -£3.53m, which is negative and higher than other shortlisted options. This is however largely because benefits are not monetised. The preferred option is expected to result in a reduction in payment terms, below 60 days, contributing to policy objectives.

Small and Micro Business Assessment (SaMBA)

100. The policy impacts all businesses, with nearly 100% of costs falling on SMEs. Importantly, because per business costs are the same, the distribution of costs reflects the distribution of businesses in the economy, where SMEs represent 99.9% of business in the UK.

101. Although SMEs incur a higher proportion of total costs, they are the primary beneficiaries of the policy too. Poor B2B behaviour has a greater impact on smaller businesses, and the non-monetised transfer of liquidity between businesses is likely to flow from larger businesses to smaller businesses. This reflects larger businesses current ability to set longer and more unfavourable payment terms with their smaller suppliers, a result of their market power.

102. SMEs are not however exempted from the policy, because although large businesses represent a significant proportion of poor B2B payment behaviour – 65% of late payments, proxied by turnover (see Figure 8) – SMEs themselves are also responsible, meaning the full benefits of the policy will not be achieved. And differentiating between allowable maximum payment terms based on business size could potentially create additional businesses burdens for both SMEs (proving their exemption) and large businesses (corroborating their exemption), as part of contract negotiation.

103. The policy does not create specific mitigations for SMEs but does however provide an extended transition period for all businesses, starting with 60-day maximum payment terms, reducing to 45 days after 5 years.

Policy 2 – Invoice dispute deadline

Policy detail

104. The policy will amend *The Late Payment of Commercial Debts (Interest) Act 1998*, introducing a 30-day invoice dispute deadline. Businesses who wish to raise a dispute

will need to do so within 30 days of receiving an invoice, otherwise they will be liable to pay the invoice in full within the agreed payment terms, alongside any statutory interest or debt recovery costs if the invoice is paid late.

The policy overall aims to reduce frivolous disputes, where businesses attempt to extend payment times and avoid invoices being classified as late by disputing near to the deadline for payment. Importantly, the 30-day period gives businesses enough time to assess whether the goods or services they have received are satisfactory, but falls well within maximum 45- or 60-day payment terms – see

105. Policy 1 – Maximum payment terms section. This means that disputed payments are less likely to be paid late, requiring businesses to raise disputes earlier and leaving more time for dispute resolution.

106. The policy only impacts the timing of disputes and does not preclude businesses from altogether raising disputes.

107. The OA only considers 2 sub-options – the preferred option and a Do Nothing option:

- **A – 30-day invoice dispute deadline (Preferred).** Businesses who wish to raise a dispute will need to do so within 30 days of receiving an invoice. Invoices that are disputed after the deadline will be subject to statutory interest and debt recovery costs, if payments are late.
- **D – Do Nothing (Baseline).** No change to current dispute resolution process.

Table 7 – Invoice dispute deadline – NPSVs (£m)

Option	Low	Central	High
A – 30-day invoice dispute deadline (Preferred)	**-£22.37**	**-£24.85**	**-£27.34**
B – Do Nothing	£0.00	£0.00	£0.00

108. The preferred option has an NPSV -£24.85m, which is negative and higher than other shortlisted options. This is however largely because benefits are not monetised. Importantly, a 30-day invoice dispute deadline is expected to result in shorter payment times for frivolous disputes, as debtor businesses need to raise these earlier in the process, overall benefiting creditor businesses.

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109. The policy impacts all businesses, with nearly 100% of costs falling on SMEs. Importantly, because per business costs are the same, the distribution of costs reflects the distribution of businesses in the economy, where SMEs represent 99.9% of business in the UK.

110. Although SMEs incur a higher proportion of total costs, they are the primary beneficiaries of the policy too. Poor B2B behaviour, and frivolous disputes, have a greater impact on smaller businesses.

111. Like Policy 1 – Maximum payment terms, SMEs are not exempted from the policy, because although large businesses represent a significant proportion of poor B2B payment behaviour – 65% of late payments, proxied by turnover (see Figure 8) – SMEs

themselves are also responsible, meaning the full benefits of the policy will not be achieved.

112. The policy does not create specific mitigations for SMEs. This is because SMEs already have access to relevant information and support available through the SBC, which aims to support SMEs with issues relating to poor B2B payment behaviour, including disputes.

Policy 3 – Mandatory statutory interest

Policy detail

113. The policy will amend *The Late Payment of Commercial Debts (Interest) Act 1998*, making the statutory interest that businesses are liable to pay on overdue invoices mandatory, and fixed at 8%. Currently, statutory interest on late payments faces 2 main challenges, which undermine its effectiveness as a redress mechanism:

- Claiming statutory interest is a right that businesses can exercise, rather than a requirement, and not all businesses claim it, fearing they might damage business relationships.[37] [38]
- Businesses can agree contract terms that reduce the rate of statutory interest that they can claim, provided an alternative 'substantial remedy' for late payment is in place.

114. The policy aims to address these challenges and overall reduce instances of late payment, increasing the financial incentives for businesses to pay on time. Specifically, mandatory statutory interest removes creditor businesses' responsibility to claim statutory interest, instead requiring debtor businesses to automatically pay statutory interest, where invoices are paid late. Moreover, fixing the rate of statutory interest at 8% prevents businesses agreeing terms that unfairly favour debtor businesses, in cases of late payment.

115. Importantly, statutory interest represents a transfer between businesses, where a debtor compensates a creditor for adversely impacting their cash flow through an overdue invoice. There is therefore no net impact on businesses, as costs to debtor businesses represent benefits to creditor businesses.

116. The OA only considers 2 sub-options – the preferred option and a Do Nothing option:

- **A – Voluntary statutory interest (Do Nothing).** No change to the current statutory framework, with creditor businesses claiming statutory interest at their discretion, and businesses able to agree rates less than 8%.

[37] DBT research shows that businesses do not regularly apply or claim statutory interest, because they do not want to damage relationships with their business customers – 81% of surveyed micro business reported they would not formally pursue late payment, with 33% attributing this to customer relationships
[38] DBT (2024) – *Understanding Variations in Payment Performance and Practices across Business Sectors and Sizes* – [Late payments research: performance and practices across business - GOV.UK (www.gov.uk)](https://www.gov.uk)

- **B – Mandatory statutory interest (Preferred).** Statutory interest is made mandatory, and debtor businesses are automatically required to pay statutory interest (at a rate of 8%), where invoices are paid late.

Table 8 – Mandatory statutory interest – NPSVs (£m)

Option	Low	Central	High
A – Voluntary statutory interest (Do Nothing)	£0.00	£0.00	£0.00
B – Mandatory statutory interest (Preferred)	**-£22.40**	**-£24.88**	**-£27.36**

117. The preferred option has an NPSV of -£24.88m, which is negative and higher than other shortlisted options. This is however largely because benefits are not monetised. Importantly, making statutory interest mandatory is expected to increase the financial incentives associated with reducing late payments between businesses, supporting better outcomes for creditor businesses.

SaMBA

118. The policy impacts all businesses, with nearly 100% of costs falling on SMEs. Importantly, because per familiarisation business costs are the same, the distribution of costs reflects the distribution of businesses in the economy, where SMEs represent 99.9% of business in the UK.[39]

119. Although SMEs incur a higher proportion of net costs, they are the primary beneficiaries of the policy too. The estimated benefits of the policy represent a transfer from larger businesses to SMEs. Poor B2B behaviour more generally also has a greater impact on smaller businesses.

120. Like Policy 1 – Maximum payment terms, SMEs are not exempted from the policy, because although large businesses represent a significant proportion of poor B2B payment behaviour – 65% of late payments, proxied by turnover (see Figure 8) – SMEs themselves are also responsible, meaning the full benefits of the policy will not be achieved. And differentiating between whether statutory interest is a mandatory requirement or voluntary right, based on business size could potentially create additional businesses burdens for SMEs (proving their exemption), as part of invoicing and payment after agreed payment terms have been exceeded.

121. The policy does not create specific mitigations for SMEs, rather information will be provided to all business, to support their understanding and complying with the new policy requirements, in line with previous guidance issued on statutory interest.[40]

Policy 4 – Additional reporting on statutory interest

Policy detail

122. The policy will amend *The Reporting on Payment Practices and Performance Regulations 2017*, requiring businesses to report additional information relating to their

[39] Ongoing costs are excluded from this calculation as they represent a transfer, and are offset by an equivalent benefit to SMEs.
[40] Late commercial payments: charging interest and debt recovery: Interest on late commercial payments - GOV.UK

statutory interest liability, where invoices are paid late. Specifically, the policy will require businesses to report the £-value of statutory interest that they were liable to pay, and the £-value of statutory interest that they paid, in a given reporting period.

123. Businesses will need to calculate the amount of statutory interest they were liable to pay, based on the value of invoices paid late, and how many days late the invoices were paid. For example, if a business paid a £1,000 invoice 30 days late, their statutory interest liability would be £10.47.[41] Businesses would then need to aggregate individual liabilities to calculate their total statutory interest liability over a 6-month reporting period. Importantly, the data required for businesses to undertake the calculations is readily available from existing invoice information, and the policy complements the additional £-value reporting introduced by *The Reporting on Payment Practices and Performance (Amendment) Regulations 2024*.[42]

124. The policy primarily aims to further improve transparency around B2B payment behaviour, addressing an information asymmetry between large businesses and their suppliers. This will further increase the incentives for large businesses to improve their payment behaviour, and support suppliers to make more informed decisions and negotiate better contracts. A secondary aim of the policy is to collect information that can be used to inform a penalty fine regime, targeting large businesses who persistently pay their suppliers late – see Policy 5 – Penalty fines section.

125. The existing reporting regulations apply to large businesses only, and these changes will only affect businesses who are already required to report on their B2B payment behaviour. [43] The policy in part aligns the reporting regulations with reporting requirements for government departments, who are required to publish quarterly transparency information, detailing the percentage of payments they pay within 5 and 30 days, and the amount if statutory interest they were liable to pay.[44]

126. The OA only consider 2 sub-options, including the preferred option and a Do Nothing option:

- **A – Additional reporting on statutory interest (Preferred).** Large businesses who report on their payment behaviour under the reporting regulations are additionally required to report information relating to their statutory interest liability, where invoices are paid late.
- **B – Do Nothing (Baseline).** No changes to the existing reporting regulations.

Table 9 – Additional reporting on statutory interest – NPSVs (£m)

Option	Low	Central	High
A – Additional reporting on statutory interest (preferred)	-£10.37	-£22.32	-£25.52
B – Do Nothing	£0.00	£0.00	£0.00

[41] Based on a 4.75% Bank of England base rate, and 8% statutory interest.
[42] The Reporting on Payment Practices and Performance (Amendment) Regulations 2024
[43] Businesses need to report under the reporting regulations if they meet 2 or more thresholds on their last 2 balance sheet dates: £36 million annual turnover, £18 million balance sheet total, 250 employees.
[44] Procurement Policy Note 05/15: prompt payment and performance reporting - GOV.UK

127. The preferred option has an NPSV -£22.32m, which is negative and higher than other shortlisted options. This is however largely because benefits are not monetised. Importantly, the policy is expected to result in additional transparency around large businesses' payment reporting and create further incentives for these businesses to improve their behaviours. The policy additionally provides the basis for fining large businesses who persistently pay their supplier late – see Policy 5 – Penalty fines section.

SaMBA

128. The costs of the policy measure fall exclusively on large businesses, and SMEs are exempted. This is because the new requirements only apply to businesses that already need to report on their payment behaviour under the reporting regulations.[45] SMEs do not therefore incur any additional costs.

129. SMEs will be the primary beneficiary of the policy measure, which further increases transparency around large businesses' B2B payment behaviour and supports suppliers negotiating better payment terms.

