UKeLab
UK eInvoicing Advocacy Lab

POSITION PAPER:

How eInvoicing Helps Resolve the UK's Late Payments Problem

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Summary

This paper sets out the link between eInvoicing and reducing the UK's late payment problem. Reduction in late payments was identified as a core aim in the initial consultation on the recommendation to implement eInvoicing by all VAT-registered businesses published by the UK Government in 2025.

In the UK there is a high incidence of late commercial payments for the supply of goods and services and in the imposition of unfair credit terms. The UK is not alone in this problem. The epidemic of poor payment culture is common in many other countries and affects suppliers doing business with both large purchasing entities and with other small and medium sized enterprises (SMEs) and includes public sector and quasi-public organisations. Current UK government initiatives to address this problem are described below, mainly in the form of proposed parliamentary legislation, the new Commercial Payments Bill, and related regulatory provisions.

These initiatives provide the context for a discussion of the mobilisation of electronic Invoicing and other digitalisation initiatives, including Artificial Intelligence, to strengthen the impact of the proposed regulatory measures. By harnessing the benefits of compliant process acceleration and greater transparency, fair payment can be achieved. The public sector can and does set an example in this area, as performance here lies in a range of both good and more mixed performance.

This is particularly relevant today given the UK government's intent to introduce mandatory eInvoicing for all VAT-registered businesses by 2029. As part of movement towards wider digitalisation, this will progressively enable an improvement through process acceleration. The role of eInvoicing can be a potent enabler but is not a 'silver bullet', given that a fundamental aspect of the problem is behavioural and requires more than a pure process efficiency response. Nevertheless, there is an important complementary role for eInvoicing. This paper supports the policies to deliver a strengthened legislative framework, and to promote an improved organisational and fair payment culture.

Benefits of Paying on Time:

- Improved supplier relationships
- Less time and resources dealing with delays and disputes
- More predictable cash management
- Stable and motivated supply chains
- Opportunities for attracting investment
- A more productive and fulfilled finance and procurement team.

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2. Late Payments Create Significant Costs and Hardship

In the UK, it is estimated that late commercial payments impact the economy to the tune of £11bn each year, create a drag on the economy and play a significant part in the closure of 38 businesses every day [1]. Many of the businesses which are affected fall in the SME category and as many as 60% of those with a valid reason to pursue redress for example in the form of interest on late payments, never do [2]. One of the reasons for this is an imbalance in power dynamics between larger enterprises and their SME suppliers, from which the former companies may take advantage. There is also evidence that payment behaviour for transactions between SMEs is also variable. Even public sector entities which are subject to procurement and contractual legislation can be slow payers.

In the UK legislation already exists that enforces large enterprises to report on their payment practices and performance and twice-yearly publicly declare the average time taken to pay invoices. Since January 2026 they have also been required to report on the percentage of invoices paid within 30 days, 31-60 days, and more than 60 days. They must also state the value of late-paid invoices in their Annual Reports. In evidence compiled by the Department for Business and Trade, the most recent filings by large businesses indicate that 15% paid their invoices outside of agreed terms.



1 Department for Business and Trade: Late payments research

2 The Enterprise Research Centre

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Further measures are now contemplated with the introduction of proposed legislation in the form of the Commercial Payments Bill that was announced in the King's Speech 2026, and had its second reading in the House of Lords in June 2026. The measures include enforcing 60 days maximum payment terms other than by explicit agreement between large to large trading parties although a mechanism to prevent already prompt payments to drift towards the 60 day limit would also be welcome.

There are provisions for mandatory penalty interest to be paid on late payments at 8% above the Bank of England rate, new powers to implement fines for persistent late payers, and for most contracts, purchasers will need to submit a dispute at least 8 days before the payment is due and where the payment term is 14 days or fewer, purchasers can raise a dispute up until the payment due date. Such measures should accompany the propagation of a fair payment culture as set out in the Fair Payment Code, published by the Small Business Commissioner. [3]

It is not the purpose of this paper to further discuss the efficacy of these strengthened regulatory measures to reduce late payments and improve the UK payment culture towards fairness and appreciation of the role of supply chain participants.



