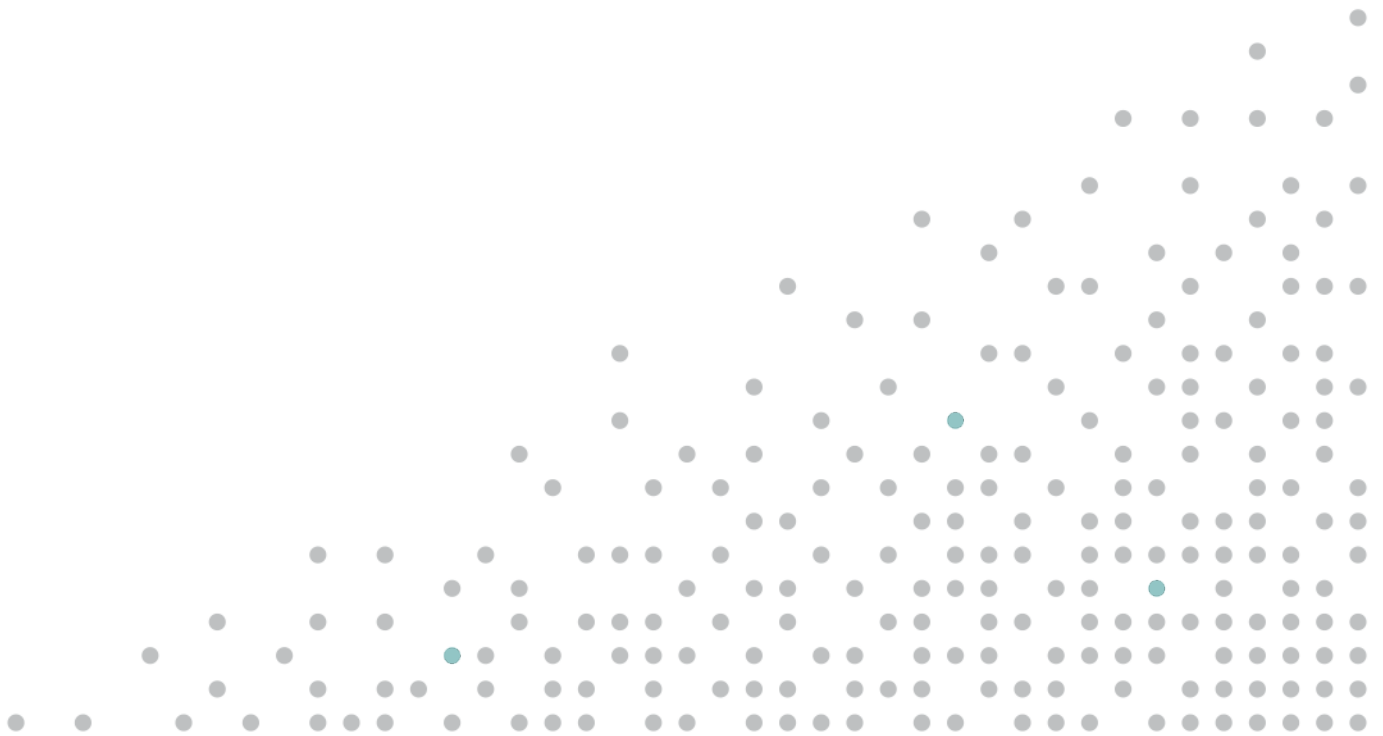




Australian Government
Department of Finance



Supplier Pay On-Time or Pay Interest Policy

Facilitating efficient and timely payment to suppliers

Resource Management Guide No. 417

1 January 2020

© Commonwealth of Australia 2020

ISBN: 978-1-922096-62-3 (Online)

With the exception of the Commonwealth Coat of Arms and where otherwise noted, all material presented in this document is provided under a Creative Commons Attribution 3.0 Australia (<http://creativecommons.org/licenses/by/3.0/au>) licence.



The details of the relevant licence conditions are available on the Creative Commons website (accessible using the links provided) as is the full legal code for the CC BY 3 AU licence.

Use of the Coat of Arms

The terms under which the Coat of Arms can be used are detailed on the following website: www.dpmc.gov.au/government/its-honour.

