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Department of Jobs and Small Business
By email: PaymentTimes@jobs.gov.au

Payment Times Reporting Framework

The AICM represents the interests of over 2,500 credit professionals responsible for maximising the cash flow and minimising the bad debt risk of companies in a vast array of industries.

The credit provided by our members supports businesses of all sizes and significant portion of our membership provides unsecured trade credit. Trade credit enables businesses to fund their trading and manage cashflow. Efficient access to accurate and up-to-date information is essential for credit trade credit providers to perform this function.

Poor payment times are a problem for all businesses and the broader Australian economy as payment times impact cash flow the life blood of all businesses enabling them to grow, improve efficiencies and employ more staff.

Improving payment times in Australia has been a key objective of the AICM since 2014 when it became obvious that poor payment practices of large corporations were a major driver of payment times in Australia languishing behind those of most other developed nations and many developing nations.

AICM membership comprises of a high proportion of professionals working in accounts receivable. These specialist roles manage the invoice to cash process of businesses of businesses from $20 million revenue and above. Despite our members being professionals in the collection of payments, improving payment times is an increasingly challenging prospect. The AICM recognises that these challenges are multiplied for small business.

The AICM is committed to improving payment times for small business as:

- Small businesses are generically viewed as high risk due to their susceptibility to cash flow issues. Improved payment times to small business will lead to an increase in their capacity to pay our members.
- Stronger cashflows will reduce insolvencies of small businesses. ASIC reports have shown that inadequate cash flow has been the number one cause of insolvencies for the last three years[1].
- If payment practices of large businesses are improved with small business these practices are likely to flow to all businesses.
- The culture of slow payment times in Australia needs to change to ensure strength and stability of our economy in future economic down turns.

The AICM strongly supports a requirement for large businesses to publish payment information, to shine a light on poor payment practices, and allow all businesses to understand the cash flow implications of transacting with these entities. We also believe this will go a long way to changing the culture around payment times in Australia.

Our firm recommendation is that in addition to a focus on payment times to small business payment times generally should be a core focus of the proposed framework. A framework that encourages improved payment times throughout the business community will lead to significantly more benefits for the broader Australian economy and supply chains.

[1]https://asic.gov.au/about-asic/news-centre/find-a-media-release/2018-releases/18-342mr-asic-reports-on-corporate-insolvencies-2017-18/

In response to the discussion paper we provide the following feedback:

Key Design Questions for the Framework

1. What should be the Scope of the Payment Times Reporting Framework

The AICM strongly advocates for the framework to encompass large organisations' treatment of all suppliers and supports the statement in the discussion paper that "reporting on the treatment of all suppliers would provide some insight into these supply chain payment practices."

The challenges small business face with poor payment practices are replicated by large businesses. Many large businesses are prevented from paying small business quicker due to the delays they face in receiving payments from their suppliers. While there is a significant benefit to encourage all large businesses to pay small businesses many large businesses are also reliant on the payment times in order to pay small businesses on-time.

If there is a lack of focus on payment times generally and large businesses are unable to extract better payment times from their large business customers these businesses may need to incur additional finance costs in order to meet best practice payment times with their small business suppliers.

A framework that encourages best practice payments between all business will deliver sustainable and significantly higher benefit to small businesses and therefore the broader economy.

Additionally, the AICM believes that the framework should also consider requiring reporting on accounts receivable times of large corporations which will add significant clarity to the payment practices. For example, payment times of 60 days may not be deemed as such poor practice if accounts receivable times are within 5 days of this. However, if accounts receivable times are significantly less it can be seen that the large corporation is receiving an advantage over its suppliers.

The monitoring and reporting of receivables is common practice amongst large corporations in order to manage the associated risk, therefore reporting entities will be able to easily comply with this requirement.

The AICM's preference is a segmented approach to reporting based on payment times to small business, other businesses and all business. However, considering the reporting and definition challenges may make this requirement burdensome and prone to error.

Defining small business

The AICM prefers the approach of specifying a turnover and/or employee definition for all large organisations rather than other approaches.

However, we note the complexity of this approach considering the multiple revenue or employee thresholds that exist to define a small business and there is no efficient way to verify these factors.

