Department for Business, Innovation, Science and Trade

Commercial Payments Bill

Construction Sector

October 2026



"the toughest crackdown on late payments in a generation, designed to support small businesses and improve cashflow across supply chains"

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Introduction

- Delivers **a key manifesto commitment** to tackle late payment, which costs the UK economy £11 billion each year and contributes to the closure of 38 UK businesses every day.
- Represents the **most significant late payment legislation** in more than 25 years.
- **Strengthens the existing legislation and introduces new measures** to improve commercial payment practices, accelerate payments, and address persistent late payment of commercial debts across the United Kingdom.
- Amends 5 pieces of existing legislation:
  - Housing Grants, Construction and Regeneration Act 1996 (HGCRA 1996)
  - Late Payment of Commercial Debts (Interest) Act 1998 (LPA 1998)
  - Procurement Act 2023 (PA 23)
  - Small Business, Enterprise and Employment Act 2015 (SBEE 2015)
  - Enterprise Act 2016 (EA 2016)

Research shows that late payments incur significant costs for UK businesses and the wider economy

£11bn

Estimated annual cost to the UK economy of late payments

14,000

Number of businesses that close each year because of late payments, equivalent to 38 businesses every day.

28% or 1.5m

The amount of businesses affected by late payments every year

£26bn

The amount in late payments at any given time, on average £17,000 per affected business.

86 hours

The average amount of staff time 22% of businesses said they each spent chasing late payments.

15%

The percentage of businesses that said they avoided doing business with specific customers based on their payment behaviour.

Source: DBT (2025) – Estimating the total economic cost of late payments and their impact on the UK economy

Background

July 2025

Small Business Plan launched:

- Late Payments Consultation - 12 weeks, July to October 2025
- Late Payments Research - "Estimating the total economic cost of late payments and their impact on the UK economy" published

March 2026

Government response to the consultation published:

- Consultation response - "Time to Pay Up" published 24 March 2026
- New legislation - commitment to introduce legislative measures as soon as Parliamentary time allows

May 2026

Commercial Payments Bill introduced to the House of Lords:

- First Reading - 19 May
- Second Reading - 9 June
- Committee Stage - 21 July
- Report Stage - 15 September
- Third Reading - 20 October

Passage of the Commercial Payments Bill



Introduced to the House of Commons on the 21 October 2026. Second Reading expected in November.

What the Bill covers

- The Bill was first introduced in May 2026 alongside the Explanatory Notes. The current Bill draft was published on 21 October 2026 as brought from the House of Lords.

- HM Government introduced a small number of amendments at House of Lords Committee and Report Stage including to align PA 2023 with legislative measures, introduce a power to review the maximum payment terms in 5 years and address minor and technical changes.

- The measures contained in the Bill, are grouped broadly into three parts:

1. Improving payment practice introducing statutory maximum payment terms, with statutory interest and additional measures applied to those firms which pay late.

2. Banning the deduction and withholding of retention sums under a construction contract.

3. Strengthening the powers of the Small Business Commissioner (SBC) to adjudicate contractual payment disputes, investigate persistent poor payment practices, and take enforcement action, including imposing financial penalties.

- Most measures will be brought into force through Commencement Regulations following Royal Assent. This is to allow for necessary preparation, including a package of secondary legislation.

Why this matters for construction

- The Commercial Payments Bill **applies to all business-to-business contracts** across the UK. This means payment measures will apply to commercial contracts in every sector unless these fall under a limited number of exemptions e.g. large to large business transactions.

- A **construction business will need to be aware, understand and implement these new measures in all of their contracts** – both for a construction contract (as defined) and a non-construction contract.

- **This is relevant to any party in a contract – whether client or supplier.**

- The Bill aligns late payment policy with the industry's established statutory payment regime and specific terminology under Part 2 of the Housing Grants, Construction and Regeneration Act 1996.

- This is not just about a ban on the deduction of retention sums in a construction contract.

- There are some very specific changes for construction contracts, including maximum payment terms, mandatory statutory interest, issuance of the Payless Notice within a set period or it is void, and a change to days counted for reckoning periods.

Bill contents

Part 1: Commercial Payments

Chapter 1: Commercial Payments

- Payment terms in commercial contracts can set a maximum payment period of 60 days (or 30 days where a public authority is a purchaser and the contract is not covered by PA 2023), subject to limited exemptions. Details include:
  - The payment period begins with 1 of 4 events, and the contract must state when the payment becomes due;
  - Contract terms that do not comply are void and a payment term of 30 days implied into the contract beginning with the last event;
  - An implied contract term of completing an acceptance or verification procedure for a payment within 30 days, unless a longer period can be justified as fair and reasonable;
  - Not applicable to exempted contracts, and then s68/88 PA 2023 contracts, construction payments and advance payments which have their own bespoke provisions; and
  - Limited exemptions to be defined in secondary legislation including large to large business transactions, transactions where the small firm is the purchaser, and for international business transactions.

