



Xero Submission

Payment Times Reporting Amendment Bill 2024

29 April 2024

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Government Response and Reform Unit
Small and Family Business Division
Treasury
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Xero submission to the Payment Time Reporting Amendment Bill 2024

The role of Xero is to make life better for people in small business and their advisors. Therefore, our role is to act in the best interests of small business and on that basis **Xero welcomes the opportunity to submit in support of the Payment Times Reporting Amendment Bill 2024** (Amendment Bill). We provide our feedback based on our experience as a technology company solving problems for small businesses including invoicing and eInvoicing, and as a business required to submit payment information under the Amendment Bill.

Given the importance that small business plays in the Australian economy, we are encouraged that the Government is proposing the Amendment Bill to ensure the principles of equity and transparency regarding business-to-business payment terms and practices in Australia. It is critical the Government and industry has an accurate understanding of the payment behaviour from big business to its small business suppliers.

Additionally, as per the recommendations of both the Review and the Government Response to the Review in 2023 regarding the effectiveness of the Payment Times Reporting Act, **Xero is looking for definitive traction on the Government's strategy to increase the uptake of eInvoicing to improve business payment practices in Australia.**

Xero welcomes the opportunity to provide feedback on the proposed amendments and small business payment times. Should you wish to discuss our submission further please contact Xero's Head of Government Experience for APAC, Maureena van der Lem (maureena.vanderlem@xero.com).

Yours sincerely,



Anthony Drury
Xero Managing Director - Australia and New Zealand



1. Introduction

1.1. About Xero

1.2. Xero is an ASX50 company with over 3.95 million subscribers globally and is Australia's leading provider of cloud accounting software for small businesses, existing to make life easier for our customers. Our software makes running a business simple, using technology to streamline previously manual tasks including invoicing, quoting, reconciling transactions, paying employees, expense management, project management and complying with Australian Taxation Office (ATO) obligations, among others. For tasks outside our core offering, Xero's ecosystem of over 1,000 cloud-based applications connects businesses with the digital tools to optimise their operations. These apps for example allow a business to connect point of sale software, simplify invoice payment, forecast cash flow and optimise inventory management.

1.3. Business Payments Practices

- 1.4. Small businesses often struggle to get hold of the money they are owed. Adequate cash flow and reserves are crucial for having a viable and sustainable business. Elongated payment terms and late payments, as a business practice, have largely remained unregulated in Australia until the Payment Time Reporting Act (the Act) was introduced in 2021. Unfortunately, the additional transparency of the Act has not had its desired effect. We are hopeful that the Amendment Bill will enhance payment times for small businesses and **Xero supports the proposed amendments.**
- 1.5. As Woolworths noted in their recent submission for the six months ending 31 December 2022, Woolworths paid 98 percent of small supplier invoices (by volume) on time - a 25 percent improvement from the numbers first reported to the Payment Times Reporting Scheme in the first half of 2021.¹ Woolworths notes its improved payment times performance was enabled by the investment and implementation of eInvoicing.
- 1.6. Woolworths' experience demonstrates that eInvoicing has the potential to improve Australia's invoicing infrastructure. Increased eInvoicing adoption would shine a light on poor payment practices of big businesses. While industry stakeholders, such as Xero, are doing what is possible to drive the initiative forward, we are looking for definitive traction on the Government's strategy to identify the most efficient and effective means to **increase the uptake of eInvoicing by small businesses** (as per recommendations of the Review and the Government Response to the Review in 2023).

¹ https://treasury.gov.au/sites/default/files/2023-08/c2023-360147_woolworths-group.pdf



2. Data insights into late payments

2.1. Xero Insight: payment times continue to be of concern in Australia

2.2. The aim of Xero Small Business Insights (XSBI) is to create insights to help inform decision makers in support of the small business economy as a whole. The principal source of small business insights is anonymised and aggregated customer data from Xero.