The expenditure model may lead to benefits for all size organisations including large organisations that fall within the thresholds but will not provide a true reflection of payment times to small businesses.

The above comments also apply to the proposal of allowing the reporting entities to provide their own definition. Additionally, without standardised definition comparison cannot be made regarding payment times.

2. Which entities will be obligated to report?

With the reporting threshold of annual turnover being set at $100 million it is the AICM's view that all types of corporate entities should be required to report including trading trusts, charities and not for profits as all of these entities are highly likely to be engaging with multiple suppliers and/or with suppliers that have significant exposure to their payment practices.

A defence to non-compliance penalties may be established or application for exemption requested by entities that do not engage more than a certain threshold number of suppliers annually. This should be very low recognising the capacity of these entities to comply and maintain good payment practices.

Consolidated groups

The framework should require reporting by each entity that triggers the threshold and any consolidated group that triggers reporting requirements, to expand:

- Suppliers contract with a specific legal entity and therefore the payment times of that entity is relevant to their purposes, more so than the aggregated consolidated group.
- Consolidated groups that trigger the threshold should also report in aggregate considering:
    - This will incorporate the payment times of smaller entities not required to report. Potentially these smaller non-reporting entities should still be recorded in the framework so that enquires can be directed to the parent entity.
    - Suppliers to the controlled but non-reporting entities will have visibility to the payment practices of the consolidated group.
    - The consolidated groups payment in aggregate are relevant to suppliers to the whole or majority of the entity as well as providing some understanding of expected payment times for suppliers to smaller entities.

3. What information should be reported

Determining the information fields to be reported on

The AICM believes it is very valuable to have additional company and payment related information available in the same place as payment time information as this will enable users quick and efficient access. While this this may create duplication for reporting entities where information exists in other forms e.g. ASIC filings or company websites the AICM does not expect this will exceed the benefits.

Descriptive information

The AICM strongly supports the mandatory reporting of:

- ABN*
- ACN*
- Company name*
- Trading names*
- Subsidiaries/controlled entities
- Primary industry
- Annual turnover
- Date published,
- Reporting period,
- Date assured, and by whom it was assured

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Considering this information may be relied on by many parties it is recommended that where possible data, such as those marked with *, be verified or prepopulated with reference to other government databases.

All other data proposed (i.e. segmentation, supply chain descriptive information and a narrative field to contextualise results) will be beneficial to suppliers but believes it is appropriate that these fields should be optional. Reporting entities may be encouraged to submit this information to contextualise their results. For example, a business with high payment times may contextualise this by showing that they are in the construction sector and providing narrative such as "standard payment times are XX days for small business and XX days for all businesses our actual payment times are a result of a small number of contracts where agreed terms are in excess of these".

Additionally, the AICM supports the inclusion of actual documents or at a minimum hyperlink to dispute resolution processes and invoicing requirements. Locating this information in a standard central place will enable suppliers to self-serve by ensuring they have complied with their customers' requirements and are able to escalate payment issues in a way that allows the organisation to address most efficiently. This recommendation is sourced directly from our members who report that accessing accurate information is challenging and many large organisations do not adequately resource the accounts payable functions to handle even routine enquiries.

To better understand the value of the initiative to the economy, requiring reporting entities to disclose the value of supplies with extended payment times and the associated number of invoices will allow a calculation of the benefit of faster payment times and accurate quantification of the value of trade credit in Australia, a figure that is currently not available to the AICM's knowledge.

Standard terms

The AICM supports the use and reporting of standard payment times as defined in the discussion document.

The AICM does not support the use of the following terms due to the fact they align with poor payment practices and incorporation in the framework indirectly validates the use of these terms far outweighing benefits of including:

- **End of month (EOM)** as commencing time to pay from the end of the month in which invoices are received can mislead suppliers and is generally not required in today's modern businesses. In days gone past it may have been necessary to batch process all invoice especially when payment was made manually by cheque and post. Today payments can be processed and authorised digitally 24/7.
- **Discounting for on-time payment**: The AICM is strongly opposed to organisations requesting or requiring discounts for on-time or early payment centred on the fact that a direct charge is not levied for credit sales in fact large organisations generally obtain discounts on the standard "cash" price. Further, large corporations are generally the setter of payment times or have the power to set payment times therefore obtaining a discount for prompt payment further benefits them over the small business.
- **Supply chain and /or loan financing:** Suppliers should not bear the cost of financing their customers working capital.

