Dealing with the cash-flow squeeze

Trent Devine, Jirsch Sutherland Partner

The pandemic has created many issues and challenges for SMEs with cash-flow pressures being a key one. In fact, a recent survey of more than 900 commercial finance brokers by finance specialist Apricity found 77 per cent of SMEs were facing major cash-flow challenges – and this was even before the recent NSW and Victorian lockdowns.

The key drivers of the cash-flow squeeze have been attributed to invoicing issues, especially the imposition of longer trading terms. Apricity Finance CEO Linden Toll says that even SMEs with strong balance sheets are vulnerable due to cash-flow sequencing risk. “Sixty and 90-day trading terms are tough at the best of times,” he says. “But are even more challenging at a time when nearly half the Australian population is under lockdown.”

Stretched payment times add to woes

Toll adds the infrastructure, construction and mining sectors may be relatively robust compared to others, but many of their smaller SME suppliers also supply other sectors, which are struggling.

“For these SMEs, the prompt payment of invoices becomes even more essential,” he says.

“A lot of businesses who are ostensibly healthy and well managed, and who have lucrative contracts with government and some of Australia’s largest companies, may go to the wall simply because they can’t afford to wait three months after the work has been completed to be paid.”

There is a lack of awareness around solutions that can help in this situation, Toll says. Apricity’s research found that almost half (44%) of all SMEs were unaware of alternative funding sources available to help.

Delayed payment (or even non-payment) is a significant issue in Australia. Illion’s June 2021 quarter report found payment times were steadily worsening. “Australian businesses continue to delay paying their bills on time as the effects of the COVID-19 pandemic linger," the report states. "Data from the latest quarter is showing a general worsening in late payment times, after almost a decade of improvements, which peaked in 2019, just before the pandemic."

One silver lining for SMEs is that the Australian Taxation Office has taken a compassionate approach to its collection efforts during the last 18 months, which means trade creditors have a greater chance of being paid. However, the ATO's leniency is something that is likely to change shortly and when it starts actively chasing outstanding tax obligations, it's likely payment terms will then extend further out.

Support for SMEs

The Australian Small Business and Family Enterprise Ombudsman Bruce Billson has urged the federal government and regulators to consider reactivating temporary insolvency protections to support small and family businesses that are doing it tough. One of its reports found in October 2020, SMEs were being paid 31 days late on average, compared to 13 days late in October 2019.

Billson says the reintroduction of measures such as the extension to existing safe harbour provisions, would provide temporary additional protections for SMEs that may be trading insolvent due to lockdown trading conditions.

Meanwhile, the federal government has provided additional support to SMEs. Small and family businesses that have suffered a 30 per cent fall in turnover, will receive 40 per cent of their payroll payments (between $1500 and $10,000 per week) as long as staffing levels are maintained. The federal government has also introduced a scheme for monitoring how quickly large businesses pay their invoices. From 30 June, 2021, large businesses with an annual turnover of more than $100 million will have to submit payment times reports twice each reporting year.

Jirsch Sutherland Partner Trent Devine says the move to get larger businesses to report payment times will highlight those businesses taking advantage of SMEs. "Hopefully this move will lead to more reasonable payment terms," he says. "Currently the average payment times to SMEs is 78 days. Non-compliance will see the government name and shame businesses."

He adds companies that are delaying payments may have cash-flow issues themselves and are then passing those issues on to other people. "In this situation, the question is: where are SMEs going to get the money to fund the gaps?" Devine asks. "If solutions aren't found, there will be higher than normal levels of small business failures – something we are already beginning to see."

Devine says the issue of compelling struggling, cash-strapped businesses to pay other businesses money that they can't afford needs to be addressed. "Who companies pay often depends on where their pressure points are," he says. "In construction, for instance, not paying the tradie can be easy, because if the tradie goes bust, he can just be replaced with another, but they are more likely to pay a supplier if materials are needed."

If companies have cash-flow issues, they're going to see where their stress points are and therefore who they can avoid paying. "Lately, this has been the ATO, but once they start to collect with threat of personal exposure through the director penalty regime, companies will need to address their cashflow stress and the businesses that may miss out on payment are other SMEs," Devine says.

Accountants and advisers whose clients are feeling the squeeze should take early action. "The earlier assistance is provided to a financially struggling SME, the better the outcome," Devine says. "Cash-flow pressures combined with a fall in revenue compounds the issue and can prove disastrous for the SME. Providing advice around insolvency options including safe harbour, voluntary administration or the Small Business Restructuring Process can help to protect SMEs."