



COVERSHEET

Minister	Hon Melissa Lee Hon Andrew Bayly	Portfolio	Economic Development Small Business and Manufacturing
Title of Cabinet paper	Improving government payment times for domestic trade invoices and uptake of eInvoicing	Date to be published	18 November 2024

List of documents that have been proactively released		
Date	Title	Author
October 2024	Improving government payment times for domestic trade invoices and uptake of eInvoicing	Office of the Minister for Economic Development Office of the Minister for Small Business and Manufacturing
16 October 2024	Improving government payment times for domestic trade invoices and uptake of eInvoicing ECO-24-MIN-0229 Minute	Cabinet Office

Information redacted

YES / NO (please select)

Any information redacted in this document is redacted in accordance with MBIE's policy on Proactive Release and is labelled with the reason for redaction. This may include information that would be redacted if this information was requested under Official Information Act 1982. Where this is the case, the reasons for withholding information are listed below. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Some information has been withheld for the reason of Free and frank opinions.

Office of the Minister for Economic Development
Office of the Minister for Small Business and Manufacturing
Cabinet Economic Policy Committee

Improving government payment times for domestic trade invoices and uptake of eInvoicing

Proposal

1. This paper seeks agreement to amend the Government Procurement Rules (Procurement Rules) to introduce requirements for government agencies to:
 - 1.1. pay domestic trade invoices within specified timeframes and report on payment times;
 - 1.2. become eInvoice enabled if they receive or send domestic trade invoices above a set threshold.

Relation to government priorities

2. This initiative:
 - 2.1. delivers more efficient, effective and responsive public services by making it easier to do business with government;
 - 2.2. Free and frank opinions
 - 2.3. is part of digitalising Government services, with an estimated productivity savings of \$4.4 billion over 10 years; and
 - 2.4. provides further encouragement for SMEs to digitalise to gain the greatest benefit for adopting eInvoicing.

Executive Summary

3. We propose that government agencies are required to be eInvoicing receive capable if they receive more than 2,000 invoices in a financial year and/or to be send capable if they send more than 2,000 invoices in a financial year. We also propose that government agencies have to pay 95 percent of their domestic eInvoices within five business days and 95 percent of other domestic invoices within 10 business days and report on these payment times. This will help improve business cash flow and support the financial sustainability of businesses.
4. The five and 10-day payment requirements apply from the day an invoice is entered into an accounts payable system. This may differ from the date specified on the invoice.

5. The requirements will apply to invoices related only to domestic trade credit that are received or sent by an agency in the ordinary course of its business.
6. These requirements will apply to approximately 135 agencies that must follow the Procurement Rules, except for certain specified agencies such as the Pharmaceutical Management Agency (PHARMAC).
7. Agencies will be expected to implement the:
 - 7.1. 10-day payment requirement for domestic trade invoices from 1 January 2025;
 - 7.2. eInvoicing capability and payment requirements from 1 January 2026.
8. Agencies will be required to report domestic trade invoice payment times to the Ministry of Business, Innovation and Employment (MBIE) quarterly so that these can be made public.
9. To build on the five-day payment timeframe incentive, we would further look to drive eInvoicing adoption and productivity benefits for the economy. Several large businesses told us that they think an even stronger mandate is necessary to drive business investment in eInvoicing capability. Accordingly, we propose to consult with businesses on requiring certain government suppliers to be eInvoice capable. We will report back to Cabinet by February 2025 with our findings.

Context

There is an expectation that Government pays businesses promptly, but not all agencies do

10. In 2020 the then Prime Minister wrote to all Public Service agencies setting an expectation that 95 percent of domestic trade invoices must be paid within 10 business days. The Public Service Commissioner subsequently wrote to all other government agencies, asking that they also pay domestic trade invoices within 10 business days.
11. Free and frank opinions

Adoption of eInvoicing will further improve payment times and productivity

12. eInvoicing enables direct digital invoice exchange between suppliers and buyers, using a secure network and common standard. Its advantage is that it reduces fraud, manual inefficiencies, and speeds up payments and cashflow.
13. With over 280 million business to business invoices exchanged in New Zealand each year the economy-wide efficiencies, by adopting eInvoicing, is estimated to be \$4.4 billion over 10 years. These productivity savings are driven by reducing administration costs, with invoice costs dropping from \$26 for paper and \$23 for PDF, to \$10 per eInvoice received and \$2 per eInvoice sent.