Policy 5 – Penalty fines

Policy detail

130. The policy will introduce new legislation, which gives the SBC powers to issue fines to businesses who persistently pay their suppliers late. Fines will be linked to businesses' unpaid statutory interest liabilities, strengthening incentives for businesses to pay their statutory interest liabilities, and links to a further policy change relating to mandatory statutory interest – see Policy 3 – Mandatory statutory interest section.

131. The policy will use payment behaviour data submitted by businesses under *The Reporting on Payment Practices and Performance Regulations 2017* to identify and fine persistently late-paying businesses.[46] Because the reporting regulations only apply to large businesses, the scope of fines under the policy is therefore also limited to large businesses.[47]

132. The preferred option sets the threshold for fines at more than 25% of invoices not paid within agreed terms in a reporting period. This means that a business would need to pay more than 1 in 4 invoices late over their last 6-month reporting period to be liable for a fine. The threshold is set to limit fines to the worst-performing businesses, where regular late payment is embedded in businesses' payment practices and likely represents an intentional business choice. Importantly, although the fine threshold would allow for the possibility of a fine, the SBC would ultimately have discretion over any fines that it issued.

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[45] Businesses need to report under the reporting regulations if they meet 2 or more thresholds on their last 2 balance sheet dates: £36 million annual turnover, £18 million balance sheet total, 250 employees.

[46] The reporting regulations require businesses to report on the '% invoices not paid within agreed terms' in each reporting period. Additional reporting on statutory interest will require businesses to report both the statutory interest they were liable to pay, and the statutory interest they actually paid, in a given reporting period.

[47] Businesses need to report under the reporting regulations if they meet 2 or more thresholds on their last 2 balance sheet dates: £36 million annual turnover, £18 million balance sheet total, 250 employees.

133. The reporting regulations currently monitor the number of invoices paid late, and not the value of invoices paid late. Businesses might try to ‘game’ the reporting regulations and circumvent fines by prioritising paying low-value invoices on time but continuing to pay high-value invoices late. Importantly, changes to the reporting regulations, which will take effect in 2025, will require businesses to additionally report on the value of invoices and circumvent this behaviour. The policy will be updated to include an equivalent value threshold, once the changes take effect – for example, 25% of total invoice value paid late over a business’ last 6-month reporting period.

134. The preferred option sets the maximum fine amount at 2% of annual turnover, in line with comparable regulations – namely *The Data Protection Act 2018*, which establishes an Information Commissioner and gives them powers to fine businesses who do not comply with the Act.[48] The Act establishes 2 fine amounts, which reflect the severity of different infringements – the higher amount is set at £17.5m or 4% of annual turnover in the preceding financial year, whichever is higher; and the standard amount is set at £8.7m or 2% of annual turnover in the preceding financial year, whichever is higher.[49] [50]

135. The policy sets the fine amount itself as two times businesses’ unpaid statutory interest liability. For example, if a business met the 25% threshold, was liable to pay statutory interest totalling £1.0m, and had paid none of the required interest, the businesses would be subject to a £2.0m fine.

136. Setting the fine amount in this way, as a multiplier of businesses’ unpaid statutory interest liability, creates incentives for businesses to pay statutory interest. This is important as a statutory interest is often not claimed by creditor businesses, and therefore not paid by debtor businesses, which limits its effectiveness as a redress mechanism. DBT research shows that businesses do not regularly apply or claim statutory interest, because they do not want to damage relationships with their business customers – 81% of surveyed micro business reported they would not formally pursue late payment, with 33% attributing this to customer relationships.[51]

137. The policy overall aims to reduce instances of late payment by large businesses, by strengthening the financial penalty for persistent late payment. The policy works in conjunction with changes to statutory interest – see Policy 3 – Mandatory statutory interest section – and addresses problems relating to the current statutory framework, which create limited incentives for businesses to pay on time.[52]

138. The OA considers 4 sub-options, including the preferred option and a Do Nothing option. The sub-options vary the threshold which triggers a fine, ranging from 25% to 10%, where 25% is the least stringent threshold.

[48] https://www.legislation.gov.uk/ukpga/2018/12/part/6/crossheading/penalties
[49] https://www.legislation.gov.uk/ukpga/2018/12/section/157
[50] Penalties | ICO
[51] DBT (2024) – *Understanding Variations in Payment Performance and Practices across Business Sectors and Sizes* – Late payments research: performance and practices across business - GOV.UK (www.gov.uk)
[52] Businesses can claim interest at 8% above the Bank of England base rate.

- **A – 25% threshold (Preferred).** Large businesses who report on their payment behaviour under the reporting regulations, may incur fines if they pay more than 25% of invoices late in a reporting period. The fine amount is set at two times a business' unpaid statutory interest liability. The maximum fine amount is set at 2% of annual turnover, or £8.7m, whichever is higher.
- **B – 20% threshold.** As in Option A, but the threshold for fines is set at 20% of invoices late in a reporting period.
- **C – 10% threshold.** As in Option A, but the threshold for fines is set at 10% of invoices late in a reporting period.
- **D – Do Nothing (Baseline).** No penalty fines for persistent late-paying large businesses.

Table 10 – Penalty fines – NPSVs (£m)

Option	Low	Central	High
A – 25% threshold (preferred)	**-£1.92**	**-£1.92**	**-£1.92**
B – 20% threshold	-£1.92	-£1.92	-£1.92
C – 10% threshold	-£1.92	-£1.92	-£1.92
D – Do Nothing	£0.00	£0.00	£0.00

139. The preferred option has an NPSV -£1.92m, which is negative and higher than other shortlisted options. This is however largely because benefits are not monetised. Importantly, the estimated NPSVs are the same across Do Something options, representing the costs of enforcing the fine regime alone. Option A and the 25% threshold is preferred, as this aligns with the policy objective of targeting the worst performing businesses.

SaMBA

140. The costs of the policy measure fall exclusively on large businesses. This is because the new requirements only apply to businesses that already need to report on their payment behaviour under the reporting regulations.[53] SMEs do not therefore incur any additional costs.

141. SMEs will be the primary beneficiary of the policy measure, which uses financial incentives to encourage large businesses to pay more invoices in line with agreed terms.

Policy 6a – Additional SBC powers

Policy detail

142. The policy will amend *The Enterprise Act 2016* to give additional powers to the Small Business Commissioner (SBC). The additional powers would improve the SBC's ability to conduct investigations into poor B2B payment behaviour, allow it to provide legally binding arbitration in disputes, and impose fines at the end of an investigation or process – see Policy 5 – Penalty fines section, which describes specific fine parameters.

[53] Businesses need to report under the reporting regulations if they meet 2 or more thresholds on their last 2 balance sheet dates: £36 million annual turnover, £18 million balance sheet total, 250 employees.

The policy overall aims to strengthen the SBC and support its original objectives of helping ensure small businesses are paid on time.

143. SBC is currently able to determine complaints where a small business has directly made a complaint against another business. The additional investigatory powers would allow the SBC to launch investigations from public, anonymous or third-party information, in addition to investigations relating to specific cases. The investigations would be pursued based on significant and actionable evidence of breach of payment practices that have legal basis. This would include businesses:

- Persistently paying invoices outside of contractually agreed payment terms and persistently failing to pay interest or compensation due.
- Deliberately disputing invoices to artificially extend payment times or manipulate reporting regulations data.
- Manipulating reporting regulations data or making misleading statements in relation to payment performance.
- Exploiting supplier relationships resulting in material damage to small businesses.

144. The SBC currently does not have powers to compel information as part of its investigations. This means that investigations can have limited effectiveness where businesses do not comply. The additional investigatory powers would therefore also include powers to compel information within a set timeframe where an investigation is launched. This information would include:

- Invoices and delivery notes
- Payment schedules and policies
- Other contractual agreements between a customer and their supplier
- Records of conversations between businesses and their suppliers in relation to contracts and payments
- Board documents relating to payment practices
- Other financial documents
- Other trade or business information
- Other relevant documents and information.

145. The SBC's complaints scheme can currently only provide make recommendations which are not legally binding. The additional powers to arbitrate would allow the SBC to make legally binding decisions at the end of a complaints process. These decisions could include requiring a business to pay a previously unpaid invoice, or any interest or compensation due under *The Late Payment of Commercial Debts (Interest) Act 1998*. These decisions would be legally binding, and businesses would be compelled to make any payments within a specific time-period.

146. Finally, the policy also introduces powers for the SBC to fine businesses in cases where they do not comply with investigations. This would provide a credible enforcement mechanism and deterrence to non-compliance. Maximum fines would be set on a sliding scale dependent on the size and turnover of the businesses involved and could be levied on a business, a business director or both. The full details of how fines will be issued, and the maximum fine amounts have not been fully developed as part of this

OA, and will be explored further through the consultation process and subsequent Regulatory Impact Assessment.

147. The OA only considers 2 sub-options – the preferred option, which includes the full range of additional SBC powers described above, and a Do Nothing option. This is because the impact of individual additional SBC powers are difficult to separate out, and they represent a complementary package of measures.

- **A – Additional SBC powers (preferred).** The SBC's powers are strengthened to include additional investigatory powers, powers to arbitrate and make legally binding recommendations, and powers to impose fines.
- **B – Do Nothing (Baseline).** No change to current SBC powers.

Table 11 – Additional SBC powers – NPSVs (£m)

Option	Low	Central	High
A – Additional SBC powers (preferred)	**-£1.22**	**-£1.36**	**-£1.49**
B – Do Nothing	£0.00	£0.00	£0.00

148. The preferred option has an NPSV -£1.36m, which is negative and higher than other shortlisted options. This is however largely because benefits are not monetised. Importantly, additional powers for the SBC are expected to result in more SBC investigations of poor B2B payment behaviour, leading to better outcomes for small businesses.

SaMBA

149. Up to half of the policy costs incurred by businesses could fall on SMEs, which represents an EANDCB of £0.05m. This is because SMEs typically represent complainants in SBC cases and therefore incur costs raising a case with and providing information to the SBC.[54] SMEs are not however exempted from the policy, as this would mean that the SBC would be unable to act on behalf of the businesses that it is intended to support, significantly undermining policy objectives.

150. Importantly, policy costs are small and voluntarily incurred by SMEs, as SMEs can choose whether or not they raise a case with the SBC. In this way, SMEs can 'exempt themselves' from any costs associated with the policy, if they judge the benefits as not worthwhile or commensurate with costs.

151. SMEs will also be the primary beneficiary of the policy, with additional powers increasing the likelihood that the SBC can achieve positive outcomes for SMEs who raise a case. Benefits will primarily include resolving payment disputes and ensuring payment of outstanding monies to SMEs, either through informal engagement with complainee businesses or an arbitration process with a legally binding SBC decision.

Policy 6b – SBC assurance of reporting data

[54] Costs incurred by SMEs could be lower where cases are raised by third-party organisations on behalf of SMEs.

Policy detail

152. The policy will introduce new powers for the SBC to assure the payment reporting data that large businesses provide under *The Reporting on Payment Practices and Performance Regulations 2017*. The scope of the policy is the same as the reporting regulations, meaning that only large businesses who meet the current reporting thresholds will be affected.[55] The number of businesses subject to SBC assurance each year is ultimately subject SBC capacity, and the OA assumes that the SBC assures 1% of in scope businesses each year.

153. The policy overall aims to improve the quality of reporting data and support the reporting regulations original objectives of improving transparency around B2B payment behaviour. Currently, checks or verification of businesses' reporting data is limited to internal company director sign-off, which means some reporting could be incorrect and therefore misrepresented.

