The Cost of Paying Late – Commercial Debt and Supplier Protection

Procurement and Supply Chain Management Made Simple.

Foreword

Late payment is often presented as an administrative problem, yet its consequences reach far beyond accounts payable. Payment terms influence working capital, financing costs, supplier resilience and ultimately the stability of supply chains. When customers retain cash for longer, suppliers must absorb the resulting funding gap through reserves, borrowing or reduced investment. The commercial importance of payment behaviour therefore extends well beyond whether an invoice is eventually settled.

UK law has long recognised that commercial payment practices require both boundaries and contractual freedom. Statutory interest, compensation and recovery costs provide suppliers with remedies when qualifying debts are paid late, while public procurement rules impose additional prompt-payment obligations. The legal framework must nevertheless be understood carefully, because agreed payment terms, overdue payment and proposed reforms are distinct concepts with different consequences for purchasers, suppliers and contracting authorities.

That distinction has become increasingly important as Government seeks to strengthen the late-payment regime. The Commercial Payments Bill proposes tighter controls over payment periods, mandatory statutory interest, stronger enforcement powers and new protections in areas such as invoice disputes and construction retentions. These measures remain proposed rather than enacted law, making a clear distinction between current obligations and future reforms essential for anyone responsible for contracts, procurement, finance, or supplier management.

Payment practices are also a matter of commercial ethics and bargaining power. Longer terms may sometimes be justified by genuine operational requirements, negotiated trade-offs or financing arrangements that benefit both parties. Problems arise when stronger customers use their position to improve their own liquidity at the expense of smaller suppliers. In those circumstances, contractual freedom can become less a matter of mutual choice and more a mechanism for transferring financial pressure down the supply chain.

Fair payment therefore requires more than legal compliance. Effective contract drafting, accurate invoicing, disciplined approval processes, proportionate debt recovery and transparent supplier relationships all contribute to healthier commercial outcomes. The objective is not to eliminate negotiation or impose identical terms on every transaction, but to ensure that payment arrangements remain clear, proportionate and economically defensible. Strong supply chains depend not only on what organisations buy, but also on how and when they pay.

Introduction – The Cost of Paying Late

Late payment is often treated as an administrative inconvenience, yet, economically, it shifts financing risk from the customer to the supplier. A purchaser retaining cash beyond the agreed date preserves its own working capital, while the supplier still bears wages, taxes, materials and borrowing costs. UK Government research estimates that late payments cost the economy almost £11 billion annually and contribute to around 14,000 business closures, equivalent to roughly 38 businesses every day.

The scale is not confined to exceptional disputes. Government-backed research found that more than 1.5 million businesses, around 28% of the business population, experience late payments each year, with approximately £26 billion outstanding at any given time. Affected businesses are owed an average of about £17,000. For smaller suppliers operating on narrow margins, delayed receipts can therefore turn profitable trading into an immediate liquidity problem requiring overdrafts, invoice finance or owner funding.

The legal response is centred on the Late Payment of Commercial Debts (Interest) Act 1998, which creates statutory protection for qualifying commercial debts. It gives suppliers rights to interest and compensation when payment is late, while later amendments address payment periods, recovery costs and unfair contractual practices. The framework does not prevent normal commercial negotiation, but it sets boundaries on the extent to which purchasing power can be used to postpone payment without consequences.

That balance is now under renewed scrutiny. The Commercial Payments Bill [HL], introduced in the Lords on 19 May 2026, completed Committee stage on 21 July 2026. As at 4 September 2026, Report stage is scheduled for 15 September 2026, and the Bill remains proposed legislation, not current law. Its direction is nevertheless significant: firmer payment-period controls, mandatory interest and stronger Small Business Commissioner powers would shift protection towards a more actively enforced regime.

Why Payment Terms Matter

Payment terms determine how quickly a sale becomes usable cash. A supplier may recognise revenue when goods or services are delivered, but salaries, subcontractor payments, rent, taxes, and material purchases still require cash settlement. A 60-day customer term therefore means the supplier may finance two months of operating expenditure before receiving payment, even where its own creditors are paid sooner, and the resulting working-capital gap becomes material.

Longer terms also have an identifiable financing cost. If a supplier must borrow £100,000 for an additional 60 days at an annual financing rate of 10%, the interest cost is approximately £1,644 before arrangement or administration fees. Repeated across multiple customers and invoices, payment terms become a material component of contract pricing. Suppliers may therefore recover the cost indirectly through higher prices, reduced discounts or tighter commercial terms rather than absorbing it indefinitely.

The effect is uneven because bargaining power is uneven. A large customer may have sufficient cash, banking facilities, and purchasing leverage to impose standard terms. At the same time, a small supplier may depend on that customer for a significant proportion of its turnover. The supplier can theoretically refuse 90-day or 120-day terms, but doing so may mean losing the contract. Hence, freedom of contract becomes less convincing where commercial dependence leaves one party with little practical negotiating freedom.

Official statistics illustrate why the issue remains important even as performance improves. Large UK businesses took an average of 32 days to pay suppliers in 2025, down from 35 days in 2018. However, 15% of invoices were still paid late by number, and 14% by value. Manufacturing recorded the longest median payment time, at 45 days, and the highest proportion of late invoices, at 21%, exposing physical supply chains to greater cash-flow pressure.

Payment performance also influences supplier behaviour and resilience. Government research found that 15% of surveyed businesses had avoided trading with certain customers because of their payment behaviour, a proportion that rose among businesses that had themselves experienced late payment. Poor terms can therefore narrow the buyer's supplier market, discourage smaller entrants and increase dependence on larger businesses capable of financing long receivable periods, making payment practice a supply-chain design issue rather than merely an accounts-payable decision.

When Does a Commercial Payment Become Late?

A commercial payment becomes late by reference to the agreed payment date or, where no date has been agreed, the statutory timetable. Government guidance states that if no payment date is agreed, payment is generally late 30 days after the customer receives the invoice or the goods or services are delivered, whichever is later, preventing a customer from avoiding liability simply because the contract failed to specify an express due date.

Where a payment date has been agreed, the agreed term ordinarily determines when lateness begins, subject to statutory controls. Public-authority transactions are generally constrained to 30 days, while business-to-business arrangements contemplate payment within 60 days. Under current law, a business payment period longer than 60 days can still be expressly agreed where it is not grossly unfair to the supplier; the Commercial Payments Bill would tighten that ability, but those restrictions are not yet law.

Invoice validity can materially affect the analysis. A genuine dispute over the amount, performance or required invoice information differs from withholding an undisputed sum after its due date. Under the Procurement Act 2023, most public contracts imply 30-day payment terms for valid, undisputed invoices, and a contracting authority disputing or rejecting an invoice must notify the supplier without undue delay, so clear invoicing and prompt dispute notification help identify the true late-payment date.

The Difference Between Payment Terms and Late Payment

Payment terms and late payment describe different commercial events. A payment term establishes the period agreed by the parties for payment; late payment occurs only when the customer fails to pay by the resulting due date. A 60-day term may place significant financing pressure on a supplier but is not, by itself, late payment if the invoice is settled on day 60, and confusing long terms with overdue payment obscures the contractual and statutory analysis.

The distinction matters when assessing buyer behaviour. A purchaser paying every invoice on day 90 under validly agreed 90-day terms may currently avoid being technically late, even though the supplier finances three months of receivables. Conversely, a purchaser offering 30-day terms but routinely paying on day 45 is late on each affected invoice: one practice concerns the allocation of working-capital risk through contract design, the other concerns failure to comply with the agreed obligation.

Current law therefore addresses two related but separate concerns. The 1998 Act provides remedies when qualifying debt is in arrears, while the amended regime also limits payment periods, particularly for public authorities and business transactions. In business-to-business contracts, terms beyond 60 days can presently be agreed if they are not grossly unfair; the Commercial Payments Bill proposes a harder 60-day maximum with tightly limited exemptions, targeting excessive terms rather than merely delayed settlement.

This distinction also explains why prompt-payment policy extends beyond debt recovery. The Fair Payment Code recognises organisations based on actual payment performance, while reporting rules require qualifying large businesses to disclose their practices and outcomes. A customer can therefore comply with a contractual due date yet still face commercial scrutiny if its terms systematically push financing burdens onto smaller suppliers: legal punctuality is one measure of behaviour, but fairness and supply-chain sustainability provide broader tests.

Why Late Payment Remains a Supply Chain Problem

Late payment remains a supply-chain problem because cash moves through interconnected tiers rather than isolated contracts. When a major customer pays a principal supplier late, that supplier may delay payments to subcontractors, reduce inventory, defer recruitment or draw additional finance, so the original delay can propagate downstream through businesses that have no direct contractual relationship with the customer that actually caused it, and may never learn the true source of their own cash-flow pressure.

The cascade effect can be illustrated numerically. If a principal contractor owed £2 million by a public-sector client is paid 45 days late, it may, in turn, delay £600,000 owed to three subcontractors by a similar margin; each subcontractor bears an average additional financing burden of roughly £2,220 at a 9% annual rate, before any of them has had dealings with the original late-paying customer.

The administrative burden is also significant. Twenty-two per cent of surveyed businesses affected by late payment reported spending staff time chasing overdue invoices, averaging 86 hours each year; across the economy, that was estimated at 133 million hours annually. Time spent identifying approvers, resending invoices, telephoning accounts departments and escalating disputes produces no additional goods or services and, for a microbusiness, is taken directly from selling or production time.

The problem is not limited to deliberate cash retention. Small Business Commissioner casework shows that late payment can arise from weak administration, unclear invoice descriptions, internal approval failures or changes of personnel. In one published example, an invoice exceeding £121,000 remained unpaid, in part, because it contained no due date or payment terms; once the position was clarified between the parties, the invoice was settled, illustrating why purchase-to-pay process design matters alongside legal remedies.

