Final stage impact 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
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1. Summary of proposal

Impact Assessment summary

1. The Impact Assessment (IA) considers 7 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.

Table 1 – Policy summary

Policy grouping	#	Policy	Description
Small Business Commissioner (SBC) powers	1	SBC investigations and adjudication	Additional powers for the SBC to: • Investigate businesses suspected of breaches of payments legislation. • Adjudicate disputes between small and larger businesses.
	2	Financial penalties for persistent late payment	Financial penalties – administered by the SBC – for systemic breaches of payment legislation or persistently late-paying large businesses, supported by additional reporting on statutory interest payments.
Wider late payments measures	3	Stricter maximum payment terms	Stricter 60-day maximum payment terms, with limited exemptions for contracts where both parties are large businesses, or the purchaser is the smaller party.
	4	Mandatory statutory interest	Mandatory statutory interest on late payments, fixed at 8% above the Bank of England base rate.
	5	Invoice dispute deadline	A deadline for disputing invoices, requiring businesses to raise disputes earlier, within a statutory limit.
	6	Increased board-level scrutiny of payment practices	Requiring board-level commentary – alongside existing transparency requirements – from persistently late-paying large businesses, which explains poor payment performance and outlines remedial actions.
Retention payments in the construction sector	7	Retention payments ban	A ban on withholding payments to suppliers, working with industry to find other ways of making sure construction suppliers provide a good service.

2. 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.

Changes since the Options Assessment

3. The IA follows a 12-week consultation, which took place between July and October 2025, and updates an earlier Options Assessment (OA).[1] The IA reflects policy changes which respond to consultation feedback, and also reorganises and relabels certain policy measures to support understanding.

4. The most significant changes include:

   - The maximum payment terms policy has been changed to incorporate limited exemptions. This directly responds to consultation feedback, which highlighted customer-supplier relationships where longer payment terms can be beneficial. Importantly, the activities that businesses need to undertake to comply with limited exemptions introduce additional policy costs. The IA estimates a £6.80m Equivalent Annual Net Direct Cost to Business (EANDCB), compared to £0.41m estimated in the OA.
   - Another policy proposal – increased board-level scrutiny of payment practices – has been added to the IA. The policy is aimed at improving the quality and effectiveness of data submitted by large businesses under *The Reporting on Payment Practices and Performance Regulations 2017*. It follows the consultation, which proposed two possible policy options that considered expanded roles for both businesses' audit committees (where they have them) and the SBC. The new policy measure creates additional reporting requirements and board-level responsibilities for businesses who have paid more than 25% of their invoices late within the past year. Importantly, the new policy introduces additional costs, not previously considered as part of the OA. The IA estimates a £4.84m EANDCB.
   - A retention payments ban has been selected over a retentions protection scheme. Consultation responses were broadly divided between the two options, but many respondents indicated that a ban would be more effective in achieving the intended outcomes. In addition, a ban is simpler to legislate for and enforce, and creates less additional regulatory burden for businesses. Cost estimates for a retention payments ban are largely unchanged since the OA – the IA estimates a £124.48m EANDCB, compared to £125.49m estimated in the OA.

5. Other changes include:

   - *The Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024* has come into effect, which increased company size thresholds from April 2025.[2] This affects policies targeted at large businesses only, reducing the number of affected businesses, and the monetised costs associated with the policies.
   - Policies which relate to SBC powers have been further developed, providing a more detailed understanding of how new SBC powers will be operationalised. This has been reflected within updated cost modelling and how the policies are organised and presented as part of the IA:

[1] Late payments consultation: tackling poor payment practices - GOV.UK

[2] The turnover threshold for large businesses has increased from £36m to £54m; and the balance sheet threshold from £18m to £27m. The employee threshold is unchanged at 250.

- SBC investigations and adjudication now combines what was presented as 2 separate policy measures in the OA: '6a – Additional SBC powers' and '6b – SBC assurance of reporting data'. This reflects overlaps in how the SBC would operationalise these powers, using a single investigation process that could consider both breaches of the statutory framework and non-compliance with the reporting regulations. The IA estimates a £0.76m EANCDB, compared to £0.11m and £1.70m estimated in the OA.
- Financial penalties for persistent late payment has been grouped under SBC powers and combined with the additional reporting needed to administer the fine regime. These policies were presented as '4 – Additional reporting on statutory interest' and '5 – Financial penalties' in the OA. This reflects the SBC administering the fine regime, and better presents the 'full' costs of the policy, as the additional reporting is an enabling requirement. The IA estimates a £2.09m EANDCB, compared to £2.59m and £0.00m estimated in the OA.

Estimated costs and benefits

6. The IA estimates a total Net Present Social Value (NPSV) of -£1,254.18m, and a total Equivalent Annual Net Direct Cost to Business (EANDCB) of £143.28m – see Table 2 and Table 3.

7. The majority of business impacts result from changes to retention payments in construction contracts. The NPSV and EANDCB of this policy alone are -£1,071.80m and £124.48m respectively. The relatively high costs are explained by expensive insurance bonds, which attract a high premium, combined with high numbers of affected construction businesses.

8. Compared to the OA, overall estimated costs have increased, resulting in a higher EANDCB and more negative NPSV – for example, the estimated EANDCB has increased from £136.07m to £143.28m. This is predominantly driven by additional costs resulting from policy changes relating to maximum payment terms and board-level scrutiny of payment practices, albeit partly offset by lower costs following changes to company size thresholds.

Table 2 – Policy NPSVs (£m)

#	Policy	Low	Central	High
1	SBC investigations and adjudication	-£19.47	-£24.73	-£29.98
2	Financial penalties for persistent late payment	-£12.00	-£20.37	-£22.32
3	Stricter maximum payment terms	-£46.33	-£58.52	-£64.29
4	Mandatory statutory interest	-£16.71	-£18.57	-£20.43
5	Invoice dispute deadline	-£16.71	-£18.57	-£20.43
6	Increased board-level scrutiny of payment practices	-£7.87	-£41.62	-£51.14
7	Retention payments ban	-£86.41	-£1,071.80	-£8,064.89
	Total	**-£205.51**	**-£1,254.18**	**-£8,273.49**

Table 3 – Policy EANDCBs (£m)

#	Policy	Low	Central	High
1	SBC investigations and adjudication	£0.55	£0.76	£0.97
2	Financial penalties for persistent late payment	£1.14	£2.09	£2.29
3	Stricter maximum payment terms	£5.38	£6.80	£7.47
4	Mandatory statutory interest	£1.94	£2.16	£2.37
5	Invoice dispute deadline	£1.94	£2.16	£2.37
6	Increased board-level scrutiny of payment practices	£0.91	£4.84	£5.94
7	Retention payments ban	£10.04	£124.48	£936.69
	Total	**£21.91**	**£143.28**	**£958.10**

9. The IA monetises costs and benefits where possible, using data where available, and making assumptions elsewhere. Assumptions have been tested with stakeholders as part of consultation engagement, but some uncertainty remains in places.

Value for money assessment

10. The total NPSV for the policies is negative, because benefits are largely non-monetised. The policies are however judged to represent value for money, because:

- Poor B2B behaviour has a significant impact on the UK economy each year. This includes costs incurred by businesses when dealing with poor B2B behaviour, like chasing unpaid invoices or raising alternative finance; and costs to the wider economy, like foregone investment and business closures. The total cost to the UK economy is estimated at £11 billion per year – see Figure 12. Considering the central EANDCB estimates, the policies would need to result in a 1.3% reduction in the costs of poor B2B behaviour to 'break even'.
- The policies directly address market failures that lead to poor B2B behaviour – namely asymmetric information and unequal market power – further improving transparency and strengthening the statutory framework. These changes directly address current policy limitations, including:
    - Limited application of the current statutory framework governing B2B payments, where businesses often do not challenge 'grossly unfair' payment terms or charge applicable statutory interest.
    - Limited SBC powers, where the SBC has a limited remit to launch investigations, cannot compel information or engagement, or enforce its decisions following an investigation.
    - Low compliance with current reporting regulations, with some reporting businesses continuing to exhibit very poor B2B behaviour.
    - Ongoing challenges around retention payments, including no protections for upstream insolvency, legalistic application of the current statutory framework that leads to poor outcomes, and a continued lack of transparency around construction project milestones that 'trigger' retention payments.
- Overall, the policies are expected to improve the UK's businesses environment, providing a clearer statutory framework with more predictable outcomes that rules out the worst B2B payment behaviour. The UK economy is expected to benefit in the long-term because of reduced 'frictions' for businesses dealing with poor B2B behaviour, and increased liquidity for creditor businesses.

11. Importantly, benefits will be monitored following the implementation of the policies, and the overall effectiveness of the policy package evaluated as part of a Post Implementation Review (PIR).

2. Regulatory scorecard for preferred option

Part A: Overall and stakeholder impacts

Table 4 – 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 IA estimates a total NPSV of -£1.25bn, with low and high estimates ranging between -£0.21bn and -£8.27bn respectively. The estimates are subject to significant uncertainty, reflected in the wide range between estimates. • The policies result in significant transfers between businesses – £0.36bn resulting from mandatory statutory interest, and £9.15bn resulting from banning retention payments.	**Negative** **Based on likely £NPSV**
Non-monetised impacts	• The IA 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 Figure 12), the IA 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 5 – 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 IA estimates a total business NPV of -£1.24bn over 10 years, with low and high estimates ranging between -£0.19bn and -£8.25bn respectively. • The estimates are slightly lower than the total estimated NPSV for the policies because some costs accrue to government rather than businesses in the financial penalties for persistent late payment and SBC investigations and adjudication policies. • The IA estimates a total EANDCB of £143.28m, with low and high estimates ranging between £21.91m and £958.10m. • Estimated EANDCBs represent administrative costs only, or the costs of businesses familiarising themselves and complying with the policies. • The IA 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. • There are some non-monetised costs that stem from construction businesses no longer able to enforce the standards of quality they require, but these are expected to be outweighed by non-monetised benefits.	**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 4. • 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 6 – Household impacts

Impact	(3) Expected impacts on households	Directional rating
Description of overall household impact	• The policies are expected to result in net positive impact on businesses, but with some ‘winners’ and some ‘losers’. Businesses who incur additional costs might pass these through to consumers, but this would likely be offset by businesses who benefit under the policies. • On balance, given the overall impact on businesses is assessed as positive, the overall impact on households could – at worst – be neutral.	**Neutral**
Monetised impacts	• The IA does not calculate household NPV or EANDCH. Household impacts are second-order effects, and it is not possible to model business behaviour with enough certainty to produce reliable estimates. • For illustrative purposes only, the IA considers a ‘worst-case’ scenario in which all business costs are passed through to consumers. Under these assumptions, each household could incur additional costs amounting to approximately £5 per year – a very small amount.[3]	**Neutral** **Based on likely household £NPV**
Non-monetised impacts	• If businesses passed costs through to consumers, households could expect to face higher prices. These higher prices would equate to the additional finance costs faced by businesses after a reduction in trade credit. However, as highlighted above, even ‘worst-case’ scenario costs would be very small per household.	**Neutral**
Any significant or adverse distributional impacts?	• Some business sectors could be more impacted by the policies than others, in line with current levels of payment performance – see Figure 9 and Figure 10. Where affected sectors predominantly sell basic or price-insensitive goods / service, any cost increases could be passed through to consumers, with a greater impact on lower-income households that spend more of their budgets on essentials.	**Neutral**

[3] The IA divides the total EANDCB of the policies by the number of households in the UK in 2024 – [Families and households in the UK - Office for National Statistics](#).

Part B: Impacts on wider government priorities

Table 7 – 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.[4] This is more stringent than the policy considered by this IA. • 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**

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

3. Strategic case for proposed regulation

Problem under consideration

12. 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.

13. 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.

14. 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

15. 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.

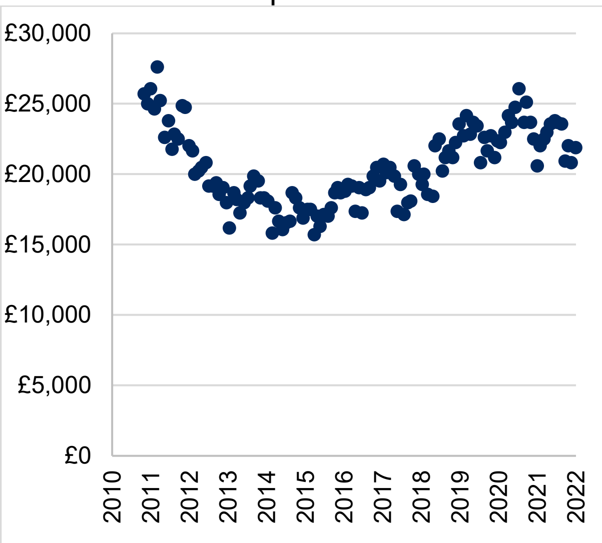
16. Smart Data Foundry research, using invoice data supplied by Sage, analyses trends in B2B payment behaviour towards small and micro businesses between 2010 and 2022 – see Figure 1 and Figure 2.[5] [6]

17. 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.

[5] 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
[6] 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

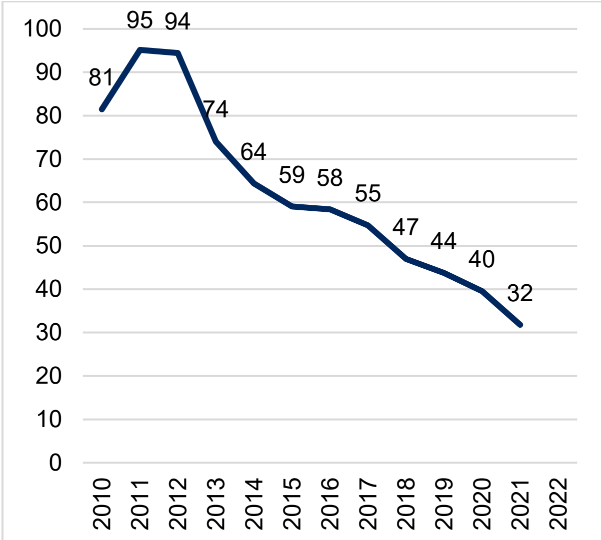
18. The overall prevalence of late payment and the amount of money owed however has largely stayed the same. DBT research shows that in 2025 1.5 million businesses were affected by poor B2B behaviour, over a quarter of the total business population. Affected businesses were owed on average £17,000 in late payments.[7]

Figure 1 – Average overdue invoice amount per business



Source: Sage invoice data

Figure 2 – Average days to be paid



Source: Sage invoice data

19. 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.

20. The data shows that large businesses' average payment times have fallen from 35 days in 2018 to 32 days in 2024; and the average percentage of invoices paid late has fallen from 26% in 2018 to 16% in 2024 – see Figure 3 and Figure 4. [8] [9] This represents an improvement, but still means that nearly 1 in 6 invoices paid by large businesses are paid late.

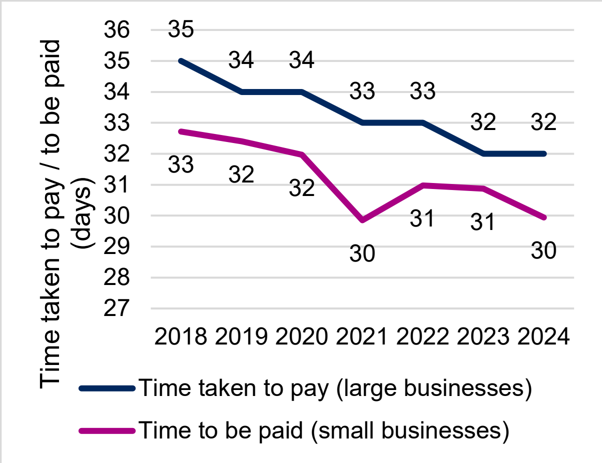
21. Importantly, these values represent average (median) B2B payment behaviour across large businesses, which can sometimes underplay very poor payment performance at the extremes. Figure 5 highlights this, showing that between 2018 and 2024 7%-10% of invoices paid by large businesses were paid in longer than 60 days, meaning creditor businesses are sometimes waiting 2 months or more to be paid.

[7] DBT (2025) – *Estimating the total economic cost of late payments and their impact on the UK economy* – [Late payments research: impact on the UK economy - GOV.UK]

[8] 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.

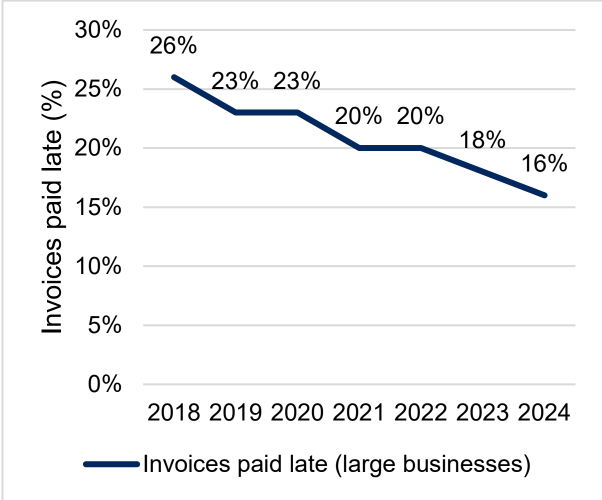
[9] Time to be paid (small businesses) is based on Xero Small Business Insights data – [Xero Small Business Insights | Xero].

