



**Small Business
Development Corporation**

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Review Team
Payment Times Reporting Framework
Department of Jobs and Small Business
Australian Government

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To the Review Team

PAYMENT TIMES REPORTING FRAMEWORK

The Western Australian Small Business Development Corporation (SBDC) welcomes the opportunity to provide feedback on the proposed Payment Times Reporting Framework.

The SBDC is an independent statutory authority of the Government of Western Australia established to support and facilitate the growth and development of small businesses in the State¹. One of the agency's key strategic objectives is to influence the policy and regulatory environment affecting the small business sector in Western Australia. In this regard, the SBDC regularly contributes to Federal Government reviews and consultations, and collaborates with Commonwealth regulators and the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) to address national policy issues impacting small business.

The impact of late payments on small businesses

The impacts of late payments and long payment terms (hereon collectively referred to as late payments) on the cash flow and viability of small businesses is well known. Late payments can have a number of severe implications for smaller businesses including them being unable to compete for subsequent jobs, pay wages or bonuses to staff, pay suppliers and make rent or loan repayments. Additionally, there is a significant lost opportunity cost through a lack of funds (working capital) to allocate to innovation, staff training or entering new markets. A lack of cash flow has been identified as being the leading cause of business insolvency in Australia^{2,3}.

¹ This submission outlines the views of the SBDC and does not necessarily represent the views of the Western Australian Government.

² ASBFEO 2017, *Payment times and practices inquiry – final report*, Government of Australia, Available from: <https://www.asbfeo.gov.au/inquiries/payment-times-and-practices>

A survey of 1,500 small businesses conducted by the Bankwest Curtin Economics Centre (BCEC) for its May 2017 report on the sector in Western Australia⁴ revealed that “more than half of small businesses in Western Australia face late payments from larger businesses in return for their products and services, with one in five small businesses facing payment delays of a month or more.”

In comparison to over 80 other countries, the report found⁵ that “Australian small and medium enterprises fare the worst among all the countries, experiencing delays in payment of invoices of 26.4 days on average.” The BCEC report concluded that ⁶:

Late payment is a huge problem for small businesses in Western Australia, and adds significantly to the financial stresses they face on a daily basis in maintaining and growing their businesses. The practice of late payments creates unnecessary hardship for small business owners, especially in such difficult economic times, and should be eradicated.

According to the ASBFEO⁷, “Overseas jurisdictions have demonstrated that faster payments through supply chains will free up cash flow and stimulate investment, jobs and growth.” By way of example, research by the Harvard Business School⁸ suggests that accelerated payment times in the United States have led to employment growth in small businesses. The research found that firms that are paid within 15 days increased their payroll on average by 10 cents for each accelerated dollar (all other things being equal). Two-thirds of the effect came from an increase in new hires and the balance from an increase in earnings.

The proposed Payment Times Reporting Framework

Whilst a number of large corporations have signed up to the Business Council of Australia’s voluntary *Australian Supplier Payment Code*, late payments remains a major issue for Australian businesses. Given its very low take-up to date, clearly the existence of this code and leaving it up to corporate Australia to improve the situation is not enough and further intervention is required.

The announcement then by the Prime Minister on 21 November 2018 that the Federal Government would develop a mandatory scheme for large businesses to report on their payment terms and practices is particularly welcomed by the SBDC. Increasing transparency and accountability in the payment practices of corporate Australia will hopefully lead to cultural change ‘down the line’ over the coming years. Coupled with an increased commitment by the Federal and State Governments (most notably the NSW Government) to more promptly pay smaller suppliers, these developments are likely to greatly influence more broadly across the economy to reverse the trend of late payments.

³ Elmas, M 2018, ‘Why companies go broke: ASIC data reveals pain for food and accommodation businesses’, *SmartCompany* 15 November. Available from: <https://www.smartcompany.com.au/finance/cashflow/why-companies-go-broke-asic/>

⁴ BCEC, “The Engine Room for Growth? The Role, Performance and Future Prospects of Small Business in Western Australia”, May 2017, http://bcec.edu.au/assets/BCEC-Engine-Room-for-Growth-Small-Business-Report-2017_web.pdf (pg.124)

⁵ *Ibid* (pg.89)

⁶ *Ibid* (pg.124)

⁷ Inside Small Business, “Payment times improve but more needs to be done”, 25 August 2017, <https://insidesmallbusiness.com.au/planning-management/payment-times-improve-but-more-needs-to-be-done>

⁸ Harvard Business School, “Can Paying Firms Quicker Affect Aggregate Employment? – Working Paper 17-004”, July 2016, <http://hbswk.hbs.edu/item/can-paying-firms-quicker-affect-aggregate-employment>

The publishing of this data is likely to substantially enhance transparency and enable the development of a comprehensive picture of the payment times landscape. This is important for a number of reasons.