2.3. Our XSBI data and research indicates that late payments cause significant distress for Australian small businesses, as those that receive the majority (60 to 80 percent) of their payments late, experienced 17 percent more cash flow crunches when compared with small businesses that were usually paid on time.²

2.4. With regard to our most recent XSBI data, the average length of time small businesses wait to be paid was 22.6 days as per March-end quarter 2024 data³. Late payments were up slightly at 6.5 days in the March 2024 quarter, compared to 6.3 days in the December 2023 quarter.⁴ While these measures were broadly stable during 2023, and have improved over time, it still highlights that small businesses are paid, on average, more than a week late.

2.5. It is worth remembering that the sample of businesses used in this analysis are all, by definition, using accounting software to help run their business. It seems a reasonable assumption that small businesses not using this type of technology to run their business will be paid even later, on average.

2.6. Additional research from Xero in 2022 highlighted that late payments are a contributor to cash flow challenges for small businesses. At the time of this research, Xero estimated that the delay **costs the small business economy in excess of \$1.1 billion annually in Australia**.⁵ This calculated cost represents, in effect, the "opportunity cost" to the small business of having the overdue payment in the debtors bank account and not available for use in the small business itself. This cost is likely to have only increased since this estimate was done, given the increase in interest rates since that time, which will add to this way of measuring the cost of late payments. Therefore, Xero is supportive of the Amendment Bill in its attempt to get legislation that will hopefully improve payment times for small businesses.

3. Realising the benefits of eInvoicing

3.1. Xero Insight: Ensure traction on eInvoicing

3.2. Despite initiatives to drive down small business payments, big businesses continue to pay their small business suppliers late. While the Amendment Bill is a one step to remedy this, Xero wants to see stronger

² [Cash flow challenges facing small businesses](#), Xero, September 2022

³ [Australia XSBI Data for March quarter 2024](#), Xero, April 2024

⁴ [Australia XSBI Data for March quarter 2024](#), Xero, April 2024

⁵ [Cash flow challenges facing small businesses](#), Xero, September 2022



government action to accelerate adoption of eInvoicing so small businesses can realise its benefits in both efficiency and payment times.

- 3.3. In Xero's view, eInvoicing (the exchange of invoices directly from the software of the seller to the software of the buyer) is the most significant trend and opportunity in the payment times policy area.
- 3.4. However, despite availability within accounting software today, uptake still remains low in Australia. Xero's research suggests the primary reasons for low adoption is a lack of awareness, misunderstanding of the benefits of eInvoicing compared to emailed invoices, and critically: a lack of other businesses to send and receive eInvoices to and from.
- 3.5. As a major provider of eInvoicing capability, Xero can see the level of eInvoicing adoption is currently inadequate to achieve the network effect required to drive sustainable adoption and reduce payment times across the economy.
- 3.6. Greater adoption of eInvoicing requires Government and industry to work together. Significant goodwill exists from big and small suppliers for eInvoicing success.
- 3.7. Xero notes that from 1 July 2022, all Australian Government agencies that were covered by a mandate are able to receive eInvoices and will pay valid eInvoices within 5 calendar days.⁶ Substantial time savings would also be derived from government agencies sending eInvoices to small businesses, especially those with a high volume of small business customers, such as ASIC. Xero urges the Government to consider expanding its eInvoicing capability from receive, to send and receive.
- 3.8. We believe that large enterprises should be able to follow the Government's eInvoicing example. Therefore, we submit that the **Government should explore measures to encourage higher rates of big business eInvoicing capability.**
- 3.9. Given the belief that driving the adoption of eInvoicing (technology available today) will remove a number of excuses for late payments to small business suppliers, **Xero is looking for definitive traction on the Government's strategy to increase the uptake of eInvoicing by small businesses** (as per recommendations of the Review and the Government Response to the Review in 2023).

⁶ <https://www.ato.gov.au/businesses-and-organisations/einvoicing/einvoicing-for-government>