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



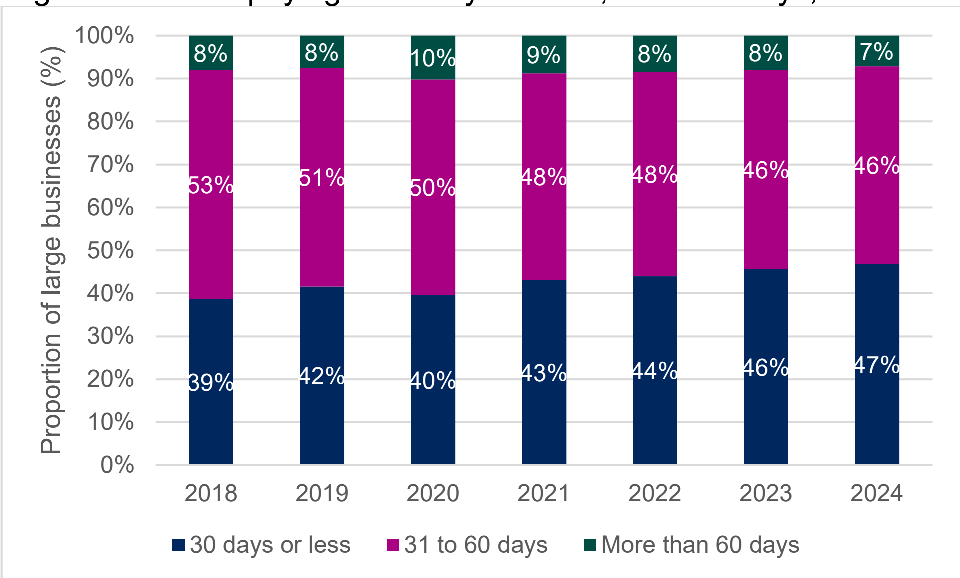
Source: Reporting regulations data and Xero Small Business Insights data

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

22. 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 2025 EPR found a 17-day 'payment gap' for B2B payments in the UK, with average B2B payment times of 60 days, 17 days higher than average payment terms.[10]
- The SME Finance monitor regularly asks businesses to what extent different problems represent an obstacle to running their business over the next 12 months. Between 13% and 19% of SMEs described cash flow issues and late payment as a major obstacle in 2023 and 2024.[11]
- The Federation of Small Businesses regularly surveys its members about issues that they face, including late payments. In 2025, 50% of FSB members saw late

[10] Intrum (2025) – European Payment Report 2025 –European Payment Report 2025 | Intrum
[11] BVA BDRC (2025) – SME Finance Monitor (Q4 2024 Report) – SME-FM-Full-Report-.pdf

payments as an inevitable part of doing business, and 60% said late payments were holding their business back.[12]

23. Overall, the evidence suggests that while there have been some improvements in B2B payment behaviour, more could still be done to 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 businesses regularly pay their suppliers in more than 60 days, or pay upwards of 1 in 6 invoices late.

Large businesses' B2B payment behaviour

24. B2B payment behaviour differs by business size. In theory, larger businesses 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.

25. Experian data confirms this difference in B2B payment behaviour by size, showing that the likelihood of paying suppliers late increases with business size.[13] 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.[14]

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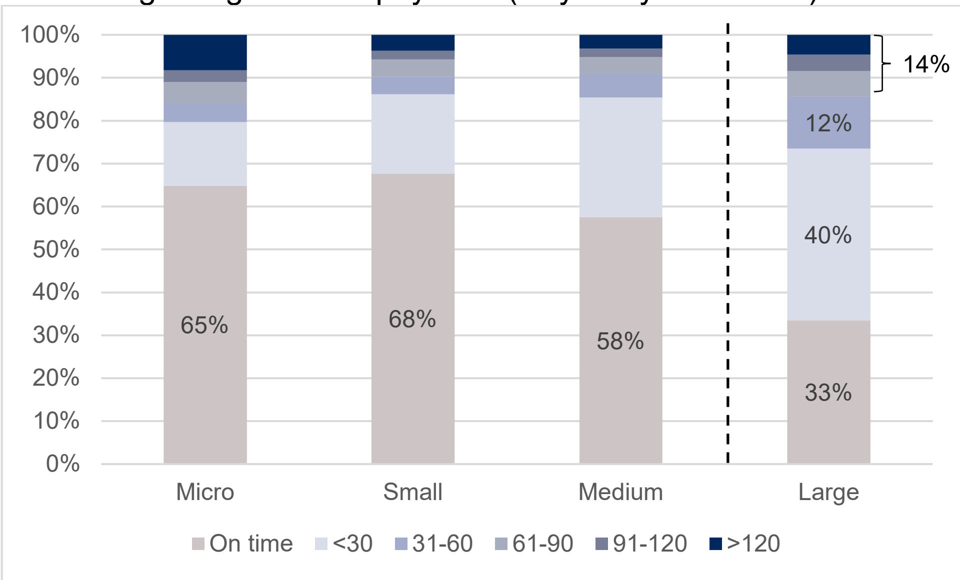
[12] FSB (2025) – Late payments and payment methods in small businesses – [FSB | Late payments and payment methods in small businesses]

[13] 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.

[14] Based on February 2024 Experian data.

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



Source: Experian data

26. 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.

27. 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."* [15]

28. 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.[16] 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.

29. 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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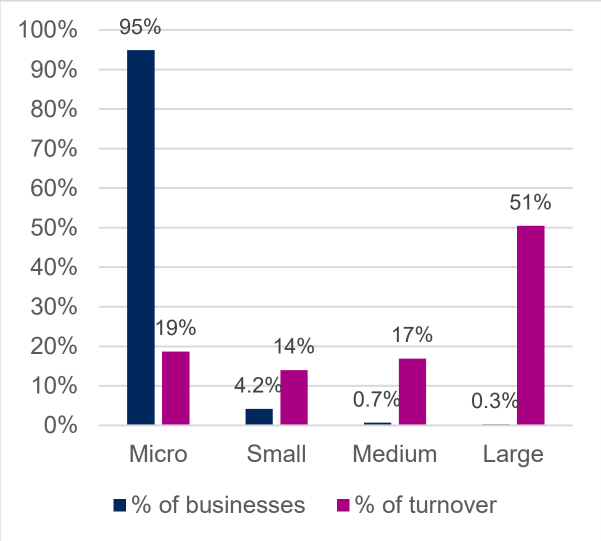
[15] DBT (2024) – *Understanding Variations in Payment Performance and Practices across Business Sectors and Sizes* – [Late payments research: performance and practices across business - GOV.UK (www.gov.uk)]

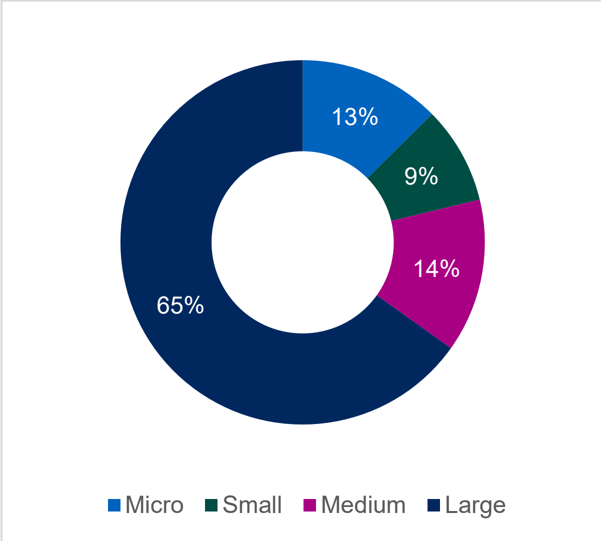
[16] Profit = Turnover - B2B transactions - Other expenses. In theory, for a given level of profit and other expenses, B2B transactions will move in line with turnover. In practice, turnover is only partly correlated with B2B transactions, and represents an imperfect proxy.

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

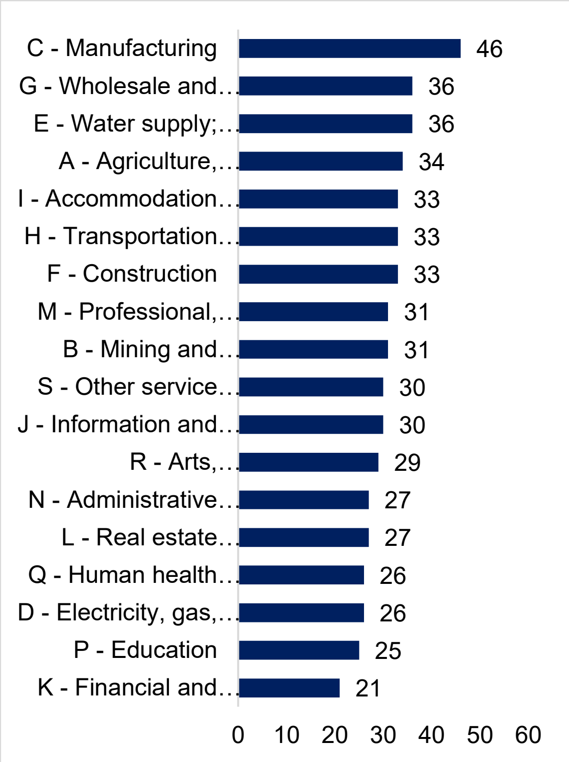
30. This highlights that policies which focus on addressing poor B2B behaviour across large business are likely most impactful – given poor B2B payment behaviour is more pronounced across large businesses, and large businesses are overall responsible for a greater share of B2B transactions in the economy.

Sectoral B2B payment behaviour

31. 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.[17]

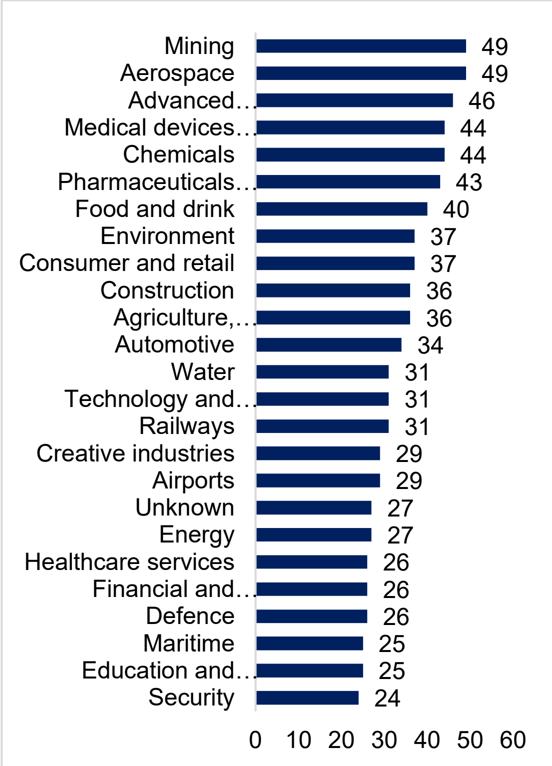
[17] DBT (2024) – *Understanding Variations in Payment Performance and Practices across Business Sectors and Sizes* – [Late payments research: performance and practices across business - GOV.UK (www.gov.uk)]

Figure 9 – Large businesses time to pay broken down by SIC Section code – 2024



Source: Reporting regulations data

Figure 10 – Large businesses time to pay broken down by DBT sectors – 2024



Source: Reporting regulations data

Retention payments

32. 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.[18] 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. On this basis, the IA estimates the total value of retentions in the UK in 2025 at between £6.0 billion to £11.0 billion, with a central estimate of £8.4 billion (in FY2024/25 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

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

monies because of upstream insolvencies. While this occurred on only around 1% of 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

33. Government has previously introduced a range of both legislative and non-legislative measures aimed at addressing poor payment behaviour – see Table 8. 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 8 – 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[19]	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.
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. [20] 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 and 2025 through Statutory Instruments requiring reporting businesses to 1) publish information on the value of invoices paid within different timeframes and the value of invoices paid late; and 2) publish information in relation to practices, policies and payment performance for retentions in any qualifying construction contracts.
Fair Payment Code (2025)	The Fair Payment Code (FPC) outlines a voluntary set of standards for good B2B payment behaviour. Businesses can certify at either the Bronze, Silver, or Gold level, representing increasing levels of good payment performance. The FPC is administered by the Small Business Commissioner (SBC), replacing the previous Prompt Payment Code. As at January 2026, the FPC had approximately 500 awardees.
The Companies (Directors' Report) (Payment Reporting) Regulations 2025	The Regulations introduced additional reporting requirements for large businesses, including detailed disclosures in the Directors' Report about their payment behaviour, including average days, percentages paid within 30/60 days, and late payments. The Regulations increase transparency beyond existing twice-annual reports.

[19] 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.
[20] The target was originally to pay 80% of invoices within 5 days, which was later increased.

Limitations of previous government intervention

34. 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*.

35. 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.[21] Overall, this means that statutory interest creates limited financial incentives for businesses to pay on time.

36. 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.[22] 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

[21] 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)
[22] DBT analysis of reporting regulations data shows that 6,227 businesses submitted at least one valid report in 2024. DBT analysis of Inter-Department Business Register (IDBR) data and Financial Analysis Made Easy (FAME) data shows that between 14,001 and 16,340 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 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.

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

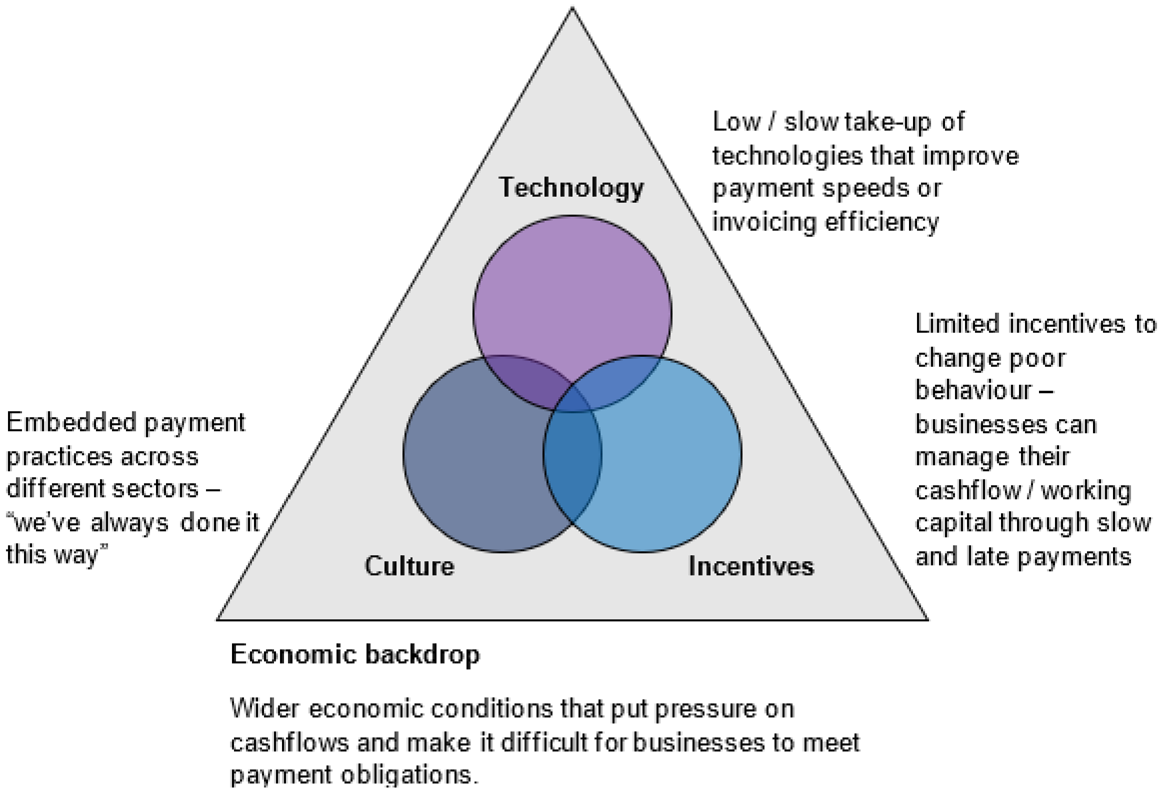
- **No safeguards for upstream insolvency.** Businesses are sometimes exposed to losses where businesses higher up the supply chain who are holding retention payments become insolvent. This means that invoices where money has been retained go either fully or partially unpaid, and affected businesses 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, helping 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

38. 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



39. 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.[23]

40. 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 to gain favourable trade credit terms, at the expense of creditor businesses. Both of

[23] 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)]

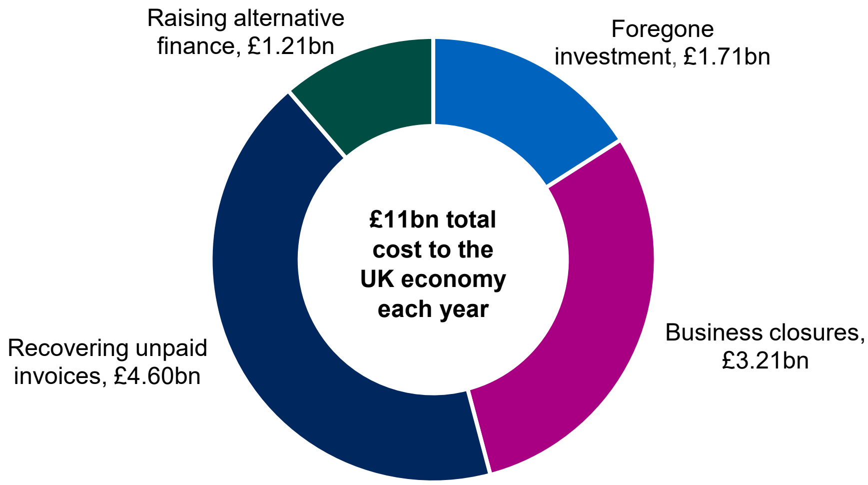
these problems lead to similar outcomes, where debtor businesses are unfairly advantaged in terms of additional liquidity, and creditor businesses are unfairly disadvantaged in terms of reduced liquidity.