154. Incorrect data could be a result of incorrect interpretation of the reporting regulations guidance (meaning data reported is inconsistent with how other businesses report); mistakes in how data is recorded or how relevant metrics are calculated; or wilful manipulation of relevant data, to make a company's payment performance appear better than it actually is.

155. The policy would reduce the risk of incorrect reporting by introducing additional 'third-party' assurance, which would involve a combination of controls and substantive testing – checking whether appropriate processes are in place and comparing a sample of invoice payment times against reported figures, respectively.

156. The policy will have differential impacts on large businesses of different sizes, as larger businesses often have more complex payment systems or reporting structures in place. This translates to more complex assurance, which means businesses will incur higher costs preparing for and complying with SBC assurance activities.

157. The OA considers 4 sub-options, including the preferred option and a Do Nothing option. The sub-options vary whether the assurance is undertaken by a third-party business or SBC compliance teams.

- **A – External assurance of large businesses, every 4 years.** Large businesses in scope of the reporting regulations are required to assure their reporting data every 4 years. Assurance is undertaken by a third-party business, at the expense of the reporting business.
- **B – SBC assurance of 25% of large businesses each year.** As in Option A, but assurance is undertaken by SBC compliance teams, at the expense of HMG. SBC compliance teams will target 25% of in scope businesses every year, which is equivalent (and therefore comparable) to external assurance every 4 years.

[55] Businesses need to report under the reporting regulations if they meet 2 or more thresholds on their last 2 balance sheet dates: £36 million annual turnover, £18 million balance sheet total, 250 employees.

- **C – SBC assurance of 1% of large businesses each year (Preferred).** As in Option B, but assurance is undertaken by SBC compliance teams, at the expense of HMG. SBC compliance teams will target 1% of in scope businesses every year.
- **D – Do Nothing (Baseline).** No new assurance requirements.

Table 12 – Assurance of payment reporting data – NPSVs (£m)

Option	Low	Central	High
A – External assurance of large businesses, every 4 years	-£68.13	-£111.38	-£130.13
B – SBC assurance of 25% of large businesses each year	-£24.55	-£50.24	-£57.66
C – SBC assurance of 1% of large businesses each year (Preferred)	**-£7.99**	**-£15.72**	**-£18.10**
D – Do Nothing (Baseline)	£0.00	-£0.00	-£0.00

158. The preferred option has an NPSV -£15.72m, which is negative and higher than other shortlisted options. This is however largely because benefits are not monetised. Importantly, SBC assurance is more cost effective compared to external assurance, with Option B resulting in lower costs for the same level of coverage (assurance every 4 years, or 25% of businesses per year) – see section 9. Supporting information on appraisal for further details. Option C is overall preferred as it represents a level of coverage achievable by the SBC.

SaMBA

159. The costs of the policy measure fall exclusively on large businesses. This is because the new requirements only apply to businesses that already need to report on their payment behaviour under the reporting regulations.[56] SMEs do not therefore incur any additional costs.

160. SMEs will be the primary beneficiary of the policy measure, which supports the original objectives of the reporting regulations – namely, increasing transparency and public scrutiny of large businesses' payment practices and performance; and helping small business suppliers make more informed decisions about who to trade with, negotiate fairer terms, and challenge late payments.

Policy 7 – Retention payments

Policy detail

161. This policy will amend Part 2 of the Housing Grants, Construction and Regeneration Act 1996 (as amended by section 138 of the Local Democracy, Economic Development and Construction Act 2009), introducing either a prohibition on, or requirements in relation to, the use of retention payments in the construction sector. The measure aims to prevent the non-payment of retentions due to upstream insolvency of the payer and to reduce unjustified late, partial or non-payment of retentions due to poor payment behaviour from the payer.

[56] Businesses need to report under the reporting regulations if they meet 2 or more thresholds on their last 2 balance sheet dates: £36 million annual turnover, £18 million balance sheet total, 250 employees.

162. The policy will be implemented for new construction contracts after a prescribed date, which will provide a transitional period for payers to adjust to the new requirements including management of working capital.

163. This policy will have different impacts on businesses with construction contracts according to their size, position within the construction supply chain and their contractual obligations – whether payer or payee. It will impact on payers within both the public (central government, local authorities, other organisations such as NHS Trusts) and private sectors.

164. Responsibility for the construction sector is devolved, which means that the proposed policy would only apply to England. However, we would consult the Devolved Administrations, and it is likely that they would want the measure to be extended to their territories (or would wish to introduce a parallel measure).

165. The OA considers 3 sub-options, including the preferred option and a Do Nothing option. The sub-options vary the restrictions on retention payments:

- **A – Ban on withholding retention payments (Preferred).** This statutory measure would prevent the use of retention clauses in construction contracts. Payers could choose to seek alternative forms of insurance or surety, but this would not be mandated.
- **B – Introduction of a Retentions Protection Framework.** This statutory measure would mandate that only a single retention payment could be deducted by a payer at the project completion stage for the defects period. The retention would be protected in trust, and payers would have a choice of either segregating the retained payment in a separate bank account and/or protecting these through an instrument of guarantee (insurance / surety bond).
- **C – Do nothing (Baseline).** No change to current retention practices.

166. At this stage of the assessment, option A has been selected as preferred for the purpose of calculating the total impact of the measures. This is because it achieves the intended outcomes with lower estimated costs to businesses than option B, as shown below. However, both options are considered equally viable and will be taken forward to consultation.

Table 13 – Retention payments – NPSVs (£m)

Option	Low	Central	High
A – Ban of retention payments (Preferred)	**-£85.78**	**-£1,080.46**	**-£8,172.83**
B – Retentions Protection Framework	-£242.61	-£1,570.54	-£11,389.92
C – Do Nothing	£0.00	£0.00	£0.00

167. The preferred option has an NPSV of -£1,080m, which is negative and higher than other measures. This is largely because not all benefits are monetised, including the reduced administrative burden and resulting cost and time saving by payees not needing to chase late payment of retentions. More detail on the underlying appraisal is given in section 9. Supporting information on appraisal.

SaMBA

168. In 2024, around 300 (<0.1%) of the 380,000 registered construction businesses in the UK were large (250 or more employees), with all others being SMEs[57].

169. This measure will apply to all firms that are parties to construction contracts which withhold retentions, as it would be impractical to try and differentiate by type of firm, or by position within the supply chain. Therefore, the measures would apply to SME subcontractors within the supply chain (which is frequently involves 4-5 tiers of firms on large projects), as these firms will often replicate arrangements they are subject to, and withhold retentions from their suppliers. Not to apply the measure in this way would disadvantage small firms.

170. The costs of the policy would fall more on larger businesses higher up the supply chain, as they are more likely to be payers and hence to be subject to the policy measure. SMEs are more likely to be payees and hence are more likely to benefit from a reduction of late or non-payment under either policy measure. The mitigation of the risk of non-payment of retentions due to upstream insolvency under both policy options would be of particular benefit to SMEs.

[57] DBT (2024) – Business population estimates - https://www.gov.uk/government/statistics/business-population-estimates-2024

6. Regulatory scorecard for preferred option

Part A: Overall and stakeholder impacts

Table 14 – Welfare impacts

Impact	(1) Overall impacts on total welfare	Rating
Description of overall expected impact	• The policies are expected to have an overall positive impact on social welfare, driven primarily by impacts on small businesses and lower tier construction business. • Although the policies incur additional costs for businesses in terms of familiarising themselves and complying with new regulations and changes to the existing statutory framework, these are expected to be outweighed by benefits resulting from a reduction in poor B2B payment behaviour.	**Positive**
Monetised impacts	• The OA estimates a total NPSV of -£1.18bn, with low and high estimates ranging between -£0.16bn and -£8.28bn respectively. The estimates are subject to significant uncertainty, reflected in the wide range between estimates. • The policies result in significant transfers between businesses – £0.85bn resulting from mandatory statutory interest, and £9.08bn resulting from banning retention payments.	**Negative** **Based on likely £NPSV**
Non-monetised impacts	• The OA monetises policy costs, but discusses most benefits qualitatively, due to challenges around quantification. • The reduction in costs resulting from improved B2B payment behaviour is a significant non-monetised benefit. Although the total benefit of altogether eliminating poor B2B payment behaviour can be monetised (see Table 4), the OA cannot estimate the extent to which these costs decrease because of the policies.	**Positive**
Any significant or adverse distributional impacts?	• The policies result in significant transfers between businesses. These transfers are intended policy outcomes, and mostly involve transferring liquidity from debtor businesses to creditor businesses. • These transfers flow predominantly from larger businesses to smaller business, or from construction businesses higher up the supply chain to construction businesses lower down the supply chain. This reflects a 'reversal' in the current direction of trade credit and retention payments, which typically transfer liquidity higher up supply chains.	**Neutral**

Table 15 – Business impacts

Impact	(2) Expected impacts on businesses	Rating
Description of overall business impact	• Like total welfare, the policies are expected to have an overall positive impact on businesses, driven primarily by impacts on small businesses and lower tier construction business.	**Positive**
Monetised impacts	• The OA estimates a total business NPV of -£1.17bn over 10 years, with low and high estimates ranging between -£0.15bn and -£8.27bn respectively. • The estimates are higher than the total estimated NPSV for the policies because of how costs to government and transfers are accounted for in the penalty fines for late payment and additional SBC powers policies. Costs to government are excluded from business NPV calculations, and while penalty fines net off overall, they represent a net cost to businesses. • The OA estimates a total EANDCB of £136.07m, with low and high estimates ranging between £17.70m and £961.07. • Estimated EANDCBs represent administrative costs only, or the costs of businesses familiarising themselves and complying with the policies. • The OA does not calculate pass through costs from businesses to consumers.	**Negative** **Based on likely business £NPV**
Non-monetised impacts	• Like total welfare, significant non-monetised benefits include the reduction in business costs resulting from improved B2B payment behaviour.	**Positive**
Any significant or adverse distributional impacts?	• The policies result in significant transfers between businesses. These transfers are intended policy outcomes, and mostly involve transferring liquidity from debtor businesses to creditor businesses. • These transfers flow down supply chains, benefiting smaller businesses and lower tier construction businesses – see Table 14. • The policies are also expected to have differential impacts across different sectors. Banning retention payments will exclusively impact the construction sector. Other policies will more significantly impact sectors where poor B2B payment is more prevalent. These are typically goods rather than services sectors – see Figure 9 and Figure 10.	**Neutral**

Table 16 – Household impacts

Impact	(3) Expected impacts on households	Directional rating
Description of overall household impact	• The OA does not explicitly consider household impacts, and it is currently unclear whether businesses will pass through any costs to consumers. Importantly, the policies are expected to result in net positive impact on businesses. While some businesses who incur additional costs might pass these through to consumers, this could be offset by businesses who benefit under the policies.	**Uncertain**
Monetised impacts	• The OA does not calculate household NPV or EANDCH.	**Uncertain** **Based on likely household £NPV**
Non-monetised impacts	• The OA does not explicitly consider household impacts.	**Uncertain**
Any significant or adverse distributional impacts?	• The OA does not explicitly consider household impacts.	**Uncertain**

Part B: Impacts on wider government priorities

Table 17 – Wider impacts

Category	Description of impact	Directional rating
Business environment: Does the measure impact on the ease of doing business in the UK?	• The policies fundamentally trade-off certain business freedoms, like the freedom to contract and make use of trade credit, with protections against unfair payment practices and poor outcomes for creditor businesses. Overall, the policies are expected to make it easier to do business in the UK. • Although the policies put additional burdens on businesses, they will benefit overall in terms of being paid more quickly, on time, and in full. This provides business more surety over B2B payments, and makes the business environment more attractive. • There are no expected impacts on barriers to entry. The policies predominantly benefit smaller businesses, who are more likely to be disadvantaged when starting-up or scaling-up in a given market. • There are no expected impacts on market concentration or competition. Although the policies place additional burdens on and transfer liquidity away from larger businesses and business higher up supply chains, the changes are not expected to result in businesses leaving markets or fundamentally changing market structures.	**Supports**
International Considerations: Does the measure support international trade and investment?	• The policies diverge from those currently in place in comparable countries, particularly EU countries. Foreign companies could be deterred from doing business in the UK, if they consider the terms of doing business disadvantageous (and they can do business with more favourable terms around B2B payments and trade credit elsewhere). • Importantly, the EU has considered similar measures through amendments to their *Late Payment Directive*, which highlights that the business environments in the UK and EU could remain comparable, and therefore competitive. In particular, the proposed EU legislation makes similar provisions around non-derogable maximum payment terms, set at 30 days.[58] This is more stringent than the policy considered by this OA. • International considerations do not apply to the retentions payments policy, given that much construction activity is geographically fixed, precluding construction businesses moving activities to other countries.	**Uncertain**
Natural capital and Decarbonisation: Does the measure support commitments to improve the environment and decarbonise?	• The policies focus on B2B payment behaviour, which does not directly impact UK natural capital or greenhouse gas emissions.	**Neutral**

[58] EUR-Lex - 52023PC0533(01) - EN - EUR-Lex

7. Monitoring and evaluation of preferred option

Approach

171. The policies will be regularly monitored, and evaluated as part of a Post-Implementation Review (PIR), no later than 5 years after they come into effect. The PIR will review the original policy objectives, the extent to which the policies are achieving their intended effects, and whether there have been any unintended consequences.