3 Fair Payment Code

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3. How eInvoicing Acts as an Enabler in Support of Regulatory Measures Towards Late Payment

A sale of goods or services is invariably accompanied by an invoice. Through the invoice, a seller and buyer exchange information on the quantity, nature, price and payment terms for the goods or services supplied. In relation to payment terms these can also be spelt out in detail in the contract and a purchase order. It is often difficult to ascertain from which point in time payment terms actually commence and what constitutes performance e.g. is it from date of invoice or receipt of invoice and is it measured to the actual receipt of funds in the bank account of the seller. The Commercial Payments Bill might be drafted to bring greater certainty to this aspect.



Invoices play a crucial role in facilitating the sale and purchase of goods and in the smooth functioning of the economy. Historically, paper-based invoices were the norm, involving manual effort and often protracted two-way communication between the trading parties to make corrections and the keying or rekeying of data into spread-sheets and accounting systems. Paper has been substantially replaced by invoices in the form of a PDF (Portable Document Format), delivered over email, but these give rise to similar issues with paper documents as they present unstructured data, and email is prone to diversion into junk mail and other difficulties [4].

4 83.5% of emails reach the recipient's inbox - or 16.5% do not reach. See Fig1, page 7

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For SMEs it is estimated that over 80% of invoices are now delivered using PDF and email. Larger buyers which use optical character recognition to prepare invoices for introduction into accounts payable systems can suffer from inaccurate data which can lead to late payments.

Electronic invoicing now creates the possibility for automated processing with more accuracy and less error based on the meaningful impact of process acceleration. Of course, eInvoicing does not, by itself, guarantee the accuracy of the underlying data - errors in unit price, quantity or description can persist in structured formats just as in paper or PDF invoices. Its principal benefit lies in enabling systematic, automated validation that is harder to apply consistently to unstructured formats.



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Key Features and Benefits of eInvoicing is as Follows:

1. Invoices are created, transmitted, processed, and reconciled in a structured machine readable form that facilitates end-to-end automated processing.
2. Invoices can be created more rapidly, within automated approval workflow, including ID checks, and 3-way matching technology for example using structured data and direct system-to-system delivery and submitted earlier than is the case with manual preparation and entry. Improving the 'time to invoice' following delivery of goods and services can be a challenge for businesses using manual processes, and this work-input phasing can remain challenging even after eInvoicing adoption.
3. Structured formats enforce a baseline of schema-level data validation (e.g. mandatory fields, valid tax identifiers) that OCR-based capture cannot guarantee. Semantic accuracy - correct pricing, quantities, and PO matching depends on business validation rules applied by each party's management routines.
4. eInvoicing creates the conditions for the timelier processing of payments and generation of cashflow benefits for the trading parties,
5. Cost-savings and the benefits of more accuracy, visibility and transparency are delivered throughout the value chain. Digitalisation makes possible the process benefits of AI, such as flagging anomalies and suspicious supplier details, validating tax ID, tracking transaction status, smart-matching, and cashflow forecasts for example.
6. The status of an invoice can be more easily tracked. The digital trail can be supported by status and response messages which create visibility as to where it sits within the payment cycle and when or if it is likely to be paid. It will be important for these messages to be introduced into the mandated eInvoicing regime.
7. Where businesses rely on paper or PDF invoices for example, the invoice cycle can be error prone and opaque, leading to time delays, compliance issues, and late payments. eInvoicing creates the potential for accuracy, transparency and timeliness.
8. In earlier adoption phases of eInvoicing, productivity gains from digitalisation were largely the preserve of large enterprises. SMEs can now benefit from standardisation, the advent of cloud-based accounting software, and an array of SME-focused eInvoicing services.
9. SMEs are no longer forced to enrol in multiple platforms and portals to create and deliver invoices to their customers as the decentralised four-corner model as offered by the UK's chosen core interoperability network, Peppol, offers the 'Connect Once, Reach all' principle. This will be delivered as part of the Government's adoption of Peppol as the Core Interoperability Network for the UK eInvoicing Mandate. However, the movement towards Peppol will require service providers to operate neutrally by encouraging sellers to enrol in their service provider platform to promote the Peppol delivery proposition, which allows a business to deliver and receive all its invoices through a single service provider. The same service providers will undoubtedly continue to provide additional value-added services online.
10. Overall, industry commentators report a reduction in errors and fraud, fewer duplicate or disputed payments, and a general increase in supply chain confidence. However, the question remains, does the adoption of eInvoicing **habitually and systematically** reduce late payments?

