



Resource Management Guide 417

Application of the Supplier Pay On-Time or Pay Interest Policy



Resource Management Guides (RMGs) are guidance documents. The purpose of an RMG is to support PGPA Act entities and companies in meeting the requirements of the PGPA framework. As guides, RMGs explain the legislation and policy requirements in plain English. RMGs support accountable authorities and officials to apply the intent of the framework. It is an official's responsibility to ensure that Finance guidance is monitored regularly for updates, including changes in policy/requirements

Audience

This guide is intended for relevant officials who are involved in the approval, receipting and payment of procurement invoices. It offers practical guidance to support the implementation of the mandatory Supplier **Pay on Time or Pay Interest Policy** (Policy).

Chief Finance Officers (CFOs) and staff responsible for overseeing internal controls and financial processes, will also find this guide relevant and useful.

The Policy is mandatory for all non-corporate Commonwealth entities (NCEs). While this policy is not mandatory for corporate Commonwealth entities (CCEs), they are strongly encouraged to adopt its principles.

Objective

This policy promotes the prompt payment of suppliers, supporting their cash flow, and helping to lower the cost of doing business with the Commonwealth.

As a general principle, NCEs are encouraged to adopt streamlined receipting and payment practices to ensure supplier invoices are paid as quickly as possible. Early payment, prior to the mandatory maximum timeframe is strongly encouraged.

Key Points

This guide:

- outlines the Government's position on payment timeframes for invoices issued under procurement contracts that are subject to the Commonwealth Procurement Rules (CPRs),
- applies terminology consistent with definitions in the CPRs, and the Commonwealth Contracting Suite,
- presents monetary values as GST-inclusive,
- applies to all eligible invoices regardless of how they are received by the NCE, e.g. whether through Peppol eInvoicing or approved alternate methods,
- supports the Government's eInvoicing by default policy. Details of the policy are available at [eInvoicing for government | Australian Taxation Office \(ATO\)](#)

Part 1: Practice

Payment Requirements and Application of the Policy

NCEs **must** make all supplier payments within the maximum payment terms of 10 business days following **both** the:

- acceptance of satisfactorily delivered goods or services, **and**
- receipt of a correctly rendered invoice. (Note: please refer to Part 3 Definitions)

The maximum payment terms start from when both conditions are met. As payment processing procedures vary across organisations, NCEs should follow their Accountable Authority Instructions (AAs) or equivalent, and internal payment processes and workflows. The policy applies to all eligible invoices received by the NCE, regardless of via Peppol or approved alternate methods.

This policy **does not** apply in the following circumstances:

- when goods and services are procured and consumed overseas,
- when acquiring real property, including leases and licences,
- if the procurement is funded through an administered appropriation,
- where the nature or structure of the procurement makes applying the policy impractical, for example, when standard supplier terms and conditions are used instead of the Commonwealth supplier terms and conditions,
- if the supplier advises the NCE that their payment system cannot process payments exceeding the invoiced amount,
- if a contract or standing offer was already in place or under negotiation before 1 July 2020 (i.e. when the policy introduced eInvoicing through Peppol),
- when procuring from another Commonwealth entity, or
- when the payment results from a non-procurement arrangement, as defined in paragraph 2.9 of the CPRs.

Note, the above exclusions apply to the policy on maximum payment terms, not for the eInvoicing by default policy. For more information on eInvoicing by default, please visit [eInvoicing for government](#) on the ATO website.

Inclusion in Commonwealth Contracts

All Commonwealth forms of contracts **must** include clauses that reflect this payment policy. However, the policy remains enforceable even if such clauses are omitted or if no formal written contract exists between the NCE and the supplier.

eInvoicing by Default Policy

In March 2025 the Government introduced an eInvoicing by default policy. Under the policy, eInvoicing is the default channel for invoicing for procurement contracts and encouraged in other invoicing arrangements for consistency and mutual benefit. Further information regarding the policy can be found at [eInvoicing for government](#) on the ATO website.

Guidance on how to [receive and process eInvoices](#) is available on the ATO website including steps which may be automated.

Calculation of Business Payment Term

When an NCE receives an invoice, they should promptly:

- confirm the goods and/or services match the order and meet the required standard, and
- verify that the invoice is correctly rendered.

Once both the goods and/or services are accepted and invoice is receipted, the next business day is considered as day 1.

Some contracts may include an extended timeframe for acceptance such as allowing additional business days for independent testing to verify compliance with relevant international or Australian standards (see section C.C.11 of the [Commonwealth Contract Terms](#)). In such cases the same process should apply. Until the relevant contractual element is resolved the NCE has not accepted that the goods and/or services match the order and meet the required standard.