Recent performance data shows improvement without eliminating the structural issue. Large businesses paid 15% of invoices late in 2025, compared with 25% in 2018. Yet the Small Business Commissioner still recovered more than £1.5 million in overdue payments for small businesses during 2025-26, its highest annual recovery in more than five years, underscoring the continuing importance of payment discipline for supplier resilience and responsible procurement.

The Late Payment of Commercial Debts (Interest) Act 1998

The Late Payment of Commercial Debts (Interest) Act 1998 created a statutory mechanism for addressing overdue payment in qualifying contracts for goods and services. Its central device is an implied contractual term under which qualifying debts can carry statutory interest. The regime was subsequently expanded, including through changes that implemented European late-payment rules in 2002 and the recast framework in 2013, so the resulting protections now combine interest, fixed compensation, recovery costs, and controls over payment periods.

The Act operates alongside ordinary contract law rather than replacing it. Parties can still agree prices, invoicing procedures, payment dates, and remedies, but statutory protection applies where the contractual arrangement falls within the legislation's scope. A contractual late-payment remedy may displace statutory interest only where it amounts to a substantial remedy, and, in assessing that question, the legislation considers matters including compensation, deterrence, bargaining strength, imposed standard terms, and any inducement offered to the supplier.

Its practical importance lies in changing the economic consequence of withholding money. Without an interest entitlement, a customer delaying payment effectively receives free supplier credit unless the supplier sues for the debt or has negotiated another remedy. The 1998 framework places a financing cost on delay and supplements it with recovery compensation. However, because suppliers generally decide whether to assert those rights, commercial dependence can weaken their deterrent effect in practice.

Which Commercial Contracts Are Protected?

The statutory regime principally protects qualifying debts arising under contracts for the supply of goods or services where the parties act in the course of business. The Act's definition of business is broad. It includes professions, government departments and local or public authorities so that it can apply to private-sector trading and many public-sector purchasing relationships, provided that the debt arises from an obligation to pay all or part of the contract price.

Supply is interpreted broadly. The legislation covers transfers of property in goods, hire or bailment of goods and agreements to carry out services, including contracts combining those elements, because the focus is commercial supply rather than the legal label placed on the agreement. A consultancy engagement, equipment hire, maintenance contract or sale of components may therefore generate a qualifying debt if the statutory conditions are satisfied and the payment obligation forms part of the contract price.

Framework agreements and call-off contracts, common across public procurement, generally fall within scope where a call-off creates an obligation to pay for goods or services actually supplied. Registered providers of social housing procuring through frameworks such as Fusion21, LHC, Procure Plus, CHIC or Procurement for Housing therefore remain subject to the same qualifying-debt analysis as any other business buyer, notwithstanding the collaborative structure through which the underlying contract was let.

Important exclusions prevent the regime from becoming a general law of every debt. A contract of service or apprenticeship falls outside the statutory definition of a supply contract, and the specified excluded arrangements include consumer credit agreements and contracts intended to operate as a mortgage, pledge, charge, or other security. Statutory late-payment protection should therefore not be assumed merely because one organisation owes money to another; the nature and source of the obligation remain critical.

Mixed contracts require particular care. A single agreement combining, for example, the supply of goods with associated finance or property arrangements may contain elements that qualify for statutory protection alongside elements that are excluded, so the relevant debt should be traced to the specific obligation that gave rise to it, rather than assessed against the contract's overall commercial label, its title or its dominant purpose as stated on its face.

Charities and public bodies are not automatically outside the regime simply because they are not run for profit. The statutory definition of business extends to the activities of any person or body carrying out a trade, profession or purchasing activity in the course of a business, so a registered charity, an NHS trust or a local authority buying goods on ordinary commercial terms can generate, and owe, qualifying statutory debts just as any private-sector purchaser can.

The Statutory Right to Interest

For a qualifying commercial debt, statutory interest provides a legal price for the customer's use of money after payment was due. Government guidance states that the rate for business-to-business late payments is eight percentage points above the Bank of England reference rate. The entitlement is designed to compensate the supplier and deter delay, rather than provide a windfall, and interest is simple, not compound, running for the period defined by the statutory regime.

The right does not always depend on an express interest clause. The 1998 Act inserts the statutory entitlement into qualifying contracts, so a supplier can have protection where the contract is silent. However, an express contractual remedy can affect the statutory position: government guidance explains that statutory interest does not apply where express terms provide a substantial remedy for late payment, and an inadequate term designed merely to remove statutory protection may not achieve that result.

Take-up nevertheless remains uneven in practice, and this is the central behavioural problem *that later reform proposals seek to address. Suppliers frequently decline to invoke the entitlement against commercially important customers for fear of damaging the relationship, so the legal right exists in most qualifying contracts without translating into a routine commercial expectation, leaving the deterrent value of statutory interest weaker in practice than its formal scope would suggest.*

The Commercial Payments Bill seeks to address that reluctance directly by making statutory interest mandatory rather than leaving suppliers to decide whether to demand it. Government materials describe interest at eight percentage points above Bank Rate and restrictions on contractual attempts to dilute the right. Until the Bill completes Parliament and relevant provisions commence, however, the existing regime remains applicable, and mandatory automatic interest should not be described as a right already operating under law.

How Statutory Interest Is Calculated

Statutory interest is calculated using the unpaid qualifying debt, the applicable annual rate and the number of days overdue. The reference rate is fixed for six-month periods: Bank Rate on 31 December applies from 1 January to 30 June, while Bank Rate on 30 June applies from 1 July to 31 December, with the statutory rate equal to that reference rate plus eight percentage points, calculated on a simple daily basis rather than compounded.

For the period beginning 1 July 2026, Bank Rate stood at 3.75% on 30 June, resulting in a statutory rate of 11.75% for debts that fell into arrears during that half-year. On a qualifying £10,000 debt at 11.75%, the annual interest is £1,175, equivalent to approximately £3.22 per day; if that debt remained overdue for 60 days, the statutory interest would be about £193.15, before adding any fixed compensation or reasonable recovery costs.

The calculation should be tied to the date on which statutory interest actually starts, not simply the invoice date. Where agreed payment terms exist, the due date must first be established; where none exist, the statutory 30-day rule generally determines lateness. The supplier should retain evidence of invoice receipt, delivery or service completion, agreed terms, payments and disputes, because those facts determine both the start date and the principal on which interest is calculated.

Compensation for Late Payment

Late-payment compensation is separate from statutory interest. For qualifying debts, the supplier can claim a sum intended to contribute towards the cost of recovering overdue money. Rules provide £40 where the debt is below £1,000, £70 where it is at least £1,000 but below £10,000, and £100 where it is £10,000 or more, with the amount linked to each qualifying debt rather than calculated as a percentage of the invoice.

The fixed charge matters because chasing small invoices can cost more in staff time than the interest generated. A £500 invoice paid 30 days late at an 11.75% annual statutory rate produces about £4.83 in interest, whereas the fixed compensation is £40. On a £12,000 overdue debt, the fixed amount rises to £100, so compensation gives the remedy practical value where the delay is short or the principal too small to generate meaningful interest.

Fixed compensation is available once per qualifying late payment, rather than once per contract. This matters for suppliers issuing frequent smaller invoices under an ongoing arrangement, such as a term maintenance contract or rolling supply agreement. A contractor issuing 40 separate £4,500 invoices that each become qualifying late payments could therefore generate £2,800 in fixed compensation, separate from any statutory interest, provided each payment independently satisfies the statutory conditions.

Where reasonable recovery costs exceed the applicable fixed sum, the legislation can allow the supplier to recover the difference. That may matter where persistent non-payment requires specialist credit control, debt-collection services or legal work. However, the entitlement is not a licence to load arbitrary fees onto an invoice: costs should be genuinely incurred, reasonable in amount and properly connected with recovering the specific late debt in question.

Awareness of the entitlement remains limited outside specialist finance functions. Small Business Commissioner casework repeatedly shows that suppliers never claimed compensation to which they were plainly entitled, often because their invoicing systems are not configured to calculate or add it automatically. Building compensation and interest calculation into standard credit-control workflows, rather than treating it as an exceptional escalation step, is one of the simplest ways a supplier can convert an existing legal right into recovered cash.

Reasonable Debt-Recovery Costs

Reasonable debt-recovery costs supplement the fixed compensation available under the late-payment regime. Since 2013, where the supplier's reasonable costs of recovering a qualifying debt exceed the applicable £40, £70 or £100 fixed sum, the supplier can claim the difference, recognising that persistent non-payment may require more than routine credit control, particularly where correspondence, specialist collection work or legal advice becomes necessary before an undisputed commercial debt is finally recovered.

The entitlement is compensatory rather than punitive. A supplier claiming £100 fixed compensation on a debt of £10,000 or more could, for example, incur £350 of reasonable recovery expenditure; if those costs were properly recoverable, the additional claim would ordinarily be £250 rather than £350, because the statutory fixed sum already contributes towards recovery. Records of correspondence, collection charges and professional invoices help demonstrate that expenditure was actually incurred.

Reasonableness depends on the circumstances rather than a statutory tariff. A straightforward invoice resolved after one reminder would be difficult to equate with substantial professional recovery expenditure, whereas a long-running refusal to pay may justify greater cost. The supplier should therefore distinguish internal administration from exceptional recovery activity, since excessive or unsupported amounts can undermine an otherwise legitimate claim and intensify a dispute that could have been resolved proportionately.

The recovery-cost provisions also matter strategically because they remove the incentive to delay small suppliers until collection becomes uneconomic. Without recovery rights, a business owed £2,000 might spend several hundred pounds pursuing payment and still recover only the principal and modest interest. The statutory framework instead permits the £70 fixed sum and, where justified, reasonable additional costs beyond it, helping ensure enforcement expenditure does not automatically erode the value of the debt.

Contractual Interest and the "Substantial Remedy" Test

Parties may replace or vary statutory late-payment interest through contractual terms, but current law does not permit an ineffective substitute to remove statutory protection. Sections 8 and 9 of the 1998 Act require the contractual or overall remedy to be "substantial". Hence, a term excluding statutory interest is vulnerable if the alternative remedy is insufficient to compensate the supplier or deter late payment, and it would be unfair or unreasonable to let that term prevail.

