

Australian Government Payments to Small Business

Performance Report 1 July 2013 – 30 June 2014

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Survey of Australian Government Payments to Small Business

This report contains the results of the sixteenth survey of Australian Government Payments to Small Business (the survey) for the period 1 July 2013 to 30 June 2014¹. The survey monitors compliance with the *Procurement On-Time Payment Policy for Small Business* (the policy). The full policy details are available through the Department of Finance, Finance Circular No. 2012/02 at: www.finance.gov.au/publications/finance-circulars/2012/docs/fc2012-02.pdf²

The key concepts of the policy are:

- For payments valued up to \$5 million (GST inclusive) to small businesses, *Financial Management and Accountability Act 1997* (FMA Act) agencies must adopt maximum payment terms 'not exceeding 30 days'.
- For written procurement contracts with small businesses valued up to \$1 million (GST inclusive), agencies must pay interest on late payments where the amount of interest accrued is more than \$10 in the following circumstances:
 - on request from the small business for payments made after 30 days (but before 60 days), from receipt of a correctly rendered invoice; and
 - via a self-generated interest payment where payments are made after 60 days from receipt of a correctly rendered invoice.

1. Payment of invoices within 30 days

The survey captures data on payment performance for each FMA Act material agency. The proportion of invoices paid on-time by number and by value were measured. On-time is defined as payments made within 30 days of receiving a correctly rendered invoice from a small business. Agency payment performance is measured against a 90 per cent benchmark in terms of number of invoices paid on-time. The survey data measures the number of invoices paid within 30 days, 31-44 days, 45-60 days and over 60 days late.

The majority of agencies identify small businesses through the standard procurement process, either through tender documentation or when a contract is entered into. Where financial systems could not separately identify small business invoices, agencies were requested to include invoices of up to \$5 million (inclusive of GST) as a proxy.

2. Late payment interest penalty

The survey gathered data on the number of requests for interest payments over \$10 for invoices paid between 31-60 days to small businesses on invoices valued up to \$1 million (inclusive of GST). The value of these late payments was collected and collated with historical survey data to measure performance over time.

¹ Rounding accounts for any apparent summation errors.

² As of 1 July 2014, this policy has been replaced by the *Supplier Pay On-Time or Pay Interest Policy*. See Policy Changes in Appendix A.

In accordance with the policy, the survey data also indicate the number and value of automatic interest payments that were made to small businesses on invoices paid after 60 days, up to \$1 million (inclusive of GST) in value, and where interest was more than \$10.

3. Appendix

Further detail on the methodology used to deal with the Machinery of Government (MoG) changes that occurred during the 2013-14 reporting period and related Government payment policies are at Appendix A.

Survey highlights

The Australian Government has conducted this survey since 2002. Since that time, there has been a significant improvement in the proportion of invoices paid within 30 days and the number of agencies meeting the 90 per cent benchmark. In 2002 only 82 per cent of invoices were paid on-time. Now in 2013-14, the Australian Government is paying over 97 per cent of invoices on-time.

The number of agencies meeting and exceeding the benchmark continues to improve from a low of 30 per cent (five out of 17) of agencies in 2002 to around 95 per cent (35 out of 37) in 2013-14. This outcome represents an achievement for the Government, particularly as the number of agencies surveyed has grown from 17 in 2002 to 37 in 2014 (see **Table 3**)

Chart 1 shows the improvement in overall on-time performance by number against the 90 per cent benchmark. The 2013-14 results (97.74) are the highest aggregated percentage of on-time payments achieved in the survey history. This is a strong result particularly given significant MoG changes that occurred over the 12-month survey period.

