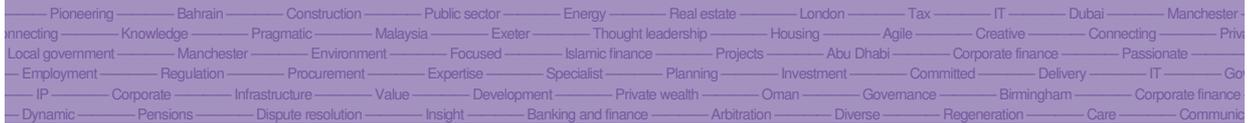




Legal update — March 2018

## Governance

# How quickly do you pay your suppliers? Large businesses set to disclose their payment practices



**From 1 April 2018, housing providers may need to comply with reporting rules requiring large businesses to disclose on details of their payment practices, policies and performance. The regulations (which came into force last April) are part of the Government's efforts to tackle a late payment culture and to expose payment practices to public scrutiny.**

### Will it apply to my business?

All large UK companies and large LLPs will be under a duty to report. A company or LLP is "large" and falls within scope of the reporting requirement if it exceeded at least two of the following thresholds on its last two balance sheet dates:

- annual turnover of £36 million
- balance sheet total of £18 million
- 250 employees.

These are the same thresholds as for qualifying as a medium-sized company for accounting purposes under the Companies Act 2006 and will be updated periodically. The requirements only apply to companies and LLPs; other corporate entities (such as community benefit societies) will not fall within the scope of this reporting regime.

### What about group companies?

Each company and LLP that qualifies as large must report separately on its individual payment practices – and not on a group basis. The rationale is that the various entities within a group may have different payment practices and suppliers will benefit from seeing each reported on separately.

A parent company or parent LLP (with one or more subsidiaries) will be subject to a further hurdle in order to be brought within scope of the requirements. In addition to itself qualifying as large, the group it heads will have to qualify as large on an aggregate basis by exceeding at least two of the specified thresholds on its

last two balance sheet dates. The current thresholds are:

- aggregate turnover of £36 million net (or £43.2 million gross)
- aggregate balance sheet total of £18 million net (£21.6 million gross)
- aggregate number of employees of 250.

"Net" here means after any adjustments to exclude group transactions.

### How often will reports need to be made?

Large businesses will need to prepare reports about payment practices twice a year – the first report to cover the first six months of their financial year and the second report to cover the last six months. Reports must be published within 30 days of the end of the reporting period.

The frequency of reporting is adapted for businesses with financial years shorter or longer than a calendar year. A business is not required to report in its first financial year.

### What will need to be disclosed in the reports?

For each reporting period, information on the business' payment practices in relation to qualifying contracts will need to be reported on, including:

#### Narrative description of:

- standard payment terms, which must include the standard contractual length of time for payment of invoices, maximum contractual payment period and any changes to the standard payment terms in the reporting period, and how suppliers have been notified or consulted on these changes
- process for resolving payment related disputes

#### Statistics on:

- average number of days taken to pay invoices, from the date of receipt of the invoice
- percentage of payments made which were paid within 30 days, between 31 and 60 days, and in

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61 days or longer

- percentage of payments due within the reporting period which were paid later than the agreed term

**Statements (can be in a tick box style) about whether:**

- suppliers are offered e-invoicing
- supplier chain finance is available to suppliers
- practices and policies cover deducting sums from payments as a charge for remaining on a supplier's list, and whether this has been done in the reporting period
- the business is a member of a payment code, and the name of the code.

BEIS issued updated guidance in October on the requirements with more detail on what is required to be disclosed. Businesses are able to include links to their website in the narrative description if their full payment terms and/or process for dispute resolution can be found there although a brief explanation should still be included in the report.

**Which contracts should be covered in the reports?**

A "qualifying contract" is one which satisfies all of the following:

- it is between two or more businesses
- it has a significant connection with the UK
- it is for goods, services or intangible property
- it is **not** for financial services.

**Where must the information be published?**

The reports are to be published online on the BEIS website. There is also an email address for people to notify the government of any suspected non-compliance by a business.

**When will first reports need to be published?**

Companies and LLPs in scope will soon need to prepare reports in respect of last financial year. Businesses with a financial year ending on 31 March 2018 will need to comply. Their first reporting period will be 1 April to 30 September 2018 and those reports will need to be published on the BEIS website on or before 30 October 2018.

**Approval and sanctions**

The report must be approved by a named director for a company or a designated member for an LLP. It is a criminal offence to fail to publish a report or to knowingly or recklessly publish one that is misleading,

false or deceptive. The offence is committed by the company or LLP and by each of the directors or designated members and is punishable by a fine.

**What should large businesses be doing now?**

Companies and LLPs which meet the threshold criteria or are close to meeting it should start looking at their existing data collection systems to see if these can capture all of the payment data required and how easy it is to create reports from existing systems. Plans should be put in place if changes or upgrades to systems are necessary to comply with the requirements.

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