The assessment is broader than comparing percentage rates. The Act requires consideration of all relevant circumstances when the terms were agreed, including commercial certainty, the parties' relative bargaining strength, whether one party imposed the term to the other's detriment and whether the supplier received an inducement to accept it. A modest contractual interest rate might therefore operate differently in a genuinely negotiated agreement between equals than in non-negotiable purchasing conditions imposed on a dependent microbusiness.

This flexibility reflects the current balance between freedom of contract and supplier protection. Parties can devise their own late-payment mechanism, but they cannot reliably neutralise the statute with a nominal remedy offering neither meaningful compensation nor deterrence. The Commercial Payments Bill proposes a materially stricter approach by voiding contractual terms that exclude or vary statutory interest; until such provisions become law and *commence, the existing substantial-remedy test remains the operative legal framework.*

The Current 30-Day and 60-Day Payment Rules

Current law distinguishes between the timing of default payments and the maximum periods ordinarily contemplated for agreed terms. Where no payment date has been agreed, a qualifying commercial debt is generally considered late after 30 days, measured from the later of performance and the purchaser's receipt of notice of the amount due. Where terms are agreed, government guidance states that payment should usually be within 30 days for public authorities and 60 days for business transactions.

For business-to-business contracts, 60 days is not presently an absolute statutory ceiling. The parties may expressly agree a longer period provided that it is not grossly unfair to the supplier. This qualification is important because descriptions of the current regime as a universal 60-day maximum are incomplete: a 75-day or 90-day term may therefore be legally possible today, although its enforceability depends on the surrounding circumstances and the statutory protection against grossly unfair terms.

Public-authority transactions are treated more strictly. The late-payment framework generally limits public-authority payment periods to 30 days, while the Procurement Act 2023 now explicitly includes 30-day payment terms in most public contracts. The two regimes overlap but should not be conflated: the 1998 Act governs commercial late-payment rights and payment-period controls, whereas the Procurement Act imposes specific contractual payment obligations within the public procurement system and extends them into qualifying subcontracting arrangements.

International and cross-border transactions add a further layer of complexity that is easy to overlook. Where a UK supplier contracts with an overseas customer, the applicable law and forum for disputes depend on the contract's governing-law clause and relevant private international law rules, so a UK-style 30 or 60-day expectation cannot automatically be assumed; procurement and finance teams exporting goods or services should confirm the governing law before assuming domestic late-payment protections will apply.

The consequences of misclassifying a payment date can be significant in practice. A supplier that mistakenly treats an invoice as due 30 days after issue, when the contract in fact specifies 30 days after delivery and acceptance, may either chase payment prematurely, straining the customer relationship, or fail to identify a genuine breach and lose the opportunity to claim interest and compensation from the date on which the debt actually became overdue.

Longer Payment Terms and the "Grossly Unfair" Test

The present ability to agree business payment periods exceeding 60 days is constrained by the requirement that the term must not be grossly unfair to the supplier. That concept prevents contractual freedom from becoming a matter of purchaser discretion, requiring attention to the substance of the arrangement, including whether there is an objective commercial reason for the longer period, whether the supplier genuinely accepted it and whether the term departs materially from good practice without adequate justification.

A 90-day term is therefore not automatically unlawful, just as a 60-day term is not automatically fair; the analysis depends on context. A capital-equipment supplier might voluntarily accept staged or extended payment in exchange for a correspondingly higher price, deposit, or other commercial benefit. The position is different where a dominant customer unilaterally lengthens terms after supplier investment has been committed, provides no compensating benefit and knows that the supplier lacks realistic alternative customers.

The issue has appeared repeatedly in Parliamentary scrutiny of purchasing practices. In 2018, the Business, Energy and Industrial Strategy Committee reported that WH Smith had standard terms of 90 days and maximum terms of 120 days; Boots UK had standard terms of 75 days and maximum terms of 120 days; and Holland & Barrett had standard terms of 90 days. These examples showed how extended periods could become established purchasing policy rather *than negotiated exceptions.*

Economic evidence reinforces the concern. Government research found that 54% of surveyed businesses with business customers offered 30-day terms as their standard position, while only 7% offered 60-day terms; goods businesses were more likely to offer 60 days, at 13%. The same research found 18% believed customers sometimes paid late deliberately as a form of free finance, rising to 24% among microbusinesses and 30% among businesses supplying goods.

The grossly unfair test has proved difficult to enforce in practice because few suppliers are prepared to litigate against a major customer over a payment term rather than over actual non-payment. Reported case law applying section 3 of the 1998 Act to lengthy contractual terms remains sparse, and most disputes are resolved commercially or absorbed, meaning the statutory safeguard has functioned more as a background constraint on drafting than as an actively litigated boundary.

That enforcement gap is precisely what the Commercial Payments Bill is designed to close. Rather than relying on an individual supplier to challenge a term as grossly unfair after the event, the Bill would replace the flexible test with a fixed maximum, removing the need to prove unfairness at all. Whether a bright-line rule produces better outcomes than a case-by-case fairness standard is itself one of the more contested questions in the reform debate.

Public Authorities and the Procurement Act 2023

Public authorities are subject to a distinct prompt-payment regime under section 68 of the Procurement Act 2023. Subject to specified exceptions, the Act implies terms into public contracts requiring sums due under a valid, undisputed invoice to be paid within 30 days, beginning with the later of the day the contracting authority receives the invoice or the day on which payment falls due in accordance with it. Any term seeking to restrict or override that protection is ineffective, although the parties may agree an earlier payment date.

The provision also addresses invoice disputes. Where the authority considers an invoice invalid or disputes it, the 30-day term does not apply to that invoice, but the authority must notify the payee without undue delay. A valid invoice must contain at least the following information: the invoicing party's name, a description of the goods, services, or works, the amount requested, and a unique identification number, together with any additional contractual requirements.

The statutory rule excludes concession contracts, utilities contracts awarded by private utilities and contracts awarded by schools. From a governance perspective, section 68 turns prompt payment from a policy aspiration into an implied contractual obligation for most public contracts. Section 69 adds transparency through payments compliance notices, requiring relevant contracting authorities to report periodically on payment performance, including average payment time and compliance with the 30-day obligation.

Thirty-Day Payment Through Public-Sector Supply Chains

Section 73 of the Procurement Act 2023 prevents the public-sector 30-day rule from stopping with the prime contractor. It implies the principal payment terms from section 68 into every qualifying public subcontract, so a supplier receiving public work cannot ordinarily impose a slower regime on businesses further down the delivery chain, a protection of particular relevance to registered providers and their contractors running multi-tier repairs, maintenance and new-build programmes.

A public subcontract is, broadly, a contract entered into primarily to perform or contribute to a public contract. The implied payment obligation follows the same basic 30-day approach and cannot be restricted or overridden by inconsistent terms. Exceptions broadly track the underlying exclusions for concession contracts, utilities contracts awarded by private utilities and school contracts, so protection is linked to the subcontract's purpose rather than merely the identity of the immediate purchaser.

Government procurement policy reinforces the statutory mechanism. PPN 018 applies payment-performance tests to central government procurements for goods, services, and works with an annual value above £5 million, including VAT, and excludes special-regime contracts. From 1 October 2025, relevant suppliers must demonstrate an average payment time of no more than 45 days and generally pay at least 95% of invoices within 60 days, with 90% potentially acceptable, subject to an action plan.

PPN 021 adds a further tool for qualifying central government contracts above £5 million per annum, including VAT: in-scope organisations should conduct a payment spot check of the relevant public subcontract at least once every six months, going materially beyond simply encouraging good behaviour. The combined approach is significant: legislation implies 30-day terms, selection can scrutinise payment performance, and contract management can test whether commitments genuinely extend to lower tiers.

Payment Terms as a Working-Capital Tool

Payment terms are a working-capital instrument because they determine how long each party retains control of cash after goods or services have been supplied. Extending terms from 30 to 60 days reduces the purchaser's payable outflow by roughly an additional month while increasing the supplier's receivable by the same economic amount. Across a large purchasing portfolio, even modest extensions can release substantial short-term liquidity for the customer without reducing the nominal price shown in the contract.

The effect can be illustrated by annual purchases of £12 million, spread evenly throughout the year. Average daily purchasing is approximately £32,877. Moving payment terms from 30 to 60 days can retain roughly an additional £986,000 in the purchaser's working capital cycle, assuming stable purchasing and invoice timing. That improvement does not arise from operational efficiency or lower consumption; economically, it results from requiring suppliers collectively to wait longer for cash already earned.

Purchasers may have legitimate reasons for managing payment timing. Businesses must coordinate incoming receipts, payroll, tax, inventory purchases, capital expenditure and financing covenants, and predictable terms can improve cash forecasting. Longer terms can also align payments with resale or project milestones, so the question is not whether working capital should be managed, but whether the customer should improve its position by shifting its liquidity requirements to suppliers that face higher borrowing costs.

The automotive sector provides a recent illustration. Reuters reported in June 2025 that Nissan asked some UK and European suppliers to consider delayed payment arrangements as it sought to release about £129 million of liquidity, converted from the reported €150 million at the 30 June 2025 exchange rate. Interest was offered on delayed sums, or an HSBC-funded option allowed earlier payment, with Nissan describing the arrangements as voluntary.

Working-capital optimisation becomes more defensible where both parties share measurable benefits. A purchaser might secure longer terms in exchange for volume certainty, improved pricing, deposits, indexation protection, or access to low-cost supply chain finance. It becomes more problematic where a standard extension is imposed after award solely to improve the buyer's cash position, so procurement governance should evaluate the total commercial exchange, not celebrate longer days payable outstanding as an isolated treasury achievement.

Extended Payment Terms as Supplier Finance

Extended payment terms effectively make the supplier a source of credit. Once goods have been delivered or services performed, the purchaser has received economic value while retaining the cash due in return. If a £500,000 invoice moves from 30-day to 90-day payment terms, the supplier finances an additional £500,000 for about 60 days. At an annual funding cost of 10%, that additional burden is approximately £8,219 before arrangement fees, credit insurance, or administration.