Notification of Incorrect Provision

The commencement of the payment terms are not triggered when a supplier has been notified that the:

1. goods and/or services have not been received in accordance with contractual requirements, or
2. invoice submitted is not correctly rendered.

Where the delivered goods and/or services are not as set out in the contract (i.e. late, incomplete or unsatisfactory delivery), the NCE must promptly notify the supplier, clearly outlining the discrepancies and specifying what actions are required to make the items acceptable.

If the invoice contains errors, the NCE must request a revised invoice from the supplier. This may require providing the supplier with specific instructions regarding the missing information or required corrections to an invoice.

Example 1:

On the morning of Monday, 1 December 2025 you receive a hand-delivered printing order. The corresponding invoice is received by your finance area as specified in the work order on the same morning. You immediately verify that what is delivered matches what you ordered (number of copies, text, layout, colours, quality, paper used etc).

Your finance area completes some preliminary validation checks on the invoice before passing it onto you. It arrives later that afternoon. You quickly review the invoice and confirm it matches what you earlier verified was ordered and delivered.

As everything aligns, you inform your finance area. The invoice is now considered **correctly rendered**, and the **day of receipt** is Monday, 1 December 2025. Under the policy, the 10 business day payment term begins on the next business day which is Tuesday, 2 December 2025. Counting forward, the last day for on-time payment is Monday, 15 December 2025.

Payment must be made on or before 15 December 2025 to comply with the policy, though earlier payment is always encouraged.

Example 2:

On Friday, 12 December 2025 you receive another hand-delivered printing order and the corresponding invoice is received by your finance area on the same day. You follow the same process as earlier, verifying what is delivered matches what was ordered and that the invoice matches what was ordered and delivered. As everything aligns, you inform your finance area.

The invoice is now considered **correctly rendered**, and the **day of receipt** is Friday, 12 December 2025.

Under the policy, day 1 of the payment term begins on the next business day which is Monday, 15 December 2025. Your entity has a shutdown period between 27 December and 31 December. As such, noting the shutdown period and public holidays, the last day for on-time payment is Monday, 5 January 2026.

Example 3:

A supplier delivers 10 laptops instead of the 12 you ordered. The invoice sent passes all preliminary validation checks, but when you receive it, you notice an error; the unit price is listed as \$1,250 instead of \$1,200 as agreed in the contract. You contact the supplier in writing to:

- report the shortfall of 2 laptops and request their delivery; and
- ask for a revised invoice showing the correct quantity and price.

The supplier agrees to immediately send you a new invoice for the 10 laptops as already delivered with the correct pricing, and later a separate invoice for the remaining 2 laptops when they are delivered.

You inform your finance area of the errors and what to expect from the supplier. They cancel the incorrect invoice. When the revised invoices are received, the process and any payment term calculations can begin again.

Late payment and interest Calculation

When interest is payable, NCEs should calculate interest in accordance with the guidelines outlined under the '**Calculating Interest on Late Payments**' section of this policy and pay the interest to the supplier if the amount accrued is more than \$100.

Part 2: Calculating Interest on Late Payments

Interest on late invoices should be calculated as follows:

- Simple interest is payable for each calendar day beginning from day 11 up to and including the actual day payment is made.
- The applicable interest rate is the ATO General Interest Charge rate, as published on the ATO website on the day payment is made: [General interest charge \(GIC\) rates | Australian Taxation Office](#),
- Interest must be calculated on the GST inclusive invoice amount, however GST is not required to be added to the interest payment itself.

Example: Interest Calculation for Late Payment beyond 10 Business Days

An NCE makes a payment on an invoice 13 calendar days after the maximum payment term of 10 business days has elapsed. The unpaid invoice amount is \$100,000 (GST inclusive).

For this example, the applicable daily general interest charge (GIC) rate is 0.02906849% (note: this rate is updated quarterly and should be confirmed via the ATO website).

Interest Calculation

Interest is payable for **13 calendar days** on the outstanding amount of \$100,000

- Using the daily GIC rate of 0.02906849%, the calculation is:

$$\$100,000 \times 13 \text{ days} \times (0.02906849/100) = \$377.89$$

Since the calculated interest exceeds **\$100**, the NCE should pay this amount within 20 business days of making the invoice payment to the supplier.

Alternatively, if the unpaid/outstanding invoice amount was \$25,000 of the whole invoice::

- Using the daily GIC rate of 0.02906849%, the calculation is:

$$\$25,000 \times 13 \text{ days} \times (0.02906849/100) = \$94.47$$

Since the calculated interest is less than \$100, no interest payment is required.