The AICM considers the following terms worthy of incorporation:

- **Late payment interest** – Following from the example set by the Commonwealth governments pay on time policy[2] it would be appropriate for the framework to consider encouraging this practice.
- **Maximum Standard Payment times** – Reporting maximum payment standard payment times will allow business to plan for expected cashflows of the organisation.

[2] https://www.finance.gov.au/resource-management/spending/pay-on-time-policy/additional-information/

Performance data

Performance data must be more granular than average or median number of days as this does not significantly improve on the information currently available through reference to annual financial reports.

It is the AICM's position that the government should legislate maximum payment times not exceeding 30 days or as specified in approved industry standards or codes.

In absence of a legislated maximum payment time the AICM supports the use of a performance measure based on the proportion of invoices paid within 30 days (in line with the BCA Supplier Payment Code) but to be substituted with a legislated a maximum payment time, or an industry standard or code with that code defined and hyperlinked.

Reportable invoices

Considering the driver of this initiative is to encourage improved payment practices and AICM members report that many large corporations do not allocate sufficient resources to manage the accounts payable function let alone disputed, incorrect and lost invoices the AICM strongly encourage the inclusion of these invoices in reporting.

Inclusion of these invoices and the potential for them to adversely affect the metric will play a highly valuable role in encouraging large organisations to ensure their organisation has appropriate procedures and resources to address these issues.

To illustrate this point the AICM is aware of a large multi-national organisation which in response to complaints from suppliers set KPI's for processing invoices, while the team met these KPI's without fail complaints escalated. On investigation it was revealed a rejected invoice would be marked as processed therefore at the end of the day if staff hadn't reached the KPI they would reject invoices until it was reached, further there was no process to advise the supplier of the rejection, so payment times escalated.

Reportable days

The AICM supports the use of a standard definition of days to pay to ensure entities report on a like-for-like basis and strongly encourages the use of the actual invoice date rather than any date determined by the supplier.

This position reflects the understanding that invoices are produced at a time agreed or according to industry practice and generally after costs have been incurred by the supplier. To allow time to payment to be determined by the large organisation further favours the large corporation to the determent of the supplier.

Further, a metric that doesn't reflect the time frame suppliers are able to independently calculate is not efficient for either when time is spent following up payments before the large corporations deems payment due.

It is acknowledged that this may be contrary to current practice of large corporations however it is a change that will have significant benefits to all parties involved.

Specifically allowing days to pay to be calculated by the large corporation is a significant factor in the issues suppliers currently face. The discussion paper sites the use of "end of the month in which the business's accounting department logs an invoice (EOM)" as an example that allows large corporations to gain extended payment terms, the AICM is aware of much more convoluted rules for determining payment due dates. One large corporation deems payments made well in excess of agreed 30-day terms as being made on-time due to very complex payment practices best summarised as:

- A widget supplier delivers on 15 January
- The widget is receipted into store on 2 February
- Payment falls due on 30 March (30 days after end of month in which goods receipted into store)

- But payment not being made until 15 April as the last payment run was on 29 March, despite other payment runs being made daily.

4. How should entities report

The AICM strongly advocates for a centralised model for the following reasons:

- Ease of access for users
- Efficient controls will add integrity to the information e.g. preventing a large corporation displaying aged information as if was current.
- Potential reduction of governments costs to monitor compliance as all data would be in a central location.
- Uniformity of presentation will be very valuable to users.
- Integration of the data into credit reports, a centralised model will allow for the possibility of the information to be made available to credit reporting bureaus (CRBs).

The government costs could be partially recovered by licencing access to CRBs and data innovators.

Reporting frequency

In the AICM's opinion, requiring qualifying entities to report six monthly, in line with on their financial year would be sufficient to ensure relevance of the information provided this is accompanied with information such as the date submitted and the date range it relates to.

