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Payment Times Reporting Act Review Secretariat
Small and Family Business Division
Treasury
Langton Cres
Parkes ACT 2600

By email: PaymentTimesReview@treasury.gov.au

RE: Statutory Review of the Payment Times Reporting Act 2020

The Australian Industry Group (Ai Group) welcomes the opportunity to provide feedback on the Payment Times Reporting Act 2020 (the Act) as part of the statutory review.

Ai Group is a peak national employer association representing and connecting thousands of businesses in a variety of industries and sectors across Australia. Our membership and affiliates include private sector employers large and small from more than 60,000 businesses employing over 1 million staff.

The Payment Times Reporting Scheme (PTRS) increases transparency around the payment performance of large businesses to small businesses. Its objectives are two-fold: to provide small businesses information when deciding on potential customers, and to drive cultural change to improve payment times.

Ai Group believes the PTRS has met its objectives. Since commencement, the scheme has collected and published over 25,000 reports from reporting entities. These provide information on their standard payment terms, payment times performance, and their provision of supply chain financing. The PTRS register allows small businesses to make more informed decisions when choosing potential customers, and provides an evidence base upon which trends in payment times can be tracked.

PTRS register data (see overleaf) reveals several industries saw a reduction in standard payments times between 2021 and 2022. Those with reduced times include construction, utilities, manufacturing, mining, transport and wholesale trade.

Ai Group also notes that the PTRS has entered into effect during an abnormal period in the Australian economy. Since the pandemic, there has been significant disruptions to supply chains both globally and within Australia. As invoice payments are the final step in supply chain management, these disruptions would be expected to hamper payments processing. Performance data collected during this will be impacted by these disruptions.

As supply chain disruptions continue to ease, we expect, ceteris paribus, that payment times will reduce to reflect these improvements.

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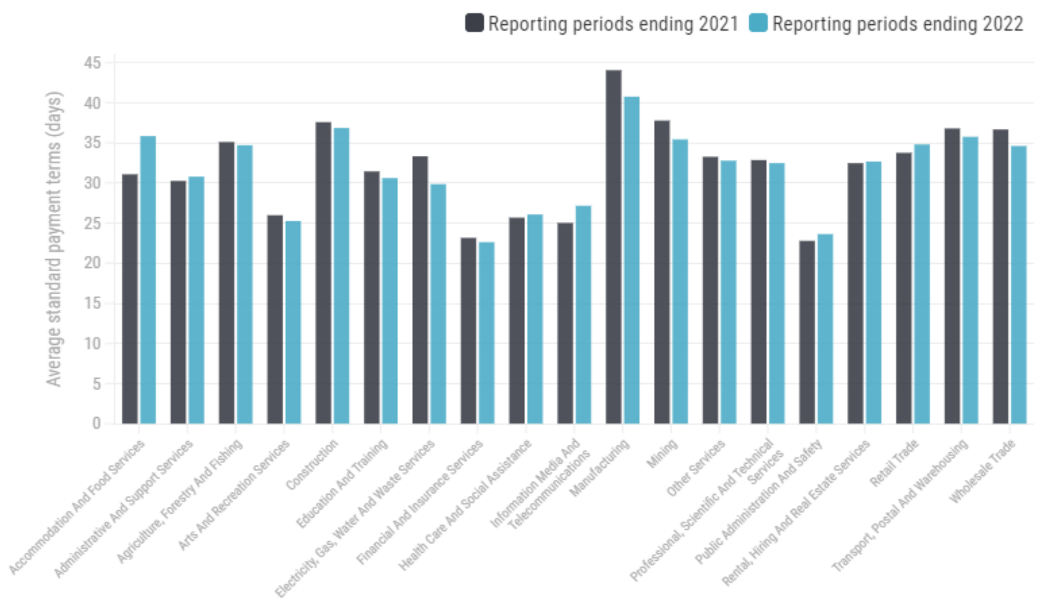
PTRS standard payment terms by industry, 2021 and 2022



Source: Payment Times Reports Register Dataset

Ai Group suggests the following principles which should inform the design of the PTRS:

1. *Focus on long-duration payments of greatest importance for small business*

Much public and regulatory discussion on the PTRS has focused on the *average standard payment terms* offered by reporting entities. In the first half of 2022 this indicator sat at 35.66 days. It has changed only minimally since commencement of the PTRS scheme[1].