Contact us

Please direct questions or comments about the guide to:

Department of Finance
Procurement Policy Branch
1 Canberra Avenue
Forrest ACT 2603

Email: procurementagencyadvice@finance.gov.au

Internet: <https://www.finance.gov.au/government/procurement/commonwealth-procurement-rules>

Contents

Supplier Pay On-Time or Pay Interest Policy	1
Audience	4
Key points	4
Resources	4
Objective	5
Part 1.1 – Policy for payments under contracts up to \$1 million	5
Limits of the application of this Policy	5
Part 1.2 – Guidance for payments under contracts up to \$1 million	6
Determining the Value of a Contract	6
Paying and Reporting Interest	6
Calculating Interest	6
Example of Calculating Interest for 20 Calendar Day Payment Terms	6
Example of Calculating Interest for 5 Calendar Day Payment Terms for e-Invoicing	7
Part 1.3 – Example Draft Contractual Clauses	7
Example clause to establish 20-day payment terms and late interest	8
Part 2.1 – Policy for payments for goods and services below \$10,000	9
Part 2.2 – Guidance for payments for goods and services below \$10,000	9
Part 3 – Definitions	10

Audience

This guide is relevant to all non-corporate Commonwealth entities (NCEs). It is particularly relevant to Chief Financial Officers (CFOs) and their staff, and officials who are responsible for the NCEs internal controls and processes.

Corporate Commonwealth entities (CCEs) are encouraged to apply this policy.

Key points

This guide:

- replaces RMG 417 (dated July 2019): *Supplier Pay On-Time or Pay Interest Policy*;
- replaces RMG 416 (dated November 2016): *Facilitating Supplier Payment Through Payment Card*;
- outlines the Government's policy on payment timeframes for invoices arising from procurement contracts to non-government individuals and entities; and
- uses terms as defined in the Commonwealth Procurement Rules.

Resources

This guide is available on the Department of Finance website at www.finance.gov.au.

Other relevant publications include:

- Additional Information on this policy:
<https://www.finance.gov.au/publications/resource-management-guides-rmgs/supplier-pay-time-or-pay-interest-policy-rmg-417/pay-time-policy-rmg-417-additional-information>
- *Online Interest Calculator*:
<https://www.finance.gov.au/publications/information-sheet/interest-calculator>
- Commonwealth Procurement Rules:
<https://www.finance.gov.au/government/procurement/commonwealth-procurement-rules>
- General Interest Charge (GIC) Rates:
[https://www.ato.gov.au/Rates/General-interest-charge-\(GIC\)-rates/](https://www.ato.gov.au/Rates/General-interest-charge-(GIC)-rates/)
- Additional Information on electronic invoicing (e-Invoicing):
<https://www.ato.gov.au/Business/E-invoicing/>

Objective

1. This policy facilitates timely payment to suppliers, assists with their cash flow, and reduces the cost of supplying to the Commonwealth.
2. As a general principle, NCEs are encouraged to implement efficient and timely receipting and payment practices to ensure that supplier payments are made as quickly as possible.

Part 1.1 – Policy for payments under contracts up to \$1 million

3. NCEs must make all payments to a supplier under a contract valued up to A\$1 million (GST inclusive) within the *maximum payment terms*, following the acknowledgement of the satisfactory delivery of goods or services and the receipt of a correctly rendered invoice.
4. The *maximum payment terms* are:
 - i. 5 calendar days for electronic invoicing (e-Invoicing), where an NCE and a supplier both have the capability to deliver and receive e-Invoices through the Pan-European Public Procurement On-Line framework and have agreed to use this method of invoicing; or
 - ii. 20 calendar days for all other invoices, unless shorter maximum payment terms are agreed between an NCE and a supplier.
5. When an NCE has not made payment in full within the maximum payment terms, it must calculate interest in accordance with paragraphs 14 and 15 below, and pay that interest to the supplier if the amount accrued is more than A\$100 (GST inclusive).
6. NCEs must ensure that any written approach to market documentation or written contract with a supplier includes clauses that reflect this policy. However, this policy still applies even if a written contract or approach to market fails to include clauses that reflect this policy, or if no written contract exists between the NCE and the supplier.

Limits of the application of this Policy

7. This policy does not apply if:
 - procuring and consuming goods and services overseas;
 - procuring real property, including leases and licences;
 - the funding source for the procurement is an administered appropriation;
 - the nature of the goods or services being procured, or the structure of the procurement, would make it impractical for the policy to be applied, such as where the procurement occurs under standard terms and conditions put forward by the supplier rather than the NCE;
 - prior to the date of effect of this policy, a contract or standing offer was already in place or in the process of being negotiated;

- procuring from a Commonwealth entity; or
- the payment arises from a non-procurement arrangement, such as a grant.

Part 1.2 – Guidance for payments under contracts up to \$1 million

- 8 Once the NCE has acknowledged the satisfactory delivery of the goods or services and a correctly rendered invoice has been received, the *maximum payment terms* apply from the start of the next calendar day.