172. In particular, and in line with the policy objectives, the PIR will consider to what extent policies have helped reduce instances of:

- Late payment
- Unfair and long payment terms
- Frivolous disputed payments
- Unfair practice around construction retention payments

173. Monitoring and evaluation will align with existing arrangements in place for *The Reporting on Payment Practices and Performance Regulations 2017*, where relevant.

Existing monitoring data

174. Data collected under *The Reporting on Payment Practices and Performance Regulations 2017* will provide the main source of monitoring data. The data describes large businesses' B2B payment behaviour, including information about how many invoices they pay late, and how long it takes them to pay their suppliers.[59] This directly links to understanding to what extent the policies have reduced instances of late payment and unfair and long payment terms.

175. Importantly, because the reporting regulations were introduced in 2017, baseline data already exists – see Table 18.[60] And from 2025, following *The Reporting on Payment Practices and Performance (Amendment) Regulations 2024*, large businesses will also have report on the value of invoices that they pay, which will supplement and improve the existing reporting data.

Table 18 – Reporting regulations baseline data

Year	Time to pay (days)	Average percentage of invoices paid late (%)	Number of Reports (#)
2018	35	25	6,775
2019	34	23	13,140
2020	34	23	12,307
2021	33	20	11,972
2022	33	20	11,578
2023	32	18	11,244

[59] The Reporting on Payment Practices and Performance (Amendment) Regulations 2024
[60] DBT analysis of reporting regulations data. The analysis considers median values, rather than means.

176. SBC cases provide another source of existing monitoring data. The data provides information about the number of cases undertaken by the SBC, and their outcomes; and also qualitative information about the nature of complaints from small businesses. The data can be used in part to understand to what extent the policies have reduced instances of frivolous disputes. On average, the SBC currently receives 900 cases from small businesses each year, including complaints and enquires.

177. Currently, there is only limited monitoring data which looks at unfair practices around construction retention payments.[61] Changes made to the existing reporting regulations through *The Reporting on Payment Practices and Performance (Amendment) (No. 2) Regulations 2024*, which come into effect in 2025, will however provide an effective source of monitoring information.[62] The amended reporting regulations will require large businesses to report on standard terms for holding monies in retention in construction contracts. This directly links to understanding whether the policies have reduced instances of unfair practice around construction and retention payments.

Additional monitoring data

178. Monitoring and evaluation plans will be further developed throughout the consultation process and subsequent Regulatory Impact Assessment Further. Provisionally, additional monitoring data could include:

- Management information, relating to fines and non-compliance with the updated statutory framework.
- Survey data, asking businesses about their awareness and perceptions of the policies, and the costs of complying with them. Specific to construction businesses, additional questions asking about alternative forms of surety used after retention payments have been banned.
- Case studies, considering businesses' experiences with disputed payments, and any impacts in terms of international contracts and payments.

Risks

179. The main policy risks include the risk of not achieving the policy objectives, or creating unintended consequences which undermine the policy objectives.

180. In the case of transparency measures, where risks are more focussed on not achieving the policy objectives, monitoring and evaluation will need to consider the effectiveness of increased competitive pressure to improve poor B2B behaviour. This is difficult to definitively measure, but could be partially understood through qualitative research, considering business perceptions.

181. The main risks of a more stringent statutory framework or redress measures are unintended consequences, following behavioural changes – for example, where additional incentives to reduce late payment create risk aversion amongst businesses and leads to an increase in payment times. These effects can be monitored through existing monitoring data, specifically the reporting regulations data, but there are 2 key challenges:

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[61] The Centre of Construction Law & Dispute Resolution at King's College London collects information about the number and nature of construction disputes referred for adjudication, and The Technology and Construction Court holds case law and relevant case histories.
[62] The Reporting on Payment Practices and Performance (Amendment) (No. 2) Regulations 2024

- Coverage of business sizes. The reporting regulations only apply to large businesses, meaning it's not possible to monitor these effects across all businesses including SMEs. Monitoring and evaluation will need to consider alternative data collection, for example quantitative surveys like the Longitudinal Small Business Survey (LSBS).
- Coverage of relevant poor B2B payment behaviours metrics. The reporting regulations do not ask questions about payment disputes, which could potentially increase where policies create incentives for businesses to dispute valid invoices to avoid penalties. Monitoring and evaluation will need to consider collecting data about disputes. This could also include quantitative surveys like the LSBS, as well as SBC management information concerning disputed payments.

182. The impact on the market and risks of non-compliance with any changes to the law in relation to retention payments will be monitored in two ways:

- Firstly, firms and trade associations will gather information form their members about what is happening in the market, and any changes to contractual terms or business practices.
- Secondly, information is gathered by bodies such as the Royal Institution of Chartered Surveyors on adjudications in construction. This would enable us to identify the number of disputes that arose in relation to retentions, or as a result of other payment practices. In addition, any litigation brought to the Technology and Construction Court in relation to these practices, and judgements consequent on this, would be a matter of public record. These would also be analysed and publicised by legal firms and trade associations.

8. Minimising administrative and compliance costs for preferred option

Please state how you intend to minimise the administrative burdens of complying with the regulation. This should include burdens on businesses and people. It should include factors such as time taken for familiarisation, filling in forms, reporting requirements etc.

183. The policies introduce additional administrative burdens for businesses, in terms of complying with new requirements. The policies will aim to mitigate these burdens through several different actions:

- Allowing time for businesses to prepare for the policy changes, before they come into effect. The policies are expected to come into effect no earlier than FY26/27, and particularly impactful policies like maximum payment terms will have a staggered implementation to support businesses adjusting to the changes.
- Developing clear guidance to help businesses comply with new requirements. The department already provides comprehensive guidance relating to the reporting requirements, and how the current statutory framework applies to them.[63] [64] Equivalent guidance will be developed and published explaining changes in policy and what this means for businesses.
- Ensuring simple reporting processes, where relevant. Additional reporting on statutory interest builds on the existing reporting regulations, which require large businesses to report on their B2B payment behaviour. This uses a reporting portal hosted on GOV.UK, which provides a simple way for businesses to provide relevant information.

[63] Duty to report: guidance to reporting on payment practices and performance - GOV.UK
[64] Late commercial payments: charging interest and debt recovery: Interest on late commercial payments - GOV.UK

9. Supporting information on appraisal

184. All options have been appraised over a 10-year period, starting in FY26/27 in line with when the policies are expected to take effect. All costs and benefits are presented in FY24/25 prices.

185. Table 19, Table 20, Table 21, and Table 22 summarise the estimated NPSVs, transfers (where applicable), business NPVs, and EANDCBs across the different policies.

Table 19 – Estimated NPSVs

#	Policy	Low	Central	High
1	Maximum payment terms	-£3.18	-£3.53	-£3.88
2	Invoice dispute deadline	-£22.37	-£24.85	-£27.34
3	Mandatory statutory interest	-£22.40	-£24.88	-£27.36
4	Additional reporting on statutory interest	-£10.37	-£22.32	-£25.52
5	Penalty fines	-£1.92	-£1.92	-£1.92
6a	Additional SBC powers	-£1.22	-£1.36	-£1.49
6b	SBC assure of reporting data	-£7.99	-£15.72	-£18.10
7	Retention payments	-£85.78	-£1,080.46	-£8,172.83
	Total	**-£155.24**	**-£1,175.04**	**-£8,278.45**

Table 20 – Estimated transfers

#	Policy	Low	Central	High
1	Maximum payment terms	-	-	-
2	Invoice dispute deadline	-	-	-
3	Mandatory statutory interest	£760.67	£845.19	£929.70
4	Additional reporting on statutory interest	-	-	-
5	Penalty fines	-	-	-
6a	Additional SBC powers	-	-	-
6b	SBC assure of reporting data	-	-	-
7	Retention payments	£4,634.75	£9,079.91	£13,542.29
	Total	**£5,395.42**	**£9,925.10**	**£14,471.99**

Table 21 – Estimated business NPVs

#	Policy	Low	Central	High
1	Maximum payment terms	-£3.18	-£3.53	-£3.88
2	Invoice dispute deadline	-£22.37	-£24.85	-£27.34
3	Mandatory statutory interest	-£22.40	-£24.88	-£27.36
4	Additional reporting on statutory interest	-£10.37	-£22.32	-£25.52
5	Penalty fines	£0.00	£0.00	£0.00
6a	Additional SBC powers	-£0.83	-£0.92	-£1.01
6b	SBC assure of reporting data	-£7.47	-£14.59	-£16.81
7	Retention payments	-£85.78	-£1,080.46	-£8,172.83
	Total	**-£152.39**	**-£1,171.56**	**-£8,274.75**

Table 22 – Estimated EANDCBs

#	Policy	Low	Central	High
1	Maximum payment terms	£0.37	£0.41	£0.45
2	Invoice dispute deadline	£2.60	£2.89	£3.18
3	Mandatory statutory interest	£2.60	£2.89	£3.18
4	Additional reporting on statutory interest	£1.20	£2.59	£2.97
5	Penalty fines	£0.00	£0.00	£0.00
6a	Additional SBC powers	£0.10	£0.11	£0.12
6b	SBC assure of reporting data	£0.87	£1.70	£1.95
7	Retention payments	£9.96	£125.49	£949.23
	Total	**£17.70**	**£136.07**	**£961.07**

Policy 1 – Maximum payment terms

Costs

186. Only businesses that currently use payment terms above 60 or 45 days will incur any costs. The number of businesses affected by each change is based on the standard payment terms reported by businesses in a survey of UK businesses, which formed part of previous DBT research into B2B payment behaviour.[65] 10% of surveyed businesses reported payment terms of longer than 45 days, and 3% reported payment terms longer than 60 days.[66]

187. These percentages suggest better B2B payment behaviour than observed in payment reporting data, which captures the proportion of invoices large businesses pay in 30 days or less, between 31 and 60 days, and 61 days or more – see Figure 5. The reporting data shows that 12% of invoices paid by large businesses in 2023 were paid in 61 days or more, much higher than 3% reported in the survey. Some of this difference is explained by different samples,[67] and the distinction between payment terms and payment times.[68] Ultimately, the OA uses the survey data as the basis for calculating the number of affected businesses, as it covers the relevant payment term categories (60 and 45 days) and distinguishes between different-sized businesses.

