DUTY TO REPORT ON PAYMENT PRACTICES AND PERFORMANCE

Government response and draft regulations

December 2016
Foreword from Margot James MP

I am delighted to publish this government response to the consultation on a Duty to Report on Payment Practices and Policies. Successful businesses create jobs, and are essential to economic growth. Late payment harms business cash-flow, hampers investment and in extreme cases can risk businesses’ solvency. This puts a strain on any organisation, but is especially difficult for small businesses. As of June 2015, the overall level of late payment owed to small and medium sized businesses was reported as £26.8 billion. This is why it is crucial for government to take action to create a more responsible payment culture, which enables all businesses to thrive and develop.

This new reporting requirement for the UK’s largest companies and limited liability partnerships (LLPs) will shine a light on payment practices. It will increase transparency and make payment behaviour a reputational boardroom issue. The large businesses already treating suppliers fairly and paying on time can use the data to highlight their track-record. Poor payment practices and performance will be exposed, alerting organisations to issues and encouraging them to improve.

The duty to report on payment practices and performance is just one part of the government’s efforts to tackle late payment. We continue to support the voluntary Prompt Payment Code as the gold standard for businesses demonstrating that they treat their suppliers fairly. And we are working to ensure that all strategic suppliers to government are signed up. The newly created post of Small Business Commissioner will play a role by providing additional support and information to small businesses that are experiencing, or wish to avoid, payment disputes.

I would like to thank all those who have responded to the consultation and helped to shape this policy.

MARGOT JAMES MP
Minister for Small Business, Consumers and Corporate Responsibility
Executive summary

This document explains how the government will implement a duty on large businesses to report on their payment practices, policies and performance, under section 3 of the Small Business, Enterprise and Employment Act 2015. The objectives of the reporting requirement are firstly to increase transparency and public scrutiny of large businesses’ payment practices and performance. And secondly to give small business suppliers better information so they can make informed decisions about who to trade with, negotiate fairer terms, and challenge late payments.

Large companies and large limited liability partnerships (LLPs)\(^1\) will be required to publish information about their payment practices and performance twice per financial year on a government web service. They will be required to report on the following:

**Narrative descriptions of:**
- the organisation’s payment terms. Including - standard contractual length of time for payment of invoices, maximum contractual payment period and any changes to standard payment terms and whether suppliers have been notified or consulted on these changes
- the organisation’s process for dispute resolution related to payment

**Statistics on:**
- the average time taken to pay invoices from the date of receipt of invoice
- the percentage of invoices paid within the reporting period which were paid in 30 days or fewer, between 31 and 60 days, and over 60 days
- the proportion of invoices due within the reporting period which were not paid within agreed terms

**Statements (i.e. a tick box) about:**
- whether an organisation offers e-invoicing
- whether an organisation offers supply chain finance
- whether the organisation’s practices and policies cover deducting sums from payments as a charge for remaining on a supplier’s list, and whether they have done this in the reporting period
- whether the organisation is a member of a payment code, and the name of the code

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\(^1\) By ‘large’ business we mean individual companies – whether private, public, quoted - and limited liability partnerships which exceeded two or all of following thresholds on both of their last two balance sheet dates:
- Over £36 million annual turnover
- Over £18 million balance sheet total
- Over 250 employees
Introduction

The government is committed to promoting prompt payment as a way to ensure that businesses are able to flourish. Increasing transparency around payment practices and performance should allow market participants to identify which customers are good payers, and which offer suppliers the terms that fit best with their business model.

The reporting requirement aims to drive improvements in payment practices by subjecting large businesses to public scrutiny. It also aims to assist suppliers – particularly small businesses, which can be particularly impacted by late payment – by providing access to the information they need to make informed decisions about which businesses they trade with, negotiate fairer terms, and challenge large business customers to improve their payment practices.

This document sets out the government response to the written consultation responses received, supplemented by additional views received through ongoing stakeholder discussions and research. It explains which businesses will be in scope of the duty to report, the “metrics” against which they will need to report, how and when they will need to report, and the sanctions for not doing so.

A new, revised, set of draft regulations is included at pages 17 to 24. We are also publishing draft regulations in relation to LLPs at pages 25 to 28.

Implementation timetable

The original intention was to implement the duty to report in April 2016. During the implementation planning process we identified that further research was needed -- primarily on the impact on large businesses. We now expect the regulations to come into force in April 2017. Ensuring the requirement works in practice for large businesses means that we can be confident the resulting data will be robust and helpful for small businesses.

The duty to report is only one element in the government’s strategy to support small and medium sized businesses and to tackle late payment. Amongst other things, the government continues to support the Prompt Payment Code and is working to establish the Small Business Commissioner.
Background

The previous government published the *Building a Responsible Payment Culture* discussion paper in December 2013. This sought views on how to tackle late payment, including proposing voluntary disclosure on payment policies and performance. Respondents said that whilst they wanted to see a reduction in late payment, they did not want government to constrain their freedom of contract. Respondents supported greater transparency around payment practices, and the majority of those in favour of a new reporting framework supported mandatory reporting. The summary of responses and government response was published in May 2014.

Section 3 of the Small Business, Enterprise and Employment Act 2015 was introduced, enabling government to require large businesses to report on their payment practices and performance.

The previous government published a consultation (the *Duty to Report on Payment Practices and Policies*) requesting views on proposals for implementing the reporting requirement, and on draft secondary legislation. The consultation was open from 27 November 2014 to 2 February 2015 and the summary of responses was published in March 2015.

The department received written responses from 60 organisations or individuals. The responses were primarily from business representative bodies, trade organisation and professional bodies. These bodies included representatives of large businesses, small and medium businesses, individual sectors and professions.

During the consultation period, we also ran five roundtable discussions, attended by 65 people, allowing us to gain direct stakeholder feedback on the proposals outlined in the consultation. We have continued to meet with stakeholders following the consultation.

Alongside this, officials have conducted research with a selection of large companies about the impact the proposed duty would have on them, and the department commissioned separate independent research to provide additional evidence for the impact assessment.
Government response

Scope – businesses to be covered

The duty to report will be mandatory and will apply to large UK companies and large LLPs (companies and LLPs are referred to together as “businesses” in this document)\(^2\). It was proposed in the consultation document that all quoted companies\(^3\) should be required to report, on the basis that these businesses should maintain the highest standards. As set out in the Ministerial Statement of 20 March 2015, the government considers that it would be better to apply the duty to all companies and LLPs which exceed size thresholds, in order to meet the overall aim of highlighting and influencing the payment practices of large organisations.