This financing is rarely symmetrical. Large customers can often borrow at lower rates than small suppliers, having stronger balance sheets, diversified revenues and better access to capital markets or bank facilities, so transferring funds to the supplier can increase the total cost of the supply chain, even while improving the purchaser's own cash position. The supplier may recover that cost through higher prices or reduced investment, meaning the apparent saving can reappear elsewhere.

The risk becomes particularly acute when extended terms are embedded in a purchaser's liquidity strategy rather than negotiated for operational reasons. Suppliers then finance the customer before receiving payment and may simultaneously depend on external borrowing to meet their own obligations. The apparent working-capital benefit to the buyer can therefore conceal higher financing costs, reduced supplier investment and greater failure risk elsewhere in the chain, weakening resilience where payments remain technically within agreed terms.

SMEs, Cash Flow and the Cost of Capital

Small and medium-sized enterprises are particularly exposed to payment timing because their cash reserves, customer portfolios and access to external finance are usually narrower than those of large corporations. A profitable SME can therefore encounter liquidity pressure when substantial invoices remain unpaid beyond expectation. Government research found that 28% of UK businesses experience late payment each year, with affected businesses owed an average of about £17,000 at any given time.

Cash-flow pressure arises before profitability necessarily deteriorates. An SME may have delivered goods, recognised revenue and earned a margin while still lacking the cash required to pay employees, suppliers, VAT, rent and loan instalments. Where customers pay after the SME's own obligations fall due, the business must bridge the timing gap using retained cash or external borrowing, so that late payment converts a customer's accounts-payable problem into the supplier's financing requirement.

That transfer is increasingly measurable. Bank of England data for July 2026 recorded an effective interest rate of 6.61% on new bank loans to SMEs, compared with 5.62% for new lending to UK non-financial businesses overall. At 6.61%, financing a £100,000 receivable for an additional 60 days costs approximately £1,087 in simple interest, before fees, security requirements, and invoice-finance charges further increase the effective burden on smaller borrowers.

Sector concentration compounds the exposure. The Federation of Small Businesses has reported that construction, manufacturing and creative-sector SMEs consistently record among the longest average wait times for payment, often because they sit several tiers below the ultimate paying client and have limited direct leverage over terms set at the top of the chain, regardless of how promptly their own immediate customer settles its own account with them.

Smaller businesses can also be more vulnerable to payment shocks spreading through the supply chain. Government research found that 32% of surveyed microbusinesses that paid their own suppliers late attributed this to their business customers paying them late, compared with 20% of businesses overall. Delayed cash, therefore, does not remain confined to a single bilateral relationship: a late-paying customer can indirectly affect subcontractors with whom it has no direct contractual connection.

The commercial response should address both price and risk. An SME accepting long terms can incorporate financing cost into its quotation, negotiate deposits or staged payments, use credit insurance, set customer limits or obtain invoice finance. None is cost-free, and weaker suppliers may lack leverage to secure them, so procurement teams assessing value for money should recognise that aggressive payment terms can increase tender prices or exclude otherwise capable smaller suppliers from competing.

How Late Payment Increases Supplier Insolvency Risk

Late payment increases insolvency risk because businesses fail when cash obligations cannot be met, even where accounting profits appear healthy. Wages, taxes, rent, finance repayments, and upstream invoices continue to fall due while overdue receivables remain unavailable. A supplier with thin cash reserves may respond by exhausting overdrafts, delaying its own creditors, or restricting purchases, so repeated delays can eventually turn a temporary working-capital shortage into an inability to pay debts as they fall due.

The scale of that risk is now well documented in official research. Department for Business and Trade research published in 2025 placed the annual economic cost of late payment at almost £11 billion, linking the problem directly to around 14,000 business closures a year, or roughly 38 UK businesses every day. The Small Business Commissioner has described the problem as a persistent drag on entrepreneurship rather than a temporary pandemic-era distortion.

Insolvency risk also amplifies supply-chain concentration. When a smaller supplier fails, customers may lose specialist capability, tooling, local capacity, or technical knowledge that cannot be immediately replaced. Remaining suppliers can gain greater bargaining power while emergency sourcing increases cost, so effective customer due diligence should include payment behaviour alongside financial strength, and buyers should monitor whether their own practices are weakening critical suppliers whose failure would disrupt delivery.

The construction sector illustrates how a single large insolvency can crystallise this risk across an entire supply chain almost overnight. When the eight companies of the ISG group collapsed into administration in September 2024 with liabilities exceeding £800 million, administrators later confirmed that approximately £885 million was owed to unsecured trade creditors and subcontractors, with no meaningful distribution expected for that group by the time the administration entered its second year.

Early-Payment Discounts and Dynamic Discounting

An early-payment discount offers the purchaser a price reduction in exchange for paying before the normal contractual due date. A conventional term might offer a 2% discount if an invoice is paid within 10 days rather than 30. On a £10,000 invoice, the purchaser pays £9,800 twenty days early, saving £200 while the supplier accelerates cash receipt, benefiting both parties where the discount is voluntary and preferable to the supplier's alternative financing cost.

The implied cost to the supplier can nevertheless be high. Sacrificing £200 to receive £9,800 twenty days early represents approximately 2.04% of the cash received for a 20-day acceleration; over a year, the simple annualised equivalent exceeds 37%, although the precise effective annual rate depends on methodology and repetition. Suppliers should therefore compare the discount surrendered with overdraft, invoice finance, and working capital costs rather than assuming faster payment automatically represents inexpensive finance.

Dynamic discounting makes the principle more flexible. Instead of a single fixed discount tied to one early-payment date, the discount typically varies with the purchaser's actual payment date: a supplier seeking immediate liquidity can accept a larger discount, while one able to wait longer sacrifices less margin. Digital procure-to-pay platforms can automate offers after invoice approval, allowing excess purchaser cash to generate a return while giving suppliers an optional source of accelerated liquidity.

Some public-sector and housing-sector procure-to-pay platforms have begun offering dynamic discounting facilities to registered-provider supply chains, typically funded from the client's own surplus cash balances rather than a third-party bank. Because the client is usually a stronger covenant than many contractors in its own supply chain, discount rates offered through such schemes can be materially lower than an SME subcontractor would obtain independently through invoice finance or an overdraft facility.

The distinction between choice and coercion remains critical. Early payment is valuable when *the supplier can choose between receiving the full amount on the agreed date and a discounted amount earlier. It becomes questionable when purchasers impose excessively long standard terms and then charge suppliers, directly or indirectly, for early access to funds; responsible arrangements should preserve the contractual due date, clearly disclose the trade-off, and avoid making participation in discounts a condition of future business.*

Supply-Chain Finance and Reverse Factoring

Supply-chain finance, commonly called reverse factoring or payables finance, introduces a finance provider between the purchaser and supplier. Once the purchaser approves an invoice, a bank or funder can pay the supplier early, typically at a discount that is substantially based on the purchaser's credit quality, and the purchaser then pays the finance provider on the contractual or later-agreed date, allowing the buyer to preserve or extend its working-capital position.

The model can create genuine economic benefits where a strong purchaser enables smaller suppliers to access funding more cheaply than they could obtain independently. ICAEW explains that supply-chain finance can fund up to 100% of an approved invoice and may offer competitive rates because the lender relies principally on the purchaser's credit strength, meaning suppliers facing 60-day terms can receive approved cash materially earlier and reduce overdraft usage.

Risks emerge when finance substitutes for fair payment terms. A purchaser can extend contractual terms while directing suppliers towards bank-funded early payment, effectively replacing supplier credit with structured finance: the supplier may obtain earlier cash but surrender a discount, while the purchaser retains cash longer. The economics should therefore be assessed against the terms that would have existed without the programme, not the artificially extended date the programme was built around.

Financial reporting has also become more transparent. Amendments to FRS 102 require disclosures about supplier-finance arrangements for accounting periods beginning on or after 1 January 2025. Relevant entities must disclose key terms, related liability balances and payment due-date ranges, together with other specified information, because reverse factoring can alter liquidity risk and may make trade payables behave economically more like borrowing than genuine short-term trade credit.

The Carillion collapse remains the most-cited illustration of why that reporting change was considered necessary. S&P Global told the Parliamentary inquiry that insufficient transparency around Carillion's reverse-factoring practices was likely to have obscured its weak balance sheet and cash-flow position in the years before its failure, meaning investors, credit insurers and even some suppliers were assessing the company's underlying resilience using an incomplete picture of its true payables position.

Registered providers and their main contractors are increasingly encountering supply-chain finance clauses within standard-form construction contracts and framework call-offs. Where a scheme is offered on genuinely voluntary terms and priced on the funder's own credit assessment of the paying client, it can materially improve subcontractor cash flow; procurement teams should nonetheless request visibility of the underlying discount rates before treating participation as evidence that a contractor's own payment practices are already fair.

Invoice Disputes, Verification and Delayed Approval

Invoice disputes are a major operational cause of delayed payment. Government research found that 31% of surveyed businesses attributed their late supplier payments to disputed invoices, compared with 36% citing administrative errors and 23% citing technical problems such as invoices being lost or not arriving. These causes differ from deliberate late payment but can produce the same cash-flow consequence for suppliers, particularly where approval processes are complex and responsibility for resolving exceptions is unclear.

Verification procedures are commercially legitimate where purchasers must confirm quantities, quality, milestones, timesheets or contractual performance before releasing payment. They become problematic when requirements are undefined, when sequential approvals create avoidable delays, or when purchasers raise objections only near the due date. Good contract management should specify invoice information, acceptance criteria, responsible approvers and escalation routes before work begins, with disputed elements identified promptly and undisputed amounts paid rather than the entire invoice withheld.