188. The OA focusses on the costs to businesses of updating their standard payment terms in contracts and invoices. This is likely a small and one-off cost, given the required changes are minor and businesses often use standard templates. The cost of this change is proxied by the cost of sending a paper invoice – £8.70 per affected business.[69] [70] This directly follows the approach outlined in an EU impact assessment, which considered similar policies.[71]

189. The OA does not consider any costs that businesses might incur if they need to update their payment systems or processes to support shorter payment times. This relies on the assumption that longer payment terms are a business choice, and businesses are not otherwise constrained by other factors, like technology or resourcing, when it comes to making payments. This assumption is reasonable in most cases and supported by DBT research which found that only 4% of businesses cited ‘administrative processes’ as a factor influencing their payment terms.[72]

190. The OA does not consider any costs that debtor business might incur if they need to raise additional finance to meet shorter payment terms. Some debtor businesses use

[65] DBT (2024) – Understanding Variations in Payment Performance and Practices across Business Sectors and Sizes – Late payments research: performance and practices across business - GOV.UK (www.gov.uk)
[66] The survey over-sampled businesses from certain sectors and business size groupings, meaning that the aggregated results are not representative of the wider UK business population.
[67] The reporting data considers large businesses only, compared to the survey with micro, small, medium and large respondents
[68] The reporting data refers to payment times which are affected by both payment terms and instances of late payment.
[69] European Central Bank (ECB) research estimates the direct staff costs of sending a paper invoice at between 2.50 and 10.00 EUR. Using the top of this range and converting to GBP (GBP/EUR exchange rate = 1.15) gives a cost of £8.70.
[70] ECB (2016) – E-invoicing: bringing the payment process fully into the digital age – E-invoicing: bringing the payment process fully into the digital age
[71] EUR-Lex - 52023SC0314 - EN - EUR-Lex
[72] DBT (2024) – Understanding Variations in Payment Performance and Practices across Business Sectors and Sizes – Late payments research: performance and practices across business - GOV.UK (www.gov.uk)

trade credit as a form of 'interest-free finance', and any change that reduces businesses' payment times will reduce trade credit and need to be offset by other forms of financing, like bank loans. The OA does not estimate these costs, as the relevant data is not available.

Box 1 – EU impact assessment approach to estimating costs imposed by maximum payment terms

[Capping payment terms] will impose some costs on businesses, particularly debtors. Businesses that use long standard payment terms (either as their preferred or forced choice) will have to update their standard payment terms on invoices. This would only apply to those companies that do not negotiate on a case-by-case basis, as these companies currently do not use a standard template. The related one-off adjustment cost is relatively limited per company: updating standard terms is likely the same cost as processing a paper invoice (estimated by the ECB at EUR 2.50-10.00), however it will only need to be done once to adapt the template. Although a small cost per company, this will affect a large number of companies depending on the [maximum payment term] chosen.

Capping at 30 days will affect all companies currently specifying payment terms longer than 30 days. According to EPR 2022, 42% of all companies currently do so (and this is broadly in line with the finding from the SME panel that 56% of SMEs currently do so). Excluding cases where this is the result of case-by-case negotiations (45% of SMEs according to the SME panel), this only applies to the companies where the payment terms longer than 30 days are the result of imposing own payment conditions (23% of SMEs), being imposed payment conditions (21%) or finally the result of sectoral standard practice (11%). Therefore, the one-off cost is assumed to be borne by 55% of SMEs that are currently paid beyond 30 days (42% of all companies): around 23% of companies. Conservatively assuming the top end of the ECB range, this would impose a total one-off adjustment cost of EUR 56.1 million.

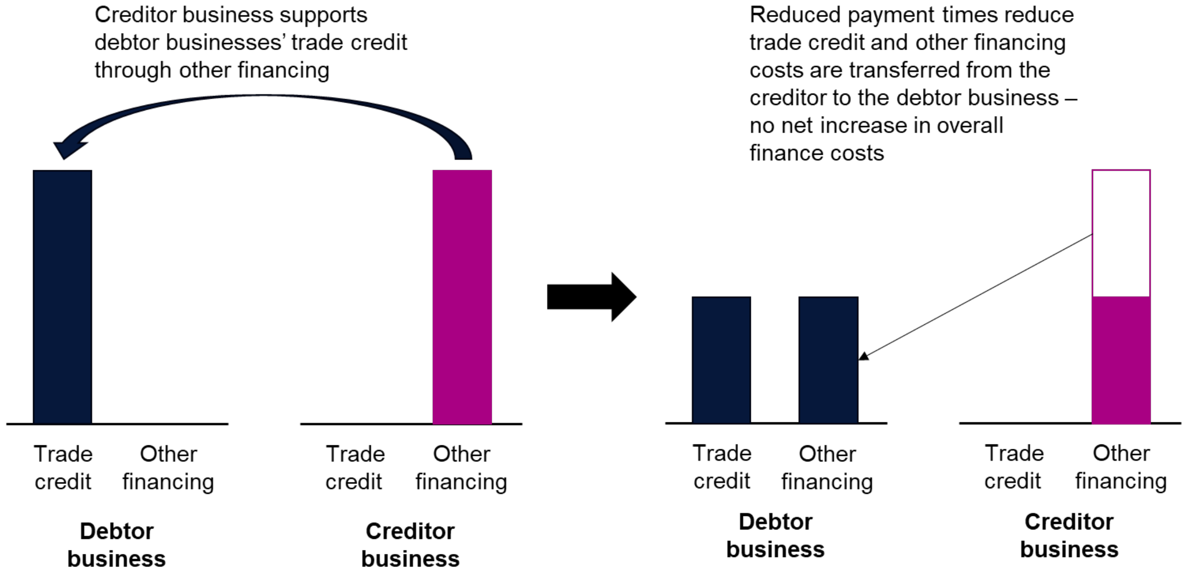
Capping at 60 days would only affect the 14.4% of companies specifying payment terms longer than 60 days. The total one-off adjustment cost would be EUR 35.0 million.

Source: European Commission (2023) – Impact Assessment – Proposal for a Regulation of the European Parliament and the Council on combating late payments in commercial transactions

191. Importantly, because trade credit represents a transfer between businesses, the increase in financing costs for debtor businesses will be balanced by a reduction in financing costs for creditor businesses – creditor businesses need to raise less additional finance to support trade credit to debtor businesses.[73]

[73] These costs might be implicit rather than explicit costs, if businesses can support trade credit through their existing cash flow. An implicit cost however still represents an opportunity cost for a creditor business, as they could earn a return on the money if they were not providing it as interest-free trade credit to the debtor business.

Figure 17 – Transfer of finance costs after a reduction in trade credit



192. The preferred option has a Present Value Cost (PVC) of £3.53m, and results in EANDCB of £0.41m per year. These costs exclusively comprise one-off transition costs, occurring in each of the years where payment terms are changed – FY26/27 and FY30/31.

Table 23 – Maximum payment terms – PVCs (£m)

Option	Low	Central	High
A – 60-45-30 days	£6.13	£6.81	£7.49
B – 60-45 days (Preferred)	**£3.18**	**£3.53**	**£3.88**
C – 60 days	£0.51	£0.57	£0.62
D – Do Nothing (Baseline)	£0.00	£0.00	£0.00

Table 24 – Maximum payment terms – EANDCBs (£m)

Option	Low	Central	High
A – 60-45-30 days	£0.71	£0.79	£0.87
B – 60-45 days (Preferred)	**£0.37**	**£0.41**	**£0.45**
C – 60 days	£0.06	£0.07	£0.07
D – Do Nothing (Baseline)	£0.00	£0.00	£0.00

Benefits

193. The OA does not monetise benefits associated with the policy. Importantly, a large part of the intended benefits comprises a transfer, where creditor businesses receive additional cash flow through earlier payment of invoices, at the expense at debtor businesses. Any increase in liquidity for creditor businesses would be balanced by a reduction in liquidity for debtor businesses.

194. To calculate the transfer of liquidity between businesses, the OA would need data describing the £-value of invoices for which different payment terms apply. The £-value of invoices which had payment terms higher than maximum payment term implemented by the policy would be subject to a transfer, with a loss of liquidity for the debtor business. For example, if a business applied 90-day payment terms to a contract, 45-

day maximum payment terms would mean the business had to pay its outstanding trade credit twice as fast.

195. Currently, the reporting regulations, which captures information about large businesses' payments to other businesses, only includes the number and not the value of invoices paid, which precludes this type of analysis.

196. An alternative approach could look at businesses' trade credit and trade receivables, in conjunction with Days Payable Outstanding (DPO) and Days Receivable Outstanding (DRO) metrics, to calculate the net change in how quickly businesses pay or receive their accounts.[74] This relies on balance sheet data, which is available for large businesses who submit annual financial accounts, but not for smaller businesses who are exempt from this type of reporting.

197. Other non-monetised benefits include a reduction in the costs to businesses associated with poor B2B payment behaviour. These include the costs to businesses of managing outstanding invoices, raising additional finance, foregone investment, and in the worst cases business closures. Research suggests that these impacts cost SMEs and the wider economy £10.7bn per year, which is significant – see Table 4. Importantly, the policy would only need to reduce the overall impact of poor B2B payment behaviour by only 0.03% to 'breakeven'.

198. Lower average payment terms, and shorter payment times can also create a 'virtuous circle'. Although some businesses will need to pay invoices more quickly, which will decrease their liquidity, they can also expect to be paid more quickly themselves. In this way, some of the adverse impact on debtor businesses' liquidity is offset by quicker payment times throughout supply chains.

199. Transferring liquidity, and in some cases finance costs, between creditor and debtor businesses can also result in more efficient finance outcomes. In some cases, creditor businesses might need to raise finance to support offering trade credit to debtor businesses. For smaller businesses, this might take the form of supply chain financing or using existing credit lines like an overdraft account. Smaller businesses often face higher financing costs, because of a lack of collateral or 'track record' to demonstrate credit worthiness. Transferring finance costs through a reduction in payment times and trade credit can result in a net benefit, if finance costs are transferred to larger businesses who face lower finance costs.

200. Moreover, a higher proportion of finance costs sit with the business who is 'using' the liquidity, rather than its creditor, meaning that lenders can more easily assess credit risk. Where trade credit is offered, and a creditor business needs to raise finance to support this, they are effectively borrowing support to the debtor businesses' borrowing. Reducing trade credit, reduces cases where credit risk is 'removed' from the actual borrower.

[74] DPO and DSO are a financial metric which indicates how long it takes a business to settle its accounts payable or accounts receivable respectively. DPO = Trade credit / B2B transactions. DSO = Trade debt / turnover.

Policy 2 – Invoice dispute deadline

Costs

201. Only businesses that raise disputes will incur any costs from the policy change. The number of businesses affected is based on the total number of UK businesses that offer trade credit to their business customers.[75] Importantly, this likely overestimates the number of affected businesses, representing the maximum number of businesses that could either dispute or respond to a disputed invoice.

202. The policy only impacts the timings of disputes, and the OA assumes that there are no additional ongoing costs to businesses, only familiarisation costs. Businesses who would have raised a legitimate dispute, and businesses who would have had to respond to the dispute, still do so under the policy – which means ongoing costs are unchanged from the Do Nothing option.

203. The OA makes assumptions about per business familiarisation costs, in particular the type of staff and staff hours required to undertake relevant familiarisation activity. The OA assumes that each affected business dedicates 15 minutes of a company manager time to familiarise themselves with the changes. This amounts to £10.52 per business. Importantly, these assumptions are subject to uncertainty, and will need to be tested further through the consultation process and subsequent Regulatory Impact Assessment.