We proposed in the consultation document, that the thresholds in the Companies Act 2006 for company size for accounting purposes, should be used to determine the businesses in scope of the duty. Stakeholders have said, and respondents agreed that it is useful that the thresholds used for the reporting requirement are familiar from existing measures.

A company or LLP qualifies as micro, small or medium-sized for Companies Act accounting purposes, in a year in which two or all of its turnover, balance sheet total and average number of employees are within specified thresholds. The thresholds for a company to qualify as medium-sized are set out in section 465(3) of the Companies Act, and are periodically updated. At the time of publication, they are:

- Not more than £36 million annual turnover
- Not more than £18 million balance sheet total
- Not more than 250 employees

Businesses in scope of the duty will be required to publish reports twice yearly, which will mean one of their reports is due during their financial year. We know that businesses need certainty about whether the duty applies to them before a report is due. For this reason, companies or LLPs will be in scope of the duty if they exceeded two or all of the thresholds set out in section 465(3) of the Companies Act (as set out above) on both of the last two balance sheet dates.

For parent companies and LLPs, the size of the group they head determines whether they qualify as small or medium-sized under the Companies Act for accounting purposes. For the duty to report, parent companies or LLPs which head large groups will only be required to report if they qualify as large (as per definition above) in their own right.

\(^2\) By UK companies and LLPs, we mean companies formed and registered under the Companies Act 2006 and LLPs formed and registered under the Limited Liability Partnerships Act 2000.

\(^3\) Under the Companies Act 2006, a quoted company is a company whose equity share capital has been included in the official list maintained by the Financial Conduct Authority, or is officially listed in an EEA State or admitted to dealing on the New York Stock Exchange or the Nasdaq exchange.
Group level or individual entity reporting

Each business in scope will be required to publish its own individual and non-consolidated reports. This will give (potential) suppliers clarity about the payment performance of a particular business, so that they can make informed decisions about that business.

A group may have very different business practices across its component parts, and suppliers will benefit from information about the specific business they are considering contracting with, rather than consolidated information about the wider group. This level of transparency will also allow businesses with good records on payment performance to benefit from a direct comparison.

Some stakeholders suggested that the requirement to report at individual entity level could place an unreasonable burden on businesses due to the complexity of company or group structures. Others thought that consolidation would be more costly than reporting at individual entity level. Some respondents to the consultation argued that businesses should choose whether to report at a group or individual level, depending on their particular processes and what they consider would be most useful to their suppliers. We are concerned that this choice would undermine the value of the duty to report. We consider that requiring individual reporting is the best way to give suppliers access to meaningful and comparable information.

Scope – contracts to be covered

Large businesses must publish information about their payment practices and policies in relation to contracts which are: for goods, services or intangible assets (including intellectual property); and connected to the carrying on of a business. Other kinds of contracts, notably business to consumer contracts, will not be covered. Respondents to the consultation supported the exclusion of contracts for financial services. Repayments of loans and other financial services products are substantially different to contracts for goods and services and so are not comparable. This could make the data less useful for suppliers when they are contracting with financial services companies for other services. We are therefore excluding financial services contracts from the reporting requirement. This exclusion will only apply to contracts, rather than businesses, since financial businesses contracting for other goods or services should also be transparent about their payment practices and performance.

Contracts will also have to have a significant connection with the UK to be covered by the duty to report. Stakeholders have expressed concern that the inclusion of global contracts may skew the data and cause practical difficulties. The approach of requiring contracts to have a significant connection to the UK is similar to the existing Late Payment of Commercial Debts (Interest Act) 1988 (referred to in this document as the Late Payment Act), and focuses the duty to report on culture change in the UK.

Frequency of reporting

Businesses will report every six months. Respondents to the consultation commented that quarterly reporting (as originally proposed) would be too onerous, costly and disproportionate. Opinions were divided on the optimum frequency of reporting, with some respondents suggesting annual and some preferring six monthly. We consider that annual reporting would not provide suppliers access to timely information, but accept that quarterly could be overly burdensome for larger businesses without delivering much improved data. We think six monthly reporting strikes the right balance.
Some respondents suggested that the information should be part of businesses' annual financial reporting, but this would mean reports may not be available for up to nine months from the end of a reporting period. We have learned from smaller stakeholders that it is important the information is easy to access and up to date. We consider a separate report will allow suppliers to access information relating to payment practices more easily, and with less delay.

Some respondents to the consultation commented that 30 days was not enough time to prepare the information required. Respondents raised concerns that the information would have to be audited, and that 30 days would not allow enough time for this. There is no obligation for the information to be audited before it is published, so we think that it is reasonable for large businesses to produce it within 30 days of the end of the reporting period. Allowing additional time would mean that suppliers are not able to access up to date information on businesses' performance.

The reporting dates will be aligned to a business’ financial reporting cycle, as was proposed, so that the payment reporting is in sync with the business’s financial reporting obligations (although more frequent). The first report will be due 30 days after the end of the first six months of a business’ financial year, and the second reporting period will end at the same time as the business’ financial year, with the second report due 30 days afterwards. In the less common cases where a business’s financial year is significantly shorter or longer than 12 months (if the business has a financial year of or below 9 months, or over 15 months) then they will be required to report, respectively, once or three times in that financial year.

Form and location

Government was persuaded by concerns raised in responses about the accessibility of reports published on company websites. Many respondents were concerned that if reports were published on companies' websites they would be difficult to find, creating barriers for suppliers’ access to the reports and their ability to compare performance. Publication in The Gazette was also not considered to be appropriate. Government proposed a single online portal as an alternative, and received positive feedback from stakeholders through roundtable discussions and through other engagement. Feedback suggested that a single online portal would be preferable as it would allow all records to be easily located.

To fulfil the requirements of the duty, businesses will have to publish their report on a web based service provided by the government. We are currently developing this service to be user friendly and accessible, and to allow large businesses to easily upload their information, and suppliers to easily search the records. Businesses will be free to publish the information on their own website if they choose to do so, but this would be in addition to publishing through the service provided by the government.
Enforcement and criminal sanctions

The main enforcement of the duty to report will be through ‘behavioural change’ mechanisms, which will ensure that businesses both comply with the new mandatory reporting requirement and are encouraged to improve their payment practices. These mechanisms include:

- public pressure through the open nature of the report;
- companies, suppliers and other third parties comparing reports and publicising the information; and
- good payment behaviour by responsible companies leading the way, encouraging other businesses to seek to match the best.

