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Department of Jobs and Small Business

By email: [PaymentTimes@jobs.gov.au](mailto:PaymentTimes@jobs.gov.au)

## **Payment Times Reporting Framework (Stage 2)**

The Australian Institute of Credit Management (AICM) represents the interests of over 2,600 credit professionals responsible for maximising the cash flow and minimising the bad debt risk of companies across all industries.

Our members and affiliates are the custodians of their businesses cashflows. Improving payment times in Australia is core to our mission as our members are the custodians of businesses cashflows.

Strong cashflow driven by prompt payment practices fuels a multiplier effect enabling all businesses to pay promptly, make capital investments with less reliance on finance, employ more staff and/or provide confidence to innovate that again creates additional benefits throughout the economy.

The AICM has been a long-time advocate for the implementation of a scheme similar to the United Kingdom's Prompt Payment Code (PPC) administered by our sister organisation the Chartered Institute of Credit Management (CICM). This scheme has driven significant change in payment practices in the UK.

The AICM supports the Payment Times Reporting Framework (PTRF) initiative as a steppingstone toward improving payment times and resetting Australia's current poor culture on payment times.

A key focus of our submission is that the PTRF would achieve its intended outcomes for small business plus additional benefits for the broader Australian Economy by following the example of the United Kingdom's Prompt Payment Code (PPC) and the United Kingdom's payment times reporting scheme by not limiting the scope to payments between large and small businesses but requiring large businesses to report on payment times to all businesses.

In response to the questions raised in the November 2019 discussion paper we provide the following feedback:

**Question 3. What information should be included on payment terms in the PTRF? For example, could we consider an approach similar to the UK model?**

A fundamental reason for payment delays are invoices not being presented in the required format or omitting information required for payment. For example, there has been a recent growth in businesses requiring supplier declarations relating to the modern slavery scheme, anti-bribery and matters of best practice and good corporate governance.

Ensuring small businesses are aware of these requirements will provide a significant improvement in their ability to obtain prompt payment.

AICM members invest significant effort ensuring their invoices comply with large businesses invoicing requirements. Therefore, the AICM strongly recommends reporting entities are required to provide information relating to their invoicing requirements is in line with the requirements of the PPC<sup>1</sup> which requires signatories to:

- provide suppliers with clear and easily accessible guidance on payment procedures
- ensuring there is a system for dealing with complaints and disputes which is communicated to suppliers

This information should be recorded directly on the portal and not links or references to websites. AICM members report that while many large businesses do publish this information on websites it is often hard to find, missing or out of date.

An additional benefit of including this information within the framework is that disputes and non-compliance complaints would be minimised and/or efficiently resolved.

**Question 4. What are the positive and negative effects of identifying small businesses? If there are negative effects, how could they be mitigated?**

The AICM strongly advocates for the framework to be implemented irrespective of the supplier size.

As stated earlier both the United Kingdom's PPC and payment times reporting scheme take this approach.

**Question 5. Which approach/es do you favour for small business identification, and why?**

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<sup>1</sup> <http://www.promptpaymentcode.org.uk/>

Should the approach be to limit or segment reporting in relation to small businesses our preference is for *“c) using an expenditure threshold”*.

While this method may result in invoices from medium and large businesses also being captured, the AICM’s members attest that large and medium businesses face similar challenges as small businesses due to the imbalance in bargaining power that exists. Ensuring smaller value suppliers are paid promptly will enable them to pay their downstream small business suppliers promptly and harness other benefits of improved cashflow including the ability to invest, employ more staff or increase wages.

The AICM strongly believes that these benefits will offset any reduction in incentive for large businesses to offer preferential payment times to small businesses. Further, an incentive to provide preferential payment times to small businesses would be maintained by aggregate payment time performance being reduced when the business identifies small businesses (by a method appropriate for their business) and paying these entities on significantly reduced time frames. For example, the large business pays all suppliers under the expenditure threshold on 20 day terms and identified small businesses on 5 day terms thereby ensuring the aggregate payment time below 20 days.

In relation to the other listed alternatives:

*a) large businesses identifying their small business suppliers*

The AICM believes similar benefits as those identified under the expenditure model could be achieved under this model by allowing large businesses to report on their payment times irrespective of business size to eliminate cost/complexity of identifying small businesses. This will therefore result in a broader improvement in payment practices driving more significant benefits to the broader economy.

Where large business suppliers are identified these could be excluded from reporting on an exception basis. Further, the AICM suggests this exemption is only permitted where payment times have been mutually accepted ensuring both parties have agreed to non-standard payment times and the large business has not taken advantage of a superior bargaining power.