Table 25 – Invoice dispute deadline – PVCs (£m)

Option	Low	Central	High
A – 30-day invoice dispute deadline (Preferred)	**£22.37**	**£24.85**	**£27.34**
B – Do Nothing	£0.00	£0.00	£0.00

Table 26 – Invoice dispute deadline – EANDCBs (£m)

Option	Low	Central	High
A – 30-day invoice dispute deadline (Preferred)	**£2.60**	**£2.89**	**£3.18**
B – Do Nothing	£0.00	£0.00	£0.00

Benefits

204. The OA does not monetise benefits associated with the policy. The policy aims to reduce poor B2B payment behaviour, specifically frivolous disputes, by making it more difficult for businesses to dispute valid invoices received from their suppliers.

205. The overall benefit of an invoice dispute deadline is that disputes are resolved in a more timely way, leading to quicker payment of valid invoices. This indirectly benefits creditor businesses' liquidity, as payments are less likely to be delayed by lengthy disputes. Moreover, where a dispute is raised after the invoice dispute deadline, creditor businesses can still claim statutory interest and debt recovery costs, meaning that they can offset the negative impact on their liquidity.

[75] DBT (2024) – Longitudinal Small Business Survey (LSBS), 2023 – [Small Business Survey reports - GOV.UK](). Table 9 M1A. Do you give you customers trade credit? (Base: All SME Employers in Cohort A)

Policy 3 – Mandatory statutory interest

Costs

206. The OA considers both familiarisation and ongoing costs. Familiarisation costs include the one-off cost of businesses of familiarisation themselves with the new policy. Ongoing costs include the change in statutory interest that debtor businesses are liable to pay.

207. All businesses that currently offer or use trade credit will incur familiarisation costs associated with the policy, as they will need to understand how mandatory statutory interest could apply to them, whether or not they pay invoices late. The OA calculates the number of SMEs affected by adjusting BPE data to account for the number of businesses that give trade credit.[76]

208. The OA assumes that all large businesses are affected by the policy as debtor businesses. This likely overestimates the impact of the policy, as not all large businesses will pay invoices late and therefore be liable for statutory interest. Large businesses however only represent 0.3% the total business population by number in the UK, meaning the impact is likely small. The OA therefore estimates the total number of businesses that incur familiarisation costs as the number of SMEs that currently offer trade credit, plus all large businesses in the UK.

Table 27 – Number of businesses that incur familiarisation costs

Business size	% of businesses that give trade credit	Total number of businesses in the UK	# of businesses that incur familiarisation costs
SMEs	45% to 65%	5,490,740	2,525,248
Large businesses	-	8,250	8,250
Total	-	5,498,990	2,533,498

209. As with introducing an invoice dispute deadline period, the OA makes assumptions about per business familiarisation costs, in particular the type of staff and staff hours required to undertake relevant familiarisation activity. The OA assumes that each affected business dedicates 15 minutes of a company manager time to familiarise themselves with the changes. This amounts to £10.52 per business. Combining this with the number of affected businesses gives a total £26.7m in familiarisation costs.

210. The OA does not calculate the number of businesses who incur additional ongoing costs. This calculation is not needed, as the cost to debtor businesses is the same as the benefit to creditor businesses. Instead, the OA calculates the benefit to creditor businesses, and scores this as a cost for debtor businesses.

211. The benefit to creditor businesses is the change in statutory interest that they receive, after statutory interest becomes mandatory. The OA estimates this by

[76] LSBS data. Table 9 M1A. Do you give your customers trade credit? (Base: All SME Employers in Cohort A).

calculating the difference between the value of statutory interest currently paid, and the value of statutory interest liable to be paid on all late invoices.

212. Importantly, the OA assumes full compliance from debtor businesses in terms of paying mandatory interest, as supported by the incentives introduced by penalty fines – see Policy 5 – Penalty fines section. Debtor businesses are better off paying their statutory interest liability, rather than risking a penalty fine.

213. The value of statutory currently interest paid, and the total statutory interest that businesses are liable to pay after the policy is introduced, can be calculated by multiplying the value of an overdue invoice, how many days after the due date it was paid, and the rate of statutory interest.[77] The OA assumes:

- The average value of outstanding invoices owed to SMEs totals £22,000 each year.[78]
- The average lateness of payments is 6.3 days.[79]
- An 8% statutory interest rate, and a 4.75% Bank of England base rate.[80]

Table 28 – Statutory interest charged by creditor businesses

Statutory interest	# creditor businesses charging statutory interest	£ statutory interest liability per business	£ total statutory interest
Voluntary	495,081	£51.81	£25,650,213
Mandatory	2,525,248	£51.81	£130,833,431

214. The OA calculates the PVC to businesses by summing the familiarisation and ongoing costs for each option, net of costs already incurred by businesses in the baseline – voluntary statutory interest (Do Nothing).

Table 29 – Mandatory statutory interest – PVCs (£m)

Option	Low	Central	High
A – Voluntary statutory interest (Do Nothing)	£0.00	£0.00	£0.00
B – Mandatory statutory interest (Preferred)	£783.07	£870.07	£957.07

215. Because the EANDCB considers the net impact on businesses, and ongoing costs are a transfer, the OA calculates the EANDCB using familiarisation costs only.

Table 30 – Mandatory statutory interest – EANDCBs (£m)

Option	Low	Central	High
A – Voluntary statutory interest (Do Nothing)	£0.00	£0.00	£0.00
B – Mandatory statutory interest (Preferred)	£2.60	£2.89	£3.18

Benefits

[77] The rate of statutory interest is added to the current Bank of England base rate.
[78] Sage / Smart Data Foundry (2022) – Payment Speed and Timeliness for UK Small & Micro Businesses – https://cms.smartdatafoundry.com/wp-content/uploads/2022/11/221103-late-and-slow-payments-part-one-Final59.pdf
[79] Xero Small Business Insights data, 2023 average – Xero Small Business Insights | Xero
[80] Interest rates and Bank Rate | Bank of England

216. Monetised benefits include the additional statutory interest that creditor businesses receive from debtor businesses. The approach to calculating statutory interest is detailed in the costs section.

Table 31 – Mandatory statutory interest – PVBs (£m)

Option	Low	Central	High
A – Voluntary statutory interest (Do Nothing)	£0.00	£0.00	£0.00
B – Mandatory statutory interest (Preferred)	£760.67	£845.19	£929.70

217. The policy also aims to reduce instances of late payment by increasing the financial incentives associated with paying invoices on time. This contributes to an overall reduction in poor B2B behaviour, which costs SMEs and the wider economy £10.7bn per year. Importantly, the policy would only need to reduce the overall impact of poor B2B payment behaviour by only 0.23% to 'breakeven'.[81]

Policy 4 – Additional reporting on statutory interest

Costs

218. Policy costs include the costs to businesses of complying with the additional reporting requirements. The OA follows the approach outlined in the Impact Assessment that accompanied *The Reporting on Payment Practices and Performance (Amendment) Regulations 2024*, considering both familiarisation costs and ongoing costs.[82]

219. The per business costs are based on survey data collected in 2016, which supported the Impact Assessment accompanying the original reporting regulations – *The Reporting on Payment Practices and Performance Regulations 2017*.[83] The survey costs are adjusted for the extent to which additional requirements are expected to impact different businesses process, noting that businesses have already incurred costs establishing reporting processes.

Table 32 – Per business costs associated with additional statutory interest reporting requirements

Cost type	Costs (£)
Familiarisation	£169
Ongoing	£193

220. The number of businesses affected by the additional reporting requirements is the same as the number of businesses currently in scope of the reporting regulations. The OA considers different sources of data to establish Low / Central / High estimates for the number of businesses affected – see Table 42.

221. The preferred option has a PVC of £22.32m, and an EANDCB of £2.59m per year – see Table 33 and Table 34.

[81] Ongoing costs are excluded from this calculation as they represent a transfer, and are offset by an equivalent benefit to SMEs.

[82] The Reporting on Payment Practices and Performance (Amendment) Regulations 2024 - Impact Assessment

[83] The survey considered different types of costs including familiarisation with the new requirements; adapting IT systems; gathering information needed to update processes; changing processes; maintaining systems and processes; preparing reports biannually; and collating, approving and submitting reports biannually.

Table 33 – Additional reporting on statutory interest – PVCs (£m)

Option	Low	Central	High
A – Additional reporting on statutory interest (preferred)	**£10.37**	**£22.32**	**£25.52**
B – Do Nothing	£0.00	£0.00	£0.00

Table 34 – Additional reporting on statutory interest – EANDCBs (£m)

Option	Low	Central	High
A – Additional reporting on statutory interest (preferred)	**£1.20**	**£2.59**	**£2.97**
B – Do Nothing	£0.00	£0.00	£0.00

Benefits

222. The OA does not monetise benefits associated with the policy. The policy aims to reduce poor B2B payment behaviour through increasing transparency around poor behaviour and helping smaller businesses make more informed decisions and agree better payment terms.

223. Like maximum payment terms, non-monetised benefits include a reduction in the costs to businesses associated with poor B2B payment behaviour, which cost SMEs and the wider economy £10.7bn per year. Importantly, the policy would only need to reduce the overall impact of poor B2B payment behaviour by only 0.21% to 'breakeven'.

Policy 5 – Penalty fines

Costs

224. Policy costs include the costs to government of administering a fine regime, and the cost to businesses of fines themselves.

225. The OA estimates the cost of government administering the fine regime in terms of total employment costs for a team of compliance officers. The OA assumes that the team comprises 1 manager and 3 administers, totalling £0.24m per year in employment costs.

226. Importantly, given how the penalty fine regime works in conjunction with changes to statutory interest – see Policy 3 – Mandatory statutory interest – the OA assumes that businesses change their behaviour in a way that avoids paying fines, meaning no costs from fines are incurred. This is because paying statutory interest represents a 'cheaper' option for business – see Table 35 – and calculating the cost of fines would risk double-counting costs to businesses that are already accounted for when estimating the costs of mandatory statutory interest.

Table 35 – Example costs to businesses – statutory interest vs. penalty fines

Scenario	Statutory interest liability	Statutory interest paid	Unpaid statutory interest liability	Fine liability	Amount paid by business
Pays no statutory interest	£100,000	£0	£100,000	£200,000	£200,000

Pays half of statutory interest	£100,000	£50,000	£50,000	£100,000	£150,000
Pays all statutory interest	£100,000	£100,000	£0	£0	£100,000

227. The OA therefore presents the number of businesses that would currently be in scope of penalty fines for illustrative purposes only and does not calculate any costs that might be incurred from fines.

228. The OA uses reporting data collected under *The Reporting on Payment Practices and Performance Regulations 2017* to show how many businesses would currently be in scope of penalty fines. Table 36 shows the percentage of businesses who exceeded the different fine thresholds in the last report they submitted in 2023.

Table 36 – Businesses currently exceeding the fine thresholds in the reporting data

Fine threshold (% of invoices not paid within agreed terms)	% businesses exceeding the threshold	# businesses exceeding the threshold
25% or more	38%	5,002
20% or more	46%	6,038
10% or more	68%	8,905

229. As with maximum payment terms, the OA does not consider potential costs businesses might incur if they need to update their payment systems or processes to support on-time payment. This relies on the assumption that persistent late payment is a business choice, and businesses are not otherwise constrained by other factors, like technology or resourcing, when it comes to making on-time payments.