Determining the Value of a Contract

- 9 When determining the value of the contract for the purposes of this policy, NCEs should take into account the value of the initial term of the contract (GST inclusive) – not including any options, extensions, renewals or other mechanisms that may be executed over the life of the contract.
- 10 If the value of the contract is not known, it should be assumed for the purposes of this policy that the contract is valued at \$1 million (GST inclusive) or less, unless it is reasonable to assume otherwise.
- 11 The policy applies to work/official orders entered into that are valued up to \$1 million (GST inclusive) under standing offer (panel) arrangements.

Paying and Reporting Interest

- 12 When interest is payable, NCEs should make a self-generated interest payment to the supplier for any outstanding simple interest accrued. An online calculator, available on the Department of Finance's website, may assist entities to calculate penalty interest.
- 13 NCEs may agree to pay interest in other circumstances, for example, in contracts above \$1 million.

Calculating Interest

- 14 Interest is payable at the general interest charge rate available on the ATO's website, calculated for each calendar day from the day after payment was due up to and including the day that payment was made. If the maximum payment terms fall on a non-business day, payment is not due until the next business day.
- 15 Interest should be calculated on GST inclusive amounts, however interest itself is not subject to GST.

Example of Calculating Interest for 20 Calendar Day Payment Terms

- 16 An NCE makes a payment 33 calendar days after acknowledging satisfactory delivery of the goods or services and receiving a correctly rendered invoice, with maximum

payment terms of 20 calendar days. The value of the unpaid amount is \$100,000 and the total contract was valued at \$1 million (GST inclusive) or less. Assume the following:

- the relevant daily general interest charge rate is 0.02339726% (**current rates are available on the ATO website and are updated quarterly**)
- the first day of the payment terms is the calendar day following either the date of acknowledgement of the delivery of the goods or services, or the date of receipt of a correctly rendered invoice (whichever is later); and
- payment occurs 13 calendar days after the conclusion of the 20 calendar day payment period specified in the written contract. The date of conclusion of the payment period is the day that the payment was made by the NCE.

$$\begin{aligned}\text{Interest paid} &= \$100,000 \times (0.02339726 / 100) \times 13 \\ &= \$304.16\end{aligned}$$

Example of Calculating Interest for 5 Calendar Day Payment Terms for e-Invoicing

17 An NCE makes a payment 20 calendar days after acknowledging the satisfactory delivery of the goods or services and receiving a correctly rendered e-Invoice, with maximum payment terms of 5 calendar days. The value of the unpaid amount is \$100,000 and the total contract was valued at \$1 million (GST inclusive) or less. Assume the following:

- the relevant daily general interest charge rate is 0.02339726% (**current rates are available on the ATO website and are updated quarterly**);
- the first day of the payment terms is the calendar day following either the date of acknowledgement of the delivery of the goods and services, or the date of receipt of a correctly rendered invoice (whichever is later); and
- payment occurs 15 calendar days after the conclusion of the 5 calendar day payment period specified in the written contract. The date of conclusion of the payment period is the day that the payment was made by the NCE.

$$\begin{aligned}\text{Interest paid} &= \$100,000 \times (0.02339726 / 100) \times 15 \\ &= \$350.96\end{aligned}$$

Part 1.3 – Example Draft Contractual Clauses

18 The following clauses provide an example of clauses which reflect the policy and may be appropriate to include in relevant contracts valued up to A\$1million (GST inclusive). These clauses are examples only and entities may draft their own clauses to implement this policy. If entities use the model clauses, care should be taken to ensure that they are correctly adapted to the relevant contract – e.g. by ensuring they are consistent with the language used in the contract and do not conflict with other clauses and definitions elsewhere in the contract.

Example clause to establish 20-day payment terms and late interest

X. Payment Terms

X1. *The non-corporate Commonwealth entity will pay the Supplier within 20 days after acknowledgement of the satisfactory delivery of the goods or services and receipt of a Correctly Rendered Invoice. If this period ends on a day that is not a Business Day, payment is due on the next Business Day.*

Y. Interest

Y1. *This **Clause Y** only applies where:*

- (a) the value of this Contract is A\$1 million (GST inclusive) or less; and*
- (b) the amount of the interest payable exceeds A\$100.*

Y2. *For payments made by the non-corporate Commonwealth entity after the payment is due, the non-corporate Commonwealth entity pays the unpaid amount plus interest on the unpaid amount.*

Y3. *Interest payable under this **clause Y** will be simple interest calculated in respect of each calendar day from the day after the amount was due and payable, up to and including the day that the non-corporate Commonwealth entity effects payment as represented by the following formula:*

$$SI = UA \times GIC \times D$$

Where:

SI = simple interest amount;

UA = the unpaid amount;

GIC = General Interest Charge Rate daily rate; and

D = the number of days from the day after payment was due up to and including the day that payment is made.