In addition to these ‘behavioural change’ mechanisms we believe, as set out in the consultation, that a clear legal sanction for non-compliance is needed, to deter any businesses from seeking advantage from not publishing a report or publishing a false report. We consider it is important that not reporting or reporting falsely is a criminal offence, to ensure that the reporting is robustly enforced in cases where public pressure proves insufficient. BEIS will generally seek to encourage a business to comply with the reporting requirement before steps are taken to prosecute.

Breaches of other reporting requirements established by the Companies Act 2006 are also criminal offences. The draft regulations provide that failure to publish a report is a criminal offence, with the company and directors liable to a fine on summary conviction. All directors will be liable, unless they can show they took all reasonable steps to ensure the requirement would be met. It will also be an offence to publish false or misleading information; a company or individual who does so will also be liable on summary conviction to a fine.

Director approval

As proposed in the consultation, director approval will be required to ensure the accuracy of the information. A majority of respondents agreed that a company director should be responsible for signing off the report – for an LLP, the equivalent is a designated person. This is appropriate as the criminal offences will apply to directors (or designated members), and the information will be publically available, making it a reputational issue for the business. We intend that payment practices and performance will become a boardroom issue for many more businesses with the transparency that the duty will bring.
Metrics to report on

Payment terms

The reporting requirement will require businesses to publish information on their payment terms, as follows:

a) their standard payment terms, including the period for payment
b) any changes to these over the last reporting period
c) whether suppliers had been notified or consulted on this change in advance
d) their maximum period for payment entered into during the reporting period

We understand from the consultation feedback that a single set of ‘standard terms’ is rarely used; businesses may have different payment terms for different products, and find it important to be able to offer flexible terms for different suppliers or customers. The government believes it is important that the duty to report supports a more efficient marketplace, and does not deter businesses from offering flexibility where necessary.

For this reason the draft regulations make clear that businesses should report on their standard payment terms for the types of contract it enters, or the most frequently used payment terms for each type of contract where there is no standard. The government will also publish guidance on this point.

Where businesses have a range of standard contracts depending on the product, business size or any other variation, they will be able to set out what the different payment terms are. Businesses can also voluntarily provide additional narrative information to explain their standard payment terms, or to set out why they vary the standard terms for different circumstances or companies.

Dispute resolution

Large businesses will be required to report on their process for resolving payment-related disputes. Including the dispute resolution process is important as it will provide clarity for suppliers (and potential suppliers) about what action they may need to take if a dispute arises.

Some large businesses will already have dispute resolution processes, and they could include a link to their own websites as part of the summary of their processes.

Responses to the consultation did not support the government taking action on disputes, so this is not included in the policy. Respondents thought that these issues could be addressed by using the existing Late Payment Act more effectively. A couple of respondents suggested extending the power of representative bodies to challenge grossly unfair terms and practices would be effective at discouraging disputes as a stalling tactic. The government published a consultation on proposals to widen the existing power of representative bodies in October 2015 and will publish a response shortly.

Performance metrics

The reporting requirement will include metrics on the following:

- the average time taken to pay invoices from the date of receipt of invoice
- what percentage of invoices paid within the reporting period were paid in less than 30 days, between 31 and 60 days, and over 60 days
- the percentage of invoices due within the reporting period which were not paid within agreed terms

A clear majority of those who responded to the relevant question in the consultation, agreed the reporting requirement should include these metrics.

As proposed, the reporting on payments made within certain periods, and beyond agreed terms, will only require businesses to report on the proportion of invoices but not the value. This is to prevent businesses skewing the metric by ensuring that larger invoices are paid promptly. Although respondents were concerned that the proportion metric could also be distorted by businesses paying a large number of smaller invoices more quickly we assessed this to be more difficult. We also considered the value of invoices to be less useful than the proportion, as a company with some very high value contracts could appear to be a particularly poor payer (or vice versa) which may be misleading for suppliers. We decided a metric on both value and proportion would be disproportionate; the value of the information for suppliers was outweighed by the additional burden it would place on reporting businesses.

We believe this approach strikes an appropriate balance. We will keep these metrics under review to ensure that they remain effective and do not encourage businesses to ‘game the system’ or create perverse incentives that undermine the objective of the duty to report.

As was announced on 20 March 2015, we have omitted the proposed metrics regarding invoices paid between 61 and 120 days and beyond 120 days. Including these metrics could imply that the government considered these timeframes were acceptable, whereas the government wishes to encourage parties to pay within 60 days.

‘Start the clock’ point

The start of the payment period will be triggered by receipt of an invoice, rather than the date of invoice as proposed in the consultation. Businesses will need to count their payment period with day one being the day after the invoice is received, to ensure the time of receipt does not affect the result. For the duty to report to be effective it is essential that there is a start point that provides clarity to all businesses and allows suppliers a clear benchmark for performance comparison. There were many different responses about what should be the suitable starting point, but more respondents were against using date of invoice than were in favour.

Some respondents suggested date of receipt as an alternative; we have subsequently tested this with stakeholders and found a majority support this approach.

Allowing different start the clock points for different sectors or different products could prevent suppliers from making evidence based decisions on which companies to do business with (based on their payment performance). It would also prevent a clear comparison of the performance of different companies (or sectors). If an invoice is not used, the payment period would be counted with day one being the day after the date when the large business has notice of a sum to be paid. Guidance will be issued to help large businesses understand when the clock starts for sectors where an invoice is often not present.
Our chosen approach of the receipt (rather than the date) of an invoice triggering the start of the payment period is in line with existing Late Payment legislation, which allows businesses to claim interest after 30 days from receipt of invoice (if no payment period is agreed, and provided the supplier delivers and any acceptance process is completed in that time).

**The treatment of disputed invoices in the statistics**

To discourage stalling tactics, disputed invoices will not be excluded from the metrics. The government does not intend to define what a disputed invoice is; both because we are not making a specific provision in relation to them and because we were persuaded by concerns raised that there is little consensus about the different ways in which invoices can be disputed. If a supplier wishes to take action in relation to a dispute, there are options available such as discussing with the customer, or through alternative dispute resolution or the courts. The government is not proposing to make any changes to the current processes. Disputed invoices will be included in the statistics that record the proportion of invoices which were not paid within agreed terms, and any disputed invoices that are paid will be included in the statistics on the average time taken to pay. They should not be excluded as a subset of the total invoices.