41. 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

42. 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. DBT research suggests that late payments cost UK businesses and the wider economy £11 billion per year.[24]

Figure 12 –Total economic cost of late payments and their impact on the UK economy – 2025



[24] DBT (2025) – *Estimating the total economic cost of late payments and their impact on the UK economy* – [Late payments research: impact on the UK economy - GOV.UK]

Post-implementation reviews of previous government interventions

Overview

43. 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.

The Payment and Cash Flow Review

44. 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.[25] 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.[26]

45. 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

46. *The Reporting on Payment Practices and Performance Regulations 2017* were reviewed in 2022, as part of the statutory review process,[27] and again in 2023, as part of a wider Payment and Cash Flow Review, ahead of the Regulations being extended and amended in 2024.[28] A call for evidence and a consultation were completed as part of the review process.[29] [30]

47. 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.

48. 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

49. 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

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[25] Prompt payment and cash flow review - GOV.UK
[26] https://www.gov.uk/government/publications/publication-of-the-prompt-payment-and-cash-flow-review
[27] https://www.legislation.gov.uk/uksi/2017/395/pdfs/uksiod_20170395_en.pdf
[28] https://www.gov.uk/government/publications/publication-of-the-prompt-payment-and-cash-flow-review
[29] Statutory review of the Reporting on Payment Practices and Performance Regulations 2017: call for evidence - GOV.UK
[30] Government response to the Amendments to the Payment Practices and Performance Regulations 2017 - GOV.UK

met its objectives.[31] A consultation was completed in 2020 and 2023 as part of the process.[32] [33]

50. 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
- **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.

51. 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

52. 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.[34] 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.

53. 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.

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

Consultation feedback

55. A 12-week consultation took place between July and October 2025, receiving high-levels of engagement from businesses, organisations, and individuals. Overall, the consultation received 867 responses, with 586 business responses. Business

[31] Statutory review of the Small Business Commissioner response to views and evidence - GOV.UK
[32] Increasing the scope and powers of the Small Business Commissioner - GOV.UK
[33] Small Business Commissioner: invitation for views on the statutory review 2023 - GOV.UK
[34] Retention payments in the construction industry: summary of responses

responses included good representation across different business sizes, with at least 60 responses from each size category – sole traders, micro, small, medium, and large businesses.

Figure 13 – Consultation response overall demographics

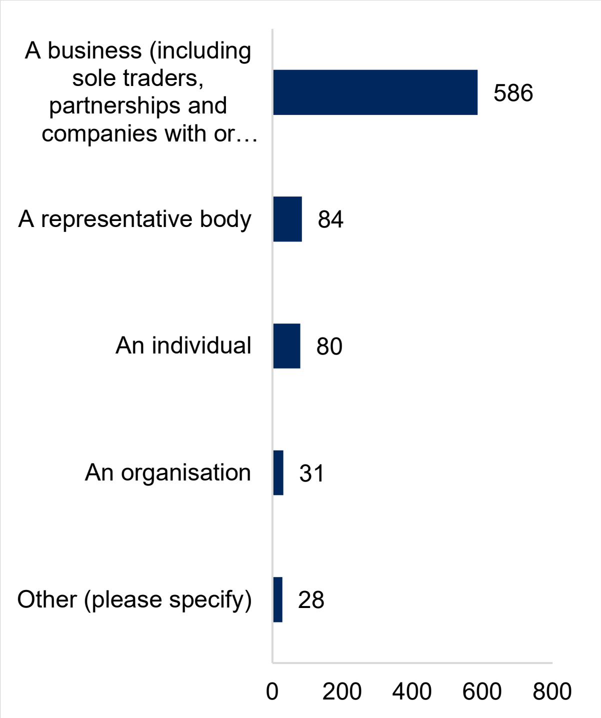
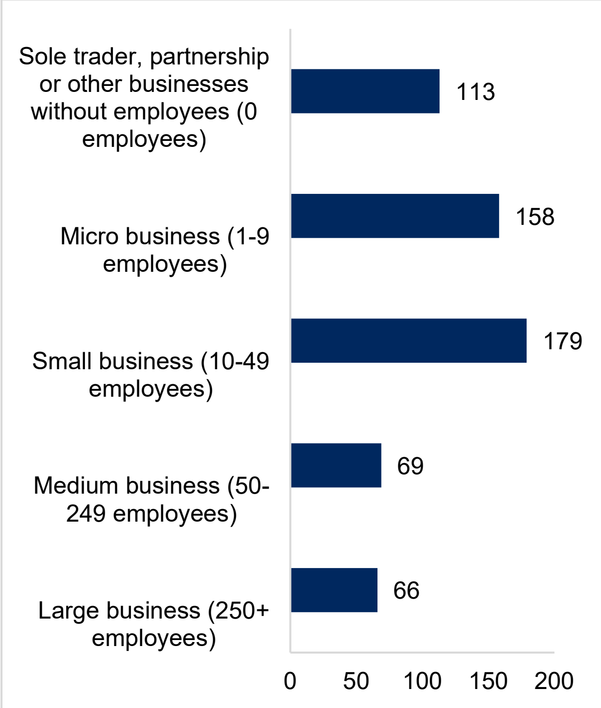


Figure 14 – Consultation response business demographics



56. Responses to the consultation showed broad support for the majority of the policy proposals, as they were presented. The below discusses policy proposals where substantive changes have been made in response to consultation feedback.

Maximum payment terms

57. Responses highlighted support for the principle of maximum payment terms, but also different challenges.

58. Significant numbers of SME responses outlined that a 60-day maximum was still too high, and that a lower maximum payment term should be considered – more closely aligned with businesses often 30-day payment cycles.

59. Importantly, businesses of all sizes gave examples of where longer payment terms can benefit both the purchaser and supplier, creating two ‘winners’ rather than ‘winners’ and ‘losers’. For example, large businesses negotiating with other large businesses can use longer payment terms for effective cash flow management and an important ‘bargaining chip’ in wider contract negotiations. Smaller purchasers can sometime benefit from longer payment terms from larger suppliers, which – particularly in retail markets – allows them to stock and sell a wider variety of products.

60. These responses highlighted important benefits of freedom to contract, and specific instances where longer payment terms can be mutually beneficial. Given the intended policy aims to provide greater protections to smaller suppliers, while balancing the

overall impact on businesses at large, the policy proposal has been changed to include limited size-based exemptions.

61. Maximum payment terms with these exemptions continue to protect smaller suppliers from large businesses who may exploit their market power and ‘impose’ unfavourable long payment terms, but preserve freedom to contract elsewhere, where businesses negotiate on more ‘even footing’.

Audit committees and board-level scrutiny of large company payment practices

62. The consultation proposed 2 options, including:

- Requiring audit committees to provide commentary and recommendations around reported payment behaviour to company directors.
- Having the SBC write to audit committees and company boards when assuring companies’ reported behaviour or otherwise investigating a company’s payment behaviour.

63. Consultation responses were supportive of both options, in terms of providing greater accountability and transparency around large businesses payment practices and performance. Some responses however highlighted some challenges, including a risk of ‘tick-box’ compliance and audit committees not being best placed to consider payment behaviour in every large business.

64. Changes to the policy address these concerns, which now focuses on increased board-level scrutiny of payment practices, requiring additional commentary from boards of persistently late-paying businesses – alongside existing transparency requirements. Specifically:

- Making the requirement a board-level responsibility that boards can delegate to their audit committees (where they have them), ensures that audit committees are involved where they can meaningfully add to the process, but do not need to input by default – particularly if they are not well-placed to comment.
- Limiting the requirement to persistent late-paying large businesses – businesses who have paid more than 25% of their invoices late in the past year – ensures that additional reporting is focussed on the businesses where it could have the most impact.

65. This revised policy works alongside the SBC assurance of reporting data policy presented in the consultation and earlier OA – which was originally intended improve the quality of reporting data and support the reporting regulations original objectives of improving transparency around B2B payment behaviour – and is now included in the SBC investigations and adjudication policy.

Retention payments

66. The consultation presented two options for consideration in relation to retentions payments – either a ban or the creation of a retentions protections scheme.

67. There were 238 responses from businesses, trade associations and individuals within the construction sector, representing large and small businesses within the contracting supply chain, as well as construction clients and professionals.

68. A significant majority suggested that they would favour some kind of reform (87% of responses), with 53% of those responses in support of either option.

69. The responses demonstrated that:

- There is broad agreement on problems with retentions, and that these are subject to unjustified late, partial, and non-payment.
- Retention payments negatively impact cash flow for SMEs in the construction industry, reducing working capital and funds for investment.
- The underlying driver for retentions is an economic benefit for the payer. In addition, respondents indicated that there were alternative contractual mechanisms to secure performance, and that retentions deducted rarely if ever, cover the costs.

70. Written responses were split between the two options, with agreement with the effectiveness of the measures at 62% for a ban, or 65% for a protections measure. There was often the view, however, from a combination of written responses and stakeholder engagement, that a ban would be a simpler for industry to understand, to legislate for, and to enforce.

4. SMART objectives for intervention

Policy objectives

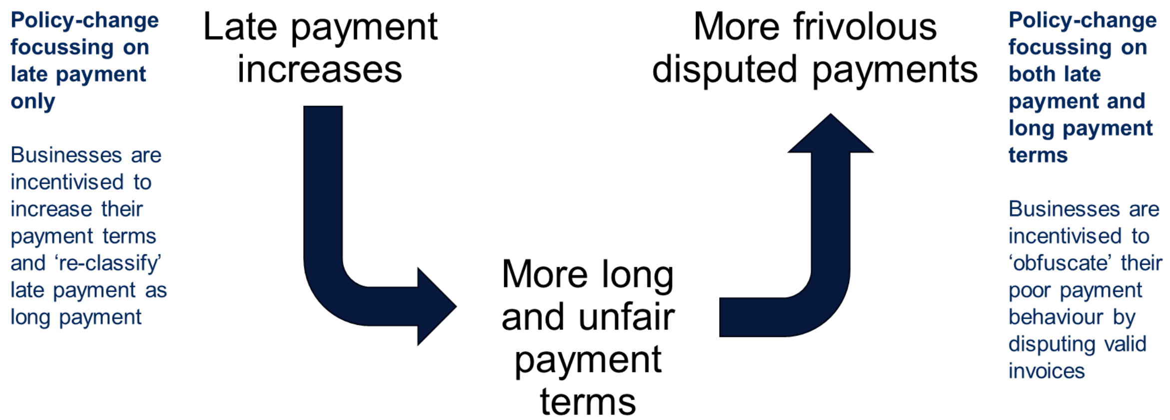
2. The overall policy objectives are to improve B2B payment behaviour, and ensure businesses are paid fairly and on time. Poor B2B payment behaviour is characterised by 4 different but inter-related problems, and the policy measures aim to address them all:

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

3. 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.

4. 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 15 – Relationship between late payment, long payment, and disputed payments



Intended outcomes

5. 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.

6. 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

7. Government objectives focus on 6 different missions that prioritise growing the economy, an NHS fit for the future, safer streets, opportunity for all, and making Britain a clean energy superpower.[35]

8. Policies to reduce poor B2B payment behaviour support the economic growth mission, and directly address a pre-election commitment, which has since been re-articulated in the Government's Plan for Small and Medium Sized Businesses.[36] [37]

9. The plan outlines that addressing poor B2B payment behaviour is part of wider efforts to 'fix the fundamentals' and remove barriers to small businesses growing and prospering over the long-term, making a specific commitment to legislate and introduce a stronger legal framework that gives greater protection to smaller businesses.

10. While the policies *are* expected to create additional administrative burdens – which runs contrary to the Government's commitment to reduce the administrative burden of regulation by 25% by the end of the Parliament – these are consistent with the principles outlined in the Government's Regulation Action Plan.[38] Specifically, where there is a strong evidence base that suggests that new regulation is necessary to address economic, societal and environmental risks, or to promote better outcomes for communities and consumers, the Government will work to ensure that any new regulation is proportionate and provides certainty to both businesses and consumers.

11. The policies have been designed to be proportionate, balancing achieving policy objectives and minimising unnecessary burdens on businesses – see section 9. Minimising administrative and compliance costs for preferred option – and with particular attention to smaller businesses – see Small and Micro Business Assessments (SaMBAs) presented in section 6. Description of shortlisted policy options carried forward.

[35] Plan for Change - GOV.UK
[36] The Beating Heart of our Economy: Labour's Plan for Small Business – The Labour Party
[37] Backing your business: our plan for small and medium-sized businesses - GOV.UK
[38] A new approach to ensure regulators and regulation support growth - GOV.UK

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

Preferred policy option

12. The preferred policy option introduces a range of new measures, aimed at reducing poor B2B payment behaviour. Table 9 outlines the policy options, and maps them to different objectives around reducing late, long, and disputed payments.

Table 9 – Overview of proposed policy measures

Policy grouping	Policy	Late	Long	Disp-uted	Description
SBC powers	**1 – SBC investigations and adjudications**	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 adjudication in disputes, and impose fines or award damages after an investigation or adjudication process.
	2 – Financial penalties for persistent late payment	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 also amend *The Reporting on Payment Practices and Performance Regulations 2017* to include additional reporting requirements around statutory interest liabilities – this data will be used to identify and fine persistently late-paying businesses, with fine amounts based on businesses' unpaid statutory interest liability.
Wider late payment measures	**3 – Stricter maximum payment terms**		X		The policy will amend *The Late Payment of Commercial Debts (Interest) Act 1998*, replacing the current exemption that allows businesses to agree to payment terms longer than 60 days if considered not 'grossly unfair', with limited size-based exemptions. This will effectively limit payment terms between UK businesses to 60 days, except in cases where SMEs may benefit. This provides greater protection to SMEs, while preserving freedom of contract for businesses negotiating on more 'even footing'.
	4 – 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.
	5 – Invoice dispute deadline			X	The policy will amend *The Late Payment of Commercial Debts (Interest) Act 1998*, introducing a statutory invoice dispute deadline. Businesses who wish to raise a dispute will need to do so within the statutory limit, otherwise they will be liable to pay compensation.
	6 – Increased board-level scrutiny of payment practices	X	X		The policy will amend *The Reporting on Payment Practices and Performance Regulations 2017*, requiring persistently late-paying large businesses to provide board-level commentary – alongside existing transparency requirements – which explains their poor payment performance and outlines remedial actions. The policy is designed to bring additional board-level scrutiny to businesses' payment behaviour, focussing on the worst performers.
Retention payments	**7 – Retention payments ban**	X [39]			The policy will amend *Part 2 of the Housing Grants, Construction and Regeneration Act (1996)*, banning retention payments within construction contracts. 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.

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

Theory of change and logic models

13. The IA groups the theory of change and logic models for similar or related policy measures, in line with Table 1 and Table 9, additionally splitting wider late payment measures into statutory framework and redress measures and further transparency measures:

- **Small Business Commissioner (SBC) powers.** 1 – SBC investigations and adjudications and 2 – Financial penalties for persistent late payment.
- **Wider late payment measures (statutory framework and redress measures).** 3 – Stricter maximum payment terms, 4 – Mandatory statutory interest, 5 – Invoice dispute deadline.
- **Wider late payment measures (further transparency measures).** 6 – Increased board-level scrutiny of payment practices.
- **Retention payments.** 7 – Retention payments ban.

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

Small Business Commissioner (SBC) powers

15. Small Business Commissioner (SBC) powers build on the existing remit and powers of the SBC. The policy creates additional powers for the SBC to conduct investigations into poor B2B payment behaviour, impose fines at the end of an investigation or after identifying persistent late payment, and allow it to make legally binding adjudication in disputes between small and large businesses.

16. 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, and administering a compliance and fines regime. 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.

17. Policy outputs will include the publication findings from SBC publications, small business complaints resolved by either informal mediation or legally binding adjudication decisions, and fines and court action for non-compliance with investigations or reporting regulations requirements, or persistent late payment.