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The short answer is that eInvoicing as part of digitalisation will deliver **process acceleration** and accuracy which when properly executed will undoubtedly facilitate payment efficiency; in that sense the **unintentional or systemic** drawbacks of current paper or PDF invoices delivered by email such as the inevitable mistakes and queries, missing data and lack of transparency can be **substantially mitigated.**

But where the payer of an invoice sets out with **intentional** behaviour to impose long or unfair payment terms or build-in payment cycle delays to conserve liquidity, actual payment behaviour may not improve even if eInvoicing is adopted. A counter-argument to this is that the prevalent re-engineering of the invoicing and payment process onto an efficient, transparent, and accurate basis will shift the 'mind-set' of all players towards a fair and prompter payment 'organisational' culture, not least because of the underlying cost savings and cash flow benefits that are widely delivered to all parties especially larger buyers. New supplier services are anticipated to become available once the UK-wide mandate is in force, for example invoice-level early payment finance at the option of the supplier.

As such, eInvoicing, with associated invoice status messages, will shine a light on the actual payment cycle(s), and should be thought of as a powerful complement to regulatory intervention in view of its unquestioned impact on process acceleration. Invoice status messaging offers the opportunity to provide visibility on time-stamped invoices, removing one of the reasons for dispute between buyer and supplier. Time-stamping will become a universal requirement over time.

Whilst eInvoicing is not by itself a standalone 'silver bullet' remedy for the harmful effects of late payments, it is the contention of this paper that legislative and policy initiatives emphatically need to be accompanied by the benefits of eInvoicing and process acceleration enabled by digitalisation. A recent quotation from a senior executive in a large construction company illustrates these points:

> *The ease of using eInvoicing technology along with the security, visibility and controls it enables, has made significant differences to us as a business in the strive to fulfil our determination to pay fairly.*

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4. Benefits of eInvoicing to SMEs Based On Time and Cost Savings

There are research findings that support the business case for eInvoicing. The consulting and research firm, Billentis reports that eInvoicing systematically reduces the payment of SMEs by at least 5-7 days [5]. According to accounting software provider Sage, SMEs using eInvoicing have a 4-day reduction on average payment times and 20% fewer late payments [6]. With eInvoicing SMEs can reduce their administrative burden and divert energy to the core business, raising productivity levels in the process. And those productivity gains can be measured in real terms. According to figures shared by Sage, up to an average of £11,000 could be saved annually by SMEs moving to eInvoicing [7].

Because of the digital, machine-readable nature of an eInvoice, time and cost savings lie at the heart of the efficiency gains an organisation of any size can expect. Data uncovered by Purchase to Pay Network points to organisations that use eInvoicing having a significant time advantage over those that do not. For example, organisations that had 50% or more manual processing were found to have an average cost per invoice of between £11-15, whereas those which used eInvoicing had an average cost per invoice of between £2-5. And those which used eInvoicing had average payment terms to their suppliers of 20-30 days, as opposed to a more usual 50-60 days.[8]



5 Billentis
6 Sage
7 Sage
8 PPN Annual Survey 2026

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5. The Whole Economy Impact of eInvoicing and Supply Chain Resilience

Transposed to an aggregate level, creating a digital economy with eInvoicing generates productivity gains, enhanced reporting capabilities, better compliance and a basis for growth, innovation, and attracting investment. Payments are accelerated by transforming separate financial steps into a single connected workflow, which must be implemented as part of the digitalisation effort Then, with the data that is generated from the structured, machine-readable invoice (such as XML or UBL) systems can connect to process invoices instantly, while embedded payment requests enable automated, fast settlement.

The power of eInvoicing should not be underestimated.

More than simply a way of claiming a payment due, an eInvoice is a conduit between upstream procurement and downstream payments. As such, it provides visibility across the whole of a business. When that visibility is shared on a national level, the data created and the volume of the transactions has the capacity to drive business-critical and economy-critical information at scale. On a company level, this offers the chance for businesses to pivot, when necessary, from one supplier to another, encourage innovation between customer and supplier and ensure on-time payments that enable better cash management.