Chart 1: Payment performance by number of invoices from 2006-07 to 2013-14

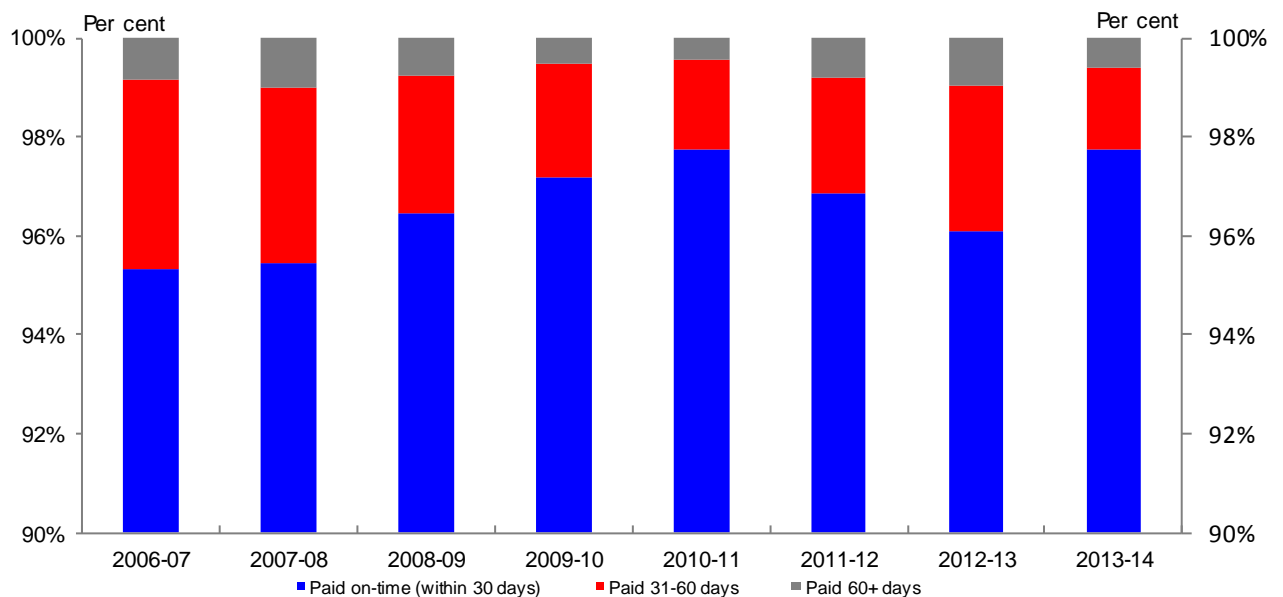
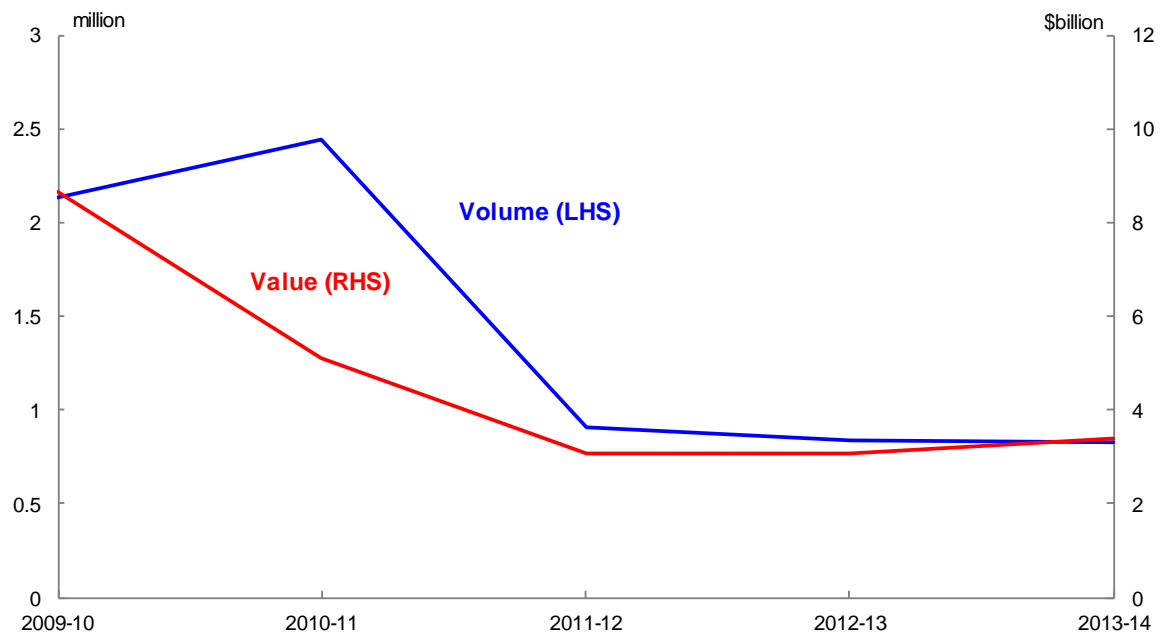