230. This is difficult to definitively evidence, as businesses do not readily identify themselves as paying late on purpose. DBT research shows that businesses perceive paying late on purpose as a driver of late payment in at least some cases – 18% of surveyed businesses attributed being paid late to their business customers using late payment as a form of interest free finance.[84] DBT research however also shows that businesses perceive administrative error as a driver of late payment – 24% of surveyed businesses. Overall, the assumption of no costs incurred from changing payment systems or processes might hold in some but not all cases, meaning costs to businesses could be under-estimated.

231. As with maximum payment terms, the OA does not consider any costs that debtor business might incur if they need to raise additional finance to meet shorter payment terms. These costs are difficult to estimate, because of a lack of available data, and ultimately represent a transfer between businesses with no net overall cost.

232. The preferred option has a PVC of £1.92m, which is entirely made up of ongoing costs to government from administering the fine regime.

Table 37 – Penalty fines – PVCs (£m)

Option	Low	Central	High
A – 25% threshold (preferred)	**£1.92**	**£1.92**	**£1.92**

[84] DBT (2024) – Understanding Variations in Payment Performance and Practices across Business Sectors and Sizes – [Late payments research: performance and practices across business - GOV.UK (www.gov.uk)]

B – 20% threshold	£1.92	£1.92	£1.92
C – 10% threshold	£1.92	£1.92	£1.92
D – Do Nothing	£0.00	£0.00	£0.00

Table 38 – Penalty fines – EANDCBs (£m)

Option	Low	Central	High
A - 25% threshold (preferred)	**£0.00**	**£0.00**	**£0.00**
B - 20% threshold	£0.00	£0.00	£0.00
C - 10% threshold	£0.00	£0.00	£0.00
D – Do Nothing	£0.00	£0.00	£0.00

Benefits

233. Fines represent a transfer between businesses and government. The total cost of fines incurred by businesses is equal to the total benefit gained by government through levying fines. The OA however assumes that businesses do not incur fines, instead changing their behaviour to avoid paying a penalty, meaning there are no monetised benefits.

234. Non-monetised benefits include the reduction in poor B2B payment behaviour which fines incentivise. As with maximum payment terms, if businesses are encouraged to pay more invoices on time, invoices in general are paid more quickly, meaning creditor businesses gain in terms of liquidity.

235. A reduction in poor late payment more generally will also reduce the costs to businesses associated with poor B2B payment behaviour, which cost SMEs and the wider economy £10.7bn per year.

Policy 6a – Additional SBC powers

Costs

236. The policy broadens the scope of the SBC which will result in more SBC casework, including investigations, mediation, and arbitration. Policy costs include the costs to the SBC of conducting additional casework, and the costs to businesses of raising or complying with additional cases; and the costs of administering a fine regime.

237. The OA focusses on casework costs only, and does not estimate the costs of administering a fine regime in cases of non-compliance with SBC investigations or arbitrated decisions. These costs are likely small. The OA also does not consider the impact on businesses of fines or arbitrated decisions that award damages. Again, these impacts are likely small and represent transfers – either transfers between businesses and government (fines) or between businesses themselves (awarded damages).

238. On average, the SBC currently receives 900 cases from small businesses each year, including complaints and enquires. The OA assumes that additional powers will increase the number of cases the SBC receives to 1,250, which represents a nearly 40% uplift. This is largely driven by changes to the scope of SBC investigations, with additional powers allowing the SBC to launch investigations from public, anonymous or third-party

information, in addition to investigations relating to specific cases. Importantly, predicting how caseloads will behave after introducing additional SBC powers is difficult. The assumptions have been developed and tested with the SBC, but are still subject to uncertainty and will need to be tested further through the consultation process and subsequent Regulatory Impact Assessment.

239. The OA calculates overall casework time requirements by applying assumptions around how long different types of casework take to complete, and multiplying this by uplifted casework volumes. The OA assumes that the time requirements for the SBC and businesses are identical, with businesses having to spend an equivalent amount of time raising or inputting into SBC cases. Because each case will involve both a complainant and complainee, the OA doubles the time requirement for businesses, as both parties will need to engage with the casework.

Table 39 – Time requirements for SBC casework

Type of casework	SBC time requirement (hours)	Business time requirement (complainant and complainee) (hours)
Full complaint with an investigation and published findings	10	20
Complaint with an investigation and mediated resolution	7.5	15
Complaint with an investigation and informal resolution	5	10
Other enquiries (out of scope or general)	0.5	1

240. The OA then applies hourly wage rates, based on SBC payroll and Annual Survey of Hours and Earnings (ASHE) data, and using relevant job roles to reflect different levels of seniority and skillsets needed – namely, company directors, company managers, and company accountants for businesses.

241. The preferred option has a PVC of £1.36m, and an EANDCB of £0.11m per year. These costs comprise ongoing costs only, and no familiarisation costs.

Table 40 – Additional SBC powers – PVCs (£m)

Option	Low	Central	High
A – Additional SBC powers (preferred)	**£1.22**	**£1.36**	**£1.49**
B – Do Nothing	£0.00	£0.00	£0.00

Table 41 – Additional SBC powers – EANDCBs (£m)

Option	Low	Central	High
A – Additional SBC powers (preferred)	**£0.10**	**£0.11**	**£0.12**
B – Do Nothing	£0.00	£0.00	£0.00

Benefits

242. The OA does not monetise benefits associated with the policy. The policy aims to reduce poor B2B payment behaviour through higher numbers of and more impactful SBC investigations.

243. Like maximum payment terms, non-monetised benefits include a reduction in the costs to businesses associated with poor B2B payment behaviour, which cost SMEs and the wider economy £10.7bn per year. Importantly, the policy would only need to reduce the overall impact of poor B2B payment behaviour by only 0.01% to 'breakeven'.

Policy 6b – SBC assurance of reporting data

Costs

244. The number of businesses affected by the new assurance requirements is the same as the number of businesses currently in scope of the reporting regulations. The OA considers different sources of data to establish Low / Central / High estimates for the number of businesses affected – see Table 42; and then scales these in line with the proportion of businesses undergoing assurance in each option – see Table 43.

Table 42 – Low / Central / High estimates of the number of businesses in scope of the reporting regulations

Estimate	Data source	Description	Number of businesses
Low	The reporting regulations data [85]	The number of businesses currently reporting under the reporting regulations	6,074
Central	Inter-Department Business Register (IDBR) data [86]	The number of businesses who meet the reporting thresholds in IDBR data	13,071
High	Financial Analysis Made Easy (FAME) data	The number of businesses who meet the reporting thresholds in FAME data	14,949

Table 43 – Businesses undergoing assurance each year, by option

Option	Proportion of in scope businesses subject to assurance each year	Number of business subject to assurance each year (Central estimate)
A – External assurance of large businesses, every 4 years	25%	3,268
B – SBC assurance of 25% of large businesses each year	25%	3,268

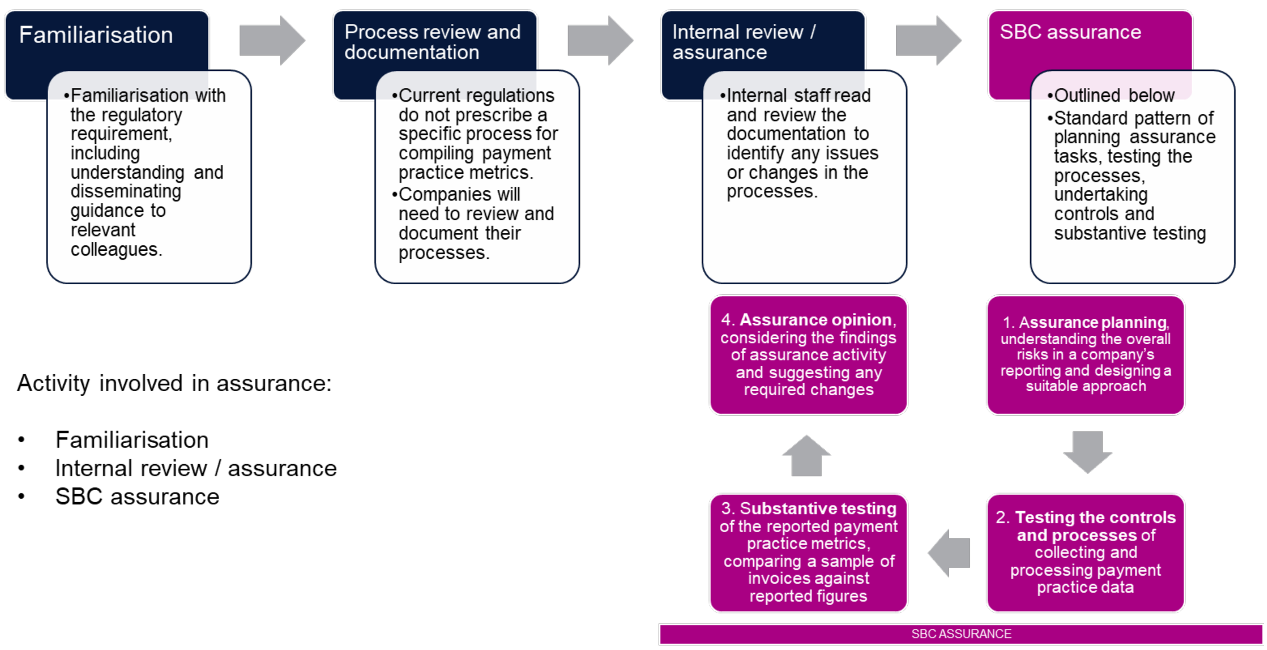
[85] The analysis of the reporting data counts the number of businesses (identified by unique company reference numbers) that submitted at least one valid report in 2023.
[86] IDBR data only contains information about businesses turnover and employees, not their balance sheet totals. The analysis counts the number of businesses that meet the turnover and employee thresholds in 2022 and 2023, and uses simply set theory principles to infer a minimum and maximum range, which reflects the uncertainty around balance sheet totals. The maximum value is used as the basis for the Central estimate.

C – SBC assurance of 1% of large businesses each year (Preferred)	**1%**	**131**
D – Do Nothing (Baseline)	0%	0

245. The OA makes a distinction between large businesses and Public Interest Entities (PIEs), or businesses which are of significant public interest because of either the nature of the business, the size of business operations, or the number of people the business employs. This distinction is made to account for expected differences in assurance costs across large business and PIEs, a result of more complex payment structures or reporting systems.

246. The OA makes assumptions about per business assurance costs, in particular the type of staff and staff hours required to undertake relevant familiarisation and ongoing assurance activity. These assumptions were developed and tested with organisations with experience relevant to assurance activities, including audit firms and regulators like the Financial Reporting Council (FRC). They are however still subject to significant uncertainty, and will need to be tested further through the consultation process and subsequent Regulatory Impact Assessment.

Figure 18 – Process map for new assurance requirements



247. The OA assumes a total of 30.5 hours of familiarisation activity per business, and 38.5 hours of ongoing activity every year in which assurance is undertaken, split across businesses themselves and the SBC. These activities are further split across different roles to reflect different levels of seniority and skill sets needed – namely, company directors, company managers, company accountants; and equivalent roles in the SBC.

248. The OA then applies hourly wage rates, using Annual Survey of Hours and Earnings (ASHE) data and that correspond to relevant internal company and external assurance

roles. When calculating PIE costs, the OA considers higher than hourly wages, using 90th percentile ASHE wages (rather than 50th percentile ASHE wages for large businesses) to reflect the increased complexity and cost of assurance requirements for PIEs.

Table 44 – Assurance of payment reporting data – familiarisation costs per business

Cost type	PIEs	Large businesses
Cost to businesses	£1,917	£1,008
Cost to SBC	£0	£0

Table 45 – Assurance of payment reporting data – ongoing costs per business

Cost type	PIEs	Large businesses
Cost to businesses	£572	£235
Cost to SBC	£1,074	£1,074

249. The preferred option has a PVC of £15.72m, and an EANDCB of £1.70m per year. These costs comprise both one-off transition costs, which occur in year the new requirements come into effect – FY26/27; and ongoing costs every year thereafter.