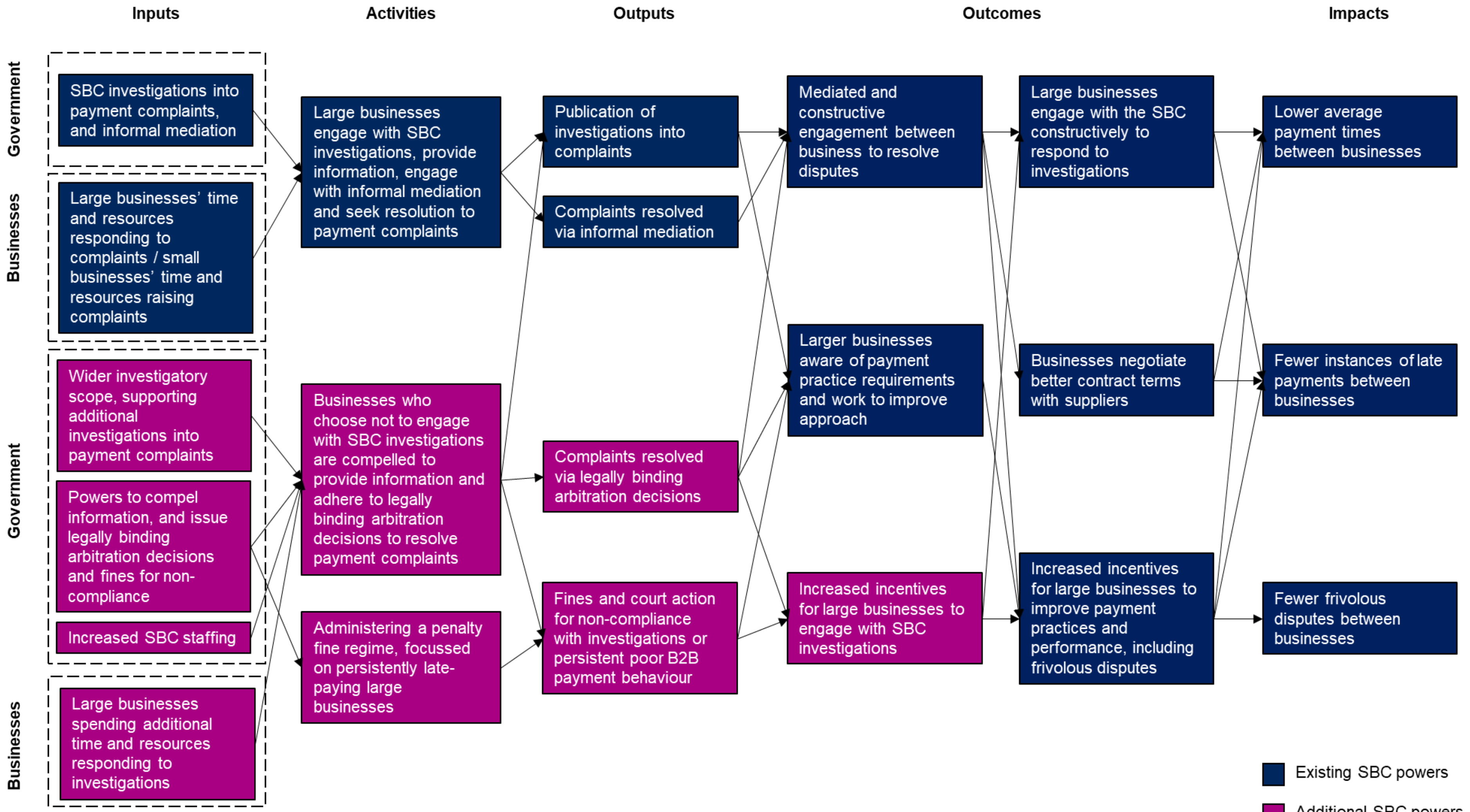
18. The outputs support the overall policy outcomes which involve large businesses engaging constructively with SBC investigations – with additional powers compelling engagement where large businesses have previously been unwilling; and increased incentives for large businesses to improve their B2B payment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

19. 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 adjudication. This was reiterated throughout responses to the consultation which took place between July and October 2025, with businesses of all sizes highlighting a significant shift in the SBC's remit, which would require a different set of skills, and overall more resourcing.

20. 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 adjudication 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.

Figure 16 – SBC powers – Logic model



Wider late payment measures (statutory framework and redress measures)

21. 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, with limited size-based exemptions; make statutory interest that businesses can charge on overdue invoices mandatory; and introduce a statutory invoice dispute deadline, before which disputes need to be raised.

22. Policy inputs, activities, and outputs involve businesses applying the new statutory framework as part of contract negotiation or after invoices have been issued. Most business activity relates to familiarisation with the new rules, but stricter maximum payment terms also introduces new processes in relation to applying for and maintaining limited sized-based exemptions.

23. Maximum payment terms will result in businesses being unable to agree payment terms longer than the statutory maximum, unless they can apply a size-based exemption. This removes the uncertainty or lack of legal clarity around the previous 'unless grossly unfair' exemption, which could be applied in any context. This limitation of the existing law was highlighted throughout the consultation that took place between July and October 2025.

24. Importantly, businesses have rarely used the existing law 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 – in situations where size-based exemptions do not apply – removes these risks, and supports businesses negotiating better contracts with suppliers. Where size-based exemptions do apply, SMEs remain protected, as the policy specifically prevents large purchasers using their bargaining power to impose longer terms on SME suppliers.

25. Mandatory statutory interest, in conjunction with financial penalties for large late-paying businesses – discussed as part of Small Business Commissioner (SBC) powers – 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.[40] Mandatory statutory interest addresses this, making it easier for creditor businesses claim compensation for late payment. A fine regime which makes paying statutory interest a 'cheaper option' for businesses, will also increase the incentives for debtor businesses to pay statutory interest (and subsequently pay more invoices on time).

26. 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 be liable to pay compensation, removing incentives for businesses to raise frivolous disputes.

[40] 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)]

27. 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.

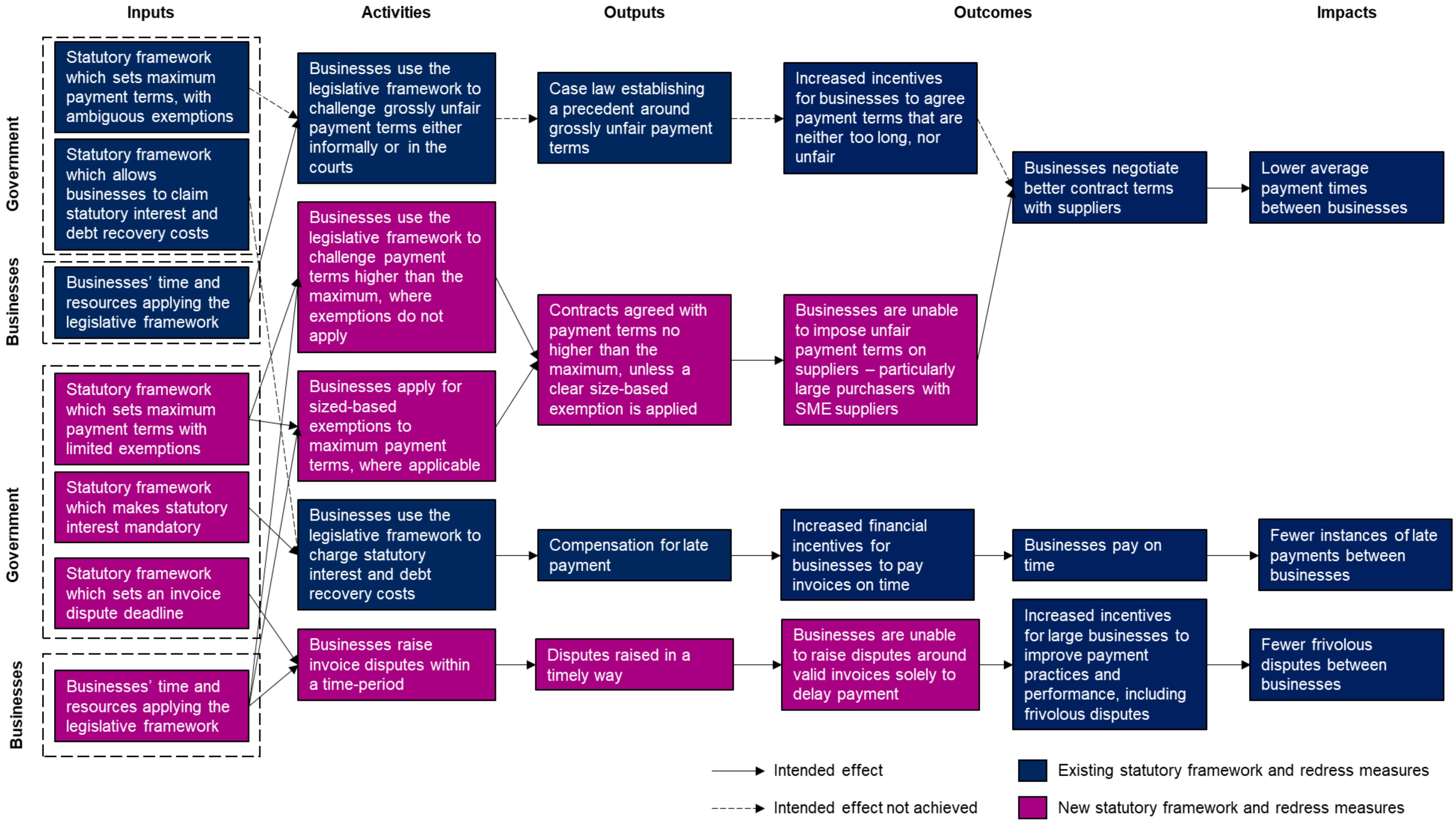
28. In particular, more stringent redress measures like financial penalties and mandatory statutory interest make late payment more costly for businesses, which could lead to more risk averse behaviour. Businesses might set higher payment terms to reduce the likelihood of paying late, which runs contrary to the policy objective of preventing unfair and long payment terms. Maximum payment terms with size-based exemptions mitigate the risk that the policies leading to substantially higher payment terms on average, but payment terms could tend still towards the maximum.

29. 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.

30. Mandatory statutory interest could also fail to change incentives for debtor businesses, if creditor businesses continue to waive their rights to interest. This currently occurs where creditor businesses may not want to damage relationships. Complementary measures – in particular additional SBC powers – partially mitigate this, making it easier for smaller businesses to escalate non-payment of invoices and statutory interest outside of court proceedings.

31. Finally, more stringent redress measures could also lead to businesses wilfully misreporting their B2B payment behaviour under the reporting regulations, given the link between financial penalties and reported information, like percentage of invoices paid late and unpaid statutory interest liability. This is partially mitigated by the SBC’s additional powers to investigate businesses suspected or poor payment behaviour, but misreporting could still take place, with limits on the SBC’s resourcing and its ability to fully investigate non-compliant businesses.

Figure 17 – Statutory framework and redress measures – Logic model



Wider late payment measures (further transparency measures)

32. Further transparency measures build on the reporting requirements introduced by *The Reporting on Payment Practices and Performance Regulations 2017*. The main policy requires the boards of large companies who have paid more than 25% of their invoices late to publish additional commentary – explaining their poor performance and outlining remedial actions – on the GOV.UK reporting portal. Other transparency measures (which enable and are included as part of other policies) also include elements that improve transparency, including additional reporting on statutory interest and SBC investigations and adjudications which can involve the SBC reviewing and assuring data submitted by large businesses under the reporting regulations.

33. The main policy will require additional inputs from businesses complying with the new reporting requirements. This however will be limited to large businesses with the worst payment performance – paying more than 25% of their invoices late. Other transparency measures will also require additional inputs from businesses, in the form of extra reporting requirements and complying with SBC investigations.

34. The main policy activities and outputs will involve affected large businesses reviewing their payment practices and performance, having a board-level discussion, and publishing their commentary on the GOV.UK reporting portal. Other transparency measures will also involve additional reporting on the reporting portal.

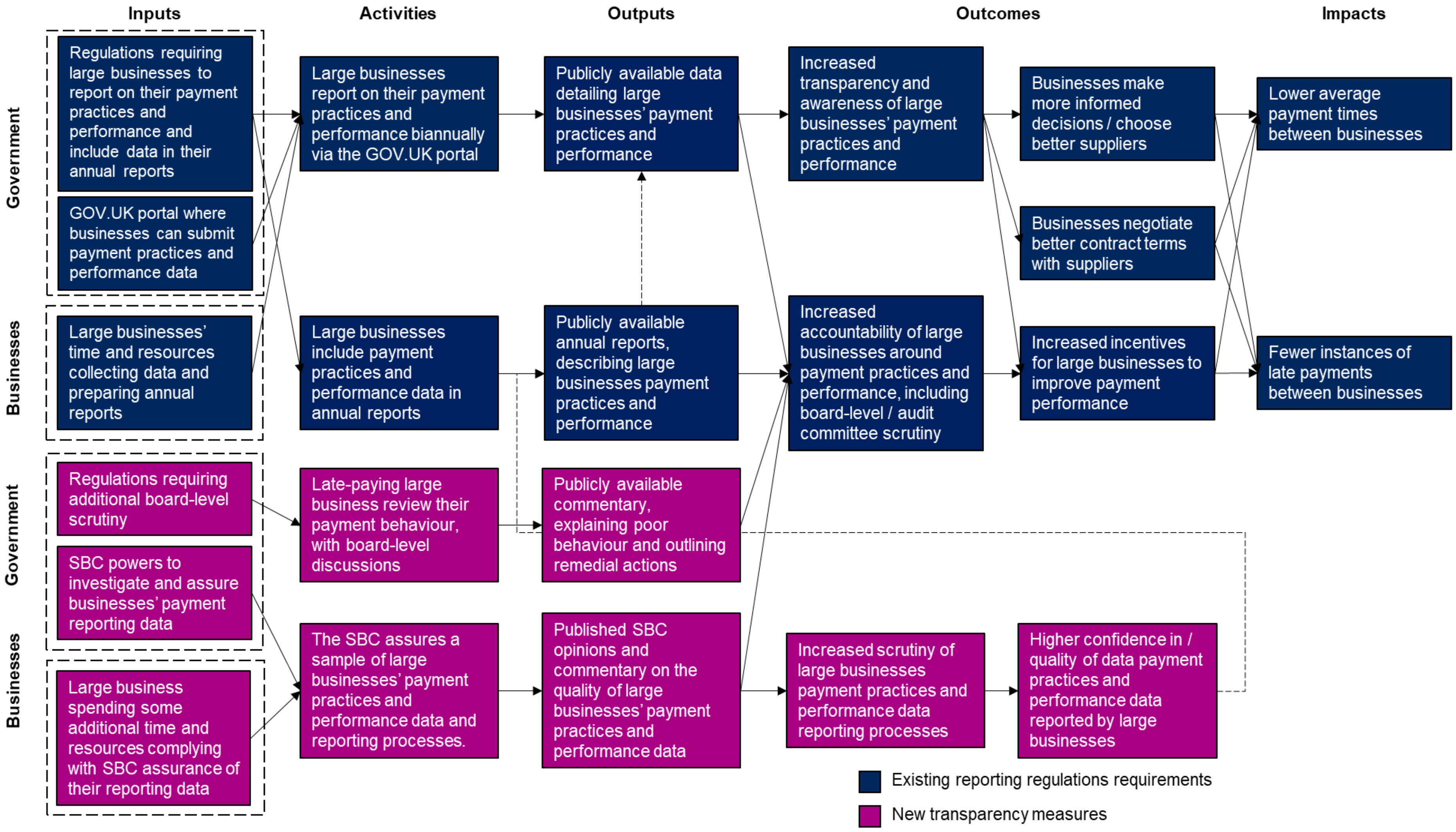
35. Policy outcomes are expected to include increased incentives for large businesses to improve their payment performance. In particular, board-level conversations and remedial action plans are expected to strengthen incentives to for businesses to make changes. The SBC reviewing and assuring data submitted by large businesses under the reporting regulations – as part of investigations – is expected to improve the overall quality of the reporting data. 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.

36. The main policy could have a limited impact if company boards treat the additional requirements as ‘box ticking’ exercises, and do not change their behaviours as a result. The main policy design however mitigates this risk requiring businesses to outline remedial actions, and commenting on their progress against these actions in subsequent periods. This ensures that the changes encourage businesses to take action, rather than just report on their performance.

37. The main policy is also complemented by other measures – like SBC investigations and adjudications and financial penalties for persistent late payment, where the SBC can investigate and fine reporting businesses on the basis of continued poor behaviour – which further mitigates this risk.

38. These however are largely dependent on SBC resourcing, which needs to be sufficient to deliver credible enforcement. Investigating or assuring and reviewing the reporting data of only a small proportion of in scope businesses each year could limit the overall effectiveness of the main 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 18 – Wider transparency measures – Logic model



Retention payments ban

39. The measure will introduce a change to the use of retention payments in the construction industry, via a ban (rather than a retentions protections framework, which was the alternative option previously considered in the Options Assessment).

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

41. Business activity will comply with the new legislation, changing practices to use alternatives to retentions under a ban. As a result, payers (client businesses) will continue to have insurance against defects in buildings, choosing to seek alternative surety or quality driven mechanisms. 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).

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

43. A key outcome 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 be banned. 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.

44. 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.

