

13 December 2019

Mr Sean Macintyre
Small Business Financial Policy
Department of Employment, Skills, Small and Family Business
GPO Box 9880
Canberra ACT 2601

Sent via email: PaymentTimes@employment.gov.au

Dear Sean

STAGE 2 CONSULTATION PAPER – PAYMENT TIMES REPORTING FRAMEWORK

The Chamber of Minerals and Energy of Western Australia (CME) is the peak resources sector representative body in Western Australia. CME is funded by member companies responsible for more than 90 per cent of the State's mineral and energy production and employment of its workforce.

The value of royalties received from the sector totalled \$6.8 billion in 2018-19, accounting for 21 per cent of State Government's general revenue.^{1 2} The sector is a key driver of growth in local, State and Australian economies, contributing to 40 per cent of Australia's exports in value.

CME welcomes the opportunity to respond to the Department of Employment, Skills, Small and Family Business' (the Department) second stage consultation paper on the Payment Times Reporting Framework (the framework), having also provided a short letter earlier in the year outlining the sector's high level concerns.³ Efforts by the Department to visit and consult with stakeholders based in Western Australia this year are also appreciated.

Overview

CME acknowledges the importance of working capital to business and broader health of the economy, reiterating our support for fairer, faster payment times and terms for small businesses.

The Western Australian resources sector makes significant contributions to the state and national economies, as well as the regional communities where companies operate. In 2017-18, a sample of CME members directly contributed a total \$57.7 billion in payments to government, wages to employees and businesses via supply chain purchases,⁴ as well as indirectly through the sector's demonstrated commitment to corporate citizenship. CME members have voluntarily implemented procurement and payment policies to support small, local and Indigenous businesses in regional Western Australia. Members have also invested in dedicated capacity and capability building of such businesses.

A number of CME members are also voluntary signatories to the Business Council of Australia's *Supplier Payment Code* (the code), committing to pay small businesses within 30 days of receiving a correct invoice. This currently includes companies such as Alcoa, BHP, Chevron, Fortescue Metals Group, Rio Tinto, Santos, Shell, South32 and Woodside Energy. If there is discretion to deviate from standard payment terms, some members also offer lower payment terms to small, local and Indigenous businesses on a case-by-case basis.

¹ Government of Western Australia, *Annual report 2018-19*, Department of Mines, Industry Regulation and Safety, November 2019, p. 77.

² Government of Western Australia, *2018-19 Annual report on State finances*, Department of Treasury, September 2019, p. 8.

³ CME, *Payment times reporting framework*, letter to the Department of Jobs and Small Business, February 2019:
<https://cmewa.com.au/wp-content/uploads/2019/08/Payment-Times-Reporting-Framework-Submission.pdf>

⁴ CME, *2017-18 Western Australian resource sector operations – Total direct economic contribution to Australia*, May 2019:
<https://cmewa.com.au/wp-content/uploads/2019/06/Australia.pdf>

Flexibility to manage working capital, like any other industry sector, enables businesses to adjust and respond to economic shocks. Maintaining working capital requirements helps to ensure operating projects can remain viable. CME members recognise the importance of maintaining stable and financially sustainable supply chains.

In preparing this submission, CME has consulted with other industry peak bodies and in-principle supports the views of the Business Council of Australia in its representative capacity on the Industry Advisory Group for the framework's design.

Small business definition and register

CME supports establishment of a small business register, which is automatically updated each income year by the Australian Tax Office to reflect changes in eligibility as a "small business entity", i.e. an aggregated turnover less than \$10 million. Given Australia ranks poorly on the burden of institutional regulation,^{5 6 7} a readily verifiable "single source of truth" approach is preferred.

As the onus of incorrect reporting is likely to fall on large businesses, developing a small business register would reduce time spent on onerous requests such as:

- Large businesses identifying small businesses from their list of Australian suppliers, which is typically already in the hundreds and thousands;
- Small businesses being required to provide audited financial statements or tax returns to large businesses to verify their status; and/or
- Tax agents being involved to verify aggregated turnover is less than \$10 million, which is a common law definition and can be complex if connected entities and affiliates are involved.

Appreciating the development of a small business register will come at a cost, there are likely to be a number of additional flow on benefits to such an investment. This includes development of a common definition for small business, facilitating aligned reporting on local content under the *Australian Jobs Act 2013* (Cth) and the proposed *Local Jobs Bill 2019* (WA).

CME also welcomes the Government's initiative to promote e-invoicing as this will assist in reducing human input errors, ensuring timelier submitting of correct invoices. Promoting an active uptake of e-invoicing amongst small businesses should occur well before the framework's implementation.

Reducing regulatory burden

The proposed framework should align with the objectives of the Commonwealth Government's Deregulation Taskforce and State Government's Streamline WA to lower the cost of regulation and make it easier to do business. CME supports a comprehensive copy of the Consultation Regulation Impact Statement being made available for public scrutiny and restates existing reporting mechanisms should be considered where possible to minimise burden imposed.

Similar to reporting requirements under the *Workplace Gender Equality Act 2012* (Cth), CME supports a choice to report at either entity or group level. As the framework is likely to be burdensome on large businesses, offering a choice enables companies to determine if time spent by staff on compliance (non-core services) should be centralised and aligned with corporate services at the group level or not.

Currently, as part of preparing CME's Annual Economic Contribution Factsheets, members are surveyed for data on supplier payments. Despite a number of members ranking in Australia's top 2,000 (according to IBISWorld), the data CME receives suggests there may be limited capability in some accounting systems to identify specific businesses and report on the associated payment performance. The degree to which businesses will need to engage an external provider to either customise or modify their systems to record this information will vary. CME therefore recommends allowing a minimum 12-month grace

⁵ World Economic Forum, *The global competitiveness report 2019*, insight report, October 2019.

⁶ Allianz Group, *Allianz risk barometer – Top business risks for 2019*, 8th report, January 2019.

⁷ KPMG, *Australian mining risk forecast 2018*, March 2018.

period before compliance and enforcement mechanisms are enacted. Discretionary lenience for large businesses that are accredited as something similar to a “Top 1,000 Tax Performance Program” or “Australian Trusted Trader” should also be considered for this framework. Wherever possible, CME supports non-prescriptive processes.

CME supports the Department’s suggestion to exclude reporting on transactions and specific suppliers that are unlikely to yield useful and meaningful information in achieving the framework’s purpose. This includes excluding payments to suppliers that may be high volume and low value such as credit cards, travel, accommodation and other ad hoc expenditure. Payments to connected entities, affiliates and related parties within consolidated groups, trusts and operating joint ventures should also be excluded, as they are not “true” business-to-business interactions from the framework’s perspective.

If small businesses have concerns about being identified, they should also have the choice to opt-out from the framework. This will help reduce the sample size that requires large businesses to report on.

A sunset clause should also be considered to encourage continual review of the framework, ensuring the choice of reporting areas and data collected is meaningful in delivering its intended value.

Conclusion

In summary, CME supports a framework that minimises the ongoing compliance and reporting efforts imposed on business. Where it is possible, members are keen to leverage existing mechanisms to provide this information.

CME welcomes future visitations by the Department to ensure the views of the Western Australian resources sector are represented in optimising the framework’s design. CME would be happy to host and facilitate discussions between the Department and CME members on the proposed design elements. If CME can be of assistance, please do not hesitate to reach out.

Should you have questions regarding this submission, please contact Linh Nguyen, Policy Adviser – Economic Competitiveness, on 0439 488 672 or via email at L.Nguyen@cmewa.com.

Yours sincerely



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