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6. How Large Organisations Can Help

Late payment habits and the imposition of unfair long payment terms can arise as the result of the power imbalance already mentioned; indeed, some unscrupulous companies can and do use cash owed to their smaller suppliers as a form of free trade credit. There is also a growth in financial techniques such as Supply Chain Finance or Reverse Factoring whereby a large buyer may actually increase its payment terms to suppliers and then offer a finance facility to discount the receivable in the hands of the supplier who then bears a further financial cost for receiving money it is already owed. Supply Chain Finance (SCF)can be used to legitimately close the gap between supplier and buyer and create a positive result for both sides, provided that suppliers carefully analyse their cost of funds and the clear benefits of SCF. However, this is generally only the case where the terms do not extend beyond 60 days and is clarified at the start of the contract in the terms.

However, for most large organisations, delayed payments arise more commonly from blanket payment intervals, poor processes and weak knowledge or communication concerning the smaller supplier population: this could be said to stem from a lack of regard towards the 'health' of supply chains beyond a few strategic suppliers.

Large organisations and their smaller suppliers operate very differently, which means that in a large multi-national the importance of a seemingly small invoice might be lost. Sometimes late payments can arise from poor onboarding practices which entangle a smaller supplier in time-consuming activity that takes them away from their core business. There may also be a disconnect between what 'paid' means between the large organisation and the SME. While an SME might typically consider paid to mean cleared funds in their account, a large business might term 'paid' as being on the next payment run. As said above, such definitions should be included in the Commercial Payments Bill.

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To help overcome the burden to SMEs and ensure a stable supply chain, large organisations could consider:

SETTING STANDARD PAYMENT TERMS

30 days (or better) payment terms

IDENTIFYING SMEs

Identifying SMEs in categories in the Master Supplier File and providing a differentiated focus

CREATING AN SME AMBASSADOR

Creating an SME "ambassador" within the business

MAINTAINING CLEAR COMMUNICATION

Maintaining clear and transparent communication

DELIVERING CLARITY

Delivering clarity around when an invoice is received and what invoice 'paid' means

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International Comparisons

In the EU poor payment practices remain a pervasive challenge for many businesses, affecting their competitiveness. In 2024, more than half of European companies reported difficulties caused by delayed payments, with average payment periods exceeding 60 days in both B2B and G2B transactions. Larger companies continue to be less likely to pay on time and an increasing number of business report accepting payment terms longer than they are comfortable with. The current economic slowdown and broader business environment are key contributing factors to this issue.

The 2025 Annual Report of the EU Payment Observatory[9] provides a comprehensive overview of these trends, examining payment performance in commercial transactions across the EU. This edition introduces a new section on payment terms, showing that longer terms are linked to longer payment periods in 87% of cases, with most companies surveyed by the European Commission supporting the introduction of a mandatory maximum payment deadline between businesses

At the national level, in 2024, more than half the companies in 17 Member States reported suffering issues as a consequence of late payments. Poland ranks highest with 72 % of its companies being affected, followed by Luxembourg and Czechia, each with 69 %, which is consistent with their poor performance in this indicator in previous years. Conversely, the Netherlands, with 31 %, and Bulgaria, with 35 %, remain, for the third consecutive year, the Member States in which the fewest companies indicate having issues due to late payments.

Elsewhere, in Japan, late payment incidence has been reduced from 25% to 12% over 18 years under proactive enforcement through the Act against Delay in Payment of Sub-contract Proceeds.[10]

9 The 2025 Annual Report of the EU Payment Observatory
10 The Enterprise Research Centre

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Key Message

The key message is that regulatory intervention to reduce late payments should be pro-actively accompanied by complementary digital initiatives such as eInvoicing, the use of Artificial Intelligence, as a complement to wider policy and legislative initiatives. This will directly benefit business and the wider economy. The conversation is particularly relevant today given the UK government's upcoming Commercial Payments Bill which relates to all UK businesses, large and small, likely to become law in 2028 and the intent to introduce mandatory eInvoicing for all VAT-registered businesses by 2029. Messaging and communication on both initiatives should be explicitly linked and coordinated.



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