Technology can reduce delay only where the underlying process is well designed. Electronic invoicing, purchase-order matching, and automated workflows can quickly identify missing information, but rigid systems can also reject invoices for minor discrepancies. Procurement and finance teams should analyse reasons for rejection, approval times, and recurring bottlenecks rather than measuring only final payment dates, because a customer that delays approval has not solved the commercial problem merely by recording payment promptly afterwards.

Payment Reporting and the Fair Payment Code

UK payment reporting makes the practices of many large businesses publicly visible. Under the Reporting on Payment Practices and Performance Regulations 2017, qualifying companies and limited liability partnerships generally report twice yearly. From 6 April 2025, the principal size thresholds are more than £54 million in annual turnover, £27 million in balance-sheet total, and 250 employees, with businesses generally in scope where they exceed at least two relevant thresholds on the required dates.

The reporting regime now captures both timing and value. For financial years beginning on or after 1 January 2025, qualifying businesses report additional data including total sums paid and the proportion of overdue payments linked to disputes. For financial years beginning on or after 1 January 2026, large companies must also include specified payment information within directors' reports, increasing visibility beyond a single headline figure and making persistent payment behaviour harder to obscure.

The Fair Payment Code complements statutory reporting with voluntary recognition. Operated by the Small Business Commissioner, it awards Gold where at least 95% of UK invoices are paid within 30 days; Silver where at least 95% are paid within 60 days and at least 95% of small-business invoices within 30 days; and Bronze where at least 95% are paid within 60 days, with awardees also expected to follow principles of being clear, fair and collaborative.

The Code replaced the former Prompt Payment Code and uses time-limited awards supported by an evidence-based application process. By 4 September 2026, its website displayed 743 awardees. Voluntary recognition cannot capture every poor payer, but it makes stronger payment performance commercially visible, and the Commercial Payments Bill would supplement this reputational mechanism with stronger investigation and enforcement powers, reducing reliance on businesses voluntarily improving their treatment of suppliers.

Carillion – When Supplier Credit Supports the Customer

Carillion provides the clearest UK example of supplier payment being used as corporate finance. The construction and facilities-management group entered compulsory liquidation on 15 January 2018 after presenting a position of apparent strength only months earlier. A Parliamentary inquiry reported that it collapsed with liabilities approaching £7 billion and just £29 million in cash, while also owing around £2 billion to approximately 30,000 suppliers, subcontractors and other short-term creditors.

The company had signed the Government's Prompt Payment Code in 2013, yet its standard supplier payment terms were subsequently extended to 120 days. The Federation of Small Businesses had raised concerns about suppliers waiting as long as 126 days. Carillion's final Finance Director told Parliament that suppliers were asked to accept 120-day terms, although she stated that average payment during 2017 was 43 days and only a minority waited beyond

60 days.

Its Early Payment Facility changed the financing route rather than the underlying imbalance. Suppliers could sell approved invoices to Carillion's bank and receive discounted payment after around 45 days, while Carillion was not expected to reimburse the bank until its extended standard term expired. The company described the arrangement as supply-chain factoring, but investigators concluded that Carillion deliberately used the facility to avoid damaging its own working capital when its customers failed to pay it quickly.

The arrangement also complicated perceptions of financial health. S&P Global told the Parliamentary inquiry that insufficient transparency around Carillion's reverse-factoring practices was likely to have obscured its weak balance sheet and cash-flow position. Shortly before collapse, restructuring advisers even considered extending standard payment terms to 126 days as a potential cash-generative opportunity, so what appeared operationally as supplier-payment policy had become an important element of corporate liquidity management.

Carillion does not establish that extended terms or supply-chain finance are inherently abusive. It shows how dangerous they become when a financially weak purchaser relies on suppliers to fund liquidity while presenting the arrangement as normal purchasing practice, leaving the supplier ultimately exposed to concentrated cash-delay and customer-failure risk. Procurement governance should therefore examine whether payment-term extensions reflect genuine operating needs or are compensating for deterioration in the purchaser's underlying financial position.

Why Further Late-Payment Reform Was Proposed

Further reform was proposed because the existing combination of statutory interest, reporting and voluntary codes had not eliminated persistent payment problems. The economic evidence already outlined, together with House of Commons Business and Trade Committee evidence that 44% of SME invoices were paid late, suggested that rights exercised primarily by individual suppliers were insufficient where commercial dependence discouraged smaller businesses from challenging major customers effectively.

The policy concern also extends beyond overdue invoices to payment terms themselves. Current business-to-business law permits periods longer than 60 days where expressly agreed and not grossly unfair, leaving scope for negotiation and bargaining imbalance. The Government therefore proposed firmer limits, mandatory late-payment interest, and stronger powers for the Small Business Commissioner, shifting from remedies that suppliers must invoke to a framework in which minimum payment standards are harder to waive under contract.

The reform remains contested because payment flexibility can serve legitimate commercial purposes. Different sectors use staged payments, acceptance procedures, seasonal cycles and specialised financing arrangements, while large businesses argue that rigid limits can interfere with negotiated contracts. The policy challenge is therefore to reduce economically harmful use of supplier credit without preventing proportionate arrangements between sophisticated parties, a tension the Bill addresses partly through maximum periods and regulation-making powers permitting specified exemptions.

The Commercial Payments Bill – Parliamentary Position in 2026

The Commercial Payments Bill [HL] was introduced in the House of Lords on 19 May 2026 and received its second reading on 9 June, when the Minister described it as the toughest late-payment regime among G7 economies. Committee stage took place across several sittings and concluded on 21 July 2026, when the House agreed a substantial batch of technical and clarifying amendments and ordered the Bill, as amended, to be reprinted.

As at 4 September 2026, the Bill had completed Committee stage and was awaiting Report stage, scheduled in the House of Lords for 15 September 2026. It has not received Royal Assent, and none of its proposed reforms should be described as creating or altering existing *statutory rights or obligations while the Bill remains before Parliament, regardless of the momentum generated by its passage through the Lords to date.*

After Report stage and third reading in the Lords, the Bill would still require passage through the House of Commons, resolution of any differences between the Houses and Royal Assent before becoming an Act. Its timetable beyond the currently scheduled Lords Report stage remains uncertain, and no reliable date can yet be given for its entry into the Commons or eventual Royal Assent.

Its scope is broader than simply shortening invoices. The Bill addresses maximum commercial payment periods, statutory interest, late-raised disputes, construction retentions, and the powers of the Small Business Commissioner. It proposes an adjudication scheme for relevant payment disputes involving small businesses, investigation of larger businesses' payment practices, and enforcement of statutory payment-reporting duties, measures that together would significantly increase institutional enforcement compared with the existing regime.

Proposed Maximum Payment Periods

The Bill's central payment-term proposal is considerably firmer than current business-to-business law. Clause 1 would insert a new section 2B into the late-payment legislation, requiring that relevant payments become due within a specified period. Under the Bill as amended in Committee, that maximum period is 30 days where the purchaser is a public authority and 60 days where the purchaser is not a public authority, with inconsistent contractual terms rendered void.

The proposed clock is linked to defined commercial events rather than allowing purchasers to choose an arbitrary starting point. Depending on the transaction, the period can begin with performance of the supplier's obligation, the end of a goods-hire period, notice of the payment amount or completion of an acceptance or verification procedure. The Bill also constrains verification arrangements, seeking to prevent contractual machinery from defeating the maximum term by postponing the start of payment.

For private-sector contracts, the proposed 60-day limit would remove the present general ability to agree a longer period merely because it is not grossly unfair, a significant legal change. A purchaser could not ordinarily convert a 60-day statutory maximum into 90 or 120 days through standard purchasing conditions, so the policy directly targets extended supplier credit while preserving the ability to agree shorter terms, including 30-day payment where commercially appropriate.

The Bill nevertheless contains an exemption mechanism. Subject to regulations and specified conditions, restrictions could be disapplied in written contracts where the purchaser is smaller than the supplier, between large undertakings, or for contract descriptions specified by the Secretary of State. Public authorities cannot use this exemption route, reflecting a policy view that bargaining-power concerns differ where a smaller purchaser contracts with a larger supplier or where particular markets require different treatment.

Government has also indicated a possible exemption from the 60-day maximum for import and export contracts, subject to further consultation. That reflects the practical difficulty of imposing a single domestic payment ceiling on transactions governed partly by foreign law, documentary credit arrangements or shipping timetables that lie outside either party's direct control and cannot easily be compressed into one fixed statutory window applicable across every jurisdiction involved.

Proposed Mandatory Statutory Interest

The Bill would fundamentally strengthen statutory interest by making it an unavoidable contractual consequence of qualifying late payment. Clause 4 would imply into every contract within the amended 1998 Act a term that qualifying debts carry simple statutory interest. Clause 6 would then make contractual provisions void where they seek to exclude that right, delay the start of interest, impose additional conditions, or substitute a different rate from the *statutory calculation.*

The proposed rate remains eight percentage points above the applicable Bank of England reference rate, preserving the familiar economic benchmark while changing how firmly it applies. Under current law, suppliers can claim statutory interest, although a contractual remedy may replace it where that remedy is substantial. The Bill would remove that substantial-remedy route for statutory interest, preventing purchasers from negotiating a weaker provision as the price of obtaining business.

The practical objective is to remove the commercial dilemma faced by suppliers who are legally entitled to interest but reluctant to demand it from important customers. Government proposals also envisage additional reporting by large companies on statutory interest paid and owed. Making interest non-waivable, visible, and potentially relevant to enforcement would transform it from a remedy largely dependent on supplier confidence into a more systematic discipline of payment behaviour.

Late Invoice Disputes and Proposed Compensation

The Bill also targets another delaying tactic: raising an invoice dispute only when payment is approaching or already due. Proposed section 11A would give a supplier under a non-construction contract a fixed sum where the purchaser raises a relevant dispute after the statutory "last dispute day", or raises it by that day without supplying enough information for the supplier to understand what the disagreement concerns.