**Including statements on whether a business offers e-invoicing, supply chain finance and whether the business is a signatory of a Code**

Following the largely positive response through the consultation, businesses will be required to report on whether they offer e-invoicing, supply chain finance, and whether they are signed up to a voluntary payment code. If they are signed up to a voluntary payment code, they will need to state which one.

The requirements around e-invoicing and supply chain finance will be simple tick box disclosures. The objective is for potential suppliers to be able to take account of the availability of these, to make informed business decisions. If details of the particular arrangements are required, suppliers can enquire with the customer.

**Supplier lists and ‘pay to stay’**

Some businesses maintain lists of preferred suppliers and charge suppliers or potential suppliers to be listed, this is sometimes referred to as ‘pay to stay’. Respondents were divided about whether government intervention on supplier lists was necessary. However, government considers it is important to tackle such practices to support a more competitive and open market place which enables businesses to develop and grow.

The Small Business, Enterprise and Employment Act 2015 enables the government to require businesses to report on practices relating to payment of suppliers. The draft regulations require businesses to report whether they deduct money from invoices for remaining on a supplier list. The Small Business Commissioner, who will be in post from next year, will also be able to handle complaints about payment related issues with larger businesses and will have the power to name those who treat their suppliers unfairly. The government will therefore keep the metric under review and consider if it is necessary to broaden the ‘pay to stay’ practices covered.
Interest owed and paid

A metric measuring the amount of interest owed and paid was announced as part of the reporting requirement on 20 March 2015, following debates during the passage of the Small Business, Enterprise and Employment Act. The interest to be covered by the metric was expected to be calculated in line with the Late Payment Act and would have covered two elements; the potential amount of interest owed and the actual amount paid following a claim. The disclosure of both the amount of interest paid, and the maximum that suppliers could have claimed, was intended to shame late payers into paying the interest even if it was not formally claimed.

Several issues emerged through further engagement with businesses. Feedback suggested that most businesses do not routinely record how much late payment interest they may be liable for, and would therefore require costly upgrades to software in order to report the total liability. Linked to this is the fact that a claim for interest under the Late Payment Act may be brought up to six years later. Businesses felt that requiring reporting to cover the previous six years would be particularly difficult because the data may not have been recorded in a way that allowed extraction. The costs associated could be substantial and could result in a figure that would be difficult for users of the data to interpret, as it would cover a different time period to other metrics which are limited to the six month reporting period.

We believe that businesses should focus their efforts on not incurring interest by paying on time, rather than calculating potential interest. This will be kept under review. We will also take into account the lessons that the introduction of reporting on interest liable in the public sector can teach us, once it has been introduced in April 2017.

Guidance

Respondents to the consultation were in favour of government issuing guidance on how to comply with the reporting requirements. Government has engaged, and will continue to engage with businesses and business representative bodies on what should be included in the guidance, and we will publish the guidance at the same time as we lay the regulations in Parliament. This will cover general, as well as sector specific, questions about the requirements of the duty.
Revisions to draft regulations

We have revised the regulations following the consultation and are publishing revised draft regulations— for both companies and LLPs.

The policy revisions made following the consultation and further stakeholder engagement are explained in detail in the government response section above. For ease of reference the key changes to the draft regulations (as compared to the draft published with the consultation) are set out in this section.

The main changes are:

- **Publication** - The initial draft Regulations specified that reports should be published on a company’s website (regulation 9). The current draft regulations require that a company should publish its report on a website provided by the government (regulation 3).

- **Content of the report** – the requirements for the content of the report are set out in the Schedule to the revised draft regulations. The information about standard terms is not limited to contracts entered into during the reporting period: rather businesses are intended to report more generally on their standard terms (as explained in the government response) applicable during the reporting period. As explained in the government response section, the revised draft regulations do not require reporting on payments made in 60-120 days and beyond 120 days; but they do require reporting on sums deducted from invoices to be on a supplier list.

- **Approval** – the revised draft regulations require a director to approve the company’s information because it will be published online (regulation 4), rather than signing a physical report. The revised draft regulations require the company, rather than directors, to prepare and publish the reports, as this allows companies flexibility about which staff member prepares and submits the report, once it has been approved by a director.

- **Companies in scope** - the initial draft regulations applied to companies other than micro, small and medium sized companies and unquoted public companies – so quoted companies of any size were to be covered. The current regulations apply to companies, whether or not they are quoted, that have exceeded two or all of the turnover, balance sheet and employees thresholds for a medium sized company – as set out in section 465(3) of the Companies Act - on both of the last two balance sheet dates (regulation 5). The duty will apply to companies for financial years starting on or after 6 April 2017. The duty will not apply to a new company in its first financial year, because a company will not know with certainty when the reports are due whether it will exceed the thresholds for balance sheet total, turnover and average number of employees. A company in its second financial year will be in scope of the duty if it exceeded two or all of the thresholds in the previous year.

- **Contracts to which these Regulations apply** – the current draft regulations apply to relevant contracts with the exceptions of contracts for financial services and contracts which do not have a significant connection with the UK (regulation 6). A “relevant contract” is defined in section 3(3) of the Small Business, Enterprise and Employment Act 2015 as a contract entered into on a business to business basis and which is for goods, services or intangible assets (including intellectual property).

- **Frequency of reporting** – the initial draft regulations required businesses to report quarterly, with the first reporting period beginning at the start of the business’s financial year. The current draft regulations link the requirement more closely to the financial year.
(regulation 7). In most cases the financial year will be a 12 month period, but the current draft regulations allow for variations in the length of the financial year which can occur. Generally, a company will have two reporting periods in the financial year; one for the first six months of the financial year and the second for the remaining period until the financial year end. There may be some occasions where a company’s financial year is significantly longer or shorter than 12 months. If a company’s financial year is 9 months or shorter, the company will only be required to publish one report for that period. If the financial year is longer than 15 months, the company will prepare the information in respect of the first six months, the second six months and then for the remaining period.