*b) developing a public small business register and d) confidentially identifying small business suppliers using government or third party data*

The AICM supports the implementation of mechanisms to identify small businesses and recommends this may be most effectively implemented and beneficial if integrated with information contained in the ASIC and ABN databases, therefore best explored post completion of the current Modernisation of Business Registers initiative.

Additionally, the AICM believes that the imprecise nature of identifying small businesses has an indirect benefit of improving boarder payment culture in Australia, for example unfair contracts legislation extension to small business resulted in contracts with large and medium businesses complying with the legislation not just small businesses as detailed in the legislation.

**Question 7. What are the advantages and disadvantages of reporting at a group or entity level?**

Reporting at entity level will reinforce the importance of small business suppliers identifying the entity they are trading with. This benefit of this should not be underestimated as correct identify verification reduces credit risk and broader benefits such as improving small businesses access to security afforded by perfected Personal Properties Securities registrations.

**Question 11. Should the PTRF central publication portal include information on trends over time or provide information to allow comparisons by industry and location?**

The ability to report on trends will be highly valued by stakeholders and maximise the benefits of the framework.

Publication of trends in mainstream and industry publications will contribute significantly to small business awareness of the PTRF, thereby significantly justifying investment in establishing the mechanisms for reporting the trends.

Additionally, the AICM advocates for information providers to be provided access to the information for purposes of aggregating this information into credit reports and accounting systems. This will have the benefit of ensuring small businesses are able to efficiently access the information and enable informed credit decisions.

**Question 15. What are your views on the above categories of expenditure?**

The primary consideration for inclusion of expenditure should be whether the large business has taken advantage of extended payment times i.e. anything other than payment on or before receipt of the goods or services should require inclusion.

In regard to the specific categories:

- Types of payment – The method of payment should not enable businesses to avoid reporting, for example many businesses pay large supplies by credit card.

- Types of payees – All payments to entities outside the control of the reporting entity should be included.
- Types of purchases - The type of purchase should not influence reporting and payment practices as payment delays have significant financial consequences and (especially for small business) can impact on physical and mental health.
- Size of payments – Omitting small value transactions is not recommended as inclusion of these items will ensure large businesses are as focused at processing these transactions.

AICM members can attest that one missed payment of a small value invoice (especially when amongst a series of invoices) can create similar pain points as missed payment of a large invoice. Pain points include time spent reconciling transactions, allocation of payments and chasing the large business for payment.

#### **Question 16 What are your views on the two options to determine the start of the payment period? Are there others?**

The AICM believes that invoice date will provide the most appropriate date to start the payment period and provide a calculation that can be replicated and verified by all stakeholders.

The disadvantage of potential delays in transmission are minimal considering the pending take up of e-Invoicing and the proliferation of PDF emailed invoices. Further large businesses will be incentivised to expediently process invoices received and provide clear invoice requirements detailing transmission requirements.

Additionally, in our members experience, date received gives rise to an incentive/opportunity for administration staff to manipulate the date in order to meet KPI's related to processing times. This circumstance has been reported repeatedly by AICM members.

In response to additional points raised in the November 2019 discussion paper we provide the following feedback:

- **What approach to compliance should be adopted?**

A key driver to the success of the Framework will be ensuring reporting is viewed as a key part of corporate governance. Therefore, a tiered approach where repeated civil offences

and poor payment practices result in criminal sanctions for senior managers and/or directors may be a balanced and effective approach.

- **Mechanisms to ensure accurate information is reported**

The AICM expects that suppliers will be best placed to identify when information reported is not accurate, therefore a simple and clear complaints procedure would be an effective way for targeting compliance activities.

- **Additional suggestion related to compliance**

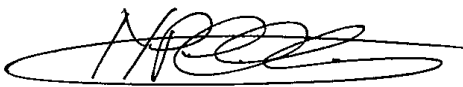
As suppliers, not just small business suppliers, are naturally hesitant to lodge complaints related to poor payment practices, incorporating a “help function” may be effective in improving outcomes for all.

The help function could be available to suppliers that have already followed the large businesses disputes or escalation procedures and enable the non-payment or serial late payment of compliant invoices to be forwarded by the PTRF administrator to the large company for resolution prior to an official complaint.

While the AICM has not seen this type of process elsewhere it is a result of reports from the CICM that PPC complaints have been very low and all complaints were resolved very promptly once escalated to the signatory.

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

Yours sincerely



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