Table 46 – Assurance of payment reporting data – PVCs (£m)

Option	Low	Central	High
A – External assurance of large businesses, every 4 years	£68.13	£111.38	£130.13
B – SBC assurance of 25% of large businesses each year	£24.55	£50.24	£57.66
C – SBC assurance of 1% of large businesses each year (Preferred)	**£7.99**	**£15.72**	**£18.10**
D – Do Nothing (Baseline)	£0.00	£0.00	£0.00

Table 47 – Assurance of payment reporting data – EANDCBs (£m)

Option	Low	Central	High
A – External assurance of large businesses, every 4 years	£7.91	£12.94	£15.12
B – SBC assurance of 25% of large businesses each year	£1.33	£2.56	£2.95
C – SBC assurance of 1% of large businesses each year (Preferred)	**£0.87**	**£1.70**	**£1.95**
D – Do Nothing (Baseline)	£0.00	£0.00	£0.00

Benefits

250. The OA does not monetise benefits associated with the policy. The policy aims to reduce poor B2B payment behaviour through increased transparency and scrutiny; and helping businesses negotiate better payment terms.

251. Like maximum payment terms, non-monetised benefits include a reduction in the costs to businesses associated with poor B2B payment behaviour, which cost SMEs and the wider economy £10.7bn per year. Importantly, the policy would only need to reduce the overall impact of poor B2B payment behaviour by only 0.15% to 'breakeven'.

Policy 7 – Retention payments

Costs

252. Several groups of businesses will be affected by the proposed changes: businesses with construction contracts which currently use retention payments as a payer or payee, contract writing bodies, insolvency practitioners and secured creditors of construction clients.

253. Costs have been calculated assuming that the policy measure would be implemented across the whole UK. England accounts for 86% of UK construction turnover and 87% of registered UK construction businesses, so if the measure was implemented in England only, costs would likely total around this percentage of the figures given below.

254. Policy costs for both options include one-off contract change and familiarisation costs in the year following implementation. Contract change is estimated to cost construction businesses and contract writing bodies £327m (£78 - £823m) under option A or £817m (£235m - £1,920m) under option B, as implementation of this is likely to be more complex. Familiarisation is estimated to cost construction businesses, insolvency practitioners and creditors £15m (£7m - £25m) under either option.

255. Ongoing costs common to both options include the insolvency impact on non-payee creditors. Policy measures A and B will both protect payee construction businesses from non-payment of retention monies due to upstream insolvency, however this represents a transfer from other creditors, who will experience a cost, as retention money would not be distributed to them. The value of this transfer is estimated as £9,080m (£4,635m – £13,542m) over ten years. The decrease in retention money available to other creditors in the event of insolvency may increase the interest lenders charge firms on credit, however this impact has not been quantified.

256. Another ongoing cost common to both options relates to disputes. It is possible that a change in retention policy would cause a temporary increase in disputes requiring resolution via adjudication while new ways of working are embedded; additional adjudications stemming from this are estimated to cost construction businesses and other businesses with construction contracts £4m (£0m - £8m) over the three years following implementation.

257. For option A (ban of retention payments) the impact of the trade credit transfer from payers to payees and the cost of bond or insurance premia are included, with estimated costs of £431m (£310m - £569m) in the year following implementation and £735m (£0m - £7,316m) over ten years respectively. The trade credit transfer cost is incurred as payers would no longer be able to use the retention money as trade credit while held. There is high uncertainty about how many payers would choose to use bonds or insurance in place of retentions, so scenarios with a range of behavioural assumptions from 0% to 100% uptake have been modelled and included in the range given above. The highest cost scenario includes uptake increasing from 0% to 100% across a 5-year profile, as this is believed to be the largest possible bond or insurance adoption, although little supporting evidence is currently available.

258. For option B (Retentions Protection Framework), there is high uncertainty about the proportion of payers who would choose each of the two options: segregating the

retained payment in a separate bank account or protecting the retained payment through an instrument of guarantee. Scenarios with a range of behavioural assumptions have been modelled, from all payers choosing segregation to all choosing protection through an instrument of guarantee. For payers choosing to segregate the retention payment, a trade credit transfer impact is included in the costs, calculated using the same methodology as trade credit costs under option A. For payers choosing to protect the retention payment with an instrument of guarantee, the cost of this instrument is included, calculated using the same methodology as the bond or insurance premia under option A.

259. This OA assumes that any insurer and bank costs will be covered by fees or interest. It is also assumed that government enforcement costs will be negligible under both options, as most disputes are resolved via adjudication and the number of court cases linked to retention payments has historically been low. Under option B, it is possible that fewer firms will choose to use retentions, however the effect of this has not been included. It is also possible that a squeeze on trade credit as a result of a retentions ban could cause a temporary increase in insolvencies during the transition period.

260. Many key numerical assumptions are based on government-commissioned research carried out by Pye Tait using survey data from 2015-16[87], which is the latest relevant information available, but may now be out of date due to changes in the construction market and some public sector organisations ending their use of retentions. Data used include:

- The typical size of a retention (4.85% of contract value);
- The proportion of construction businesses with experience of retentions in the last three years (75%);
- The proportion of their contracts with retentions held (65%);
- The proportion of contractors who have had retentions held from them and experienced non-payment due to upstream insolvency (44%); and
- The average amount lost from retentions to upstream insolvency per affected contractor over three years (£21,000 per small firm, £155,000 per medium firm and £383,000 per large firm, in 2016 prices).

261. Other data sources include BEIS engagement with surety providers, and various official statistics including the number and size of registered construction businesses, construction sector turnover, the number of insolvency practitioners and secured creditors, the cost and number of construction adjudications, and labour costs for different professions.

262. **Many cost calculations, particularly those used to estimate ongoing policy costs from bonds / insurance, rely on weak assumptions.** The assumed bond / insurance premia differ for small, medium and large businesses (3%, 1.8% and 0.8% of retention amounts respectively); the low to high interval on this assumption forms a large source of uncertainty, as the market is currently small and hence evidence is limited.

[87] BEIS (2017) – Retentions in the Construction Industry - https://assets.publishing.service.gov.uk/media/5a821ff740f0b62305b929d8/Retention_Payments_Pye_Tait_report.pdf

This uncertainty is reflected in the wide range between the low and high total cost estimates.

263. There are some known causes of error which have not been removed. The calculation of the impact of trade credit transfer assumes that all payers use all retention money they hold as trade credit, rather than keeping some in reserves; this is likely to represent an overestimate of costs. The mean length of time a retention payment is held for is 18 months, which may mean the method used to calculate the total amount of retention money held in any year is giving an underestimate, as it assumes retentions are held in one year.

264. The preferred option has a PVC of £10,160m over ten years in 2024-25 prices, although it is important to note that about 90% of this total represents transfers. The cost comprises both one-off transition costs, which occur in the year the new requirements take effect – FY26/27; and ongoing costs every year thereafter.

Table 48 – Retention payments – PVCs (£m)

Option	Low	Central	High
A – Ban of retention payments (Preferred)	**£4,720.54**	**£10,160.37**	**£21,715.12**
B – Retentions Protection Framework	£4,877.36	£10,434.99	£24,363.42
C – Do Nothing	£0.00	£0.00	£0.00

Benefits

265. Under both options A and B, payees are protected against upstream insolvency causing a retention payment not to be made. The insolvency impact modelled represents a transfer from other creditors of businesses with construction contracts which become insolvent while holding retentions to the payees who those retention payments were being held for. The present value of this benefit to payees is equal to the cost to creditors and is estimated as £9,080m (£4,635m – £13,542m) over ten years.

266. The trade credit impact modelled represents a transfer from payers to payees, as payers will no longer have access to retention monies as a source of trade credit under option A or when choosing to segregate retentions under option B. The present value of this benefit to payees is equal to the cost to payers and is estimated as £431m (£310m - £569m) under option A or £215m (£155m - £284m) under the central scenario for option B, where 50% of payers choose to segregate retention payments. This benefit is in the year following implementation.

267. These benefits are calculated in aggregate – individual businesses may experience a combination of costs and benefits, depending on their position in the supply chain and whether the cost to payers of bonds or insurance is passed down the supply chain.

268. Some potential benefits have not been quantified, including the reduced administrative burden and resulting cost and time saving by payees not needing to chase late payment of retentions, and the likely boost to insurance and surety providers to the construction sector.

269. The quantified benefits above enable the estimation of net costs. The preferred option has an EANDCB of £125m per year and a net cost to business of -£1,080m over ten years in 2024-25 prices.

Table 49 – Retention payments – EANDCBs (£m)

Option	Low	Central	High
A – Ban of retention payments (Preferred)	**£9.96**	**£125.49**	**£949.23**
B – Retentions Protection Framework	£28.18	£182.41	£1,322.87
C – Do Nothing	£0.00	£0.00	£0.00

Table 50 – Retention payments – Net business cost (£m)

Option	Low	Central	High
A – Ban of retention payments (Preferred)	**-£85.78**	**-£1,080.46**	**-£8,172.83**
B – Retentions Protection Framework	-£242.61	-£1,570.54	-£11,389.92
C – Do Nothing	£0.00	£0.00	£0.00

Declaration

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Director responsible:	Chief Economist

I have read the Options Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed:	Ben Cropper

Date:	6 February 2025

Annex A

Table 51 – Summary options analysis

Option	Do Nothing (baseline)	All 8 policies (Preferred)
Net present social value	No change to existing policies.	• The preferred option has an estimated NPSV of -£1,175.04m, with low and high estimates ranging between -£155.24m and -£8,278.45m. • The estimated NPSV is negative, because benefits are largely non-monetised. In some cases, creditor businesses accrue benefits which are monetised, but these represent transfers (with an equivalent cost to debtor businesses). Other monetised costs largely include administrative costs associated with businesses complying with new requirements. • The most significant costs are incurred by banning retention payments in the construction sector. This policy alone has an estimated NPSV of -£1,080.46m
Public sector financial costs	No change to existing policies.	• The preferred option has an estimated public sector financial cost of £3.49m, with low and high estimates ranging between £2.84m and £3.70m. • Public sector costs are incurred exclusively by the SBC, as part of policies which require additional SBC activity – assurance of reporting data, penalty fines, and additional powers for the SBC. The costs represent increased staffing to deliver additional investigations and new compliance activity.
Significant un-quantified benefits and costs	No change to existing policies.	• Benefits are largely non-monetised. The overall estimated impact of poor B2B payment behaviour is £10.7bn per year, including both direct costs to businesses and indirect wider economy costs. • The OA has not estimated to what extent the policies will result in a reduction in these impacts, but the scale of the overall impacts means that even small improvements in B2B payment behaviour could have significant benefits.
Key risks	No change to existing policies.	• Key policy risks include unintended consequences, particularly resulting from policies that implement a more stringent statutory framework and redress measures. • These policies are expected to create behavioural changes, and aspects of poor B2B payment behaviour are inter-related – for example, policies which target late payment, could be circumvented through longer payment terms. The policies aim to mitigate these risks by strengthening measures across all aspects of poor B2B payment behaviour.
Results of sensitivity analysis	No change to existing policies.	• The OA presents Low / High ranges for each policy option. The banning retention payments policy is particularly sensitive to assumptions, with NPSV estimates ranging between -£85.78m and -£8,172.83.

Price base year: FY24/25 **PV base year:** FY24/25 **Appraisal period:** FY26/27 to FY35-36