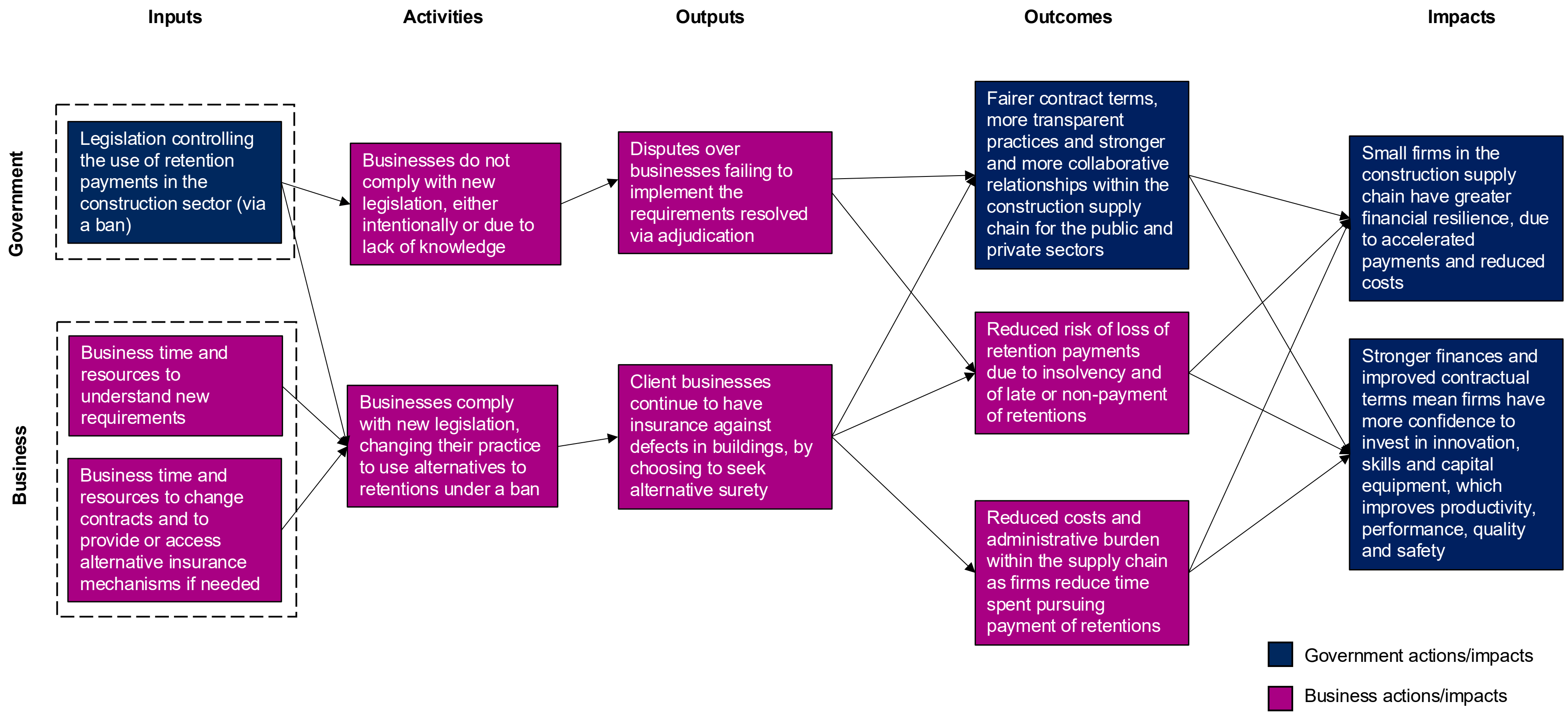
45. The risk of non-compliance by firms has also been considered; the risks and the mitigations are set out below.

46. 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[32] 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.

47. 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.

Figure 19 - Retention payments ban - Logic model



6. Description of shortlisted policy options carried forward

Policy 1 – SBC investigations and adjudications

Policy detail

48. 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 adjudication in disputes; and impose fines at the end of an investigation or process – see Policy 2 – Financial penalties for persistent late payment section, which describes specific fine parameters. The policy overall aims to strengthen the SBC and support its original objectives of helping ensure small businesses are paid on time.

49. The 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.

50. 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.

51. The SBC's complaints scheme can currently only provide 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.

52. Finally, the policy also introduces powers for the SBC to fine businesses in cases where they do not comply with investigations, other SBC decisions, for example:

- Failure to deliver on adjudication award
- Failure to comply with SBC investigations
- Falsifying reporting data (or criminal charges, whichever the SBC deem necessary)
- Deliberate and egregious breaches of payments legislation

53. This would provide a credible enforcement mechanism and deterrence to non-compliance. 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 fine maximum will be aligned with those set by other regulatory arm's-length bodies, like the Grocery Code Adjudicator (GCA), who can fine business up to 1% of their turnover.

54. 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 adjudicate and make legally binding recommendations, and powers to impose financial penalties.
- **B – Do Nothing (Baseline).** No change to current SBC powers.

Table 10 – SBC investigations and adjudications – NPSVs (£m)

Option	Low	Central	High
A – Additional SBC powers (Preferred)	**-£19.47**	**-£24.73**	**-£29.98**
B – Do Nothing	£0.00	£0.00	£0.00

55. The preferred option has an NPSV -£24.73m, 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.

Small and Medium-sized Business Assessment (SaMBA)

56. Up to half of the policy costs incurred by businesses could fall on SMEs, which represents an EANDCB of £0.38m. This is because SMEs typically represent

complainants in SBC cases and therefore incur costs raising a case with and providing information to the SBC.[41] 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.

57. 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.

58. 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 adjudication process with a legally binding SBC decision.

Policy 2 – Financial penalties for persistent late payment

Policy detail

59. The policy will introduce new legislation, which gives the SBC powers to issue financial penalties 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. The policy therefore also changes the reporting regulations, which currently do not require any reporting on statutory interest. Large businesses will now be required to report 2 new metrics, including the amount of statutory interest they have incurred, and the amount of statutory interest they have paid.

60. 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 £10.07.[42] 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*.[43]

61. Because the policy relies on payment behaviour data submitted by businesses under *The Reporting on Payment Practices and Performance Regulations 2017* to identify and fine persistently late-paying businesses, the scope of fines under the policy is therefore also limited to large businesses.[44]

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[41] Costs incurred by SMEs could be lower where cases are raised by third-party organisations on behalf of SMEs.
[42] Based on a 3.75% Bank of England base rate, and 8% statutory interest.
[43] The Reporting on Payment Practices and Performance (Amendment) Regulations 2024
[44] Businesses need to report under the reporting regulations if they meet 2 or more thresholds on their last 2 balance sheet dates: £54 million annual turnover, £27 million balance sheet total, 250 employees.

62. 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.

63. The reporting regulations have previously only monitored the number of invoices paid late, and not the value of invoices paid late. Some businesses may have tried 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 took effect in 2025, require businesses to additionally report on the value of invoices and circumvent this behaviour.

64. The preferred option sets the maximum fine amount at 1% of annual turnover, in line with fines payable under Policy 1 – SBC investigations and adjudications, which is itself aligned with powers held by other regulatory arm's-length bodies, like the GCA.

65. 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.

66. 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.[45]

67. 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 4 – Mandatory statutory interest section – and addresses problems relating to the current statutory framework, which create limited incentives for businesses to pay on time.[46]

68. A secondary aim of the policy is further improving transparency around B2B payment behaviour, addressing an information asymmetry between large businesses and their suppliers. New reporting on large businesses unpaid statutory interest liabilities 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.

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[45] 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)

[46] Businesses can claim interest at 8% above the Bank of England base rate.

69. The IA 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.

- **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 1% of annual turnover.
- **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 financial penalties for persistent late-paying large businesses.

Table 11 – Financial penalties for persistent late payment – NPSVs (£m)

Option	Low	Central	High
A – 25% threshold (Preferred)	**-£12.00**	**-£20.37**	**-£22.32**
B – 20% threshold	-£12.00	-£20.37	-£22.32
C – 10% threshold	-£12.00	-£20.37	-£22.32
D – Do Nothing	£0.00	£0.00	£0.00

70. The preferred option has an NPSV -£20.37m, 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 all 'Do Something' options, representing the costs of the SBC enforcing the fine regime, and businesses submitting additional reporting information. Option A and the 25% threshold is preferred, as this aligns with the policy objective of targeting the worst performing businesses.

SaMBA

71. 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.[47] SMEs do not therefore incur any additional costs.

72. 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 3 – Stricter maximum payment terms

Policy detail

[47] Businesses need to report under the reporting regulations if they meet 2 or more thresholds on their last 2 balance sheet dates: £54 million annual turnover, £27 million balance sheet total, 250 employees.

73. 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 however maintain limited, primarily sized-based exemptions, including where:

- Both parties are large businesses
- The purchaser is the smaller party
- At least one company is based outside the UK

74. The policy is designed is reduce unfair payment terms in contracts, particularly protecting smaller suppliers against larger purchasers. Larger businesses often have greater bargaining power when negotiating payment terms, which can lead to poor outcomes for smaller businesses. Primarily sized-based exemptions address imbalances in bargaining power, while maintaining freedom to contract amongst parties who are negotiating on ‘even footing’ – larger businesses can continue to agree longer terms between themselves (where beneficial), but will no longer be able to ‘impose’ unfavourable terms on smaller suppliers.

75. 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.

76. The policy will have differential impacts on different sectors, particularly those currently characterised by longer payment terms. The policy does not however consider exemptions based on sectors, only the size of relevant purchasers and suppliers.

77. The IA considers 5 sub-options, including the preferred option and a Do Nothing option. This adds to the options considered as part of the OA, reflecting additional policy development around exemptions, following feedback through the consultation. The sub-options vary both the extent to which the policy reduces maximum payment terms, ranging between 60 days and 45 days, and whether exemptions can be applied or not.

- **A – 60-45 days, with sized-based exemptions.** Stricter maximum payment terms are introduced in FY27/28, which limit payment terms to 60 days, with limited sized-based exemptions. The limit is reduced to 45 days in FY32/33.
- **B – 60 days, with sized-based exemptions (Preferred).** As in Option A, but the limit on payment terms does not reduce below 60 days in FY27/28.
- **C – 60-45 days.** The ‘not grossly’ unfair exception is removed in FY27/28, introducing a ‘hard limit’ on payment terms of 60 days, with no exemptions. This limit is reduced to 45 days in FY32/33.
- **D – 60 days.** As in Option C, but the limit on payment terms does not reduce below 60 days in FY27/28.
- **E – Do Nothing (Baseline).** No change to current limits on payment terms.

Table 12 – Stricter maximum payment terms – NPSVs (£m)

Option	Low	Central	High
A – 60-45 days with limited exemptions	-£110.08	-£129.35	-£142.21
B – 60 days with limited exemptions (Preferred)	**-£46.33**	**-£58.52**	**-£64.29**
C – 60-45 days with no exemptions	-£7.74	-£7.90	-£8.69
D – 60 days with no exemptions	-£1.37	-£1.52	-£1.67
E – Do Nothing (Baseline)	£0.00	£0.00	£0.00

78. The preferred option has an NPSV -£58.52m, 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. Options which do not include exemptions are discounted, as – although much less costly – exemptions preserve businesses' freedom to contract in scenarios where businesses are negotiating on an 'even footing'.

SaMBA

79. SMEs incur 27% of total policy costs, and large businesses 73%. The distribution of costs is impacted by 2 main effects acting in the opposite direction:

- Higher per business costs for large businesses, who need to undertake more activity when applying for and maintaining size-based exemptions. This increases large businesses' overall share of total policy costs.
- Higher numbers of affected SMEs, which increases SMEs' overall share of total policy costs. Importantly, this reflects the underlying distribution of businesses in the economy, where SMEs represent more than 99% of UK businesses.

80. Importantly, SMEs are the primary beneficiaries of the policy. 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.

81. 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.

82. The policy does not create specific mitigations for SMEs but does however provide an extended transition period for all businesses, with policy changes expected to take effect from FY2027/28 at the earliest.

Policy 4 – Mandatory statutory interest

Policy detail

83. 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:

- 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.
- 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.[48] [49]

84. 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 fixes the rate of statutory interest at 8%, preventing businesses agreeing terms that unfairly favour debtor businesses, in cases of late payment. This means that where invoices are paid late, debtor businesses will always be liable to pay statutory interest.

85. Creditor businesses may however still choose to waive their right to statutory interest, but the incentives to do should be limited. Other measures – particularly additional powers for the SBC – provide smaller businesses with much easier routes to escalate non-payment of invoices and statutory interest outside of court proceedings, where legal costs and uncertainty may have previously discouraged them.

86. 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.

87. The IA 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 businesses able to agree rates less than 8%.
- **B – Mandatory statutory interest (Preferred).** Statutory interest is made mandatory and fixed at a rate of 8% where invoices are paid late.

Table 13 – 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)	**-£16.71**	**-£18.57**	**-£20.43**

88. The preferred option has an NPSV of -£18.57m, which is negative and higher than other shortlisted options. This is however largely because benefits are not monetised.

[48] 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
[49] 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)

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

89. 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.[50]

90. 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.

91. Like Policy 3 – Stricter 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 applies, 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.

92. 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.[51]

Policy 5 – Invoice dispute deadline

Policy detail

93. The policy will amend *The Late Payment of Commercial Debts (Interest) Act 1998*, introducing a statutory invoice dispute deadline. Businesses who wish to raise a dispute will need to do so within the statutory limit, otherwise they will be liable to pay compensation.

94. 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 statutory limit would give businesses enough time to assess whether the goods or services they have received are satisfactory, but fall within maximum 60-day payment terms – see Policy 3 – Stricter maximum payment terms section. This means that disputed payments are less likely to be paid late,

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

requiring businesses to raise disputes earlier and leaving more time for dispute resolution.

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

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

- **A – Invoice dispute deadline (Preferred).** Businesses who wish to raise a dispute will need to do so within a statutory limit. Invoices that are disputed after the deadline will be subject to compensation.
- **D – Do Nothing (Baseline).** No change to current dispute resolution process.

Table 14 – Invoice dispute deadline – NPSVs (£m)

Option	Low	Central	High
A – Invoice dispute deadline (Preferred)	**-£16.71**	**-£18.57**	**-£20.43**
B – Do Nothing	£0.00	£0.00	£0.00

97. The preferred option has an NPSV -£18.57m, which is negative and higher than other shortlisted options. This is however largely because benefits are not monetised. Importantly, a statutory 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.

SaMBA

98. 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.

99. 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.

100. Like Policy 3 – Stricter 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.

101. 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 6 – Increased board-level scrutiny of payment practices

Policy detail

102. The policy will amend *The Reporting on Payment Practices and Performance Regulations 2017*, creating an additional requirement for the boards of large UK businesses who have made more than 25% of their payments late within the past year to publish commentary on the GOV.UK reporting portal, outlining:

- Why the payment performance is poor
- The companies intended actions to improve their payment performance
- Which actions from previous commentary have not been implemented and why

103. Company boards will be responsible for providing this commentary, with the option to delegate this to their audit committee, where they have one.

104. The policy is designed to bring additional board-level scrutiny to businesses' payment behaviour, focussing on the worst performers – businesses who've paid more than 1 in 4 invoices late in the past year. This balances additional transparency – intended to encourage improvements in payment behaviour – against additional burdens incurred by businesses through reporting, with only the worst performers needing to provide additional commentary.

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

- **A – Increased board-level scrutiny of payment practices (Preferred).** Large businesses who report on their payment behaviour under the reporting regulations, and pay more than 25% of their invoices late are required provide additional commentary on their payment behaviour and outline remedial actions.
- **B – Do Nothing (Baseline).** No changes to the existing reporting regulations.

Table 15 – Increased board-level scrutiny of payment practices – NPSVs (£m)

Option	Low	Central	High
A – Increased board-level scrutiny of payment practices (Preferred)	**-£7.87**	**-£41.62**	**-£51.14**
B – Do Nothing	£0.00	£0.00	£0.00

106. The preferred option has an NPSV -£41.62m, 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.

SaMBA

107. 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.[52] SMEs do not therefore incur any additional costs.

108. 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 7 – Retention payments

Policy detail

109. 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 a prohibition on 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.

110. 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.

111. 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.

112. The IA considered 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.

113. At this stage of the assessment, Option A has been selected primarily because it achieves the intended outcomes with lower estimated costs to businesses than Option B, as shown below.

[52] Businesses need to report under the reporting regulations if they meet 2 or more thresholds on their last 2 balance sheet dates: £54m annual turnover, £27m balance sheet total, 250 employees.

Table 16 – Retention payments – NPSVs (£m)

Option	Low	Central	High
A – Ban of retention payments (Preferred)	**-£86.41**	**-£1,071.80**	**-£8,064.89**
B – Retentions protection framework	-£244.46	-£1,565.72	-£11,257.47
C – Do Nothing	£0.00	£0.00	£0.00

114. The preferred option has an NPSV of -£1,072m, 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

115. In 2025, around 300 (<0.1%) of the 385,000 registered construction businesses in the UK were large (250 or more employees), with all others being SMEs[53].

116. 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.

117. 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.

[53] DBT Business population estimates 2025 - https://www.gov.uk/government/statistics/business-population-estimates-2025

8. Monitoring and evaluation of preferred option

Approach

118. 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.

119. 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

120. 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

121. 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.[54] This directly links to understanding to what extent the policies have reduced instances of late payment and unfair and long payment terms.

122. Importantly, because the reporting regulations were introduced in 2017, baseline data already exists – see Table 17.[55] And from 2025, following *The Reporting on Payment Practices and Performance (Amendment) Regulations 2024*, large businesses now also have report on the value of invoices that they pay, which supplements and improves the existing reporting data.

Table 17 – Reporting regulations baseline data

Year	Time to pay (days)	Average percentage of invoices paid late (%)	Number of Reports (#)
2018	35	26%	12,594
2019	34	23%	13,227
2020	34	23%	12,445
2021	33	20%	12,151
2022	33	20%	11,843
2023	32	18%	11,913
2024	32	16%	11,871

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

123. 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.

124. Currently, there is only limited monitoring data which looks at unfair practices around construction retention payments.[56] Changes made to the existing reporting regulations through *The Reporting on Payment Practices and Performance (Amendment) Regulations 2025*, which came into effect in 2025, however now provide an effective source of monitoring information.[57] The amended reporting regulations 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

125. 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

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

127. 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.

128. 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:

[56] 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.
[57] 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.

129. 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.

9. Minimising administrative and compliance costs for preferred option

130. 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 FY2027/28, 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.[58] [59] Equivalent guidance will be developed and published explaining changes in policy and what this means for businesses.
- Ensuring simple reporting processes, where relevant. Some proposed policies – like financial penalties for persistent late payment which includes additional reporting on statutory interest – build 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.