Bill contents

As brought from HoL 21 October 2026

Part 1: Commercial Payments

Chapter 1: Commercial Payments

- Secondary legislation powers to define exempted contracts and business sizes for payment terms. Not applicable to a Public Authority contract.
- Prohibiting contractual terms that exclude or vary the right to statutory interest. An implied contract term with statutory interest at 8% plus Bank of England Rate.
- Statutory interest starts the day after the ‘relevant day of the debt’:
    - The relevant day for a debt is the payment day;
    - The relevant day for a construction debt is the FDD.
- A contract term is void if excludes or varies the right to statutory interest.
- A supplier can recover a fixed sum from a purchaser where a dispute is raised late or without sufficient information:
    - Contract term is void if varied;
    - Dispute must be raised within 7 days of the ‘relevant day of the debt’;
    - Recoverable fixed sum of £40 or 1% of contract price / disputed amount; and
    - Not applicable for a construction contract.

Bill contents

Part 1: Commercial Payments

Chapter 1: Commercial Payments

- Explanation of construction terms meanings relating to construction contracts for the Bill. This includes:
    - Relevant construction contract;
    - Construction payment;
    - Construction debt;
    - Construction operation; and
    - Relevant construction scheme.
- Further amendments within 3 Schedules including amendment to the Procurement Act 2023. Amendments to PA 2023:
    - Ensure that public authorities and those contracting in public procurement supply chains adhere to a 30-day maximum payment term; and
    - Clarify how PA 2023 implied terms work for construction contracts.
- New provisions will not affect existing contracts entered into before the provision making the amendment comes into force.
- Amends the name of LPA 1998, to reflect the changes made by this Bill to the “Commercial Payments and Interest on Late Payment Act 1998 (CPILPA)”.

Bill contents

Part 1: Commercial Payments

Chapter 2: Payment under construction contracts

- Further amendments within 2 Schedules to the requirements for construction contracts:
  - The Payers Payless Notice will be void if issued later than 7 days before the FDD; and
  - Amendment to reckoning periods of time to align with the LPA.
- Defines the practice of deducting and withholding retention sums and defines a retention clause contained in a construction contract. Includes a power to amend the definition if required.
- Banning new or variations of pre-existing contractual provisions which permit the deduction and withholding of retention sums under a construction contract or related agreement;
- A transition period for any new or variations of pre-existing retention clauses agreed in a two-year period leading up to the coming into force of the retentions ban;
- Specific requirements for the return of “transitional retained sums” before or after the “last retention day” (one year after the ban itself comes into force);
- An implied contract term for a fixed sum (the higher of £40 or 50% of the retention debt) payable to the supplier for the unauthorised deduction of a retention sum.

Bill contents

Part 2: Small Business Commissioner

Chapters 1-5

- Establishes a SBC adjudication scheme for contractual payment disputes between small and larger businesses. Details include:
  - A small business can refer a dispute at any time;
  - Contract terms are void if exclude or restrict right to adjudication;
  - Binding interim decisions by the adjudicator; and
  - Specific exemptions including statutory adjudication e.g. not disputes under a construction contract.

- Powers for the SBC to investigate larger businesses suspected of engaging in persistent poor payment practices and breaching requirements in relation to payments legislation. Details include:
  - Publication of investigation notices;
  - Publication Directions and Enforcement Directions; and
  - Financial penalties for non-compliance with Directions.

- Expands SBC function to provide general advice and information to businesses (regardless of size) and training about transactions.

- Powers for the SBC to take enforcement action against larger businesses in breach of statutory publication requirements on payment practices and performance.

- Secondary legislation powers to set out further detail on the provisions.

Secondary legislation

- The Bill establishes the core legal framework, while providing powers for further detail to be specified through secondary legislation where this is more appropriate. This includes:
  - the ability to refine or specify categories of contracts that may be exempt from payment term requirements, define business sizes, and amend the statutory maximum payment periods;
  - setting out procedural detail on the SBC adjudication scheme, and SBC investigations and enforcement action (including the imposition of financial penalties);
  - making provision for the SBC's enforcement role where a company breaches its statutory publication requirements, and
  - the timing and sequencing of the commencement of the legislative provisions including the retentions transition period and ban.
- As set out in the HMG consultation response, there will also be:
  - a new reporting requirement for the boards and audit committees of large companies with more than 25% of late payments through secondary legislation; and
  - reporting requirements for large businesses, including additional information on how much interest they pay and owe their suppliers.

New requirements for a construction contract (1 of 2)

- The new provisions will:
  - introduce a maximum payment term of 60 days (or 30 days for a Public Authority where the contract is not covered by PA 2023) with limited exemptions from the ‘Payment Due Date’ to the ‘Final Date for Payment’;
  - imply a contract term setting a standard payment period of 17 days under the Scheme for Construction Contracts, if the contract’s payment term is void or missing (Not PA 23 contracts);
  - clarify the position that construction contracts within the scope of PA 2023 are subject to the implied terms of 30 days contained within that Act (section 68 and 88);
  - specify that the ‘Payee’s Notice’ in default of a ‘Payers Payment Notice’ cannot postpone the final date for payment past the maximum payment term;
  - introduce an implied contract term that statutory interest for a construction debt begins the day after the final date for payment;
  - require that the ‘Payers Payless Notice’ must be issued no later than seven days before the ‘Final Date for Payment’ or it is considered void; and
  - align reckoning periods of time for payment under HGCRA 1996 with LPA 1998. This means in practice that Christmas Day, Good Friday and Bank Holidays are now included in reckoning periods of time.