- **Offences** – the initial regulations made it an offence for any director to fail to prepare a report, or to sign a report which fails to comply with the statutory requirements or to fail to publish or keep the report on a website. The main changes to the offences in the current Regulations are –
  
a) for a failure to publish a report, the company and directors are liable if the requirements to prepare and publish a report are not met – except that a director will not be liable if he or she took all reasonable steps to ensure compliance; there is no requirement that the director must know or ought to have known that an offence was being committed;

b) they expressly make it an offence to publish false or misleading information;

c) prosecutions can be brought within 12 months from when evidence comes to the knowledge of the Secretary of State or other relevant person, provided this is within 3 years of the offence. There is a similar extension of time limits for some filing offences under the Companies Act 2006 (see section 1128). In the initial regulations a prosecution would have had to be brought within six months.

Some stakeholders suggested that further clarity was needed about the requirement in the initial draft regulations to keep reports on the company website and the offence of failing to do so: this requirement and offence no longer apply.

- **Sunset and review provisions** – the revised draft regulations include ‘sunset’ and review provisions (regulations 1(4) and 11). These reflect government policy to ensure that legislation that regulates business should be and remain proportionate and effective. As a result these Regulations will be reviewed after 5 years and if the Regulations are not remade as a result of that review or otherwise they will expire after 7 years.
Draft regulations

Draft regulations for companies

Draft Regulations laid before Parliament under sections 3(9) and 161(4) of the Small Business, Enterprise and Employment Act 2015, for approval by resolution of each House of Parliament.

2017 No. XXXX

COMPANIES

CONTRACTS

The Reporting on Payment Practices and Performance Regulations 2017

Made - - - - ***

Coming into force - - 6th April 2017

The Secretary of State makes the following Regulations in exercise of the powers conferred by sections 3(1), 3(2), 3(4), 3(5) and 3(7) of the Small Business, Enterprise and Employment Act 2015(1) and section 14A of the Interpretation Act 1978(2).

In accordance with section 3(8) of the Small Business, Enterprise and Employment Act 2015, the Secretary of State has consulted such persons as he considered appropriate.

In accordance with sections 3(9) and 161(4) of that Act, a draft of these Regulations has been laid before Parliament and approved by a resolution of each House of Parliament.

Citation and commencement

1.—(1) These Regulations may be cited as the Reporting on Payment Practices and Performance Regulations 2017.

(2) These Regulations come into force on 6th April 2017.

(3) These Regulations cease to have effect after 5th April 2024.

Interpretation

2. In these Regulations—

“the 2006 Act” means the Companies Act 2006(3);
“director” includes any person occupying the position of director, by whatever name called; 
“filing period” means 30 days beginning with the day after the last day of the reporting period to which a report relates; 
“financial year” means a company’s financial year determined in accordance with sections 390 to 392 of the 2006 Act; 
“payment period” means the period in which a company is contractually required to pay a sum; 
“qualifying company” has the meaning given in regulation 5; 
“qualifying contract” has the meaning given in regulation 6; 
“reporting period” means a period determined in accordance with regulation 7.

Duty to publish information on payment practices, policies and performance

3.—(1) For each reporting period, a qualifying company must prepare, and then publish a report containing, the information set out in the Schedule.

(2) For the purposes of paragraph 1, to publish a report a qualifying company must publish it—
(a) within the filing period, and 
(b) on the web-based service provided for the purposes of these Regulations by or on behalf of the Secretary of State.

Approval of the information

4. The information prepared by a qualifying company must be approved by a director of that company.

Companies to which the duty applies

5.—(1) These Regulations apply to a company in relation to every financial year in which it is a qualifying company.

(2) A company is not a qualifying company in—
(a) its first financial year; 
(b) a financial year which began before 6th April 2017.

(3) A company other than a parent company is a qualifying company—
(a) in its second financial year if on its last balance sheet date before that financial year it exceeded two or all of the general thresholds; 
(b) in a subsequent financial year if on both of the relevant balance sheet dates it exceeded two or all of the general thresholds.

(4) A parent company is a qualifying company—
(a) in its second financial year if on its last balance sheet date before that financial year—
(i) it exceeded two or all of the general thresholds, and 
(ii) the group headed by it exceeded two or all of the group thresholds; 
(b) in a subsequent financial year if on both of the relevant balance sheet dates—
(i) it exceeded two or all of the general thresholds, and 
(ii) the group headed by it exceeded two or all of the group thresholds.

(5) In this regulation—
(a) “balance sheet date” means the date as at which a company’s balance sheet was made up; 
(b) the “general thresholds” are the maximum figures for a company’s turnover, balance sheet total and number of employees set out in sub-section (3) of section 465 of the 2006 Act (companies qualifying as medium-sized: general), determined in accordance with sub-sections (4) to (6) of that section; 
(c) “group” means a parent company and its subsidiary undertakings;

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(§) Section 465(3) was amended by S.I. 2015/980.
Duty to report on payment practices and performance: government response

(d) the “group thresholds” are the maximum figures for a group’s turnover, balance sheet total and number of employees set out in sub-section (4) of section 466 of the 2006 Act (companies qualifying as medium-sized: generally), determined in accordance with sub-sections (5) to (7) of that section;
(e) “parent company” has the meaning given in section 1173 of the 2006 Act;
(f) the “relevant balance sheet dates” are—
   (i) the company’s last balance sheet date before the relevant financial year, and
   (ii) the balance sheet date preceding that;
(g) “subsidiary undertaking” has the meaning given in section 1162 of, and Schedule 7 to, the 2006 Act.

(7) For the purpose of determining whether a company is a qualifying company in financial year X, the company is to be treated as if the general thresholds or group thresholds which apply to financial year X had also applied to the two preceding financial years.

Contracts to which the information relates

6.—(1) A qualifying contract is a relevant contract which satisfies the conditions in paragraphs (2) and (3).
   (2) The first condition is that the relevant contract is not a contract for financial services, as defined in section 2 of the Small Business, Enterprise and Employment Act 2015.
   (3) The second condition is that the relevant contract is—
      (a) governed by the law of a part of the United Kingdom otherwise than by choice of the parties;
      (b) governed by the law of a part of the United Kingdom by choice of the parties, and—
         (i) has a significant connection with that part of the United Kingdom, or
         (ii) without that choice, its applicable law would still be the law of a part of the United Kingdom; or
      (c) governed by a foreign law by choice of the parties and—
         (i) without that choice, its applicable law would be the law of a part of the United Kingdom, and
         (ii) has no significant connection with any country other than that part of the United Kingdom.
   (4) In this regulation “foreign law” means the law of a country outside the United Kingdom.

