



Late Payment Reform: Government Announcement

24 March 2026



How STA Legal can assist

The reforms announced on 24 March 2026 represent the most significant reconfiguration of payment obligations in commercial contracts for over a generation. Businesses across all sectors face material exposure: as customers, through mandatory payment caps and compulsory statutory interest; as suppliers, through newly available enforcement routes and adjudication mechanisms. The transition period will generate disputes, require contractual review, and demand informed strategic decisions about enforcement.

STA Legal advises businesses at every stage of that process. Whether you face an overdue debt, wish to understand your exposure under existing supply chain agreements, or require representation in enforcement proceedings, our commercial and litigation teams are available to assist. The note below summarises the key measures announced and identifies, at the close, the specific ways in which STA Legal can support your business.

Background and Legislative Context

The existing statutory framework is the Late Payment of Commercial Debts (Interest) Act 1998, which entitles businesses to charge interest at 8% above the Bank of England base rate on overdue commercial invoices, unless a "substantial remedy" has been contractually agreed. Payment terms exceeding 60 days are already open to challenge on grounds of unfairness under that Act, and public bodies are obliged to offer terms not exceeding 30 days.

The Government consulted on proposed reforms between 31 July 2025 and 23 October 2025, receiving over 850 formal responses — the highest ever engagement on this topic.


The Announced Reforms

On 24 March 2026, the Government announced what it described as the largest set of late payment reforms in over a generation, giving the Small Business Commissioner (SBC) sweeping new powers to investigate poor payment practices, adjudicate payment disputes, and fine the worst offenders — with fines potentially worth tens of millions of pounds.

The principal measures are as follows.

1. Cap on Payment Terms.

A mandatory 60-day payment window will apply to all commercial contracts involving companies with annual revenues above £54 million. The Government has indicated an intention to reduce this cap to 45 days over a five-year period.



2. Mandatory Statutory Interest.

Suppliers will gain the right to charge statutory interest on overdue invoices at 8 percentage points above the Bank of England base rate, significantly increasing the financial cost of late payment for larger firms. Critically, the reform removes the existing ability to "contract out" of this obligation.

3. Enhanced SBC Enforcement Powers.

The SBC will be empowered to identify and fine persistent late payers based on data published under the Reporting on Payment Practices and Performance Regulations 2017, with fines based on businesses' unpaid statutory interest liability. The SBC will also be able to impose financial penalties for breaching payments legislation and for failing to comply with its investigations and adjudication processes.

4. Out-of-Court Adjudication.

The SBC will have a new adjudication function to settle late payment disputes outside the court process.

5. Board-Level Accountability and Reporting.

Companies found to be consistently breaching payment standards will be required to publicly disclose their practices in annual reports, including explanations and remediation steps. Audit committees or company boards will be required to provide commentary or recommendations regarding payment performance before data is submitted to Government.

6. Retention Payments in Construction.


The Government proposes to ban the practice of deducting and withholding retention payments under construction contracts, with a consultation on implementation to follow.

Economic Context

Late payments are estimated to cost the UK economy almost £11 billion per year and contribute to approximately 14,000 business closures annually, equivalent to 38 businesses every day.

Implementation and Legislative Timetable

The legislative timetable remains to be confirmed. Implementation is expected to occur across 2025–2026, with key provisions such as the maximum payment terms cap and Commissioner enforcement powers likely taking effect in late 2026, though the consultation findings may influence timing.



How STA Legal can assist your business

STA Legal's commercial disputes and advisory teams offer specialist support across the full range of issues arising from these reforms.

Litigation.

Where payment disputes cannot be resolved by negotiation, STA Legal acts for claimants and defendants in proceedings before the Business and Property Courts, including the Commercial Court and the Circuit Commercial Courts. We advise on the recovery of principal debt, statutory interest under the Late Payment of Commercial Debts (Interest) Act 1998, and the strategic use of summary judgment applications where liability is not genuinely disputed. We also advise large businesses on their exposure to regulatory enforcement action by the SBC and the reputational consequences of adverse payment performance data.

Arbitration.

Where commercial contracts contain arbitration clauses, our disputes team has experience acting in institutional and ad hoc arbitral proceedings governed by the rules of the major arbitral institutions. We advise on seat and governing law considerations, interim relief, and enforcement of arbitral awards under the Arbitration Act 1996.

Adjudication.

The SBC's new adjudication function will provide a statutory alternative dispute resolution route for qualifying businesses. STA Legal will advise clients on the strategic decision whether to refer a dispute to the SBC for adjudication or to pursue litigation, having regard to cost, speed, enforceability, and the value of the claim. For construction clients, we have existing experience of adjudication under the Housing Grants, Construction and Regeneration Act 1996 and the associated Scheme for Construction Contracts, which will remain relevant alongside the new SBC process.

Redrafting of Commercial Agreements.

The proposed 60-day cap on payment terms and the removal of contracting-out rights in respect of statutory interest will render non-compliant provisions in existing supply chain and procurement contracts unenforceable. STA Legal's commercial team is available to audit existing contract portfolios, advise on transitional arrangements, and redraft payment, dispute resolution, and interest provisions to ensure compliance with the incoming legislative framework. This includes advice on retention clauses in construction contracts in anticipation of the proposed prohibition on retention deductions.



GET IN TOUCH

Leonard Scott

leonard.scott@stalegal.co.uk

+44 (0) 7960 247 189

FOLLOW US ONLINE

LinkedIn: [STA Legal](#)