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

Declaration

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Minister:

Peter Kyle, the Secretary of State for Business and Trade and President of the Board of Trade

I have read the Impact 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:

Date: 16 February 2026

Annex A: Summary options analysis

Table 18 – Summary options analysis

Option	Do Nothing (baseline)	All 7 policies (Preferred)
Net present social value	No change to existing policies.	• The preferred option has an estimated NPSV of -£1,254.18m, with low and high estimates ranging between -£205.51m and -£8,273.49m. • 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 -£1,071.80m
Public sector financial costs	No change to existing policies.	• The preferred option has an estimated public sector financial cost of £21.45m over the 10-year appraisal period, with low and high estimates ranging between £17.68m and £25.22m. • Public sector costs are incurred exclusively by the SBC, as part of policies which require additional SBC activity – investigations, adjudication, and financial penalties. The costs reflect increased staffing required to deliver new activities.
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 IA 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 IA presents Low / High ranges for each policy option. The banning retention payments policy is particularly sensitive to assumptions, with NPSV estimates ranging between -£86.41m and -£8,064.89m.

Price base year: FY2024/25 **PV base year:** FY2025/26 **Appraisal period:** FY2027/28 to FY2036/37

Table 19 – Estimated NPSVs

#	Policy	Low	Central	High
1	SBC investigations and adjudication	-£19.47	-£24.73	-£29.98
2	Financial penalties for persistent late payment	-£12.00	-£20.37	-£22.32
3	Stricter maximum payment terms	-£46.33	-£58.52	-£64.29
4	Mandatory statutory interest	-£16.71	-£18.57	-£20.43
5	Invoice dispute deadline	-£16.71	-£18.57	-£20.43
6	Increased board-level scrutiny of payment practices	-£7.87	-£41.62	-£51.14
7	Retention payments ban	-£86.41	-£1,071.80	-£8,064.89
	Total	**-£205.51**	**-£1,254.18**	**-£8,273.49**

Table 20 – Estimated transfers

#	Policy	Low	Central	High
1	SBC investigations and adjudication	-	-	-
2	Financial penalties for persistent late payment	-	-	-
3	Stricter maximum payment terms	-	-	-
4	Mandatory statutory interest	£321.36	£357.07	£392.78
5	Invoice dispute deadline	-	-	-
6	Increased board-level scrutiny of payment practices	-	-	-
7	Retention payments ban	£4,669.36	£9,151.77	£13,651.18
	Total	**£4,990.72**	**£9,508.84**	**£14,043.96**

Table 21 – Estimated business NPVs

#	Policy	Low	Central	High
1	SBC investigations and adjudication	-£6.09	-£8.05	-£10.01
2	Financial penalties for persistent late payment	-£9.85	-£17.98	-£19.70
3	Stricter maximum payment terms	-£46.33	-£58.52	-£64.29
4	Mandatory statutory interest	-£16.71	-£18.57	-£20.43
5	Invoice dispute deadline	-£16.71	-£18.57	-£20.43
6	Increased board-level scrutiny of payment practices	-£7.87	-£41.62	-£51.14
7	Retention payments ban	-£86.41	-£1,071.80	-£8,064.89
	Total	**-£189.98**	**-£1,235.12**	**-£8,250.90**

Table 22 – Estimated EANDCBs

#	Policy	Low	Central	High
1	SBC investigations and adjudication	£0.55	£0.76	£0.97
2	Financial penalties for persistent late payment	£1.14	£2.09	£2.29
3	Stricter maximum payment terms	£5.38	£6.80	£7.47
4	Mandatory statutory interest	£1.94	£2.16	£2.37
5	Invoice dispute deadline	£1.94	£2.16	£2.37
6	Increased board-level scrutiny of payment practices	£0.91	£4.84	£5.94
7	Retention payments ban	£10.04	£124.48	£936.69
	Total	**£21.91**	**£143.28**	**£958.10**

Table 23 – Estimated EANDCHs

#	Policy	Low	Central	High
1	SBC investigations and adjudication	-	-	-
2	Financial penalties for persistent late payment	-	-	-
3	Stricter maximum payment terms	-	-	-
4	Mandatory statutory interest	-	-	-
5	Invoice dispute deadline	-	-	-
6	Increased board-level scrutiny of payment practices	-	-	-
7	Retention payments ban	-	-	-
	Total	**-**	**-**	**-**

Table 24 – Estimated business admin burden

#	Policy	Low	Central	High
1	SBC investigations and adjudication	£0.55	£0.76	£0.97
2	Financial penalties for persistent late payment	£1.14	£2.09	£2.29
3	Stricter maximum payment terms	£5.38	£6.80	£7.47
4	Mandatory statutory interest	£1.94	£2.16	£2.37
5	Invoice dispute deadline	£1.94	£2.16	£2.37
6	Increased board-level scrutiny of payment practices	£0.91	£4.84	£5.94
7	Retention payments ban	£0.85	£2.16	£3.91
	Total	**£12.72**	**£20.96**	**£25.32**

Annex B: Costs and benefits analysis

Costs and benefits to business calculations

131. Costs and benefits to business calculations are described in detail in the following sections. Analyses of individual policies are presented separately, explaining the main calculation steps and any relevant assumptions.

Impact on small and micro businesses

132. SaMBAs for each policy are outlined in section 6. Description of shortlisted policy options carried forward for each policy which forms part of the overall package. SaMBAs are presented here, as they in part inform how preferred options across the policies have been decided.

Costs and benefits to households' calculations

133. The IA does not calculate costs to households, instead focussing on businesses, as the entities that are directly impacted by the policies. Overall, the policies are expected to result in a net positive impact on businesses, but with some 'winners' and some 'losers'. Businesses who incur additional costs might pass these through to consumers, but this would likely be offset by businesses who benefit under the policies.

134. On balance, given the overall impact on businesses is assessed as positive, the overall impact on households could – at worst – be neutral. For illustrative purposes only, the IA considers a 'worst-case' scenario in which all business costs are passed through to consumers. Under these assumptions, each household could incur additional costs amounting to approximately £5 per year – a very small amount.[60]

Risks and assumptions

135. Table 25 and Table 26 outline the main risks and assumptions made as part of the IA cost-benefit analysis. Most risks relate to the absence of reliable data needed to estimate how businesses may be impacted.

[60] The IA divides the total EANDCB of the policies by the number of households in the UK in 2024 – [Families and households in the UK - Office for National Statistics].

Table 25 – Analytical risks and assumptions (Part 1)

Policy	Risk / Assumption
1 – SBC investigations and adjudications	• Business and SBC time costs relating to SBC investigations and adjudications are uncertain, as they are entirely new processes. Estimates have been developed with the SBC's current casework team, building on existing processes and management information where available, and making assumptions elsewhere – for example, the likelihood that an investigation or adjudication would progress to different stages or result in different outcomes. • The number of cases that the SBC will undertake is uncertain, and it's generally difficult to predict or forecast future case volumes. The IA assumes that demand from businesses for investigations or adjudications will ultimately outstrip supply, and therefore 'works backwards' from an expected budget – the number of cases costed are the maximum number that the SBC could undertake with a given increase in its budget. If case volumes are under-estimated, SBC casework resources may be under-utilised, or vice versa. • The IA follows a simplified approach for estimating costs to businesses as a result of SBC investigations or adjudications, assuming that both the complainant and complainee business face equivalent costs, in line with the SBC's own time costs. In reality, costs to businesses may differ – for example, more complex cases could incur more costs for the complainee who may need to take additional steps to comply with SBC requests. This means that costs could be over- / under-estimated.
2 – Financial penalties for persistent late payment	• Business behaviour with respect to fines is uncertain, and the IA assumes that businesses actively change their payment practices to avoid fines. This is consistent with incentives across financial penalties, which are linked to unpaid statutory interest liabilities, but not all businesses may act rationally. • The cost of an SBC team administering the fine regime is based on current business planning, and reflects compliance / fine team structures in other parts of government. Costs are ultimately 'demand-led', depending on the number of potential fines the SBC could pursue, and could therefore be over- / under-estimated.
3 – Stricter maximum payment terms	• The number of businesses affected by stricter maximum payment terms is fundamentally based on survey data which asks businesses about their typical contractual payment terms. The reported figures are lower in places than other data source – particularly compared to large businesses reporting under the reporting regulations. This means that costs could be under-estimated, but a better source of complete data (covering all-sized businesses) is currently not available. • Business time costs relating to applying for and maintaining exemptions are subject to uncertainty, as entirely new processes. Business time costs have been tested with stakeholders as part of post-consultation engagement but could still be over- / under-estimated. • Business behaviour with respect to applying for exemptions is uncertain. The IA assumes that all eligible businesses apply for exemptions, but this could over-estimate uptake and associated costs. • Supplier numbers – which inform costs estimates relating to applying for and maintaining exemptions – are estimated from experimental ONS data, making assumptions about purchaser-supplier relationships and payment cycles. Supplier number estimates are more likely over-estimated, as the analysis assumes that each payment represents a purchaser-supplier relationship, where – in reality – a purchaser may make multiple payments to the same supplier each month.

Table 26 – Analytical risks and assumptions (Part 2)

Policy	Risk / Assumption
4 – Mandatory statutory interest	• The number of businesses affected by mandatory statutory interest is fundamentally based on survey data which asks whether businesses ever formally pursue late payment – this is an imperfect proxy for whether businesses apply statutory interest and means the estimates could be over- / under-estimated. Importantly, the statutory interest payments represent transfer and provided to contextualise the likely scale of the change only. • The number of businesses who need to familiarise themselves with the change is informed by LSBS data, which asks whether businesses offer trade credit to their business customers – this is an imperfect proxy for whether a business will be affected by mandatory statutory interest, assuming that all businesses using trade are affected, likely over-estimating costs.
5 – Invoice dispute deadline	• The number of businesses who need to familiarise themselves with the change is informed by LSBS data, which asks whether businesses offer trade credit to their business customers – this is an imperfect proxy for whether a business will be affected by an invoice dispute deadline, assuming that all businesses using trade are affected, likely over-estimating costs.
6 – Increased board-level scrutiny of payment practices	• Business time costs relating to providing board-level scrutiny of payment practices are uncertain, as an entirely new process. Business time costs have been tested with stakeholders as part of post-consultation engagement but could still be over- / under-estimated. • Business behaviour with respect to increased reporting requirements is uncertain. The IA assumes that businesses do not change their behaviour, and therefore estimates a 'worst case' cost. This is inconsistent with the approach to financial penalties for persistent late payment, but reflects that additional reporting costs are 'real costs' rather than transfers and over-estimating business costs is generally preferred to under-estimating business costs. In reality, businesses are likely to change their behaviour to avoid additional reporting requirements (and also financial penalties, which use the same performance 'trigger'), meaning costs are likely over-estimated.
7 – Retentions payments ban	• Many key numerical assumptions are based on government-commissioned research carried out by Pye Tait using survey data from FY2015/16.[61] This 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. • The cost calculations are particularly sensitive to the bond premia assumptions, but the market is currently small and hence evidence is limited. This uncertainty is reflected in the wide range between the low and high total cost estimates.

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

Policy 1 – SBC investigations and adjudications

Costs overview

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

137. The IA focusses on investigation and adjudication 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, and costs of fines are primarily considered under Policy 2 – Financial penalties for persistent late payment. The IA 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).

Business affected

138. On average, the SBC currently receives 900 cases from small businesses each year, including complaints and enquires. This volume represents baseline levels considered as part of Option B – Do nothing.

139. The IA assumes that additional powers under Option A – SBC investigations and adjudications will increase the SBC's workload to 1,200 – including 1,100 adjudications and 100 investigations. This represents an overall workload increase of over 33%. 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.

140. Importantly, predicting how caseloads will behave after introducing additional SBC powers is difficult. Therefore, the IA has worked backwards, estimating the maximum number of cases and investigations that the SBC can undertake given an estimated budget. The assumptions have been developed and tested with the SBC, but are still subject to uncertainty.

141. The estimated case numbers directly translate to businesses affected, and the IA assumes that each case will involve 2 businesses – a complainant and a complainee.

Casework time requirements

142. The IA calculates overall casework costs by considering the average time requirement for each investigation or adjudication. This involves a detailed 'bottom-up' assessment of the different steps and actions involved in the investigation and adjudication processes informed by SBC stakeholders. These timings are multiplied by the estimated number of cases to give a total caseload time requirement. Importantly,

because casework time estimates are given as a range, the IA calculates its Central estimate as the midpoint between Low and High Estimate.

143. To differentiate between SBC workload and the costs incurred by businesses of either raising or complying with SBC investigations or adjudications, the IA calculates costs to government and businesses separately. Importantly, the IA 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; and because each case will involve both a complainant and complainee, the IA doubles the time requirement for businesses, as both parties will need to engage with the casework.

Table 27 – Time requirements for SBC casework[62]

Type of casework	SBC time requirement (hours)	Business time requirement (complainant and complainee) (hours)
Initial enquiries from businesses	4 to 7 hours	8 to 15 hours
Investigation and reconsideration of cases	3 to 6 hours	6 to 12 hours
Case escalation to casework manager, head of operations and chief of staff	7 to 9 hours	14 to 18 hours
Case escalation to commissioner and review	8 to 12 hours	16 to 23 hours
Final evidence review and drafting responses	7 to 11 hours	14 to 22 hours
Meeting with respondents and conducting adjudication	22 to 42 hours	44 to 84 hours
Drafting closing submissions and preparing enforcement action	10 to 12 hours	20 to 24 hours
Adjudication appeals	11 to 16 hours	22 to 32 hours

[62] Timings are rounded to the nearest hour.

Table 28 – Time requirements for SBC investigations[63]

Step in Investigation process	SBC time requirement (hours)	Business time requirement (complainant and complainee) (hours)
Initial assessment and escalation of reminders to business	3 hours	6 hours
Escalation to investigation and case reviewed by senior management	12 to 21 hours	25 to 43 hours
Notification of formal investigation and meeting with the business	8 to 17 hours	16 to 34 hours
Evidence considered, case reviewed and evidence file prepared	14 to 30 hours	28 to 60 hours
Legal review and report on prosecution	12 to 25 hours	24 to 50 hours
Decision-making	5 to 10 hours	10 to 20 hours
Appeals and enforcement process	5 to 15 hours	10 to 30 hours

Casework costs

144. The IA 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. Hourly wages are adjusted for non-wage costs and overheads where appropriate, to ensure estimates reflect the total cost of employment, and not just salary costs.

PVCs and EANDCBs

145. The preferred option has a PVC of £27.12m, and an EANDCB of £0.76m per year. These costs comprise ongoing costs only, and no familiarisation costs.

146. Unlike other policies, this policy also calculates the PVC of the baseline (Do Nothing), later netting these off when calculating NPSV and EANDCB values.

[63] Timings are rounded to the nearest hour.

Table 29 – SBC investigations and adjudications – PVCs (£m)

Option	Low	Central	High
A – Additional SBC powers (Preferred)	**£21.63**	**£27.12**	**£32.61**
B – Do Nothing	£2.15	£2.39	£2.63

Table 30 – SBC investigations and adjudications – EANDCBs (£m)

Option	Low	Central	High
A – Additional SBC powers (Preferred)	**£0.55**	**£0.76**	**£0.97**
B – Do Nothing	£0	£0	£0

Benefits

147. The IA 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, which will predominantly benefit SMEs.

148. Potential outcomes from SBC investigations and adjudications involve changes in large business behaviour, which improve their payment practices and performance, or resolutions to payment disputes which could involve SMEs recovering unpaid monies or enjoying improved payment terms, where previous arrangements have been unlawful or exploitative.

149. Other 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 'break even'.

Policy 2 – Financial penalties for persistent late payment

Costs

150. Policy costs include the costs to government of administering a fine regime, and the costs to businesses of additional reporting requirements – which support the fine regime – and the cost of fines themselves.

151. The IA estimates the cost of government administering the fine regime in terms of total employment costs for a team of SBC compliance officers. The IA assumes that the team comprises 1 manager and 3 administers, totalling £0.30m per year in employment costs.

152. The IA estimates the cost of additional reporting requirements in line with the approach outlined in the IA that accompanied *The Reporting on Payment Practices and Performance (Amendment) Regulations 2024*, considering both familiarisation costs and ongoing costs.[64]

153. The per business costs are based on survey data collected in 2016, which supported the IA accompanying the original reporting regulations – *The Reporting on Payment*

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

Practices and Performance Regulations 2017.[65] 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 31 – Per business costs associated with additional statutory interest reporting requirements

Cost type	Costs (£)
Familiarisation	£174.81
Ongoing	£199.78

154. 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 IA considers different sources of data to establish Low / Central / High estimates for the number of businesses affected – see Table 32.

Table 32 – 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 [66]	The number of businesses currently reporting under the reporting regulations	6,227
Central	Inter-Department Business Register (IDBR) data [67]	The number of businesses who meet the reporting thresholds in IDBR data	11,368
High	Financial Analysis Made Easy (FAME) data [68]	The number of businesses who meet the reporting thresholds in FAME data	12,454

Assumptions around business behaviour

155. Importantly, given how the penalty fine regime works in conjunction with changes to statutory interest – see Policy 4 – Mandatory statutory interest – the IA 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 33 – 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.

[65] 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.
[66] 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 2024.
[67] 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 2023 and 2024, 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.
[68] FAME data relies on company accounts, where some companies submit consolidated accounts across company groups. As a result, FAME data can over-estimate the number of businesses meeting certain turnover or balance sheet thresholds, counting group figures as individual figures. To prevent against over-estimating business numbers, the analysis reduces company groups with consolidated accounts to a single entry before counting the number of businesses that exceed the relevant thresholds.

Table 33 – Example costs to businesses – statutory interest vs. financial penalties

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**

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

157. The IA 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 financial penalties. Table 34 shows the percentage of businesses who on average exceeded the different fine thresholds in the reports they submitted in 2024.