However, a more appropriate policy focus would target reductions in the share of payments made on longer durations (61-90 and >90 days). From the perspective of small business, it is longer duration payments which pose the main challenge for cashflow management. An improvement in long duration payment times would provide the greatest benefit for small businesses grappling with cashflow challenges.

Ai Group suggest that a focus on PTRS activities targeted at reducing the share of long-duration payments would ensure the scheme provides the greatest impact for small businesses.

2. *Payment terms vary due to commercial structure of different industries*

Differences in the commercial structure of an industry necessitate differences in standard payment terms. In industries with greater project interdependencies – such as manufacturing, mining and construction – longer payment terms reflect the nested contractual relationships between participants in the supply chain. In more 'transactional' industries such as consumer services, invoice payment has fewer dependencies, and payment times are usually faster.

[1] Payment Times Reporting Regulatory, *Regulator's Update January 2023,* https://paymenttimes.gov.au/sites/ptrs.gov.au/files/2023-01/regulators-update202301.pdf

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These differences mean a one-size-fits-all approach is inappropriate for payment times performance measurement. What is a 'standard' payment time in one industry may be 'fast' in another due to differences in commercial structure. Performance must therefore be benchmarked in an industry-specific manner rather than to economy-wide averages to ensure appropriate comparators.

A focus on economy-wide averages – as published biannually in the *Regulator's Update* report – obscures how payment times are changing within specific industries. As the chart above demonstrates, some industries reduced their average standard payment times in 2022, while in others it increased.

Ai Group suggests that performance benchmarking data presented in the PTRS Register and *Regulator's Update* should in future be presented on an industry basis. This would provide small businesses more relevant information regarding payment time benchmarks appropriate to their industry.

3. *Support adoption of e-invoicing practices*

Manual processing of paperwork adds unnecessary time and complexity to invoice payments. Ai Group therefore welcomes the focus on e-invoicing as a means to reduce payment times. E-invoicing not only makes payment times faster, it also offers improved business administration practices in the form of reduced transaction costs[2] and better cashflow management.

Since the establishment of the PTRS, the Commonwealth has supported the adoption e-invoicing through the Business e-Invoicing Right (BER). From 1 July 2022, public sector agencies covered by mandate[3] can complete payments within 5 days if both supplier and buyer use Peppol e-invoicing.

This Commonwealth leadership not only supports the adoption of e-invoicing in "B-to-G" payments, but also encourages the wider adoption of e-invoicing practices by SMEs. This will catalyse its further use in "B-to-B" transactions.

Governmental support for the adoption of e-invoicing could be accelerated by state and local governments adopting similar practices to the Commonwealth. While many state governments have begun developing e-invoicing practices, accelerating these efforts through collaboration with the Commonwealth will aid improvements in payment times.

Ai Group notes that a separate Treasury consultation into supporting the adoption of e-invoicing was conducted in late 2021/early 2022[4]. Questions related to the promotion of "B-to-B" e-invoicing should be considered within that consultation process. We note, however, that all efforts to develop SME e-invoicing capabilities will likely support a reduction in payments times.

[2] The ATO estimates that manual invoices cost on average $27-30 to process, while e-invoices cost <$10. See https://www.ato.gov.au/business/einvoicing/what-is-einvoicing-/benefits-of-einvoicing/
[3] 100 Commonwealth agencies are currently covered by the e-invoicing mandate, with another 20 e-invoice capable. See https://www.ato.gov.au/Business/eInvoicing/eInvoicing-for-government/eInvoicing-enabled-agencies/
[4] See https://treasury.gov.au/consultation/c2021-185457

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4. Mandating and penalties

Ai Group does not support the adoption of mandated standards and/or penalties as a means to reduce payment times for small business.

Determining appropriate standards for each industry and commercial transaction presents a major challenge for mandated standards. At a minimum, mandated standards would need to be industry specific. And within industries, there are commercial differences between projects – an example in the construction sector would be the greater project and thus contractual complexity of an apartment building compared to a house. No mandatory standard could meaningfully capture appropriate payment times at the individual project level.

Mandated standards and/or penalties will also carry adverse effects for small businesses. Such a regime would create a disincentive for reporting entities to undertake commercial relationships with small businesses. This risk is particularly salient in cases where general mandated standards are not aligned to the commercial realities of specific industries and/or projects.

Should you wish to discuss the matters raised in this submission, please feel free to contact me at Louise.McGrath@aigroup.com.au

Sincerely yours,

Louise McGrath
Head of Industry Development and Policy