Periods in relation to which information must be published

7.—(1) Subject to paragraphs 2 and 3, a qualifying company has two reporting periods in a financial year—
   (a) the first reporting period is the six months beginning with the first day of that financial year;
   (b) the second reporting period is the remainder of that financial year.
   (2) In the event that a qualifying company’s accounting reference period is shortened in accordance with section 392 (alteration of accounting reference date) of the 2006 Act so that a financial year lasts 9 months or fewer, the reporting period is that financial year.
   (3) In the event that a qualifying company’s accounting reference period is extended in accordance with section 392 (alteration of accounting reference date) of the 2006 Act so that a financial year lasts more than 15 months, there are three reporting periods—
      (a) the first reporting period is the six months beginning with the first day of that financial year;
      (b) the second reporting period is the six months beginning with the day after the last day of the first reporting period;
      (c) the third reporting period is the remainder of that financial year.
   (4) In this regulation “accounting reference period” has the meaning given in section 391 of the 2006 Act.

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\(^6\) Section 466(4) was amended by S.I. 2015/980.
\(^{10}\) There are amendments to section 1173 but none is relevant to these Regulations.
Failure to publish a report

8.—(1) If the requirements of regulation 3 are not met in relation to a reporting period, the qualifying company and every person who was a director of the qualifying company immediately before the end of the filing period commits an offence.

(2) It is a defence for a director to prove that the director took all reasonable steps for securing that the requirements of regulation 3 would be complied with before the end of the filing period.

(3) It is not a defence to prove that the information in question was not in fact prepared as required by regulation 3.

(4) A person guilty of an offence under this regulation is liable on summary conviction—
(a) in England and Wales, to a fine;
(b) in Scotland or Northern Ireland, to a fine not exceeding level 5 on the standard scale.

False statement offence

9.—(1) It is an offence for a person knowingly or recklessly—
(a) to publish or cause to be published, for the purposes of these Regulations, a report or any information, or
(b) to make, for any such purpose, a statement,
that is misleading, false or deceptive in a material particular.

(2) A person guilty of an offence under this regulation is liable on summary conviction—
(a) in England and Wales, to a fine;
(b) in Scotland or Northern Ireland, to a fine not exceeding level 5 on the standard scale.

(3) No proceedings are to be brought under this regulation—
(a) in England and Wales except by or with consent of the Secretary of State or the Director of Public Prosecutions;
(b) in Northern Ireland except by or with consent of the Secretary of State or the Director of Public Prosecutions for Northern Ireland.

Summary proceedings: time limit for proceedings

10.—(1) An information relating to an offence under these Regulations may be tried by a magistrates’ court in England and Wales if it is laid—
(a) within three years beginning with the day after the commission of the offence, and
(b) within twelve months beginning with the day after the date on which evidence sufficient in the opinion of the Director of Public Prosecutions or the Secretary of State to justify the proceedings comes to that person’s knowledge.

(2) Summary proceedings in Scotland for an offence under these Regulations—
(a) must not be commenced after the expiration of three years beginning with the day after the commission of the offence;
(b) subject to that, may be commenced at any time—
(i) within twelve months beginning with the day after the date on which evidence sufficient in the Lord Advocate’s opinion to justify the proceedings came to the knowledge of the Lord Advocate, or
(ii) where such evidence was reported to the Lord Advocate by the Secretary of State, within twelve months beginning with the day after the date on which it came to the knowledge of the Secretary of State.

(3) Section 136(3) of the Criminal Procedure (Scotland) Act 1995(11) (date when proceedings deemed to be commenced) applies for the purposes of this regulation as for the purposes of that section.

(4) A magistrates’ court in Northern Ireland has jurisdiction to hear and determine a complaint charging the commission of an offence under these Regulations provided that the complaint is made—
(a) within three years beginning with the day after the commission of the offence, and

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(11) 1995 c.46.
(b) within twelve months beginning with the day after the date on which evidence sufficient in the opinion of the Director of Public Prosecutions for Northern Ireland or the Secretary of State to justify the proceedings comes to that person’s knowledge.

(5) For the purposes of this regulation a certificate of the Director of Public Prosecutions, the Lord Advocate, the Director of Public Prosecutions for Northern Ireland or the Secretary of State (as the case may be) as to the date on which evidence came to that person’s knowledge is conclusive evidence.

Review

11.—(1) Before 6th April 2022, and subsequently at intervals not exceeding five years, the Secretary of State must—

(a) carry out a review of these Regulations,
(b) set out the conclusions of the review in a report, and
(c) publish the report.

(2) The report must in particular—

(a) set out the objectives intended to be achieved by the regulatory provisions established by these Regulations,
(b) assess the extent to which those objectives are achieved, and
(c) assess whether those objectives remain appropriate and, if so, the extent to which they could be achieved with a system that imposes less regulation.
SCHEDULE

Information

Regulation 3

1. For the purposes of regulation 3, the information in relation to each reporting period that a qualifying company must prepare and publish is set out in paragraphs 2 to 11.

Information on payment terms

2. A description of the qualifying company’s standard payment terms in relation to qualifying contracts, which must include—
   (1) the payment period specified in those standard payment terms, expressed in days;
   (2) where the qualifying company varied the standard payment terms in the reporting period—
      (a) details of the variation, and
      (b) details of any notification or consultation conducted by the qualifying company with its suppliers before making the variation.

3. A description of the maximum payment period specified in a qualifying contract which the qualifying company has entered into during the reporting period.

Dispute resolution

4. An explanation of the qualifying company’s process for resolving a dispute with a supplier in relation to payment under a qualifying contract.

Payment practices and policies

5. A statement as to whether the qualifying company’s payment practices and policies in relation to qualifying contracts include an arrangement under which a supplier can receive payment of an invoiced sum from a finance provider before the end of the payment period, with the qualifying company paying the invoiced sum to the finance provider.

6. A statement as to whether the qualifying company’s payment practices and policies in relation to qualifying contracts provide for the electronic submission and tracking of invoices.

7. A statement as to whether the qualifying company is a signatory to a code of conduct or standards on payment practices and, if so, the name of that code.

8. A statement as to whether the qualifying company’s payment practices and policies allow the qualifying company to deduct a sum from a payment under a qualifying contract as a charge to a supplier to remain on the qualifying company’s list of suppliers or potential suppliers.