Part 3: Definitions

Definitions relating to maximum payment term:

- **Acceptance** of the satisfactory delivery of the goods and/or services refers to the NCE's confirmation that the goods and services have been delivered in accordance with the contract or work order and meet the required standards.
- **Business day** means a day that is not a Saturday, Sunday, public holiday or shutdown period at the location where the invoice is received.
- **Calendar day** means a day that includes every day of the week, including weekends, public holidays and shutdown periods at the location where the invoice is received.
- **Correctly rendered tax invoice** means an invoice which:
 - includes the supplier's identity and Australian Business Number (ABN) or Australian Company Number (ACN) where an ABN is not applicable,
 - the date the tax invoice was issued,
 - is correctly addressed to the NCE,
 - shows a contract number or purchase order number or other buyer reference,
 - is calculated in accordance with the contract and shows the GST amount payable (either separately itemised or clearly stated as included) (if applicable)
 - provides a description of the goods or services and relates to supplies that have been delivered to the NCE in accordance with the contract
 - includes all additional information set out in the contract, if any; and
 - is a valid [tax invoice](#) in accordance with *A New Tax System (Goods and Services Tax) Act 1999*.
- **Day the payment was made** means the day that the NCE's system initiates a payment request into the banking system for payment to the business.
- **General Interest Charge (GIC) rate** means the interest charge determined under *section 8AAD of the Taxation Administration Act 1953* on the day that payment is due. Current [GIC rates](#) are available from the ATO website.
- **Receipt** means, following the **acceptance** of goods or services, confirmation of a **correctly rendered tax invoice**.
- **Shutdown period** means a designated period during which the purchasing entity is officially closed and not conducting standard business operations. This may include public holidays, end-of-year shutdowns, or other scheduled closures as notified by the entity. Days falling within a shutdown period are not **business days** for the purposes of payment processing or contractual timeframes.
- **Written contract** means any written arrangement for the procurement of goods and/or services under which relevant money is, or may become, payable, as defined by section 23(2) of the *Public Governance, Performance and Accountability Act 2013*. This includes, but is not limited to, standing offers, panels and purchase orders. This policy applies regardless of whether the written contract or approach to market explicitly includes clauses that reflect this policy. It also applies in cases where no formal written contract exists between the NCE and the supplier.

Part 4: Frequently Asked Questions (FAQs)

Can entities choose to adopt shorter payment terms?

NCEs may choose to adopt shorter timeframes than the standard 10 business days. NCEs are encouraged to make payments as promptly as possible.

If a shorter payment term is agreed between an NCE and a supplier, it becomes contractually binding and must be considered when calculating penalty interest for late payments.

Will required payment times compromise an NCEs ability to conduct due diligence activities before an invoice has to be paid?

No. The Policy requires an NCE to pay an invoice only upon receipt of a correctly rendered invoice **AND** acceptance of the satisfactory delivery of the goods or services in accordance with the terms of the contract.

Only once the NCE has accepted the satisfactory delivery of the goods or services and a correctly rendered invoice has been received, do the *maximum payment terms* apply from the start of the next business day.

Does the Policy apply where the supplier is a Commonwealth entity or state body?

No, the Policy does not apply where the supplier is a Commonwealth entity or any state body. Local councils may be considered as a state body, depending on the respective state/territory government legislation

However, NCEs should pay Commonwealth entities and state bodies in a timely manner and in accordance with agreed contractual payment terms.

What do I need to consider when paying penalty interest?

Government policy is for NCEs to pay invoices on time. As such, NCEs should not anticipate facing late payment charges when arranging approval for funding for a procurement contract.

NCEs are required to comply with relevant legislation and internal policies and processes when approving and making penalty interest payments. This includes obtaining relevant approvals for the payment of penalty interest from the appropriate Delegate.

Is there a timeframe within which interest is to be paid?

Under the Policy, any applicable interest for late payments should be paid within 20 business days of when the overdue invoice was paid.

Can administered funding be used to pay late interest payments?

No. Administered appropriations may only be used for programs or outcomes that it is appropriated for and must not be used to pay late interest payments to suppliers

Interest payments must be funded through appropriate departmental resources in accordance with the entity's financial management requirements.

Is interest payable on the whole amount or just the outstanding amount?

Penalty interest is calculated only on the unpaid portion of the invoice. If an NCE has already made a partial payment to the supplier on time, interest applies only to the remaining outstanding amount, not the portion that has already been paid within the maximum payment timeframe.

Are interest payments reportable on AusTender?

No. Penalty interest payments are not considered procurements and therefore are not to be reported on AusTender.