Under the Bill as amended in Committee, the last dispute day would normally be the first day of the eight days ending with the relevant payment day, effectively seven days beforehand. Where the relevant day falls within fourteen days of the supplier performing its obligation, the relevant day itself becomes the deadline, differing from the earlier consultation proposal for a simpler thirty-day dispute deadline and requiring careful reference to the current Bill wording.

The proposed compensation would be the higher of £40 or 1% of the contract price, or 1% of the disputed amount where only part of the price is challenged. A late dispute over £50,000 could therefore produce £500 compensation, while a dispute over £2,500 would produce the £40 minimum rather than £25, creating a direct financial incentive for customers to review invoices and communicate genuine concerns promptly.

A dispute may be notified orally or in writing, but the purchaser must still provide sufficient information by the deadline. Contract terms attempting to exclude or vary the supplier's entitlement would be void, although a court or adjudicator could remit the fixed sum where the interests of justice required it. Construction contracts are excluded from this mechanism because their payment and dispute procedures are addressed separately under the Bill and construction legislation.

The Small Business Commissioner's Proposed Adjudication Powers

The proposed Small Business Commissioner adjudication scheme would create a new route for resolving qualifying payment disputes without requiring a small supplier to commence court proceedings immediately. A small business could refer a dispute about amounts owed by a larger business under a qualifying commercial contract entered into on or after commencement, and contractual terms attempting to remove or restrict the right of referral would be void, protecting access to the statutory process.

The adjudicator would be required to act fairly and impartially, give each party a reasonable opportunity to present its case and determine what amounts the larger business owes under the applicable law. Where money is found to be due, the decision must state how and by when payment is to be made, and the adjudicator could also take the initiative to establish relevant facts and law rather than relying solely on the parties' submissions.

The decision would have an unusual but commercially useful status. If both parties agreed in writing to accept it as final, it would finally determine the dispute; otherwise, it would remain *binding unless and until the matter was finally resolved through legal proceedings, arbitration where available, or a different written agreement between the parties, providing enforceable interim certainty without permanently removing access to ordinary judicial determination.*

Not every disagreement would qualify. The Commissioner could decline frivolous or vexatious referrals, disputes forming inseparable parts of wider disagreements, matters involving legal questions better decided by a court, or cases already subject to legal proceedings. Excluded disputes would also include matters already finally determined, issues within another regulator's or ombudsman's jurisdiction and disagreements merely about whether the contract price was appropriate where no breach was alleged.

Regulations would determine procedural details, including pre-referral steps, time limits and how related disputes may be handled. The Bill permits the recovery of adjudication costs in principle but expressly prevents regulations from allowing the Commissioner to recover those costs from the referring small business unless the referral was frivolous or vexatious, a significant protection because an accessible dispute mechanism would lose much of its value if smaller suppliers incurred substantial costs to invoke it.

Investigation, Enforcement and Financial Penalties

The Bill would allow the Commissioner to investigate a larger business where there are reasonable grounds to suspect persistent poor payment practices. Defined conduct includes repeatedly paying contract prices late, failing to pay sums required by the amended 1998 Act, using void contractual terms, attempting to circumvent statutory payment requirements or failing to publish required payment-practice information, with persistence requiring enough occasions to amount to a pattern rather than an isolated administrative failure.

Following investigation, the Commissioner could make recommendations, issue publication directions, or impose enforcement directions requiring changes such as amending standard terms, stopping the use of particular provisions, retracting misleading payment information, training staff, or commissioning an independent review. An enforcement direction could not itself order payment of a specific debt; individual disputes would instead be addressed through adjudication, ordinary legal remedies or another applicable mechanism.

For persistent poor payment practices, the Bill would permit a financial penalty of up to 1% of the larger business's annual UK turnover, subject to the required evidential threshold being met. A business with £500 million UK turnover could face a maximum £5 million penalty. In comparison, a smaller qualifying business with £80 million turnover would face a maximum exposure of £800,000, illustrating how the penalty scales with size rather than applying as a fixed sum.

Separate reporting-enforcement regulations could also provide single or daily penalties for failure to publish accurate payment-practice information, subject to statutory turnover-based limits and rights of appeal to the appropriate senior court. This dual structure, distinguishing penalties for poor payment practice from penalties for poor payment reporting, mirrors an approach already familiar from other UK regulators that combine substantive and disclosure obligations within a single enforcement regime.

The turnover-linked penalty model is not without precedent elsewhere in UK regulation. The Competition and Markets Authority can already fine businesses up to 10% of global turnover for the most serious competition infringements. The Information Commissioner's Office can impose fines of up to 4% of global turnover under data-protection law. Hence, a 1% UK-turnover ceiling for persistent late payment sits at the more modest end of comparable turnover-based enforcement tools already operating in UK markets.

Commentators following the Bill's progress have questioned whether the Small Business Commissioner's office, which employed around 12 staff as of mid-2026, has the practical capacity to exercise these expanded powers at scale. R3, the insolvency and business recovery trade body, reported more than 17 million overdue invoices and 1.5 million *businesses with overdue bills in the first quarter of 2026 alone, a caseload exceeding what a small regulatory office could realistically investigate without significant extra resourcing.*

Greater Transparency and Board Accountability

The reform programme also seeks to make payment performance a board-level governance issue rather than leaving it solely with accounts payable. Large companies already report payment practices twice a year, and annual reporting requirements are being strengthened. Government plans accompanying the Bill would additionally require large companies to disclose statutory interest paid and owed, making the financial consequence of late payment visible alongside conventional measures such as average payment time.

Persistent late payers among large companies would face an additional accountability requirement. Government fact sheets state that their boards or audit committees would have to publish commentary explaining why payment performance is poor and what actions are being taken to improve it, thereby changing the governance dynamic. Hence, recurring supplier delays are an issue that requires senior-level explanation and may be visible to investors, suppliers, employees, and other stakeholders, rather than remaining an internal metric.

The commercial effect may extend beyond legal compliance. A large customer reporting substantial overdue interest, or having persistent poor payment performance scrutinised at board level, could face higher supplier pricing, tighter credit limits, or reluctance from SMEs to tender. Conversely, reliable payment data can demonstrate that stronger buyers are not using their bargaining power to finance themselves through suppliers, giving procurement markets the information to distinguish genuine prompt-payment performance from unsupported corporate assurances.

Construction Retentions and the Proposed Ban

Construction retentions are sums withheld from payments as security against incomplete or defective work. Government consultation material describes them as typically 3% to 5% of contract value, commonly with half released at practical completion and the remainder after a defects period of around 12 to 24 months. For smaller subcontractors, that practice can immobilise cash for long periods and creates an additional risk that retained money disappears if an upstream contractor becomes insolvent.

The scale of money involved is substantial. The Construction Leadership Council has estimated that around £4-6 billion in retention sums is held across the industry at any time, with approximately £223 million lost annually where the holder becomes insolvent first. ISG's collapse in September 2024 illustrated this starkly: subcontractors on Ministry of Justice prison projects found retentions built up over years drawn into the general insolvency estate alongside ordinary trade debts.

The Bill proposes to phase out retention clauses in construction contracts governed by the statutory payment regime. Under the Committee-stage text, retention clauses agreed after the end of a two-year transition period would be void, and variations of earlier retention clauses would also generally be prohibited after transition unless the change made the position more favourable to the payee, attacking the contractual mechanism itself rather than merely regulating the protection of retained funds.

The Bill also proposes a strong financial consequence for unauthorised retention. Where a retention debt arises after the transition period, the payee would be entitled to a fixed sum equal to the higher of £40 or 50% of the retention debt, so a wrongly withheld retention of £20,000 could generate £10,000 compensation, in addition to any statutory interest and ordinary late-payment compensation that may also be available.

The policy responds directly to insolvency and cash-flow concerns exposed across construction supply chains. Retentions traditionally protect purchasers against defects, so their removal may increase demand for alternatives such as performance bonds, guarantees *or stronger quality-assurance mechanisms. Government consultation found that 87% of respondents supported reform. However, views differed over prohibition and protection, and the commercial challenge will be preventing the risk of defect from being transferred into expensive surety requirements that disproportionately burden smaller contractors.*

Transition, Commencement and Non-Retrospectivity

Royal Assent would not make every substantive reform immediately operational. Clause 31 provides that most provisions would commence on dates appointed by the Secretary of State through regulations, allowing different provisions to start at different times. Certain regulation-making powers and general provisions would commence upon passage of the Act, enabling secondary legislation and administrative preparation before businesses become subject to the principal new duties; organisations should distinguish between enactment, commencement, and operational readiness.

The Bill expressly protects pre-existing contracts from many of its core commercial-payment changes. Amendments made by sections 1 to 8 and the associated schedule would not affect contracts entered into before the relevant provision comes into force. The proposed adjudication scheme similarly applies to qualifying contracts entered into on or after its commencement date, and Government guidance summarises the policy as non-retrospective: contracts, payments and disputes are judged under the rules applicable at the relevant time.

Construction retentions have their own transition architecture. The Committee-stage Bill provides a two-year transition before new retention clauses are banned, followed by special rules for existing clauses and retained sums. This staged approach recognises that projects can run for years and that purchasers may need alternative security arrangements, so businesses should map contract dates carefully, because two otherwise similar transactions could be governed by different rules solely because they were entered into at different times.

Procurement teams negotiating framework agreements that will run across the anticipated commencement window face a particular drafting challenge. A framework signed in 2026, with call-offs continuing into 2028, could mean that early call-offs are governed entirely by existing law, while later call-offs under the same framework fall within the new regime. As a result, standard call-off terms should be drafted flexibly enough to accommodate either outcome without requiring wholesale renegotiation once commencement dates are finally confirmed.

Existing Law and Proposed Law – The Critical Differences

The distinction between current law and the Bill concerns the extent to which parties may allocate payment risk by agreement. Current business-to-business law generally allows terms longer than 60 days where expressly agreed and not grossly unfair. The Bill would replace that flexible test with a firmer 60-day maximum for most private-sector contracts, subject to limited exemptions, while retaining a 30-day position for public authorities, making longer standard terms much harder to justify.