Payment performance

9. In relation to the payments made under qualifying contracts within the reporting period, a statement of—
   (1) the average number of days taken to make such payments, where day 1 is the first day after the relevant day;
   (2) the percentage of those payments which were made, where day 1 is the first day after the relevant day—
      (a) within the period beginning on day 1 and ending with day 30;
      (b) within the period beginning on day 31 and ending with day 60;
      (c) on or after day 61.

10. In relation to the payments under qualifying contracts that fall due within the reporting period, a statement of the percentage of these payments which were not paid within the payment period.
11. A statement of whether the qualifying company has during the reporting period deducted a sum from a payment under a qualifying contract, as a charge to a supplier to remain on the qualifying company’s list of suppliers or potential suppliers.

12. In this Schedule—
   “average” means the arithmetic mean;
   “relevant day” means the day on which a company receives an invoice or otherwise has notice of an amount for payment;
   “standard payment terms” means, in relation to a qualifying contract—
   (a) the standard terms relating to payment that the qualifying company uses for that type of qualifying contract, or
   (b) where the qualifying company does not use standard terms, the qualifying company’s most frequently used payment terms for that type of qualifying contract;

13. In this Schedule—
   (1) a payment falls due on the last day of the payment period;
   (2) a payment is made—
      (a) when it is received by the supplier;
      (b) if there is any delay in the sum being received, for which the qualifying company is not responsible, when it would have been received without that delay.

EXPLANATORY NOTE
(This note is not part of the Regulations)

These Regulations require a company to which the Regulations apply to publish certain information about the company’s payment practices and policies and its performance by reference to those practices and policies.

Regulation 1(3) provides that these Regulations are to cease to have effect after 5th April 2024.

Regulation 2 sets out the definitions used in the Regulations.

Regulation 3 imposes a duty on a qualifying company to prepare and publish, for each reporting period, information on its payment practices and policies in relation to qualifying contracts and its performance in relation to those practices and policies. The Schedule sets out the information that is required. The information must be published on a web-based service provided by or on behalf of the Secretary of State.

Regulation 4 provides that the information must be approved by a director of the qualifying company.

Regulation 5 defines which companies are qualifying companies. A company will be a qualifying company in relation to a financial year, if on the balance sheet dates for the two preceding financial years it exceeded certain thresholds in the Companies Act 2006 for medium-sized companies.

Regulation 6 defines which contracts are qualifying contracts. To be a qualifying contract, a relevant contract must not be for financial services, and must be governed by the law of a part of the United Kingdom other than by choice of the parties, or otherwise have a significant connection with the United Kingdom. A relevant contract is defined in section 3(2) of the Small Business, Enterprise and Employment Act 2015 – this is a contract for goods, services or intangible assets, made in connection with carrying on a business.

Regulation 7 determines the reporting periods for which a qualifying company must prepare and publish information. Generally there are two reporting periods per financial year. Regulation 7 provides for one or three reporting periods in a financial year if a company shortens or extends its accounting reference period under section 392 of the Companies Act 2006, so that a financial year lasts for 9 months or fewer, or for more than 15 months.

Failure to publish the information required, or publication of false or misleading information, is a criminal offence under regulations 8 and 9. Regulation 10 extends the time limit within which an offence under these Regulations can be prosecuted.

Regulation 11 requires the Secretary of State to review the operation and effect of these Regulations and publish a report within five years of the Regulations coming into force. Following the review it will fall to the Secretary of State
to consider whether the Regulations should be allowed to expire as regulation 1(3) provides, be revoked early, or continue in force with or without amendment. A further instrument would be needed to continue the Regulations in force with or without amendments or to revoke them early.

A full impact assessment of the effect that this instrument will have on the costs to business and the voluntary sector is available from the Department for Business, Energy and Industrial Strategy at 1 Victoria Street, London SW1H 0ET and is published with an Explanatory Memorandum alongside the instrument on www.legislation.gov.uk.
Draft regulations for Limited Liability Partnerships

Draft Regulations laid before Parliament under section 17(4) of the Limited Liability Partnership Act 2000 for approval by resolution of each House of Parliament.

2016 No. XXXX

CONTRACTS

LIMITED LIABILITY PARTNERSHIPS

The Limited Liability Partnerships (Reporting on Payment Practices and Performance) Regulations 2017

Made - - - - ***

Coming into force - - 6th April 2017

The Secretary of State makes the following Regulations in exercise of the powers conferred by sections 15 and 17(1) and (2)(a) of the Limited Liability Partnerships Act 2000(12) and section 14A of the Interpretation Act 1978(13).

In accordance with section 17(4) of the Limited Liability Partnerships Act 2000, a draft of these Regulations has been laid before Parliament and approved by a resolution of each House of Parliament.

Citation and commencement

1.—(1) These Regulations may be cited as the Limited Liability Partnerships (Reporting on Payment Practices and Performance) Regulations 2017

(2) These Regulations come into force on 6th April 2017.

(3) These Regulations cease to have effect after 5th April 2024.

Interpretation

2. In these Regulations—

“limited liability partnership” means a limited liability partnership registered under the Limited Liability Partnerships Act 2000;

“the Principal Regulations” means the Reporting on Payment Practices and Performance Regulations 2017(14).

(12) 2000 c.12.
(13) 1978 c.30; section 14A was inserted by the Enterprise and Regulatory Reform Act 2013 (c.24), section 59(2).
(14) S.I. 2017[ ].
Application of the Principal Regulations to limited liability partnerships

3. The provisions of the Principal Regulations apply to limited liability partnerships with the modifications set out for this purpose in regulations 4 to 10.

4. Regulation 2 of the Principal Regulations (interpretation) shall read as if—
   (a) the definition of “director” were omitted;
   (b) the definition of “financial year” were—
     “financial year” means an LLP’s financial year determined in accordance with sections 390 to 392 of the 2006 Act (as applied and modified by regulation 7 of the 2008 Regulations);”;
   (c) in the definition of “payment period”, the words “a company” were “an LLP”;
   (d) in the definition of “qualifying company”, the word “company” were “LLP”;
   (e) there were, in the appropriate places alphabetically, the following definitions—
     “the 2008 Regulations” means the Limited Liability Partnerships (Accounts and Audit) (Application of Companies Act 2006) Regulations 2008(15);
     “designated member” has the same meaning as in the Limited Liability Partnership Act 2000;
     “LLP” means a limited liability partnership formed and registered under the Limited Liability Partnership Act 2000(16).”.