The time frame for reporting after the end of the reporting period, should be no more than 1 month to ensure relevance of the data.

5. How should the framework be administered

Legislative basis of the framework

The AICM is in favour of the reporting requirements being primarily contained in legislation rather than regulation. However, we acknowledge that as many of the factors such as definitions of small business and best practices around payment times are subject to change, these elements may be best addressed through regulation.

The use of non-binding instruments such as industry codes is a concern for the AICM as many suppliers operate across industries and are not able to effectively influence the standards set by these codes.

The power to publish information

The framework will only be effective if information is publicly available and easily accessible so as to shine a light on payment practices, good and bad.

Allowing access to the information by the credit reporting bureaus such as Equifax, illion and other technology providers (such as accounting software) will provide an effective mechanism of disseminating the information to suppliers. For example; suppliers that already conduct credit checks will be alerted to this information through the CRBs and small business may be presented with the information through accounting software or be further motivated to conduct credit checks. These CRBs and technology providers will also be motivated to educate the users of the availability and value of this information both through their services and free platforms.

The power to monitor and assure data collected under the framework

The AICM's view is that monitoring and compelling entities to report is essential.

While large corporates with good payment practices may be motivated to report for the reputational benefits, the uptake of the BCA's Supplier Payment Code and the ASBFEO's National Payment Transparency Register show that this will not be anywhere near the population of entities required to report and especially not the entities with poor payment practices. If the uptake of the measure is not rapid and thorough it will fail to achieve its objectives.

Suppliers including AICM's members could play a role in targeting the compliance activities through reporting qualifying entities who are not reporting and/or whose current practices do not reflect those reported.

Effective compliance and assurance activities of the administrator are an effective use of government/taxpayer funds where the outcome of the activities highlight poor payment practices and lead to the improvement of payment times.

The power to enforce compliance with the framework

The AICM believes enforcement powers are essential to ensure entities with poor payment practices comply and therefore encouraged to improve their practices.

In the AICM's opinion any transition period should be minimal and mainly tied to any testing or practical considerations of the framework rather than the willingness or capacity of reporting entities to comply. This view is based on the fact that the qualifying entities have been on notice to improve their payment practices due to the actions of numerous parties including the Commonwealth Government, State Governments, the ASBFEO, BCA and many more. Further the cost and complexity of complying with the requirements does not receive sympathy from AICM members as these organisations continue to benefit from the free credit terms they are obtaining through poor practices.

The power to accept complaints and lead investigations into payment practices

As stated above the ability to accept and investigate complaints would be highly beneficial to achieving the goals of the framework as they will ensure the compliance activities are targeted at the entities with poor payment practices.

Further, it is the AICM's understanding that complaints received by the UK's Prompt Payment Code have resulted in good outcomes for the signatories and suppliers as vast proportion of companies do want to maintain relationships with their suppliers, so signatories have resolved any complaints extremely quickly and rectified any process issues as a result.

A key factor of a successful complaints process would be to ensure that complaints are first made directly to the reporting entity and their internal dispute resolution but are then escalated to Senior Executives with authority to resolve the complaints and ensure any systemic issues are addressed.

6. Government obligations

While the AICM commends the governments actions to be a model payer it is also aware that obtaining prompt payment from government entities remains a significant frustration for businesses of all sizes. With this in mind the AICM recommends that the data reported by government entities is set above and beyond what is required by the framework with the core data i.e. days to pay an invoice being calculated, reported and published in line with commercial entities.

Further, the additional elements and data contributed by government entities should be optional fields for commercial entities enabling these entities to demonstrate their best practice approach to payment times.

Final comment from the AICM

It is significant to note that no professional body equivalent to the AICM exists for the accounts payable profession. We note this as the establishment a professional body is likely to lead to the elevation of the accounts payable profession within businesses such that the professionals are able to recognise and advocate for best practice within their business and consideration of all stakeholders. While the AICM foresees a role in establishing such a body financial support would be required such that establishment does not diminish its ability to serve its credit management membership.

Should you have any queries arising from our submission please contact me.

Yours sincerely

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