Statutory interest would also change in character. At present, suppliers possess a statutory right to interest, but qualifying contractual remedies can displace it where they amount to a substantial remedy. The Bill would instead make statutory interest an implied, non-waivable term and void attempts to exclude it, alter the rate, or postpone its start, shifting the emphasis from protecting the availability of a supplier remedy to prescribing a mandatory financial consequence for late payment.

Dispute and enforcement mechanisms would become materially stronger. Current law contains no equivalent statutory compensation merely because a purchaser raises an invoice dispute late, and the Small Business Commissioner mainly investigates complaints, provides advice and makes recommendations. The Bill would introduce fixed compensation for specified late disputes, a binding interim adjudication scheme for qualifying small-business disputes, investigations into persistent poor payment practices and turnover-linked financial penalties against larger businesses where statutory conditions are satisfied.

Construction would experience perhaps the most structural change. Retentions are presently lawful subject to construction-contract rules, whereas the Bill proposes their phased prohibition and substantial compensation for unauthorised withholding. The Bill would also rename the 1998 Act as the Commercial Payments and Interest on Late Payment Act 1998, a change of title that itself signals how far the regime is intended to shift from a supplier remedy towards a general payment code.

Procurement and finance teams often ask a simpler practical question: what changes today, and what changes only once the Bill commences. The honest answer is that nothing in the Bill currently binds anyone. The existing 1998 Act, the substantial-remedy test, the present 30- and 60-day expectations, and the Procurement Act 2023 continue to govern every live contract; businesses altering standard terms now in anticipation of the Bill are making a commercial choice, not a legal one.

These changes remain proposals as of 4 September 2026, making it essential to draw an accurate distinction between existing rights and future obligations throughout commercial and procurement documentation. Standard-form contracts, tender templates and supplier codes of conduct drafted or revised during 2026 should therefore clearly state which provisions reflect current law and which anticipate the Bill, rather than presenting a single, blended description that could mislead a supplier about what it can actually enforce today.

Claiming Interest, Compensation and Recovery Costs

Under current law, a supplier should first establish that the debt qualifies, identify the contractual or statutory due date, and confirm that the amount is genuinely outstanding. Statutory interest normally becomes relevant once payment is late, while the debt band determines fixed compensation: £40 for amounts below £1,000, £70 for amounts of at least £1,000 but below £10,000, and £100 for amounts of £10,000 or more, so accurate dates and invoice records are essential before any additional sum is demanded.

Practical escalation should remain proportionate. A supplier can issue reminders, confirm the contractual basis of the debt, notify the customer that statutory charges are accruing and send a formal demand before considering collection proceedings. If the customer is a larger private-sector business and the supplier is eligible, the Small Business Commissioner may be approached before legal action begins. However, once court proceedings have started, the Commissioner generally cannot intervene in the same payment complaint.

Real cases show that asserting statutory rights can produce full recovery. Karen Woolven Floral Design Retail Ltd pursued two unpaid invoices, later adding administration costs and interest at eight percentage points above Bank Rate. After a further 38 days without payment, the business approached the Small Business Commissioner, and, following intervention, the customer paid the outstanding invoices, together with the claimed administration costs and interest, demonstrating that statutory remedies can strengthen a supplier’s negotiating position.

The Role of the Small Business Commissioner

The Office of the Small Business Commissioner is a public body established under the Enterprise Act 2016 to address late payment and unfavourable payment practices in the private sector. Its current role includes providing guidance, reviewing enquiries and investigating eligible complaints by small businesses concerning larger customers, helping parties resolve overdue-payment disputes. However, its present powers are substantially more limited than those of the investigation, adjudication, and financial-penalty regime proposed by the Commercial Payments Bill.

Its existing jurisdiction has important boundaries. The Commissioner generally defines a small business as having fewer than 50 employees and a large business as having more than 50. It does not investigate payment disputes with public-sector bodies, which may instead fall to the Public Procurement Review Service, and construction disputes governed by statutory *adjudication remain outside its remit; businesses are normally expected to attempt to resolve them themselves before asking the Commissioner to intervene.*

The service nevertheless demonstrates the value of specialist intervention. During 2025-26, the Office recovered more than £1.5 million in overdue payments for small businesses, its highest annual figure for more than five years and above its £1.23 million annual budget allocation. The proposed Bill would build on that advisory and casework function by giving the Commissioner considerably stronger statutory tools, potentially turning the office from a primarily conciliatory body into a significant commercial-payment regulator.

The transition raises a genuine resourcing question that procurement and finance professionals should watch closely. A conciliatory office designed to encourage voluntary settlement operates very differently from a regulator empowered to investigate, adjudicate and fine, and the eventual scale of its budget and staffing, rather than the statutory powers alone, is likely to determine how quickly persistent late payers actually experience meaningful enforcement once the Bill's provisions commence.

Debt Recovery, Court Proceedings and Statutory Demands

In England and Wales, a creditor can make a court claim for money and, where the amount is known, must pay a fee linked to the claim value. As at September 2026, a claim between £5,000.01 and £10,000 carries a £455 issue fee, while claims between £10,000.01 and £200,000 generally attract a fee equal to 5% of the amount claimed, with recoverability of costs depending on the applicable procedural rules.

Obtaining judgment does not guarantee receipt. If a debtor still refuses or fails to pay, enforcement options can include a warrant or writ of control, a third-party debt order against money held by another person or bank, or a charging order against property. The appropriate mechanism depends upon the debtor's assets and circumstances, so creditors should assess recoverability before incurring further fees merely to convert an unpaid invoice into an unenforced judgment.

A statutory demand is an insolvency step, not a substitute for debt collection. The debtor normally has 21 days to pay or reach agreement; if ignored, a creditor may seek bankruptcy where an individual owes at least £5,000, or petition to wind up a company owing at least £750. Winding-up proceedings are costly: government guidance lists a £352 court fee and £2,600 petition deposit, with no assurance that the creditor will recover anything.

Money Claim Online provides a lower-cost route for many straightforward debts and can be used without instructing a solicitor. However, its practical value depends on the debtor actually engaging with the process rather than ignoring it. Where a claim is undefended and judgment is obtained in default, enforcement remains a separate, sometimes lengthier, exercise, so creditors should budget for the possibility of pursuing enforcement action even after winning the underlying claim.

Insolvency-based recovery routes carry a strategic risk that warrants consideration before use. A statutory demand or winding-up petition can prompt rapid payment from a debtor with the means but not the inclination to pay. Yet the same threat can tip a genuinely distressed customer into formal insolvency, converting a recoverable trade debt into a modest dividend alongside every other unsecured creditor, so the choice of remedy should reflect solvency rather than the size of the sum owed.

Drafting Fair and Effective Payment Clauses

An effective payment clause should state when an invoice may be issued, what information makes it valid, the payment period, the method of payment and the consequences of delay. Ambiguity over whether time runs from the invoice date, receipt, delivery, acceptance, or certification creates avoidable disputes, so the clause should also clearly identify any conditions precedent to payment, ensuring a supplier can satisfy them without discovering additional administrative requirements only after submitting its invoice.

Dispute provisions should require the customer to raise genuine concerns promptly and sufficiently explain them so the supplier can respond. A purchaser should not be able to postpone the entire invoice indefinitely because a small element is disputed. Where practicable, the contract should permit undisputed amounts to be paid while the contested balance is under investigation, separating legitimate verification from tactical withholding without forcing the purchaser to pay amounts genuinely in question.

Late-payment provisions should be drafted consistently with the 1998 Act rather than relying on nominal contractual remedies. The contract can state the applicable statutory entitlement or provide an alternative only where current law permits it, and the remedy is substantial. Procurement teams should avoid clauses designed merely to suppress statutory interest, compensation or reasonable recovery costs, since such drafting weakens supplier confidence and may prove legally ineffective, particularly where bargaining strength is markedly unequal.

Public contracts require particular care because section 68 of the Procurement Act 2023 implies a 30-day payment term into most public contracts and prevents inconsistent terms from overriding it. The Act also requires contracting authorities to notify suppliers without undue delay where an invoice is considered invalid or disputed, so standard forms should align invoice-validation and dispute procedures with those statutory obligations rather than reproduce private-sector wording that assumes longer payment periods are freely negotiable.

Fair drafting also requires commercial proportionality. The Fair Payment Code expects payment terms to be clear, fair and collaborative, with terms agreed and recorded before work begins. A purchaser seeking 60 days should therefore consider whether that period reflects a genuine operating requirement or improves its own cash position, since a well-drafted clause is not necessarily a fair clause: substantive balance matters alongside precision, enforceability and legal compliance.

Housing associations and other registered providers drafting standard works contracts should pay particular attention to how payment clauses interact with any framework call-off terms already negotiated through providers such as Fusion21, LHC or Procure Plus. Bespoke amendments made at the individual scheme level can unintentionally conflict with the framework's own payment provisions, creating uncertainty about which version governs a given call-off and increasing the risk that an inadvertently non-compliant term survives into a live contract.

Purchase-to-Pay Controls and Effective Invoice Management

Effective purchase-to-pay control begins before the invoice arrives. Purchase orders should contain correct pricing, tax treatment, delivery details and payment terms; goods or services should be receipted promptly; and invoice-routing responsibilities should be predetermined. Automated three-way matching can reconcile purchase order, receipt and invoice data. However, exceptions still require named owners and escalation deadlines, since good systems reduce avoidable delay by preventing invoices from becoming stranded between procurement, operational approvers and finance.

Performance should be measured across the entire invoice lifecycle, not only from final approval to payment. Useful indicators include first-time match rates, average approval time, invoices awaiting receipt confirmation, rejection reasons, disputed values, overdue invoices and the proportion paid within agreed terms. Root cause analysis is particularly important when a single department, site, or approver repeatedly causes delays, turning payment performance into a process-control issue amenable to intervention rather than a retrospective monthly statistic.

