Australian Institute of
CREDIT MANAGEMENT

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Education and Employment Legislation Committee
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PAYMENT TIMES REPORTING BILL 2020

The Payment Times Reporting Bill 2020 requires several amendments to ensure it improves payment times and resets Australia's current poor culture on payment times.

Our core recommendations for improving payment practices in Australia are:

- **Address the imbalance across all business sizes**

  The effects of Australia's poor payment culture is not limited to small business suppliers.

  Our members are dedicated credit professionals who manage accounts receivable ledgers of businesses of all sizes and represent all sectors. Our members face the same challenges obtaining prompt payments from their clients as do small businesses.

  Currently the power to set payment practices is in the hands of the customer and this power distorts significantly as the market power of the organisation increases. Our members believe it should be equitable or favour the supplier who bears the costs and risk providing quasi capital to their customer base as a point of differentiation in the sales process.

  The AICM recommends the Payment Times Reporting Framework (PTRF) require reporting entities to include payment information regarding payments to all suppliers. Information relating to small businesses should remain a primary focus.

This recommendation will improve payment times to all entities (large and small) resulting in broader benefits. Benefits to small business will also increase as all entities in their supply chain are better able to pay promptly due to improved cashflow.

- **Establishing a legislated maximum payment time.**

  The AICM strongly recommends that a maximum payment time is legislated of 30 days, with scope to reduce this timeframe in the future.

  While society accepts 30 days as a reasonable payment time there is little direct incentive for businesses to meet this expectation.

  To support this recommendation, we note:

  - The federal governments practices of paying within 5-20 days is setting a standard that shifts our society to best practice. This policy aligns with adoption of technology and automation removing many outdated and inefficient manual processes that can be removed through the adoption of technical solutions enabling faster and prompt payments.

  - The implementation of the e-invoicing initiative and New Payment Platform means it's reasonable to assert that within the time frame of this legislation there will be no technical barrier to invoices of all sizes and complexity being transmitted, received, processed and paid within minutes.

  - All firms must have single touch payroll and thereby upgraded accounting systems meaning previous statements of red tape and administrative overload are no longer correct. Accounting transactions must be processed promptly with teams appropriately resourced.

  - A theoretical consequence in legislating a 30 day payment time is that business with good payment practices (i.e. less than 30 days) may delay payments.

    This argument is countered by:

    - The PTRF which will provide an incentive to meet or exceed best practice payment behaviour as entities will be recognised as a customer of choice.

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- The PTRF enables suppliers to make fully informed decisions related to risk and cost of extending credit terms and provides information relevant to pricing and setting credit limits, benefiting prompt payers.

- The economic benefits that will flow from the improved payment practices, reduction in working capital needs and the identification of those poor payers using capital that could otherwise be redeployed to firms who are working to current best practice

- Our members see the current low interest rate environment as a haven for zombie companies who don't pay their suppliers on time, continue to operate due to low interest costs while accumulating more debt, not paying tax and contributing to the economy. Prompt payments will reduce this leakage and misallocation of resource.

- **Transparency and financial consequences for non-compliance with appropriate legislated payment practices.**

  Despite prolonged focus on improving payment times and holding to account the biggest and most egregious offenders, poor payment practices persist.

  Recent late payment analysis of Equifax and illion show that payment times have deteriorated in June 2020 compounding the effects of the COVID-19 pandemic.

  Without transparency of these practices and financial consequences (such as fines, penalties and/or interest charges) short term and self-interest will prevail at the detriment of the Australian economy.

  The AICM supports the penalties prescribed by the legislation and recommends strong and frequent enforcement to rapidly reset payment culture.

- **Aligning Australian payment practices with international best practice.**

  Legislating payment times and providing transparency of payment practices aligns with initiatives implemented in similar jurisdictions namely the United Kingdom and European Union which resulted in significant benefits.

  Multiple reports have shown Australia's payment times lag behind comparable jurisdictions. In 2016 the AICM conducted a review of global payment times through discussions with similar organisations and comparisons of trusted reports. After

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adjusting for various different reporting methods it was clear that Australia's average payment times and days late were significantly worse than economies with positive economic growth and only slightly better than those with negative economic growth.

While payment times have gradually improved since 2016 this has been largely in line with economic conditions and recent reports (including the 2019 AlphaBeta report into payment times) indicate this is still a significant drain on the economy.

International experience supports our recommendations that initiatives such as the PTRF, legislated payment times and transparency should not be limited to payments between big and small businesses.

The AICM provides the following additional recommendations and comments related to the Bill.

- **Authorisation of report**

  It is AICM's members experience that the poor payment practices of many organisations is contrary to board expectations and policies, therefore strongly support the requirement for the governance structure of reporting entities to be a key participant in the submission of payment time reports.

- **Encourage acceptance of e-invoices**

  Requiring reporting of additional information could further leverage the government's leadership stance to pay e-invoices utilising the Peppol standard within 5 days.

  The AICM recommends including a related reporting requirement such as:

  - Does the reporting entity accept e-invoicing?
  - Shortest and longest payment periods for e-invoices.
  - Proportion of invoices paid using similar periods as proposed with the addition of a 1-5 days period.

  Broad adoption of e-invoicing by reporting entities will have significant benefits to small businesses as current delays caused by sending invoices to the wrong place or with missing information will be eliminated as errors will be known when an e-invoice is transmitted.

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- **Clarify payment time calculation**

  AICM members report frustration that the definition of when an invoice is received varies significantly by entity. This variation creates an inefficiency for suppliers and customers due to unnecessary reviews and queries.

  The AICM recommends clarity is provided to ensure clear definitions as to when an invoice is received being the time the time the invoice is actually received at a reasonable physical or virtual location, not when it is entered to the reporting entities system as this may involve delays outside the suppliers control.

  Below is an extreme but not uncommon example of how different definitions can cause significant inefficiencies:
    - Customer No1 Pty Ltd defines receipt as when invoice an invoice is "processed" which requires:
        - Invoices to be sent with goods to stores.
        - The stores forward the physical invoice to the central office.
        - Central office "processes" the invoice in their system and time starts.

  Due to the inherent delays and potential human error it is common for invoices not to be processed at all. Suppliers are generally not aware that invoices have not been processed despite being received until the invoice is beyond normal terms when they re-issue with additional documentation to prove delivery before the time starts. In the above example the reporting entity may calculate that the invoice was paid in 30 days but the supplier has extended 60 days credit.

  Additional examples can include changes to email addresses or processes without notice, system failures and other issues within the reporting entities control by out of the suppliers control.

  Ensuring onus is on the reporting entity for accurate timing of invoices will address the current lack of focus by many organisations to ensure these processes are robust and accurate.

The AICM encourages rapid adoption of the PTRF with incorporation of these recommendations to further support the Australian economy's recovery from COVID-19 and provide resilience to future shocks.

Should you have any queries arising from our submission I welcome and encourage you to contact me.

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Yours Sincerely

Nick Pilavidis
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Australian Institute of Credit Management