Table 34 – 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	**36%**	**4,036**
20% or more	44%	4,958
10% or more	65%	5,431

Assumptions around other costs

158. The IA 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 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.[69]

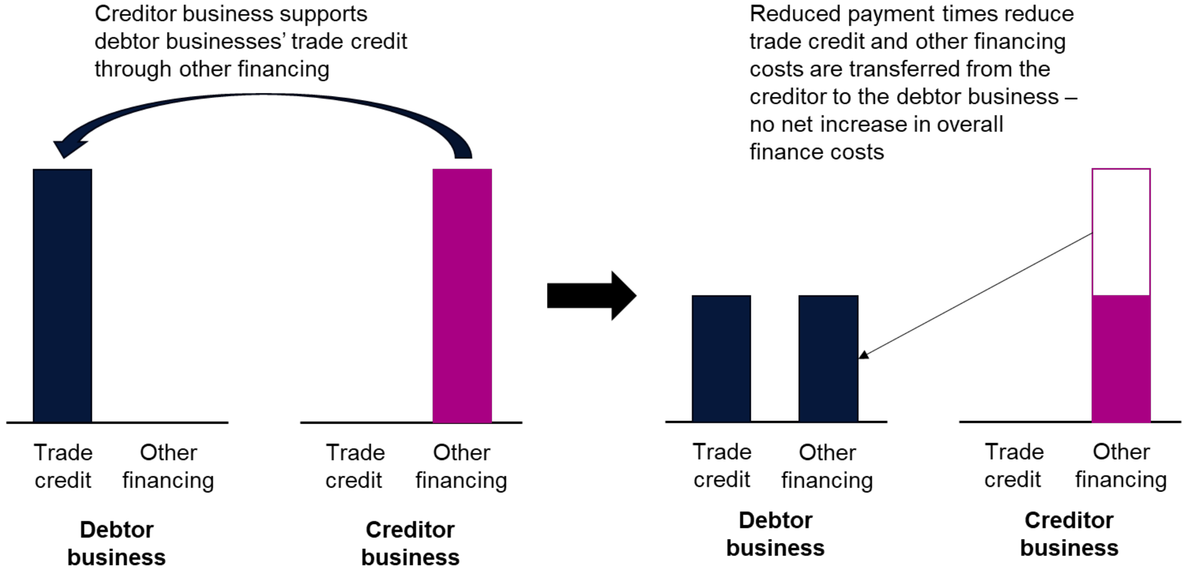
159. This is difficult to definitively evidence, as businesses do not readily identify themselves as paying late on purpose. DBT research shows that businesses perceive paying late on purpose as a driver of late payment in at least some cases – 18% of surveyed businesses attributed being paid late to their business customers using late payment as a form of interest free finance.[70] 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.

[69] 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)
[70] 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)

160. The IA does not consider any costs that a debtor business might incur if they need to raise additional finance to support on-time payment. Some debtor businesses use 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 IA does not estimate these costs, as the relevant data is not available.

161. 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.[71]

Figure 20 – Transfer of finance costs after a reduction in trade credit



PVCs and EANDCBs

162. The preferred option has a PVC of £20.37m, which is made up of ongoing costs to government from administering the fine regime, and costs to businesses of additional reporting around statutory interest.

Table 35 – Financial penalties – PVCs (£m)

Option	Low	Central	High
A – 25% threshold (Preferred)	**£12.00**	**£20.37**	**£22.32**
B – 20% threshold	£12.00	£20.37	£22.32
C – 10% threshold	£12.00	£20.37	£22.32
D – Do Nothing	£0.00	£0.00	£0.00

163. Estimated EANDCBs only include the costs to businesses of additional reporting around statutory interest.

[71] 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.

Table 36 – Financial penalties – EANDCBs (£m)

Option	Low	Central	High
A - 25% threshold (Preferred)	**£1.14**	**£2.09**	**£2.29**
B - 20% threshold	£1.14	£2.09	£2.29
C - 10% threshold	£1.14	£2.09	£2.29
D – Do Nothing	£0.00	£0.00	£0.00

Benefits

164. 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 IA however assumes that businesses do not incur fines, instead changing their behaviour to avoid paying a penalty, meaning there are no monetised benefits.

165. 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.

166. 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 3 – Stricter maximum payment terms

Businesses affected

167. Businesses that currently use payment terms above 60 or 45 days will incur costs complying with the new rules. Costs are divided into 2 categories:

- The costs of complying with the new rules themselves, where businesses either need to change their contractual payment terms or seek applicable exemptions.
- The costs of additional reporting requirements, where large businesses – already reporting under *The Reporting on Payment Practices and Performance Regulations 2017* – need to additionally report on their payment terms, whether they seek applicable exemptions or not.

168. The number of businesses affected by complying with the new rules themselves 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 – see Table 37.[72] [73]

[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)
[73] 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.

Table 37 – Percentage of businesses currently using payment terms longer than 60 / 45 days

Maximum payment term	SMEs	Large businesses
60 days	1%	3%
45 days	8%	8%

169. 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 7% of invoices paid by large businesses in 2024 were paid in 61 days or more, much higher than 3% reported in the survey. Some of this difference is explained by different samples,[74] and the distinction between payment terms and payment times.[75]

170. Ultimately, the IA 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. Combining these percentages with DBT BPE data gives the number of businesses, by size, likely affected by the policy – see Table 38.[76]

Table 38 – Number of businesses currently using payment terms longer than 60 / 45 days

Maximum payment term	SMEs	Large businesses
60 days	72,018	208
45 days	432,055	625

171. The number of business affected by additional reporting requirements follows the same approach outlined in the Policy 2 – Financial penalties for persistent late payment section, where all large businesses who currently report under *The Reporting on Payment Practices and Performance Regulations 2017* are affected – between 6,227 and 12,454 large businesses, with a central estimate of 11,368.

Costs overview

172. The IA focusses on 5 different types of cost, which reflect the actions that businesses will need to take to comply with new rules around maximum payment terms, including limited exemptions:

- Familiarisation costs. Businesses need to review and understand how the new legislation impacts them, particularly in relation to limited exemptions.
- Updating payment terms in standard contracts. Most businesses use standard payment terms, which need to be updated for new contracts, after the new legislation comes into effect.
- Checking supplier sizes, where businesses qualify for limited exemptions. The policy outlines limited exemptions for certain contracts, based on customer-supplier sizes.

[74] The reporting data considers large businesses only, compared to the survey with micro, small, medium and large respondents
[75] The reporting data refers to payment times which are affected by both payment terms and instances of late payment.
[76] Business population estimates 2025 - GOV.UK

Large businesses in particular will need to check the size of their suppliers and verify that an exemption applies.
- Drafting and reviewing exemption clauses in contracts, where businesses qualify for limited exemptions. The policy requires that contracts which apply an exemption outline the reasoning for and basis of the exemption.
- Additional reporting on contractual payment terms, applicable to all large businesses who currently report under *The Reporting on Payment Practices and Performance Regulations 2017.* Importantly, unlike other costs, these costs are fixed across different options.

173. Options which consider limited sized-based exemptions for businesses include all 5 types of cost – namely Option A – 60-45 days with limited exemptions and Option B – 60 days with limited exemptions. Options which apply maximum payment terms without any exemptions only consider the first 2 types of cost (familiarisation costs and updating payment terms in standard contracts) – namely Option C – 60-45 days with no exemptions and Option D – 60 days with no exemptions. This is because the other costs (checking supplier sizes, drafting and reviewing exemption clauses, and additional reporting on contractual terms) only apply when businesses have the option to apply limited size-based exemptions.

174. These costs are a combination of one-off and ongoing costs, with one-off costs occurring in the year in which changes are made. For Option A – 60-45 days with limited exemptions and Option C – 60-45 days with no exemptions, some one-off costs occur twice, when the 60-day maximum payment term is first introduced, and again when this reduces to 45 days after 5 years. Importantly, costs for Option A – 60-45 days with limited exemptions are significantly higher than Option B – 60 days with no exemptions, as not only are more businesses in scope of the changes, but the most significant one-off costs occur twice.

175. Importantly, for checking supplier sizes and drafting and reviewing exemption clauses in contracts, the IA assumes that all businesses who can apply a valid exemption do so. This includes any SME or large business who currently uses payment terms longer than 60 days, with exemptions for large businesses limited to where they're dealing with another large business. This potentially over-estimates costs for 2 main reasons:

- Some businesses will reduce their payment terms, rather than seeking an exemption. In reality, only businesses who expect a net benefit from an exemption will apply for one.
- The IA assumes that SMEs can apply exemptions across all of their contracts. In reality, SMEs – like large businesses – will be limited to situations where the purchaser is the smaller business.

This is however partly offset by only modelling the costs of checking supplier sizes for large businesses – see Checking supplier sizes costs.

Table 39 – First-year costs per affected business

Cost	SMEs	Large businesses
Familiarisation cost	£11.22	£22.43
Updating payment terms	£11.28	£11.28
Checking supplier sizes	-	£9,888.72
Drafting and reviewing exemptions	£59.95	£28,953.78
Additional reporting	-	£174.81

Table 40 – Ongoing costs per affected business

Cost	SMEs	Large businesses
Familiarisation cost	-	-
Updating payment terms	-	-
Checking supplier sizes	-	£1,977.74
Drafting and reviewing exemptions	£19.98	£9,651.26
Additional reporting	-	£199.78

176. Like Policy 2 – Financial penalties for persistent late payment, the IA does not consider any costs that businesses might incur if they need to update their payment systems or processes to support shorter payment times; or any costs that a debtor business might incur if they need to raise additional finance to meet shorter payment terms.

Familiarisation costs

177. The IA uses a time-cost approach, making assumptions about per business familiarisation costs, in particular the type of staff and staff hours required to undertake relevant familiarisation activity. The IA assumes that each affected SME dedicates 15 minutes of a company manager time to familiarise themselves with the changes, and each large business 30 minutes. Based on Annual Survey of Hours and Earnings (ASHE) data for relevant company manager roles, and adjusted for non-wage costs – like employer pension contributions and National Insurance payments – this amounts to £11.22 and £22.43 per business respectively.[77]

178. Familiarisation timings are higher for large businesses, reflecting the additional complexity these businesses need to consider when applying limited exemptions to maximum payments terms. Familiarisation timings are in line with analogous measures – for example, the *Employment Relations (Flexible Working) Act 2023* – which considered average familiarisation of 10 minutes per business.[78] [79] The IA takes a more conservative approach to avoid under-estimating costs.

Updating payment terms costs

179. Businesses will need to update their payment terms for new contracts, after the new legislation comes into effect. These changes will incur costs for businesses, albeit small

[77] The IA considers 1131 – Financial managers and directors, for which the ASHE median hourly wage rate is £37.15, and the adjusted total hourly employment cost is £44.87.
[78] Impact assessment: Proposals to reform flexible working regulations (The Flexible Working Regulations 2014)
[79] Impact assessment: Make flexible working the default

and one-off, given the required changes are minor and businesses often use standard templates.

180. The cost of this change is proxied by the cost of sending a paper invoice – £11.28 per affected business.[80] [81] This directly follows the approach outlined in an EU impact assessment, which considered similar policies.[82]

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.

Checking supplier sizes costs

181. The IA only models the costs of checking supplier sizes for large businesses. While smaller businesses may also need to consider supplier sizes when determining whether an exemption applies, these costs are expected to be relatively small compared to large businesses. Importantly, there are 2 effects in relation to smaller businesses that pull in opposite directions:

[80] 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, converting to GBP (GBP/EUR exchange rate = 1.19), and adjusting for inflation (134% between FY15/16 and FY24/25) gives a cost of £11.24.
[81] ECB (2016) – E-invoicing: bringing the payment process fully into the digital age – [E-invoicing: bringing the payment process fully into the digital age]
[82] [EUR-Lex - 52023SC0314 - EN - EUR-Lex]

- Unlike large businesses – which are expected to complete ‘compliance-style’ checks, proportionate to their size and in line with additional reporting requirements – smaller businesses are expected to take supplier sizes at ‘face value’, without incurring significant verification costs. This means the per-business cost of supplier size checks for smaller businesses is likely small.
- Micro businesses comprise the majority of smaller businesses and – because of their ‘smallest-possible’ size – could apply exemptions in most cases. This means the number of smaller businesses applying exemptions could be high.

182. The IA estimates the cost of checking supplier sizes by multiplying the number of large businesses affected by policy, the average number of contracts per large business where valid exemptions may apply, and the time-cost of checking company details on Companies House.

183. The IA uses ONS industry-to-industry payment flows data to estimate the average number of suppliers per business, combining this with DBT BPE data which describes the proportion of total turnover in the economy that SMEs vs. large businesses account for.[83] [84] [85] Looking at industry-to-industry payment flow data, the IA assumes that each transaction represents a 1-to-1 customer-supplier relationship, sums the number of transactions that occur every month in a year, and apportions this to SMEs vs. large businesses using BPE data. The analysis finds that on average SMEs have 5 suppliers, and large businesses have 2,645 suppliers.

184. The IA assumes that costs are front-loaded in the first year after legislation is introduced, with large businesses needing to spend more time checking suppliers initially, and only reviewing these initial checks in later years. The IA assumes 5 minutes of company manager time for initial checks, and 1 minute in subsequent years, amounting to £3.74 or £0.75 per check respectively.

Drafting and reviewing exemption clauses

185. Unlike checking supplier sizes, the IA models costs for both SMEs and large businesses who apply a valid exemption. These businesses will need to outline the reasoning for and basis of the exemption in the relevant contract. The IA estimates these costs in a similar way to checking supplier sizes, using the same estimates for the average number of suppliers per business. Because large businesses can only apply valid exemptions when contracting with other large businesses, the IA uses DBT BPE data to estimate the proportion of large businesses’ suppliers that are themselves large businesses.

186. For simplicity, the IA assumes that SMEs can apply exemptions across all of their contracts, rather than only those in which the purchaser is the smaller businesses. This likely overestimates costs for SMEs, as not all contracts will be valid for exemptions.

[83] Industry-to-industry payment flows, UK, experimental data - Office for National Statistics
[84] Business population estimates 2024 - GOV.UK
[85] The analysis uses 2024 data to ensure consistent time periods, the latest full calendar year for which both data sets are available.

187. Like checking supplier sizes, the IA uses a time-cost approach, assuming that initially drafting contract exemptions will take SMEs on average 15 minutes, and large businesses 30 minutes. Again, the IA assumes these costs are front-loaded and that reviewing exemption clauses in contracts in subsequent year will take businesses only half as long.

Table 41 – Estimated number of contracts where valid exemptions may apply

#	Cost	Calculation	SMEs	Large businesses
A	Average number of suppliers	Analysis of industry-to-industry payment flow data [86]	5	2,645
B	Proportion of suppliers which are large	Proportion of BPE turnover accounted for by large businesses [87]	-	49%
C	Average number of contracts with valid exemptions	A x B	5	1,291

Additional reporting costs

188. The IA follows the same approach used in the Policy 2 – Financial penalties for persistent late payment section, where the costs of additional reporting additional metrics under *The Reporting on Payment Practices and Performance Regulations 2017* to support a penalty fine regime are costed. Like financial penalties, the maximum payment terms policy adds an additional 2 metrics to the regulations, with an estimated familiarisation and ongoing cost of £174.81 and £199.78 per large reporting business respectively.

PVCs and EANDCBs

189. The preferred option has a Present Value Cost (PVC) of £58.52m, and results in EANDCB of £6.80m per year. These costs are significantly lower than Option A – 60-45 days, as not only are fewer businesses in scope of the changes, but one-off costs only occur once rather than twice – in each of the years where payment terms are changed (FY2027/28 and FY2032/33).

190. Importantly, estimated costs have significantly increased between the OA and IA, reflecting the addition of limited exemptions in response to consultation feedback. This change introduces additional burdens for businesses in terms of complying with the policy, but preserves freedom to contract in places where customers and suppliers have equal bargaining power when agreeing payment terms. This is reflected in the difference between Option B – 60 days with limited exemptions, and options which do not apply limited exemptions – namely Option C – 60-45 days with no exemptions and Option D – 60 days with no exemptions.

[86] Industry-to-industry payment flows, UK, experimental data - Office for National Statistics
[87] Business population estimates 2025 - GOV.UK

Table 42 – Stricter maximum payment terms – PVCs (£m)

Option	Low	Central	High
A – 60-45 days with limited exemptions	£110.08	£129.35	£142.21
B – 60 days with limited exemptions (Preferred)	**£46.33**	**£58.52**	**£64.29**
C – 60-45 days with no exemptions	£7.74	£7.90	£8.69
D – 60 days with no exemptions	£1.37	£1.52	£1.67
E – Do Nothing (Baseline)	£0.00	£0.00	£0.00

Table 43 – Stricter maximum payment terms – EANDCBs (£m)

Option	Low	Central	High
A – 60-45 days with limited exemptions	£12.79	£15.03	£16.52
B – 60 days with limited exemptions (Preferred)	**£5.38**	**£6.80**	**£7.47**
C – 60-45 days with no exemptions	£0.90	£0.92	£1.01
D – 60 days with no exemptions	£0.16	£0.18	£0.19
E – Do Nothing (Baseline)	£0.00	£0.00	£0.00

Benefits from transfers

191. The IA 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.

192. To calculate the transfer of liquidity between businesses, the IA 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.