Tesco's 2016 Groceries Code Adjudicator investigation illustrates the consequences of weak payment controls combined with purchaser power. The Adjudicator found unreasonable payment delays arising from matters including data-entry errors, duplicate invoicing and unilateral deductions; one supplier's multi-million-pound repayment was made more than two years after incorrect charging began. Tesco was required to improve payment systems, *invoice transparency and staff training, demonstrating that administrative failures can become serious supplier-governance breaches.*

Assessing a Customer's Payment Risk Before Contracting

Customer payment risk should be assessed before credit is extended, not after invoices become overdue. Basic due diligence should establish the legal entity, trading history, ownership, and financial position, as well as the value and duration of the proposed exposure. Companies House provides free access to company information, officers, filing histories, mortgage charges and insolvency information, useful starting points that should be supplemented where material credit exposure justifies deeper investigation.

Financial analysis should consider liquidity, leverage, profitability, cash generation and trends rather than relying on turnover alone. A large customer can still present significant payment risk if cash is weak, debt is rising, or creditor balances are lengthening. Credit references, trade references, payment performance reports, and sector intelligence can provide evidence; where accounts are historical or abbreviated, procurement and finance may reasonably request current management information before accepting a substantial unsecured receivable position.

Contractor insolvency in the public sector illustrates why this discipline matters even when the immediate customer appears well-funded. Subcontractors on ISG's Ministry of Justice prison contracts held certified applications for payment that the client had already paid over to ISG, yet those sums never reached the supply chain once ISG entered administration in September 2024, showing that assessing the paying client's own solvency is not sufficient where an intermediate contractor sits between it and the supplier.

Credit decisions should then be converted into controls. A supplier can set customer credit limits, require deposits, use milestone billing, shorten terms, obtain guarantees, purchase trade credit insurance, or suspend additional supply when exposure exceeds an agreed-upon threshold. Concentration matters as much as individual credit quality: a financially strong customer that accounts for 40% of annual revenue can pose a greater existential risk than several smaller customers whose combined exposure is diversified.

Current insolvency data reinforces the need for continuing review. In July 2026, 1,931 companies entered insolvency in England and Wales, including 1,497 creditors' voluntary liquidations, 288 compulsory liquidations and 124 administrations. Over the twelve months to July, approximately one in 199 companies entered insolvency. Hence, a customer approved eighteen months earlier may no longer warrant the same limit, making credit monitoring an ongoing commercial discipline rather than a one-off onboarding check.

Pricing the Cost of Extended Payment Terms

Extended payment terms have a calculable economic cost that should be reflected in contract pricing. A supplier can estimate the additional working-capital requirement by multiplying average daily invoiced value by the extra days of credit, then apply its relevant annual financing rate. If a £250,000 invoice is moved from 30 to 90 days, the supplier finances £250,000 for an additional 60 days at an 8% annual funding cost; that alone is approximately £3,288.

Pricing should also recognise costs beyond interest. Longer receivable periods increase credit exposure, potentially raise trade credit insurance premiums, consume borrowing facilities, and increase the amount lost if the customer fails to pay. Administration and collection activity may rise as outstanding balances accumulate, so a supplier might add a financing premium, reduce an otherwise available discount, or alter milestone payments, with the appropriate adjustment reflecting both the time value and the probability of non-payment.

The calculation can materially affect tender comparison. Suppose two otherwise identical customers request an annual supply worth £3 million, invoiced evenly, but one pays within 30 days and the other within 90. The additional average receivable exposure is approximately

£493,151, based on 60 extra days. At a 7% annual financing rate, that would cost about £34,521 per year before default risk and administrative costs, so ignoring payment terms would overstate the second contract's attractiveness.

Procurement evaluation models that score price alone, without normalising for payment terms, systematically favour bidders offering slower payment as a hidden discount to the buyer. A tender assessment framework that requires bidders to quote on a common payment-term assumption, or that explicitly discounts the headline price to reflect the financing cost of any longer term offered, produces a genuinely comparable evaluation rather than one that rewards the bidder simply willing to extend the most credit.

When Can Longer Payment Terms Be Commercially Justified?

Longer payment terms can be commercially justified when they align with the transaction's economics or verification requirements, rather than merely transferring financing pressure. Complex projects may require milestone certification, international transactions may involve documentary processes, and seasonal businesses may align receipts with resale cycles. Sophisticated parties might also exchange longer terms for firm volume commitments, higher prices or other measurable benefits, so the justification should be objective, transparent and proportionate.

The strength of the justification depends upon genuine choice. A large supplier with diversified customers and inexpensive financing may willingly accept 75 days in exchange for guaranteed multi-year volume, whereas another supplier may prefer 30 days at a lower unit price; both outcomes can represent rational contracting. Problems arise where the purchaser presents extended terms after award, refuses meaningful negotiation or couples acceptance with an implied threat that future opportunities will otherwise disappear.

A useful test is whether the purchaser could explain the term openly to suppliers, auditors and its board without relying solely on bargaining strength. If the rationale is operational, supported by evidence and accompanied by proportionate compensation or choice, longer terms may be defensible under current law. If the principal rationale is that suppliers can be made to finance the purchaser more cheaply, the justification weakens, and regulatory intervention becomes easier to defend.

Responsible Procurement and the Ethical Use of Purchasing Power

Responsible procurement requires purchasing power to be exercised in a way that secures value without imposing avoidable harm on suppliers. Price negotiation, competition and risk transfer are legitimate procurement functions, but they do not justify extracting value merely because a supplier lacks leverage. Payment behaviour is particularly important because the customer has already received goods or services, so delaying cash after performance can shift financing costs without creating corresponding efficiency, innovation, or service improvements.

Tesco provides a useful ethical comparison because its regulatory breach was not confined to routine invoices that were technically overdue. The Groceries Code Adjudicator found widespread unreasonable delays, including unilateral deductions and situations where Tesco prioritised its own finances over treating suppliers fairly. One acknowledged repayment was delayed by more than 12 months, and some repayments by up to 2 years, demonstrating how purchaser systems and financial incentives can undermine nominal commitments to fair supplier relationships.

Registered providers occupy a distinctive position in this debate because payment performance, alongside social value and supplier diversity, is an important governance consideration. PPN 026 itself applies only to central government departments, executive agencies and non-departmental public bodies, although other public-sector contracting authorities may choose to adopt its approach. A housing association applying comparable social-value principles gains little credibility if contractors simultaneously impose 90-day terms *on specialist trades further down the supply chain.*

Responsible procurement therefore requires both governance and aspiration. Boards and procurement leaders should monitor payment days, overdue amounts, disputed invoices, supplier complaints, and the treatment of SMEs, while ensuring that working-capital targets do not reward behaviour inconsistent with contractual commitments. Buyers should be challenged when claimed savings depend on retrospective term extensions or unsupported deductions rather than genuine efficiency, and procurement leadership should treat such challenges as routine governance rather than an exceptional intervention.

A procurement function cannot credibly promote resilience, social value or supplier diversity while simultaneously weakening suppliers through avoidable payment pressure. The most persuasive evidence of genuine commitment is not a published policy statement but a measurable trend: falling average payment days, a rising proportion of invoices paid within 30 days, and a declining volume of disputed or overdue value across the organisation's own supply chain year on year.

Does Freedom of Contract Justify Extended Payment Terms?

Freedom of contract provides a strong starting principle because commercial parties normally understand their own costs, risks, and preferences better than regulators do. Prohibiting negotiation can create rigid outcomes and prevent mutually advantageous exchanges. A supplier may rationally accept slower payment for higher prices, guaranteed volumes or access to a strategically important market, so regulation should distinguish between negotiated allocation of working capital and conduct that exploits structural dependence because the purchaser possesses superior bargaining power.

The difficulty is that contractual consent can be formal rather than economically meaningful. A microbusiness offered a national contract on non-negotiable 90-day terms may sign voluntarily in the legal sense, yet have little practical ability to alter the condition. The customer can diversify suppliers; the supplier may depend upon one customer for survival, so freedom of contract risks becoming freedom for the stronger party to determine how the weaker party finances the relationship.

Existing law already rejects unlimited contractual autonomy. Payment periods beyond 60 days are presently subject to the grossly unfair test, and contractual alternatives to statutory interest must provide a substantial remedy. Public procurement goes further through implied 30-day payment provisions, showing that Parliament has long considered payment timing sufficient to justify minimum protections, even before the Commercial Payments Bill's proposed tighter limits and stronger enforcement.

Freedom of contract should therefore remain protected where bargaining is genuine, information is clear, and both parties obtain identifiable value. It should carry less weight where terms are imposed, retrospectively changed or designed principally to extract supplier finance without compensation. The strongest legal framework is not one that eliminates commercial choice, but one that establishes fair boundaries within which choice remains credible, and the proposed reforms represent Parliament's current attempt to redraw those boundaries more firmly.

Summary – Paying Fairly Without Removing Commercial Freedom

Paying fairly does not require every commercial contract to use identical terms. Different transactions involve different risks, verification needs and financing structures, and parties should retain room to negotiate arrangements that create value. The essential distinction is between payment terms that allocate risk transparently and those that exploit dependency: commercial freedom deserves protection where agreement is meaningful, and is less persuasive where purchasing power leaves the supplier financing the customer without realistic choice or compensation.

The business case for better payment is as important as the legal case. The evidence traced *through the supply chain shows tens of billions of pounds tied up in overdue receivables, well over a million UK businesses affected each year, and thousands of otherwise viable businesses failing annually because cash already earned arrived too late. Customers that weaken suppliers can, in turn, face higher prices, reduced competition, and greater continuity risk.*

The direction of reform is towards clearer boundaries and stronger accountability, but legislation cannot replace competent commercial management. Fair clauses, accurate purchase orders, rapid verification, disciplined approval, transparent dispute resolution, credit assessment, and proportionate enforcement remain essential. The most sustainable principle is straightforward: purchasers should pay what is genuinely due when due, while retaining the freedom to negotiate reasonable terms that create value for both parties rather than transferring avoidable cost to the weaker one.

Further Reading

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