Chart 2 illustrates the value and volume of small business invoices from 2009-10 to 2013-14. There was a sharp decrease in both value and volume of invoices from 2010-11 to 2011-12 but has since remained relatively stable. This sharp decline is explained in part by a change in the reporting methods of the Department of Defence which accounts for a significant proportion of Government procurement. For the 2011-12 reporting period, the Department of Defence was able to better identify and report small business payments, thus excluding payments to larger businesses and reducing the value of payments to small business.

Chart 2: Agency payment performance in terms of invoice volume and value from 2009-10 to 2013-14



2013-14 survey results

The main findings of the 2013-14 survey that measure compliance with the 30 day element of the policy are outlined below.

- The survey reported on 37 agencies³ covering 823,033 invoices worth approximately \$3.4 billion. The average value across all invoices was \$4,108.
- By number, 97.74 per cent of invoices were paid within 30 days. In terms of value, 94.12 per cent of invoices were paid on-time (see **Table 1**).
- On-time performance in terms of the total number of invoices has increased slightly from the previous survey period from 96.11 per cent (2012-13) to 97.74 per cent (2013-14).
- Performance in terms of the total value of invoices paid on-time has also increased since the previous survey period from 92.95 per cent (2012-13) to 94.12 per cent (2013-14).

³ For the purposes of reporting, the Department of Education, Employment and Workplace Relations is excluded from this number. See Methodology.

Table 1: Aggregated agency payment performance, 2013-14

	Number of invoices	Proportion of total invoices (%)	Value of invoices (\$)	Proportion of total invoices (%)
Paid within 30 days	804,405	97.74	3,181,991,335	94.12
Paid within 31-44 days	10,435	1.27	132,457,206	3.92
Paid within 45-60 days	3,346	0.41	32,851,337	0.97
Paid after 60 days	4,847	0.59	33,502,723	0.99
Total paid late (after 30 days)	18,628	2.26	198,811,266	5.88
Total invoices	823,033		3,380,802,600	

Interest on late payments

Under the policy, small businesses can request interest for invoices paid between 31-60 days on receipt of a correctly rendered invoice for the amount of interest due. After 60 days, the agency is required to make a self-generated interest payment from receipt of a correctly rendered invoice⁴.

Penalty interest was applied to 510 invoices. Of these, 130 were requested by small businesses (31-60 days), and 380 were automatically generated by agencies (after 60 days). This is a slight increase from 2012-13 where 465 late payment interest invoices were paid (see **Table 2a** and **2b**).

The total value of interest paid on late invoices in 2013-14 was \$47,207 of which \$6,729 was paid on late invoices over 30 days and \$40,478 on late invoices paid after 60 days. Limitations with the reporting function of financial systems was the main reason for an agency having difficulty complying with the late payment penalty interest aspect of the policy.

