

Government tackles late payments to small firms to protect jobs

- Government to strengthen Prompt Payment Code, ensuring larger companies pay their suppliers on time
- required payment period to small businesses slashed in half to 30 days, with commitments to be made personally by CEOs or Finance Directors
- tougher rules come as government looks to increase powers of the Small Business Commissioner to protect jobs and growth as we build back better from the pandemic

An overhaul of the Prompt Payment Code (PPC) to crack down on delayed invoices owed to small businesses has been announced by the government today (19 January).

Under new reforms, companies that have signed up to the Prompt Payment Code will be obliged to pay small businesses within 30 days – half the time outlined in the current Code.

Despite almost 3,000 companies signing the Code, poor payment practices are still rife, with many payments delayed well beyond the current 60-day target required for 95% of invoices. Currently, £23.4 billion worth of late invoices are owed to firms across Britain, impacting on businesses' cash flow and ultimate survival.

To help tackle the problem, businesses owners, Finance Directors or CEOs will be required to take personal responsibility by signing the Code, acknowledge that suppliers can charge interest on late invoices under the Code and that breaches will be investigated. Those signed up to the Code will redouble their efforts to ensure payments are made on time and breaches will continue to be publicised by the government in order to encourage compliance.

The move comes as the government seeks to strengthen the powers of the Small Business Commissioner (SBC) to ensure larger companies pay their smaller partners on time. New powers proposed in a recently closed consultation include legally binding payment orders, launching investigations and levying fines.

Small Business Minister Paul Scully said:

Our incredible small businesses will be vital to our recovery from the coronavirus pandemic, supporting millions of livelihoods across the UK.

Today, we are relieving some of the pressure on small business owners by introducing significant reforms to the UK payments regime – pushing big businesses to pay their suppliers on time.

By signing up to the Prompt Payment Code and sticking to its rules, large firms can help Britain to build back better, protecting the jobs, innovation and growth which small businesses drive right across the UK.

According to the Federation of Small Businesses (FSB), around 50,000 businesses close every year due to late payments, damaging Britain's prosperity and threatening jobs.

Small businesses account for two-thirds of UK private sector employment and more than half of business turnover. Late payments impact their bottom line, which can hold back investment or job creation and, in the worst cases, lead to job losses and business closures.

The reforms will help to build a culture of prompt payment between companies and challenge UK businesses to change their practices and stand by small partners at a critical time for the UK's economic recovery.

The changes coming into effect immediately are:

- requiring a company's CEO or Finance Director, or the business owner where it is a small business, to personally sign the Code to ensure responsibility for payment practices is taken at the highest level of an organisation
- introducing a new logo for signatories to use in external communications to show their commitment to the Code, making it more damaging to a company's reputation to breach it
- acknowledgement as a condition of signing the Code that suppliers can charge interest on late invoices
- enabling administrators of the Code to investigate breaches based on third-party information

In addition, the new requirement for signatories to pay 95% of invoices from small businesses (those with less than 50 employees) within 30 days will be effective from 1 July 2021. The target for larger businesses will remain 95% of invoices within 60 days.

Interim Small Business Commissioner Philip King said:

I am delighted to launch the reformed Prompt Payment Code. In addition to their current public commitment to pay 95% of all payments to their supply chain within 60 days, signatories of the reformed Code have committed to paying 95% of their small business suppliers within 30 days. I commend those signatories who make further individual commitments to go further and settle invoices sooner.

Late payment causes real hardship to small businesses, and the issue is more prevalent > than ever due to the continued impact of the pandemic. Code signatories of all sizes demonstrate their commitment to ending the culture of late payment and helping to

increase business confidence. I encourage businesses of all sizes to implement ethical business practices and sign up to become a Code signatory and join us on our journey to aid business recovery post COVID-19”.

Federation of Small Businesses (FSB) National Chairman, Mike Cherry, said:

A late payment crisis was massively stifling the UK economy before Covid hit. The pandemic has deepened it. FSB has campaigned for good payment practice to become the norm across the UK economy, not least through a toughening of the Prompt Payment Code and the adoption of 30 days as the new maximum payment period.

It’s good to see the progress announced today by BEIS and especially the outgoing Small Business Commissioner that has driven this agenda. It’s now time for swift delivery, and for all existing and future PPC signatories to implement 30 days as the new maximum. Ending our pernicious poor payment culture for good over the coming months will be fundamental to turning our hopes of economic recovery into reality.

The Confederation of British Industry’s Chief UK Policy Director, Matthew Fell said:

COVID-19 has once again highlighted the importance of maintaining healthy supply chains.

Small companies are the backbone of the economy, but remain the most at risk from a late or unpaid invoice – particularly after months of pressure on cashflow. Businesses have been making good progress to improve payment practices, but more can be done.

Introducing new rules to drive faster payments to smaller businesses will strengthen supply chains, benefiting the firms that need it most, and shortening the road to recovery.

The PPC currently has over 2,800 signatories, who are required to pay 95% of their invoices within 60 days or else be publicly struck off the Code until substantial changes to their payment practices have been made.

When a company is struck off the Code for poor practice, this is publicly announced by the Small Business Commissioner’s Office. A record of signatories and struck-off companies is maintained on the [Prompt Payment Code](#) and SBC websites.

The changes to the Code sit alongside a [consultation on the powers of the Small Business Commissioner](#), which closed on 24 December 2020. The government will publish consultation responses and take forward proposed reforms in due

course.