

Prompt Payment Code

administered by the Chartered Institute of Credit Management on behalf of BIS



Department
for Business
Innovation & Skills



Department
of Energy &
Climate Change

The Rt Hon Matthew Hancock MP
Minister of State for Business, Enterprise and
Energy

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CHANGES TO THE PROMPT PAYMENT CODE

Dear Prompt Payment Code signatory,

Thank you for signing up to the commitments of the Prompt Payment Code. The pledge your organisation has made to demonstrate the highest standards in paying and dealing with your suppliers is integral to our mission to drive a change in UK payment culture.

As a Code signatory, you will be aware that late payment is a significant problem for UK businesses. In January 2015, BACS reported that over £32 billion was owed in overdue payments to the UK's small and medium sized businesses. These debts hamper their cashflow and in the worst case threaten their survival. The Government is absolutely clear that large companies should lead by example in paying their suppliers promptly and fairly, with 30 day terms the norm and 60 days the maximum. This is why the Government has driven forward a comprehensive package of measures to tackle late and unfair payment, including legislating to allow for the introduction of a new mandatory obligation on all large companies to report publicly on their payment performance from April 2016.

As part of these measures, it is imperative that the Prompt Payment Code continues to be recognised as the gold standard, and that its signatories continue to lead the way in good payment practices. Evidence shows that Code signatories are already prompter payers than non-Code members. In our signatory survey in late 2014, you said that we should do more to strengthen the Code. Together, we can ensure that Prompt Payment Code membership really is a badge of honour, inspiring confidence and a strengthened relationship with your suppliers, and at a time of increased public scrutiny, enhancing your organisation's reputation.

In response to your views, we can now announce the following changes to the Code. In future, signatories will be asked to:

- pay invoices within a maximum of 60 days, and seek to pay within 30 days as the norm;
- avoid practices that are grossly unfair and adversely affect your suppliers
- report annually (for small and medium sized signatories) on payment performance, on a comply or explain basis, and half-yearly (for large signatories) in line with the new statutory reporting requirement; and
- provide five references (up from 2) to validate membership.

In order to give you time to prepare, these changes will be phased in over a number of months. Timescales are set out in Annex A.

We will also:

- create a new Compliance Board to enforce the Code; and
- promote and strengthen the Code website.

Please find further details attached at **Annex A and B**. If you have any queries, please contact the CICM on promptpaymentcode@cicm.com

We very much value your continued support.

Yours sincerely



Matthew Hancock

**Minister of State for Business and Enterprise
and Minister of State for Energy**



Philip King

**Chief Executive, Chartered
Institute of Credit Management**

Annex A

Timeline of changes

| Change | Date |
|---------------|--|
| March 2015 | <p>Signatories asked to comply with 30 and 60 day payment terms</p> <p>Signatories asked to avoid practices that are grossly unfair and adversely affect suppliers</p> <p>Requirement for 5 references introduced for new signatories</p> <p>New Code website goes live</p> <p>New Code Compliance Board comes into being</p> |
| Summer 2015 | <p>Large company signatories (in scope of the new statutory reporting requirement) asked to start half-yearly reporting on their payment performance information (further details to follow)</p> <p>All signatories required to submit additional information and references</p> <p>All other signatories, including small and medium sized companies (out of scope of the new reporting requirement), asked to start annual reporting on their payment performance on a comply or explain basis (further details to follow)</p> |
| April 2016 | <p>All signatories required to start reporting on their payment practices</p> <p>Maximum payment terms will come into force – signatories to seek to pay within 30 days, and required to pay 95% of invoices within 60 days, unless exceptional circumstances</p> |

Annex B

Strengthening the Prompt Payment Code

Code Principles and Standards

The existing Prompt Payment Code principles will remain unchanged: to pay suppliers on time, give clear guidance to suppliers and encourage good practice.

The Prompt Payment Code will now promote 30 day payment terms as the norm and include a maximum 60 day payment term (defined as paying 95% of invoices within 60 days, unless there are exceptional circumstances).

Signatories will also be asked to undertake to avoid any practices that are grossly unfair and adversely affect their suppliers. The Code Compliance Board will have the remit to investigate and, if need be, act when a term in a contract exists or changes in a way that a supplier claims to be grossly unfair. We will consult with signatories over the coming months on whether the Code should define grossly unfair practices, for example, by providing an indicative list of practices.

These changes will be phased in to allow businesses sufficient time to bring their payment practices in line:

- We strongly encourage signatories to start complying with the new payment terms and behaviours from now on, on a voluntary basis.
- We will require signatories to comply with the new payment terms and behaviours from April 2016.
- The new Code Compliance Board will be able to investigate wider grossly unfair practices from now, and investigate payment terms from April 2016 (further information on the Board is below).

Payment performance information

The Code will now require signatories to report on their payment practices and policies. For large companies, this requirement will be met by complying with the new half-yearly statutory reporting requirement being introduced through the Small Business, Enterprise and Employment Bill. This will come into force in April 2016 (see <https://www.gov.uk/government/consultations/business-payment-practices-and-policies-duty-to-report>). Ahead of this, large companies will be asked to report this information on a voluntary basis. Public sector organisations will be required to report in line with the new reporting requirements for the public sector. We will write separately in early summer to set out these requirements in detail.

All other signatories, including small and medium businesses, will be asked to report basic payment information annually on a comply-or-explain basis. This will include: the percentage of invoices paid beyond agreed terms and certain narrative information. We will write to signatories in early summer to set out this requirement in detail.

Signatories will also be asked to upload supplier payment information on the Prompt Payment Code website. This guidance will provide suppliers with information on how they can be paid efficiently. Signatories are asked to upload this information on the Code's website as soon as possible.

References

The Code currently requires signatories to provide two references on joining the Code which are validated on a six monthly basis. To improve the rigour of this process, new applicants to the Code and current signatories will now be required to provide five references. These will be checked at random. References should meet certain criteria including that they trade regularly and deliver goods/services core to the potential signatory's business activity.

This change takes place with immediate effect and signatories will be contacted shortly with details of how to provide the additional information.

Enforcement

We have appointed a new Code Compliance Board to enforce the Code, chaired by the CICM. The Board will be able to impose a range of sanctions for signatories including, if need be, expelling them from the Code. The Board will be made up of at least five core members. Board members will consider cases acting in an individual capacity, rather than as representatives of their respective organisation.

Prompt Payment Code Website (www.promptpaymentcode.org.uk)

Changes to the Code's website will be phased to coincide with the changes being implemented. Phase One development work is now live and includes:

- New supplementary standards added relating to payment terms and other unfair practices;
- References section updated to request additional referees;
- News on challenges to signatories' membership of the Code;
- Capturing additional information from applicants including details of standard payment terms;
- A 'How to get paid' web-form for applicants to complete providing guidance for suppliers;
- Details of the Compliance Board members and terms of reference;
- Signatories listing updated to provide access to additional information;
- Link to Construction Supply Chain Payment Charter introduced.