193. Until recently, the reporting regulations – which capture information about large businesses' payments to other businesses – have only included the number of invoices paid in different time periods (less than 30 days, 31 to 60 days, and more than 60 days), which precludes this type of analysis. Changes to the reporting regulations from January 2025, however, now mean that businesses are required to report the value of contracts paid within these time periods.

194. 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.[88] 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.

[88] 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.

Other non-monetised benefits

195. 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 Figure 12. Importantly, the policy would only need to reduce the overall impact of poor B2B payment behaviour by only 0.06% to 'break even'.

196. 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.

197. 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.

198. 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.

Policy 4 – Mandatory statutory interest

Costs

199. The IA 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.

200. Only businesses that are liable to pay or be paid statutory interest will incur any costs from the policy change. The IA bases the number of businesses affected on the total number of UK businesses that offer trade credit to their business customers,

predominantly sourced from LSBS data –on average, 31% of SMEs.[89] [90] Similar data is not available for large businesses, and the IA assumes that 100% of large businesses will be affected, given trade credit is increasingly used as businesses increase in size. Importantly, these assumptions likely overestimate the number of affected businesses, representing the maximum number of businesses that could be liable to pay or be paid statutory interest.

Table 44 – 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	31%	5,681,930	1,765,303
Large businesses	-	8,335	8,335
Total	-	5,690,265	1,773,638

201. As with stricter maximum payment terms, the IA makes assumptions about per business familiarisation costs, in particular the type of staff and staff hours required to undertake relevant familiarisation activity. The IA 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.

202. The IA 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 IA calculates the benefit to creditor businesses, and scores this as a cost for debtor businesses.

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

204. Importantly, the IA assumes full compliance from debtor businesses in terms of paying mandatory interest, as supported by the incentives introduced by financial penalties – see Policy 2 – Financial penalties for persistent late payment section. Debtor businesses are better off paying their statutory interest liability, rather than risking a penalty fine.

205. 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.[91] The IA assumes:

[89] DBT (2025) – Longitudinal Small Business Survey (LSBS), 2024 – Small Business Survey reports - GOV.UK. Table 14 M1A. Do you give you customers trade credit? (Base: All SME Employers in Cohort A) & Table 14 M1A. Do you give you customers trade credit? (Base: All Businesses Without Employees in Cohort A).

[90] 32% represents a weighted average across SMEs, accounting for differences in business sizes, businesses with vs. without employees, and registered vs. unregistered sole traders – weighted by BPE business numbers.

[91] The rate of statutory interest is added to the current Bank of England base rate.

- The average value of outstanding invoices owed to businesses affected by late payment totals £17,000 each year.[92]
- The average lateness of payments is 6.1 days.[93]
- An 8% statutory interest rate, and a 3.75% Bank of England base rate.[94]

Table 45 – Statutory interest charged by creditor businesses

Statutory interest	# creditor businesses charging statutory interest	£ statutory interest liability per business	£ total statutory interest
Voluntary	352,076	£34.40	£16,581,903
Mandatory	1,773,638	£34.40	£61,019,158

206. The IA calculates the PVC to businesses by summing the familiarisation and ongoing costs for each option.

Table 46 – 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)	**£338.08**	**£375.64**	**£413.21**

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

Table 47 – 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)	**£1.94**	**£2.16**	**£2.37**

Benefits

208. 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 48 – 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)	**£321.36**	**£357.07**	**£392.78**

209. 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 0.02% to 'break even'.[95]

[92] DBT (2025) – *Estimating the total economic cost of late payments and their impact on the UK economy* – Late payments research: impact on the UK economy - GOV.UK
[93] Xero Small Business Insights data, 2023/24 average – Xero Small Business Insights | Xero
[94] Interest rates and Bank Rate | Bank of England
[95] Ongoing costs are excluded from this calculation as they represent a transfer, and are offset by an equivalent benefit to SMEs.

Policy 5 – Invoice dispute deadline

Costs

210. Only businesses that raise disputes will incur any costs from the policy change. The IA bases the number of businesses affected on the total number of UK businesses that offer trade credit to their business customers, predominantly sourced from LSBS data – on average, 31% of SMEs.[96] [97] Similar data is not available for large businesses, and the IA assumes that 100% of large businesses will be affected, given trade credit is increasingly used as businesses increase in size. Importantly, these assumptions likely overestimate the number of affected businesses, representing the maximum number of businesses that could either dispute or respond to a disputed invoice.

Table 49 – 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	31%	5,681,930	1,765,303
Large businesses	-	8,335	8,335
Total	-	5,690,265	1,773,638

211. The policy only impacts the timings of disputes, and the IA 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.

212. The IA makes assumptions about per business familiarisation costs, in particular the type of staff and staff hours required to undertake relevant familiarisation activity. The IA assumes that each affected business dedicates 15 minutes of a company manager time to familiarise themselves with the changes. This amounts to £11.22 per business. Importantly, these assumptions are subject to uncertainty, but have been tested through the consultation process.

Table 50 – Invoice dispute deadline – PVCs (£m)

Option	Low	Central	High
A –Invoice dispute deadline (Preferred)	**£16.71**	**£18.57**	**£20.43**
B – Do Nothing	£0.00	£0.00	£0.00

Table 51 – Invoice dispute deadline – EANDCBs (£m)

Option	Low	Central	High
A –Invoice dispute deadline (Preferred)	**£1.94**	**£2.16**	**£2.37**
B – Do Nothing	£0.00	£0.00	£0.00

[96] DBT (2025) – Longitudinal Small Business Survey (LSBS), 2024 – Small Business Survey reports - GOV.UK. Table 14 M1A. Do you give you customers trade credit? (Base: All SME Employers in Cohort A) & Table 14 M1A. Do you give you customers trade credit? (Base: All Businesses Without Employees in Cohort A).

[97] 32% represents a weighted average across SMEs, accounting for differences in business sizes, businesses with vs. without employees, and registered vs. unregistered sole traders – weighted by BPE business numbers.

Benefits

213. The IA 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.

214. 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.

Policy 6 – Increased board-level scrutiny of payment practices

Costs

215. Only businesses that report under *The Reporting on Payment Practices and Performance Regulations 2017*, and pay more than 25% of invoices late will be affected by the policy. The IA uses the same approach outlined in the Policy 2 – Financial penalties for persistent late payment section (as both policies apply the same 25% of invoices paid late threshold), which finds that 4,036 large businesses could be affected – see Table 34.

216. Affected businesses will incur costs complying with additional reporting and board-level scrutiny requirements. Like Policy 3 – Stricter maximum payment terms, the IA uses a time-cost approach, making assumptions about the different activities that reporting businesses will need to undertake. These assumptions are subject to uncertainty, but have been tested through engagement with stakeholders, particularly large companies or organisations familiar with corporate reporting requirements.

217. The IA assumes 5 different types of costs that businesses will incur, described in Table 52, with associated roles and timings. Most costs occur under governance activities, where companies may involve their audit committees (where they have them) and boards.

Table 52 – Activities, roles and timings associated with increased board-level scrutiny requirements

Activity	Role	Timing
Familiarisation with the new rules	Company manager	30 minutes
Information gathering and analysis	Junior staff, company manager	3 hours
Drafting commentary and internal checks	Company manager	3 hours
Governance activities, including board and audit committee meetings	Company manager, audit committee member, board member	11 hours
Publication	Junior staff	15 minutes

218. Not every reporting large business in scope of the new requirement will have an audit committee, or engage them in the new process. The IA accounts for this through Low / Central / High estimates, which vary whether businesses engage their audit committee (where they have one) and incur higher costs as a result.[98] Additional sensitivities around likely total time-costs are accounted for by considering 50th and 90th percentile hourly pay rates, sourced from ASHE data – specifically, stakeholder feedback highlighted that audit committee and board members may be paid above the median wage for their type of role.[99] [100]

Table 53 – Increased board-level scrutiny familiarisation vs. ongoing costs

Cost type	Low	Central	High
Familiarisation	£22.43	£22.43	£47.05
Ongoing	£440.25	£1,280.96	£1,434.15

219. The preferred option has a PVC of £41.62m, and an EANDCB of £4.84m per year.

Table 54 – Increased board-level scrutiny of payment practices – PVCs (£m)

Option	Low	Central	High
A – Board-level scrutiny	**£7.87**	**£41.62**	**£51.14**
B – Do Nothing	£0.00	£0.00	£0.00

Table 55 – Increased board-level scrutiny of payment practices – EANDCBs (£m)

Option	Low	Central	High
A – Board-level scrutiny	**£0.91**	**£4.84**	**£5.94**
B – Do Nothing	£0.00	£0.00	£0.00

Benefits

[98] The Central and High estimates assume businesses engage their audit committee, incurring higher costs. The Low estimate assumes that businesses either do not have or choose not to engage their audit committee.
[99] The IA maps junior staff to 354 – Business Associate Professionals; company manager to 1131 – Financial managers and directors, and audit committee and board members to 1111 – Chief executives and senior officials.
[100] The Low estimate assumes 50th percentile wages for all role. The Central estimate assumes 90th percentile wages for audit committee and board members, and 50th percentile for all other roles. The High estimate assumes 90th percentile wages for all roles.

220. The IA 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.

221. Like other policies, 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 0.05% to 'break even'.

Policy 7 – Retention payments

Costs

222. 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.

223. Costs have been calculated assuming that a legislative ban would be implemented across the whole UK. England accounts for 87% 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.

224. Policy costs for a ban 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 £329m (£79m-£830m) under a ban (option A). For comparison, this would be £823m (£237m-£1,936m) 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), which would be the same under either option.

225. Ongoing costs include the insolvency impact on non-payee creditors. A retention payments ban will 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 £9,152m (£4,669m-£13,651m) over ten years and would be the same under option B. 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.

226. Another ongoing cost 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-£9m) over the three years following implementation. It is assumed that this cost would also apply to option B.

227. Under the preferred option (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 £425m (£306m-£561m) in the year following implementation and £724m (£0m-£7,201m) 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.

228. 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 the preferred option. 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 the preferred option.

229. This IA 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 retention payments ban could cause a temporary increase in insolvencies during the transition period.

230. Many key numerical assumptions are based on government-commissioned research carried out by Pye Tait using survey data from FY2015/16.[101] This 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%)

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

- 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)

231. 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.

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

233. Some costs have not been quantified, including those that stem from businesses no longer being able to enforce the level of quality they require and where they have been unable to purchase a bond. Over time it is expected that alternative mechanisms to secure performance will be sought, reducing the long term non-monetised costs.

234. 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.

235. The preferred option (ban) has a PVC of £10,224m over 10 years in FY2025/25 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 – FY2027/28; and ongoing costs every year thereafter.

Table 56 – Retention payments – PVCs (£m)

Option	Low	Central	High
A – Ban of retention payments (Preferred)	**£4,755.76**	**£10,223.57**	**£21,716.07**
B – Retentions Protection Framework	£4,913.82	£10,505.06	£24,347.82
C – Do Nothing	£0.00	£0.00	£0.00

Benefits

236. Under a statutory ban, 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 £9,152m (£4,669m-£13,651m) ten years. This would be the same under Option B.

237. 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 the preferred option A or alternatively 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 £425m (£306m-£561m) under Option A (a ban). For comparison, this would be £212m (£153m - £280m) under the central scenario for Option B, where 50% of payers choose to segregate retention payments. This benefit is in the year following implementation.

238. 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.

239. 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.

240. The quantified benefits have been used in the estimation of net costs. The preferred option of a statutory ban has an EANDCB of £124m per year and a net cost to business of -£1,072m over ten years in FY2024/25 prices.

Table 57 – Retention payments – EANDCBs (£m)

Option	Low	Central	High
A – Ban of retention payments (Preferred)	**£10.04**	**£124.48**	**£936.69**
B – Retentions Protection Framework	£28.39	£181.85	£1,307.49
C – Do Nothing	£0.00	£0.00	£0.00

Table 58 – Retention payments – Net business cost (£m)

Option	Low	Central	High
A – Ban of retention payments (Preferred)	**-£86.41**	**-£1,071.80**	**-£8,064.89**
B – Retentions Protection Framework	-£244.46	-£1,565.72	-£11,257.47
C – Do Nothing	£0.00	£0.00	£0.00

Annex C: Wider impacts analysis

Business environment

241. The proposed measures are expected to positively impact the UK business environment, changing incentives around payment behaviour, strengthening accountability, and improving transparency – all of which supports ‘doing business’.

242. The IA identifies persistent issues with late payment, long payment terms, disputed invoices and retention practices, all of which currently limit UK business liquidity, reduce cash-flow predictability, and constrain investment – particularly for SMEs, who are disproportionately affected by payment delays.

243. By imposing clearer obligations through a strengthened statutory framework, and enhancing enforcement capacity through new SBC powers, the proposals incentivise earlier payment of invoices, creating more reliable working-capital conditions for suppliers.

244. For investors, a more predictable payment environment – especially supported by additional reporting from large businesses, highlighting good vs. poor behaviour – could also make UK supply chains more stable and attractive.

245. However, some measures introduce additional compliance costs, primarily affecting large businesses. The IA calculates a total EANDCB of £143.28m, which largely comprises the costs associated banning retention payments in construction contracts. In the short term, these additional costs to businesses may reduce investment incentives for some firms facing increased administrative or financial burdens. Over the longer term, however, a reduction in systemic late-payment risks may support improved productivity and innovation, particularly for smaller suppliers who currently experience constrained cash flow.

246. Stricter maximum payment terms in particular also limit businesses’ freedom to contract, putting limits on what they can agree with other businesses. For businesses who currently benefit from longer payment terms, this restriction results in a less favourable business environment – but protects smaller businesses who are currently disadvantaged. Importantly, limited size-based exemptions restore businesses’ ability to negotiate longer terms, where businesses are operating on an ‘even footing’.

247. Finally, the proposed policy measures could also have a positive impact on market dynamics, increasing competition in sectors where payment practices have historically provided large incumbents with an advantage. For example, prohibiting or strengthening protection for retention payments in construction could meaningfully change market structure by removing a mechanism that has disproportionately harmed smaller contractors with limited balance-sheet capacity. By reducing barriers to entry linked to liquidity risk, the reforms could enhance market diversity and reduce concentration over time.

Trade implications

248. The proposed measures are unlikely to directly restrict international trade; however, they do alter aspects of the UK's regulatory environment that could affect perceptions of regulatory stability and compliance requirements for foreign businesses operating in the UK. International obligations under WTO frameworks – particularly those relating to Technical Barriers to Trade (TBT) – require that domestic regulations affecting goods and services do not discriminate between domestic and foreign firms.

249. The proposed measures apply uniformly to all businesses operating in the UK regardless of origin, reducing the likelihood of discriminatory effects. Nevertheless, stronger reporting requirements and mandatory statutory interest may introduce new compliance expectations for foreign firms trading into the UK (especially large multinationals), which may need to adjust internal payment systems.

250. If UK regulations governing B2B payments significantly diverge from regulatory approaches used by other trading partners, there may be an increase in administrative friction for exporters or inward investors. Other countries do not currently impose maximum payment terms, mandatory statutory interest or fixed dispute-resolution deadlines for B2B invoices.

251. As such, overseas firms supplying UK businesses may need to incorporate new contractual terms, increasing contract management costs. UK exporters may also face other indirect impacts if the UK's payment-practice framework interacts with contractual standards in destination markets. Businesses reliant on global supply chains may need to balance UK-specific payment obligations against differing rules overseas.

252. Importantly, other countries – like the EU – have signalled similar legislation, which strengthens rules around B2B payments, and aims to better protect and support SME suppliers. Proposed EU legislation even went further in places – for example, 30-day maximum payment terms with no exemptions. [102] This suggests that while UK regulations may differ from trading partners in the short-term, rules around B2B payments may re-align as other countries introduce their own reforms.

Environment: Natural capital impact and decarbonisation

253. The proposed measures affect B2B payment behaviour, and do not directly affect environmental assets, natural capital stocks, or greenhouse gas emissions. These changes are expected to positively impact economic growth which can both complement and create tensions with environmental objectives, for example:

- More business activity in the economy can lead to higher emissions or depleting natural capital stocks, as business activities – particularly in sectors that involve manufacturing – can be carbon- or generally resource-intensive.
- Access to more liquidity can however support investment in more efficient or environmentally-friendly equipment or processes, overall lowering their environmental impact.

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

254. Importantly, these are second-order and uncertain impacts, which are difficult to assess as part of the IA. Given the absence of explicitly carbon- or resource-intensive provisions within the policy package, the IA judges that policies are not expected to significantly affect the UK Government's current environmental goals or decarbonisation trajectory.

Other wider impacts

Equalities impacts

255. The IA has assessed equalities impacts in line with the Public Sector Equality Duty. The assessment highlighted that:

- Groups who share different protected characteristics could be impacted differently by the policy. Importantly, this is primarily driven by how these groups are represented across the underlying business population and not policy design choices – for example, businesses led by women, minority ethnic groups, or disabled founders are all currently under-represented across the business population.
- Businesses that observe Islamic finance principles could be affected by the mandatory statutory interest policy, as interest is generally prohibited. The policy therefore makes provisions for alternative contractual remedies (which may take the form of compensation or a penalty clause) in place of statutory interest.

Justice impacts

256. The IA has assessed the impact of the policies on the justice system, completing a Justice Impact Test (JIT). The JIT highlights that any impact on the justice system is expected to be minimal, with 2 main effects acting in the opposite direction:

- A more stringent legal framework overall could lead to increased disputes between businesses, with some of these resulting in legal proceedings.
- SBC powers – particularly the power to issue legally binding adjudication decisions – will divert some legal proceedings away from courts, resolving them via mediation and adjudication instead.