New requirements for a construction contract (2 of 2)

- New provisions will:
  - ban contractual provisions which permit the deduction and withholding of retention sums under a construction contract, or any agreement that relates to sums payable in accordance with a construction contract;
  - introduce a transition period for any retentions clauses agreed in the two-year period leading up to the coming into force of the retentions ban;
  - require any remaining retentions sums withheld under contracts entered into, during the transition period, to be returned by the end of the stated period (which is one year after the ban itself comes into force); and
  - establish an implied clause in a construction contract providing for a fixed sum to be payable to the supplier where there has been an unauthorised deduction of a retention sum (£40 or 50% of the deducted sum, whichever is the greater). This will be in addition to any entitlement to mandatory statutory interest and statutory compensation.

Retentions

- The ban will prohibit the deduction and withholding of retentions sums under a retention clause in a construction contract:
  - Both retention clauses and any terms which set out the provisions for the treatment of retention sums will be void.
  - It will not affect the ability of businesses or clients to use alternative forms of surety.
  - It will apply to all construction contracts as defined under HGCRA 1996, both in the private and public sector.
  - It will not apply to a construction contract excluded from all of Part 2 of HGCRA 1996. Nor will it apply to construction contracts where one party to the contract is a residential occupier.
  - When appropriate, both the transition period and ban will be brought into force by Commencement Regulations following Royal Assent of the Bill.
  - The Government has also committed to working with industry and construction clients to address concerns about build quality and surety alternatives, and with the financial services sector to identify ways to develop the surety market for construction.

Transition Period for Retentions

- How does the transition period work for retentions:
  - A construction contract signed before the coming into force of the transition period will not be affected, unless a new retention clause is inserted into a contract, or an existing retention clause is varied during the transition period.
  - No new retention clause in the transitional contract (i.e. a contract entered into during the two year transition period) will be permitted after two years, when the retentions ban comes into force. Any new clause or related term will be void and any retention deduction under these clauses would be considered a retention debt.
  - No deduction of retention sums under the existing retention clauses in a transitional contract will be permitted after 3 years after the start of the transition period. Existing retention clauses will become ineffective, and any remaining retained sum will be considered a retention debt.
  - Any remaining withheld retention sum not returned before or at the end of the stated period of 3 years (the ‘last retention day’), will be required to be returned and subject to a ‘Payment Due Date’ of 30 days beginning with the day after the last retentions day.
  - A variation to an existing retention clause or term in an existing contract before or during the transition period is void, where that variation is made after the ban comes into force, unless the effect of the amendment is to make the clause more favourable to the payee.

Transition Period for Retentions



Royal Assent of the Commercial Payments Bill

HMG work with the industry in preparation for commencement of the retentions provisions

Two Year ***Transition Period*** begins

Transition Period continues

End of Year Two

Transition Period ends

Ban on new retentions clauses and variations of pre-existing retention clauses comes into force

End of Year Three

Last Retention Day *for* ***Transitional Retained Sums***

Return of ***Transitional Retained Sums***

Commencement Regulations bring Clauses 12, 13 and 17 into force (Clauses 14, 15 and 16 automatically come into force 2 years later)

PDD – within 30 days starting the day after the *Last Retention Day*
FDP – 30 days (Public Authorities / 60 days (Non-Public Authorities)

Small Business Commissioner

- The Commissioner's remit does not cover construction contracts but does cover all other commercial contracts and payments linked to them.

  - The SBC will have the power to provide advice and information and training to all businesses across all sectors, including construction. This will build on its work with the Fair Payment Code.

  - The Commissioner's power to launch investigations in relation to persistent failure to pay suppliers will apply to larger businesses in all sectors, including construction.

  - In addition, the SBC's intended new role in enforcing the requirements of the Reporting on Payment Practices and Performance Regulations 2017 will apply to "qualifying companies", including construction companies that meet the definition of a qualifying company set out in the Regulations.

  - The proposed adjudication powers for the SBC will not apply to construction contracts, due to the existing statutory dispute resolution mechanism under HGCRA 1996. However, if a construction business enters into a non-construction contract, the Commissioner's adjudication powers would apply.

Further Information

- UK Parliament – Commercial Payments Bill
  - Current Bill draft
  - Current Explanatory Notes
- Time to Pay Up – HMG consultation response
- Late Payments research – DBT Research
- Small Business Plan
- Payment Practices and Performance – duty to report
- Small Business Commissioner
- Fair Payment Code
- Construction Leadership Council – Business Models and Fair Practices

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