In comparison, \$35,110 was paid in interest to small businesses in 2012-13. The average amount of interest per late invoice was higher in 2013-14 (approximately \$93) compared to 2012-13 (about \$76 per invoice). This increase can be explained by the higher number and value of interest generating invoices between 31-60 days (130 invoices valued at \$6,729 compared to 12 valued at \$3,061 in 2012-13). The increase may also be attributed to the higher value of late payment invoices automatically generated after 60 days (\$40,478 compared to \$32,049 in 2012-13).

⁴ Interest payments apply to written procurement contracts with small businesses valued up to \$1 million (GST inclusive), where the amount of interest accrued is more than \$10. See Late interest penalty.

The 2013-14 and 2012-13 results indicate the change in policy from the *Procurement 30 Day Payment Policy for Small Business* to the *Procurement On-Time Payment Policy for Small Business* has resulted in more interest being paid to small businesses. In particular, the addition of automatic interest payment after 60 days has resulted in greater interest payments to small business.

Table 2a: Interest paid on late payments from 2008-09 to 2013-14

	Number of late payment interest invoices	Amount of interest paid (\$)
2013 – 2014 (see Table 2b)	510	47,207
2012 – 2013 ⁵	465	35,110
2011 – 2012	50	21,687 ⁶
2010 – 2011	60	3,863
2009 – 2010	33	4,821
2008 – 2009 ⁷	1	30

Table 2b: Interest paid on late payments, 2013-14

	Invoices for interest on late payments 31–60 days (small business requested)	Invoices for interest on late payments over 60 days (agency generated)	Total
Number	130	380	510
Value (\$)	6,729	40,478	47,207

Credit card payments

The survey asks agencies to report on payments that were made by credit card.

Of the total 823,033 invoices, 555,722 were paid by credit card worth approximately \$219 million. The average value of a payment made by credit was \$394.

By number, the proportion of total invoices paid by credit card is 67.52 per cent. In terms of value, the proportion of total invoices paid by credit card only account for 6.47 per cent (see **Table 3**).

⁵ Introduction of *Procurement On-Time Payment Policy for Small Business* on 1 September 2012.

⁶ The large increase in late interest payments are largely attributed to three agencies for this period.

⁷ Reports approximately six months of data since the *Procurement 30 Day Payment Policy for Small Business* started on 1 December 2008.

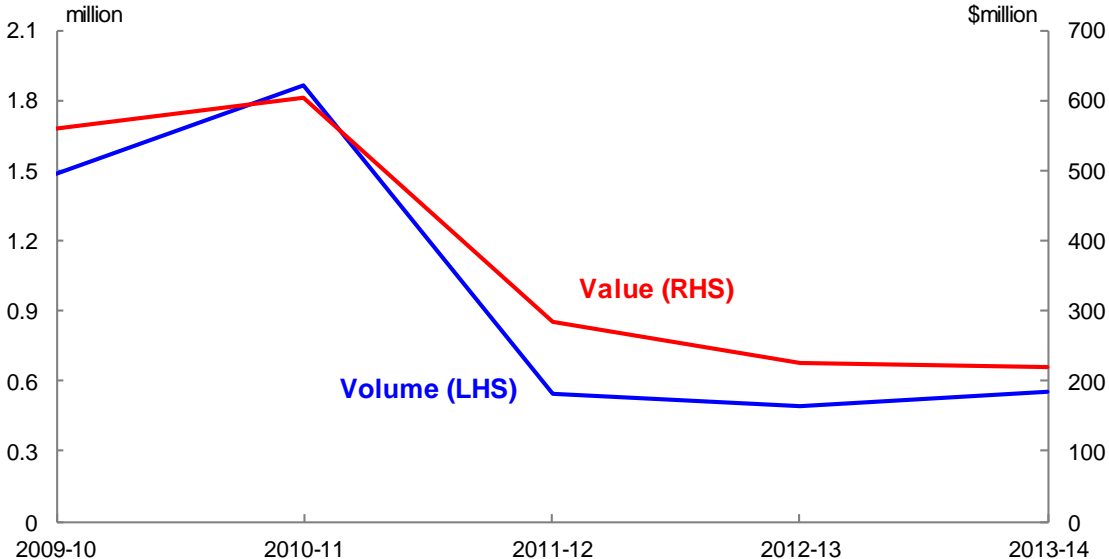
The majority of credit card payments by number (99.83 per cent of total invoices paid by credit card) and value (99.86 per cent of total value of invoices paid by credit card) were paid within 30 days. The results indicate agencies use credit card payments as a method for paying smaller value payments made upfront

