

Quick-Guide: Prompt payment



What does this cover?

This Quick-Guide is for government agencies. It encourages and promotes best practice in the prompt payment of invoices related to commercial contracts and clarifies the standard terms of payment contained in the Government Model Contracts (GMCs).

Why is prompt payment important?

Government agencies are substantial buyers for many small to medium sized New Zealand businesses (SMEs). Prompt payment is critical to the cash flow of every business, and especially to SMEs. It is not just the timeliness of payment, but also the certainty of getting paid that is really important. Prompt payment helps businesses with their cash flow and enables reliable financial planning.

Prompt payment means suppliers can be safe in the knowledge that they will be paid, and confident that they are working with a buyer that values the goods or services they deliver. This supports stronger working relationships. Certainty of payment inspires confidence across the supply chain – confidence that stimulates investment and growth in the New Zealand economy. This confidence is good for both buyers and suppliers.

Best practice and expectations

Best practice	Expectation
Agree reasonable payment terms	<ul style="list-style-type: none"> Ensure contractual payment terms are fair and reasonable to the supplier and are designed to provide regular cash flow
Give clear guidance to suppliers	<ul style="list-style-type: none"> Make it simple and easy for suppliers to get paid Where you have unusual invoice requirements provide guidance to suppliers Provide guidance on how to submit an invoice Where possible, allow invoices to be received by email
Enable prompt payment	<ul style="list-style-type: none"> Ensure payment procedures are well organised, timesaving and sufficiently resourced Ensure staff are trained in payment procedures Ensure staff prioritise the approval and payment of invoices Ensure immediate attention to disputed invoices – don't leave it to the day of payment to raise a query with the supplier Ensure there are proper processes for dealing with any issues that arise Proactively resolve disputed invoices to minimise any delay in payment To promote prompt payment set internal payment targets, for example: <i>90% undisputed invoices paid within 10 days of receipt</i> Monitor and regularly report on average payment times Take action where payment times do not meet contract terms or targets
Pay suppliers on time	<ul style="list-style-type: none"> As a minimum, ensure invoices are paid in accordance with contract terms and conditions Wherever possible, enable early payment
Encourage good practice	<ul style="list-style-type: none"> Ensure prime contractors include reasonable payment terms in their sub-contracts Encourage prime contractors to adopt prompt payment procedures

Government Model Contracts

Invoice & payment

Invoice & payment clause:

- Contract for **Services**: Schedule 2, clause 3
- Contract for **Goods**: Schedule 2, clause 5

Conditions of payment:

- The supplier must provide valid tax invoices for the goods or services on the dates agreed between the parties.
- If the Buyer receives a valid tax invoice before the 3rd Business Day of the month, the invoice is to be paid by the 20th of that month – so long as it is correct and not in dispute.

Example: Payment by the 20th of the month

1 Supplier to invoice for the month in which the services were delivered (e.g. March).

2 Supplier to deliver the invoice to the buyer by the end of the month in which the services were delivered (e.g. March), or at the very latest, within the first 3 Business Days of the following month (e.g. April).

3 Regardless of the date of the invoice (e.g. 31st March or 1st April) if it is received within the first 3 Business Days of the month (e.g. April) it will be paid by the 20th day of the month (e.g. 20th April) - so long as it is correct and not in dispute.

March

April

services delivered

month of payment

Disputes

If you dispute an amount due, you must notify the supplier within 10 Business Days of receipt of the invoice. If an invoice is in dispute you may withhold payment of the disputed portion, until the dispute is resolved.



For more information visit www.procurement.govt.nz refer to 'For agencies / Model contracts' section:

- Supplier's Quick-Guide: Invoicing and payment
- Invoice template for goods
- Invoice template for services
- Supplier's Checklist – Preparing an invoice

State Services Commissioner's– expectations

The GMCs set out standard terms of payment. However, parties can negotiate alternative payment terms. In doing so however, agencies should take into account the expectations set by the State Services Commissioner:

“At a minimum, they are to pay their invoices in accordance with their posted terms and conditions and in any event no later than the 20th of the month following the receipt of the invoice”.

State Services Commissioner – Letter to Chief Executives – 4 February 2009