EXPLANATORY MEMORANDUM TO

THE COMPANIES (DIRECTORS' REPORT) (PAYMENT REPORTING) REGULATIONS 2025

2025 No. 1152

1. Introduction

1.1 This Explanatory Memorandum has been prepared by Department of Business and Trade and is laid before Parliament by Command of His Majesty.

2. Declaration

2.1 The Minister for Services, Small Business and Exports, Gareth Thomas MP at the Department of Business and Trade confirms that this Explanatory Memorandum meets the required standards Explanatory Memorandum meets the required standard.

2.2 Paul Drabwell, Deputy Director for Enterprise, Strategy & Corporate Team, at the Department for Business and Trade confirms that this Explanatory Memorandum meets the required standard.

3. Contact

3.1 Cassie Pope at the Department for Business and Trade telephone: 07557649638 or email: cassie.pope@businessandtrade.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

4.1 These Regulations amend the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (S.I. 2008/410) (the 2008 Regulations) and introduces new reporting requirements for large companies to annually report on their payment practices and performance with respect to suppliers within their Directors' reports.

Where does the legislation extend to, and apply?

4.2 The extent of this instrument (that is, the jurisdiction(s) which the instrument forms part of the law of) is England and Wales, Scotland and Northern Ireland.

4.3 The territorial application of this instrument (that is, where the instrument produces a practical effect) is England and Wales, Scotland and Northern Ireland.

5. Policy Context

What is being done and why?

5.1 Late payment remains a significant issue for UK businesses, particularly small businesses. In 2024, small businesses were owed on average an estimated £21,400 in

late payments.[1] This represents a significant cash flow challenge for small businesses - undermining opportunities to invest and grow.

5.2 The Late Payment of Commercial Debts (Interest) Act 1998 enables businesses to claim interest for late payment, and The Reporting on Payment Practices and Performance Regulations 2017 (SI 2017/395) and the Limited Liability Partnerships (Reporting on Payment Practices and Performance) Regulations 2017 (SI 2017/425) (the 2017 Regulations) impose a requirement on large companies and limited liability partnerships (LLPs) to publish certain information twice per financial year about their practices, policies and performance in relation to paying suppliers. In 2024 the 2017 Regulations were extended beyond their initial sunset date of 6th April 2024 and amendments were made to require additional information to be reported by qualifying companies and LLPs.

5.3 In consultation in 2023, the Government consulted on amending the 2017 Regulations[2]. There was broad support for the amendments set out in this instrument, as well as extending the amendments, as we did in 2024. Including payment practices and performance data within Directors' Reports will have the effect of providing this data to key stakeholders, including a company's auditors and shareholders. This will allow investors to have a better opportunity to scrutinize a company's payment practices and company's external auditors are required to read the Director's Report and identify any material misstatements within it.

What was the previous policy, how is this different?

5.4 The Reporting on Payment Practices and Performance Regulations 2017 and the Limited Liability Partnerships (Reporting on Payment Practices and Performance) Regulations 2017 (S.I. 2017/425), place a duty on the large companies and LLPs to report on their payment practices, policies and performance each year.

5.5 The duty currently requires companies to report twice within the financial year beginning on or after 6 April 2017, prescribed data about payment via a HMG portal. The precise information that they must publish is set out within Schedule 1 to the 2017 Regulations. This includes information about when payments are due, what percentage of payments were not made as planned.

6. Legislative and Legal Context

How has the law changed?

6.1 Part 15 of the Companies Act 2006 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("the 2008 Regulations") set out the reporting framework for companies. This instrument specifies further content for the directors' report for certain companies in relation to their payment practices and performance.

6.2 These Regulations amend the Principal Regulations using powers under sections 416(4) and 1292(1) of the Companies Act 2006 and insert a new Part 9 to Schedule 7 of the 2008 Regulations which requires large companies to include certain information within director's reports unless excepted.