Over time, credit card payments have decreased from 2010-11 in terms of value and volume but have remained fairly stable over the past three years (see **Chart 2**).

Table 3: Aggregated agency credit card payment performance, 2013-14

	Number of invoices	Proportion of total number of invoices ⁸ (%)	Value of invoices (\$)	Proportion of total value of invoices (%)
Paid within 30 days	554,796	67.41	218,417,399	6.46
Paid within 31-44 days	798	0.10	263,557	0.01
Paid within 45-60 days	98	0.01	17,243	<0.00
Paid after 60 days	30	<0.00	17,078	<0.00
Total paid late	926	0.11	297,879	0.01
Total invoices	555,722	67.52	218,715,278	6.47

Chart 2: Agency credit card payments in terms of volume and value from 2009-10 to 2013-14



⁸ See Table 1 for aggregated payment performance by number and value.

Agency performance

As previously stated, 37 FMA Act agencies participated in the 2013-14 survey.

By volume, the Department of Industry reported the highest number of invoices with 139,513. This is followed by the Department of Defence with 116,568 and the Department of Agriculture with 84,036.

In terms of value, the Australian Taxation Office reported the highest value of invoices with \$803,141,168. Australian Customs and Border Protection Service reported the next highest with \$497,866,400 followed by the Defence Materiel Organisation with \$318,594,691.

Thirty-five out of 37 agencies (94.59 per cent) met the on-time payment 90 per cent benchmark (see **Table 4**). In terms of number of on-time payments made to small business, the Attorney-General's Department paid 100 per cent of their small business invoices on-time. Conversely, two agencies failed to meet the 90 per cent benchmark. The Australian Customs and Border Protection Service had a result of 88.14 per cent and the Department of Parliamentary Services had an outcome of 86.58 per cent for (see **Table 5**).

Table 4: Agencies meeting the 90 per cent benchmark from 2002 to 2013-14

Survey Period	Number of agencies reaching the 90 per cent benchmark out of participating agencies	Percentage (%)
Jul to June 2013-14	35/37	94.59
Jul to Jun 2012-13	39/40	97.50
Jul to Jun 2011-12	39/40	97.50
Jul to Jun 2010-11	40/40	100.00
Jul to Jun 2009-10	39/41	95.12
Jul to Jun 2008-09	37/40	92.50
Jul to Jun 2007-08	32/38	84.21
Jul to Jun 2006-07 ⁹	34/39	87.18
Jul to Dec 2005	27/31	87.10
Jan to June 2005	26/31	83.87
Jul to Dec 2004	25/30	83.33
Jan to June 2004	23/31	74.19
Jul to Dec 2003	22/29	75.86

⁹ No survey was conducted in the period Jan to Jun 2006 in order to transition into financial year reporting.

Survey Period	Number of agencies reaching the 90 per cent benchmark out of participating agencies	Percentage (%)
Jan to Jun 2003	17/29	58.62
July to Dec 2002 ^{10 11}	15/27	55.55
Jan to June 2002 ^{12 13}	5/17	29.41

Table 5: Agency performance by percentage of invoices paid within 30 days, 2013-14

Agency	Percentage of invoices paid on-time by number (%)
Attorney-General's Department	100.00
Australian Communications and Media Authority	99.96
Department of Infrastructure and Regional Development	99.96
Department of Industry	99.86
National Blood Authority	99.69
Department of Defence	99.66
Department of Finance and Deregulation	99.35
Australian Federal Police	99.34
Australian Securities and Investments Commission	99.05
Department of Prime Minister and Cabinet	98.91
Australian Electoral Commission	98.75
Department of Human Services	98.66
Family Court of Australia & Federal Circuit Court	98.52
Department of Social Services	98.35
Department of the Environment	98.30
Future Fund Management Agency	98.19

¹⁰ Introduction of 90 per cent benchmark.

