

13 August 2018

Committee Secretary
Standing Committee on Industry, Innovation, Science and Resources
PO Box 6021
Parliament House
Canberra ACT 2600

Via email: iisr.reps@aph.gov.au

Dear Sir or Madam

Inquiry into how the mining sector can support businesses in regional communities

Chartered Accountants Australia and New Zealand welcomes the opportunity to provide a submission to the Standing Committee on Industry, Innovation, Science and Resources on the terms of reference for their Inquiry into how the mining sector can support businesses in regional communities. We have focused our feedback on the terms of reference where we consider we can add the most value to the inquiry. Appendix A provides more information about Chartered Accountants Australia and New Zealand.

The appropriateness of the payment terms offered to businesses by the mining sector

In 2016, the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) conducted a nationwide consultation of small businesses to determine the biggest issues impacting their business. This survey found that late payments, and other adverse payment practices, are a critical issue. This finding is consistent with what our organisation has been hearing from members, that is, cash flow management is a major factor in the success and failure of small businesses.

Discussions with our members indicate that there are often great disparities in payments terms between small businesses and other businesses. Small businesses are usually required to pay their bills in 30 days yet some of their major customers can have up to 120 day payment terms and impose complicated payment requirements. From an economic perspective the disparity of payments terms can be seen in terms of market failure – i.e. larger organisation use their market power to effectively demand that smaller organisation fund their operations.

The use of market power in such a manner can be damaging to the economy. As the Office of the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) noted in their April 2017 [final report on Payment Times and Practice](#):

'The growing trend for extended payment times impacts the economy in two ways. Firstly, it slows down the flow of cash through supply chains which limits the growth of businesses as they have more capital tied up in financing their operations and secondly it raises costs for businesses which are financing longer trade credit to their customers.

When a business experiencing extended payment times also experiences late payments it will stress the business further with significant ramifications for the solvency of the business. Aside from these business challenges, there are a range of personal effects which spill-over including mental health issues.'

We also note that small businesses can have trouble accessing finance through established financial markets and if they do, pay higher interest rates than their larger counterparts (which is a reflection of the relative risk that they bear). The owner/operators may also have to mortgage their home as security. The financial stress that this causes can also have flow on effects for other small business creditors, employees, and ultimately the government. The inability of one small business to generate cash flow to pay its bills, means that other small businesses may have cash flow issues too. It could also mean that employees may not be paid.

We recommend the Committee look at the findings and recommendations of the ASBFEO report as part of their inquiry.

Should you have any queries concerning the matters raised in the following questionnaire or wish to discuss them in further detail, please contact Karen McWilliams via email at karen.mcwilliams@charteredaccountantsanz.com or phone (612) 8078 5451.

Yours sincerely



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Appendix A

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation professional accountants across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.