5. Regulation 3 of the Principal Regulations (duty to publish information on payment practices, policies and performance) shall read as if references to “company” were to “LLP”.

6. Regulation 4 of the Principal Regulations (approval of the information) shall read as if the words of that regulation were—

   “The information prepared by a qualifying LLP must be approved by a designated member of that LLP.”

7. Regulation 5 of the Principal Regulations (companies to which the duty applies) shall read as if the words of that regulation were—

   “LLPs to which the duty applies

5.—(1) These Regulations apply to an LLP in relation to every financial year in which it is a qualifying LLP.
(2) An LLP is not a qualifying LLP in—
   (a) its first financial year;
   (b) a financial year which began before 6th April 2017.
(3) An LLP other than a parent LLP is a qualifying LLP—
   (a) in its second financial year if on its last balance sheet date before that financial year it exceeded two or all of the general thresholds;
   (b) in a subsequent financial year if on both of the relevant balance sheet dates it exceeded two or all of the general thresholds.
(4) A parent LLP is a qualifying LLP—
   (a) in its second financial year if on its last balance sheet date before that financial year—
      (i) it exceeded two or all of the general thresholds, and
      (ii) the group headed by it exceeded two or all of the group thresholds;
   (b) in a subsequent financial year if on both of the relevant balance sheet dates—
      (i) it exceeded two or all of the general thresholds, and
      (ii) the group headed by it exceeded two or all of the group thresholds.
(5) In this regulation—
   (a) “balance sheet date” means the date as at which an LLP’s balance sheet was made up;

(15) S.I. 2008/1911.
(16) 2000 c.12.
(b) the “general thresholds” are the maximum figures for an LLP’s turnover, balance sheet total and number of employees set out in sub-section (3) of section 465 of the 2006 Act(17) (as applied and modified by regulation 26 of the 2008 Regulations(18)), determined in accordance with sub-sections (4) to (6) of that section (as so applied and modified);

(c) “group” means a parent LLP and its subsidiary undertakings;

(d) the “group thresholds” are the maximum figures for a group’s turnover, balance sheet total and number of employees set out in sub-section (4) of section 466 of the 2006 Act(19) (as applied and modified by regulation 26 of the 2008 Regulations), determined in accordance with sub-sections (5) to (7) of that section (as so applied and modified);

(e) “parent LLP” has the meaning given in section 1173 of the 2006 Act(20) (as applied and modified by regulation 55 of the 2008 Regulations(21));

(f) the “relevant balance sheet dates” are—
   (i) the LLP’s last balance sheet date before the relevant financial year, and
   (ii) the balance sheet date preceding that.

(g) “subsidiary undertaking” has the meaning given in section 1162 of, and Schedule 7 to, the 2006 Act (as applied and modified by regulation 52 of the 2008 Regulations).

(6) Sub-paragraph (7) applies if the 2006 Act (as applied and modified by the 2008 Regulations) is amended so that any of the general thresholds or group thresholds which apply to a financial year (“X”) differ from those which applied to either of the preceding two financial years.

(7) For the purposes of determining whether an LLP is a qualifying LLP in financial year X, the LLP is to be treated as if the general thresholds or group thresholds (as applicable) which apply to financial year X had also applied to the two preceding financial years.”

8. Regulation 7 of the Principal Regulations (periods in relation to which information must be published) shall read as if—

   (a) the words “company” and “company’s”, wherever they appear, were “LLP” and “LLP’s”;
   (b) the references to sections 391 and 392 of the 2006 Act were to those sections as applied and modified by regulation 7 of the 2008 Regulations.

9. Regulation 8 of the Principal Regulations (failure to publish a report) shall read as if—

   (a) the words of paragraph (1) were—
   “If the requirements of regulation 3 are not met in relation to a reporting period, the qualifying LLP and every person who was a designated member of the qualifying LLP immediately before the end of that filing period commits an offence.”;
   (b) in paragraph (2), the references to “director” were to “designated member”.

10. The Schedule to the Principal Regulations (information) shall read as if the words “a company”, “company” and “company’s” wherever they appear were “an LLP”, “LLP” and “LLP’s”.

Review

11. —(1) Before 6th April 2022, and subsequently at intervals not exceeding five years, the Secretary of State must—

   (a) carry out a review of these Regulations,
   (b) set out the conclusions of the review in a report, and
   (c) publish the report.

   (2) The report must in particular—

   (a) set out the objectives intended to be achieved by the regulatory provisions established by these Regulations,
   (b) assess the extent to which those objectives are achieved, and

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(17) Section 465(3) was amended by S.I. 2015/980.
(18) Regulation 26 was amended by S.I. 2016/575.
(19) Section 466(4) was amended by S.I. 2015/980.
(20) There are amendments to section 1173 but none is relevant to these Regulations.
(21) There are amendments to regulation 55 but none is relevant to these Regulations.
(c) assess whether those objectives remain appropriate and, if so, the extent to which they could be achieved with a system that imposes less regulation.

EXPLANATORY NOTE
(This note is not part of the Regulations)

These Regulations impose a reporting requirement on large limited liability partnerships in relation to their payment practices and policy and their performance by reference to those practices and policies. The substantive provisions of the reporting requirement are set out in the Reporting on Payment Practices and Performance Regulations 2017, which apply to companies which have exceeded certain size thresholds. These Regulations apply equivalent provisions to certain limited liability partnerships (regulation 3), with modifications to some of the wording so that the provisions reflect limited liability partnerships and their structure. The modifications are set out in regulations 4 to 10.

These Regulations should be read in conjunction with section 3 of the Small Business Enterprise and Employment Act 2015. They should also be read in conjunction with the Reporting on Payment Practices and Performance Regulations 2017 which they modify.

Regulation 1(3) provides that these Regulations are to cease to have effect after 5th April 2024. Regulation 11 requires the Secretary of State to review the operation and effect of these Regulations and publish a report within five years after the Regulations come into force. Following the review it will fall to the Secretary of State to consider whether the Regulations should be allowed to expire as regulation 1(3) provides, be revoked early, or continue in force with or without amendment. A further instrument would be needed to continue the Regulations in force with or without amendments or to revoke them early.

A full impact assessment of the effect that this instrument will have on the costs to business and the voluntary sector is available from the Department for Business, Energy and Industrial Strategy at 1 Victoria Street, London SW1H 0ET and is published with an Explanatory Memorandum alongside the instrument on www.legislation.gov.uk.