[1] Intuit QuickBooks (2025) – 2025 Small Business Late Payments Report - https://quickbooks.intuit.com/uk/blog/small-business-late-payments-report-2025/
[2] https://www.gov.uk/government/consultations/amendments-to-the-payment-practices-and-performance-regulations-2017

Why was this approach taken to change the law?

6.3 This is the only possible approach to make the necessary changes.

7. Consultation

Summary of consultation outcome and methodology

7.1 On 31 January 2023, the Government published a consultation on proposed "Amendments to the Payment Practices and Performance Regulations 2017". Through the consultation there was broad support for the extension of the Regulations and for the amendments set out in this instrument. The Government Response to the consultation was published on 22 November 2023, and showed that of 137 respondents, 122 supported increased transparency around reporting, with 122 supporting the inclusion of payment practices and performance data in annual reports.

8. Applicable Guidance

8.1 The Government is publishing updated guidance for large businesses in scope of the duty on how to comply. Copies will be placed in the House libraries and sent to the scrutiny committees.

Part Two: Impact and the Better Regulation Framework

9. Impact Assessment

9.1 A full Impact Assessment has not been prepared for this instrument because the impact on business, charities or voluntary bodies is minimal.

9.2 The new requirement will introduce additional burdens for large businesses. These are however small, with an estimated Equivalent Annual Net Direct Cost to Business (EANDCB) between £1.03m and £2.76m.[3] Importantly, this estimate likely overestimates the true cost to business, because no adjustment is made for 1) businesses who report as part of groups, and 2) recent changes to the reporting thresholds, which mean fewer businesses need to comply with the new requirement.[4]

9.3 There is no impact on the public sector.

9.4 The expected impact involves a cost to large businesses in scope of the duty, with a benefit to suppliers (mostly small and medium-sized) that currently experience late payment from customers. The costs are those associated with complying with the requirements to provide reports on payment performance. Small, medium-sized and micro businesses are not in scope of the reporting requirement but will benefit from reductions in payment time that result from the increased transparency.

9.5 A De Minimis Impact Assessment has been completed, as the EANDCB of the new requirement does not exceed £10 million. The impact assessment quantifies the expected costs and benefits of the duty. The cost of producing accurate reports on their practices and payment performance include: familiarisation with the new requirements; adapting, purchasing and maintaining IT systems; updating processes; preparing and approving reports.

9.6 The benefits of the policy are not quantified but are expected to come through reductions in payment times to suppliers. The reporting requirements will put

[3] FY23/24 prices.

[4] The turnover, balance and sheet, and employee thresholds for large businesses increased in April 2025, following The Companies (Accounts and Reports) (Amendment and Transitional Provision) Regulations 2024.

information into the public domain about the payment practices and performance of large businesses, exposing poor payment performance and allowing suppliers to check the payment record of potential customers before agreeing to enter into a contract. The extra transparency should encourage better payment practices. Reducing payment times will benefit businesses by reducing the costs incurred through late payment, such as needing to raise external finance to cover cash flow shortages or diverting administrative time chasing late payment.

9.7 The De Minimis Impact Assessment is not published.

Impact on businesses, charities and voluntary bodies

9.8 There is no, or no significant, impact on charities or voluntary bodies.

9.9 The legislation does not apply to activities that are undertaken by small businesses.

9.10 This legislation does not apply to activities that are undertaken by the public sector.

10. Monitoring and review

What is the approach to monitoring and reviewing this legislation?

10.1 A review provision is included in this instrument providing for a review to be completed on or before the 6th April 2029 to coincide with a review of the Reporting on Payment Practices and Performance Regulations 2017.

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 The Minister for Services, Small Business and Exports, Gareth Thomas MP has made the following statement regarding Human Rights:

"In my view the provisions of the Companies (Directors' Report) (Payment Reporting) Regulations 2025 are compatible with the Convention rights."

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 ("relevant European Union Acts").