Y4. *In this **clause Y** "**General Interest Charge Rate**" means the general interest charge rate determined under section 8AAD of the Taxation Administration Act 1953 on the day payment is due, expressed as a decimal rate per day.*

Z. Correct rendering of invoices

Z1. *For the purposes of **clauses X** and **Y**, an invoice is correctly rendered if:*

- (a) it is correctly addressed and calculated in accordance with the Contract; and*
- (b) it relates only to supplies that have been delivered to the non-corporate Commonwealth entity in accordance with the Contract; and*
- (c) it is a valid tax invoice in accordance with A New Tax System (Goods and Services Tax) Act 1999 (Cth).*

Part 2.1 – Policy for payments for goods and services below \$10,000

19. This part refers to payments for purchases of goods and services with a total value below \$10,000. It does not apply to part payments made or invoices issued under contracts with a total value over \$10,000. For further information, see the definition of *eligible payment* in Part 3 below.
20. NCEs must establish processes that promote payment cards as a preferred option for eligible payments to suppliers valued below \$10,000.
21. NCEs must, to the extent practicable, provide suppliers an opportunity to request payment via a payment card for amounts below \$10,000.
22. NCEs must make payment via a payment card where requested by a supplier for eligible payments. Where practicable, payment should be made at the point of sale. A tax invoice (receipt) must be provided by the supplier for the payment.
23. The policy does not require payment by NCEs on disputed amounts. Where an amount is disputed, the NCE may request to make payment after receiving an invoice.

Part 2.2 – Guidance for payments for goods and services below \$10,000

24. The policy requires NCEs to maintain policies to facilitate the timely payment of suppliers through payment card processes. NCEs may choose to extend this policy to non-eligible payments or payments above \$10,000 in line with their business needs.
25. NCEs are to use payment card processes at the point of sale for amounts below \$10,000, in preference to suppliers issuing invoices.
26. Suppliers may be unaware of the preferred payment option and reasonable efforts should be made to make them aware of the opportunity. This should occur prior to receiving goods or services.
27. NCEs must pay via a payment card where the:
 - payment is an eligible payment and valued under \$10,000 (inclusive of GST and merchant service fees¹);
 - the supplier can accept and request payment via a payment card; and
 - merchant service fees charged to the NCE are reasonable for the type of card being used and are sufficiently disclosed prior to payment being made.
28. NCEs should consider paying suppliers via a payment card, but may reasonably seek to pay via an invoicing arrangement when:
 - amounts owed are at, or above, \$10,000;

¹ Costs due to the supplier (merchant service fees) may be passed on to the NCE when facilitating payment via a payment card. Merchant service fees are required to be limited to 'reasonable cost' for accepting the payment which may vary on the card scheme used. Further guidance on merchant service fees is available from the Reserve Bank of Australia in *Guidance Note: Interpretation of the Surcharging Standards* (www.rba.gov.au).

- paying incremental or milestone payments, irrespective of whether the collective value of the payments is below \$10,000;
- the supplier requests payment via an invoicing arrangement;
- the supplier seeks payment through non-widely recognised payment cards;
- paying other Commonwealth entities;
- paying overseas-based suppliers; or
- paying third-parties on behalf of the NCE.

29. NCEs are responsible for ensuring that relevant internal guidance is maintained to give effect to the policy.

Part 3 – Definitions

Acknowledgement of the satisfactory delivery of the goods or services means that the NCE has confirmed that the goods or services have been delivered in accordance with the terms of the contract.

Business Day means a day that is not a Saturday, Sunday, a public holiday or bank holiday in the place where the act is to be performed.

Correctly Rendered Invoice means an invoice which is:

- rendered in accordance with all of the requirements of the written contract (note that written contracts will often specify that the invoice must be a tax invoice and/or that certain information must be included in the invoice and/or the format of the invoice); and
- for amounts that are correctly calculated and due for payment and payable under the terms of the written contract.

Disputed Amount means any amount issued by a supplier that in the NCE's opinion, is incorrectly calculated and/or not due for payment.

Eligible Payment means a payment with a value less than \$10,000 (inclusive of GST and merchant service fees) due to a supplier that is not associated with a multiple-payment contract, or standing offer arrangement. Eligible payments may include payments made as a result of purchase orders.

General Interest Charge Rate means the interest charge determined under section 8AAD of the *Taxation Administration Act 1953* on the day that payment is due. Details of the General Interest Charge rate are available from the Australian Taxation Office website.

Payment Card means credit, debit cards, charge cards or any other type of Commonwealth issued card, including virtual cards that are authorised to pay suppliers for goods or services received at the point of sale. Examples of widely recognised payment cards include American Express, Diners Club, MasterCard and Visa.

Receipt means the day that the correctly rendered invoice is received by the NCE.

The Day that Payment was Made is the day that the NCE's system generates a payment request into the banking system for payment to the business.