Firstly, small business suppliers will be able to use the data to assess whether or not they want to deal with a particular company. Secondly, access to this information will allow business representative groups, Small Business Commissioners and the media to clearly see which businesses are responsible for late payments, and enable these groups to publicly advocate for improved behaviour. Thirdly, the Federal Government will be able to use the information to make an informed decision about whether there should be a move to mandating maximum payment times if the situation doesn't improve. Lastly, public access to payment data may improve payment practices within large businesses through increased shareholder pressure to demonstrate their sustainability and reputational credibility.

The SBDC appreciated participating in an industry consultation hosted by the Department of Jobs and Small Business in Perth on 19 February 2019. We have subsequently developed a view on a number of the components of the Payment Times Reporting Framework presented in the discussion paper, as outlined below.

| Framework component | SBDC Comments |
|-------------------------|--|
| Scope | <p>The SBDC supports the requirement for all large business entities with an annual turnover above \$100 million to be required to report under the framework, regardless of whether they are incorporated, a subsidiary of another company or independent. All entities that operate in Australia, whether they are Australian or foreign owned, should be in scope.</p> <p>These entities should be required to report on the payment of invoices to all suppliers, regardless of size. The introduction of the reporting framework is about improving transparency, with late payments impacting businesses of all sizes up and down the supply chain. This approach also overcomes the complexities associated with identifying which suppliers are 'small'. There would of course be nothing stopping large entities breaking down this data by supplier size to bolster their better practice payment credentials.</p> |
| Descriptive information | <p>The SBDC supports the requirement for large businesses to report on the following information:</p> <ul style="list-style-type: none"> • Standard payment terms offered to suppliers, including payment times and when payment is calculated (i.e. end of month or net, from receipt of invoice etc.) • Whether the business seeks discounts from suppliers for reduced payment times or paying on time • Whether the business offers short-term supplier financing • Performance data to include: average number of payment days as well as number of payments below 10 days, 30 days, 60 days, 90 days and 120 days. This data should also be categorised according to the value of invoices. |
| Reportable invoices | <p>Given the aim of the framework is to increase transparency of payment information, the SBDC supports the inclusion of all invoices regardless of value, including those that have been disputed or lost.</p> |

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| Reportable days | To ensure comparability of data, the SBDC supports the proposal for the framework to have a standard definition of days to pay whereby payment times are recorded from the day the goods or invoice are first received to the date the payment is made. |
| Reporting mechanism | The discussion paper addresses the benefits and drawbacks of a decentralised versus centralised reporting mechanism for the framework. While it would result in additional costs for the Federal Government and those required to report, the SBDC believes that a centralised model represents the best way to capture quality, timely data that can be analysed accordingly. Ideally, this information should be submitted bi-annually. The SBDC understands that the ASBFEO has indicated a willingness to take on the job of managing the payment times register ⁹ . |
| Government obligations | The SBDC is not overly supportive of including data from Federal Government agencies into the framework as they already have payment obligations to their small suppliers. However, the SBDC sees some merit in aligning the fields used in the Pay-on-Time Survey to the Payment Times Reporting Framework to enable easier comparison of the payment practices of the government versus non-government sectors. This should be reviewed in future to assess where there is a need to combine the reporting schemes. |


Concluding remarks

The SBDC applauds the Federal Government for taking seriously the issue of late payments on small businesses, and recognises that the proposed Payment Times Reporting Framework seeks to improve payment practices through improved transparency of payment performance information.

In light of the various reports and findings into late payments, and given the importance of small businesses in terms of economic diversity, employment generation and innovation, it is good to see that national action is being taken to improve this blight on Australian corporate culture.

The SBDC would welcome further engagement with the Review Team throughout the development of the framework. For further information on this submission, please contact Ms Lauren Westcott, Senior Policy and Advocacy Officer, on (08) 6552 3307 or at lauren.westcott@smallbusiness.wa.gov.au.

Yours sincerely



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SMALL BUSINESS COMMISSIONER

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⁹ Elmas, M 2019, 'Have your say: How should the government regulate late payment times?', *SmartCompany* 14 February. Available from: <https://www.smartcompany.com.au/finance/cashflow/late-payment-times-reporting/>