¹¹ Includes the participation of material agencies for the first time.

¹² Over the period 1 January 2002 to 31 December 2005 eight bi-annual surveys were conducted to monitor compliance with the *Procurement 30 Day Payment Policy for Small Business*.

¹³ This first survey was limited to Departments and did not include material agencies.

Agency	Percentage of invoices paid on-time by number (%)
National Health and Medical Research Council	98.17
National Capital Authority	98.10
National Archives of Australia	97.75
Australian Research Council	97.30
Australian Office of Financial Management	96.85
Department of Agriculture	96.81
Department of Immigration and Border Protection	96.44
Australian Bureau of Statistics	96.00
Defence Material Organisation	95.88
Department of Foreign Affairs and Trade	95.79
Australian Taxation Office	95.74
Department of the Treasury	95.55
Department of Veterans' Affairs	95.55
Austrade	95.49
Department of Health	95.31
Department of Education, Employment and Workplace Relations	94.65
Department of Education	94.26
Department of Communications	94.13
Department of Employment	94.11
Bureau of Meteorology	91.80
90 per cent benchmark	
Australian Customs and Border Protection Service	88.14
Department of Parliamentary Services	86.58

Appendix A

Methodology to deal with Machinery of Government (MoG) changes

The Australian Government Payments to Small Business Performance Report is conducted by the Small Business, Competition and Consumer Policy Division within the Treasury. The survey is sent to FMA Act material agencies each year.

At 1 July 2013, there were 40 FMA Act material agencies. From 18 September 2013, the number of FMA Act material agencies was reduced to 38 as a result of the MoG changes. All FMA Act agencies participated in this year's survey, excluding the Australian Security Intelligence Organisation due to the nature of their work.

To account for the MoG changes, agencies were asked to report on current and new functions they received for the full 12 month reporting period.

The Department of Education, Employment and Workplace Relations (DEEWR) was abolished and replaced with the Department of Education and the Department of Employment as a result of MOG changes. Due to the difficulty in reporting on the separate education and employment functions prior to the MOG changes, DEEWR is reported in 2013-14 performance report until 17 October 2013. From 18 October 2013 to 30 June 2014, the Department of Employment and the Department of Education are reported as separate agencies (see **Table 5**).

Due to the change of agencies over the history of the survey, it is difficult to compare agency results across reporting periods.

Policy changes

There are a number of related Government policies in place to ensure timely payment of invoices to small business.

The *Supplier Pay On-Time or Pay Interest Policy* (Resource Management Guide No. 417) replaced the *Procurement On-Time Payment Policy for Small Business* from 1 July 2014. Under this new policy, agencies will automatically pay interest on correctly rendered and unpaid invoices after 30 days, down from the previous 60 days for contracts valued up to \$1 million (GST inclusive). Full policy details can be found at: www.finance.gov.au/publications/RMGS/pay-on-time-policy.html

From 1 July 2014, the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) replaced the FMA Act and the *Commonwealth Authorities and Companies Act 1997* (CAC Act). Details can be found at: www.finance.gov.au/resource-management/pgpa-legislation/

The *Facilitating Supplier Payment Through Payment Card* (Resource Management Guide No. 416) policy came into effect from 1 July 2014 and articulates the Government's preferred payment option for credit, debit and charge cards for eligible payments valued below \$10,000. For more detail on the policy refer to: www.finance.gov.au/publications/RMGS/credit-card-policy.html