14. Overseas evidence shows government-led eInvoicing initiatives are crucial for widespread adoption and productivity benefits.

Cabinet noted measures will be developed to ensure faster invoice payment times and the uptake of eInvoicing

15. On 14 February 2024, the Cabinet Economic Policy Committee noted the Minister for Small Business and Manufacturing, Hon Andrew Bayly, intended to address issues related to long business payment times through a range of measures (ECO-24-MIN-0001). These included setting faster payment time targets, requiring Crown entities to be eInvoicing send and receive capable and publishing government payment times.
16. Cabinet Committee noted that these measures could be implemented through a Government Direction under section 107 of the Crown Entities Act 2004. On advice from the Public Service Commission, we are now recommending that these measures are introduced through the Government Procurement Policy Framework.
17. The Government Procurement Policy Framework consists of a combination of principles, rules and good practice guidance. This includes the Procurement Rules, which govern the way in which agencies procure goods, services and works.

Amending the Procurement Rules to include invoice payment time and eInvoice capability requirements

18. These requirements will be implemented by amending the Procurement Rules. Rule 51 currently requires agencies to pay suppliers promptly. We propose that the current Rule 51 is replaced and a new Rule 51A is added as outlined below.

Rule 51: eInvoicing capability

Explains when agencies must be capable of sending and receiving eInvoices.

1. Agencies that receive more than 2,000 domestic trade invoices annually **must** be capable of receiving eInvoices through their primary accounts payable system(s).
2. Agencies that send more than 2,000 domestic trade invoices annually **must** be capable of sending eInvoices through their primary accounts receivable system(s).

Rule 51A: Prompt payment times

Explains that agencies must pay suppliers promptly and encourage suppliers to pay their subcontractors promptly.

1. Agencies **must** pay 95 percent of:
 1. domestic trade eInvoices within five business days
 2. other domestic trade invoices within 10 business days.
2. Agencies **must** report on domestic eInvoice and domestic trade invoice payment times to MBIE quarterly, so these can be made publicly available.

3. Agencies **must** encourage their suppliers to pay their subcontractors promptly.
4. Agencies **should** encourage suppliers to offer subcontractors no less favourable payment terms than the ones they receive from agencies.

The requirements will apply to all agencies that must follow the Procurement Rules

19. The requirements will apply to all agencies that must follow the Procurement Rules, except for PHARMAC and New Zealand Security Intelligence Service and Government Communications Security Bureau, due to the latters' operating environment.
20. There are around 135 mandated agencies including Public Service agencies, non-Public Service departments, all Crown Entities (except school board trustees) and all companies named in Schedule 4A of the Public Finance Act.

The requirements will only apply to domestic trade invoices

21. The requirements will apply to invoices related only to domestic trade credit that are received or sent by an agency in the ordinary course of its business (explanatory note below refers). Requests for payment that are out of scope include:
 - 21.1. reimbursement of employee expenses;
 - 21.2. rents, leases and utilities (office space, power, telecoms etc);
 - 21.3. credit card statements, finance payments, and insurance premiums;
 - 21.4. payments made regularly as part of an ongoing contract, which don't require an invoice, such as progress payments on a roading contract.
22. Requests for payment in these contexts are not considered invoices for the purposes of the Procurement Rule. Including them would skew payment time reporting and add unnecessary complexity.
23. For the purposes of the new Procurement Rule, the terms above are defined as follows:
 - 23.1. Invoice is a document or electronic message that signals a requirement to pay for goods or services that the business issuing the invoice has provided the agency. Invoices must contain the required information and be sent to the right address.
 - 23.2. Domestic means that the requested payment is in \$NZD, for goods or services supplied within New Zealand, by an entity that carries on business in New Zealand.
 - 23.3. Trade credit is where there is agreement for a delay between supply of goods or services and payment for those goods or services. In other words, the good or service must already have been provided (to the required standard and quantity).

23.4. Ordinary course of business means that, for the agency making payment, the invoice is usual or otherwise unremarkable (ie invoices of that type would be processed regularly, using the standard accounts payable process). This excludes invoices that are so significant that extraordinary checks and approvals are required (eg payments for significant infrastructure).

Invoice payment time requirements will not apply while an invoice is disputed

24. Due diligence on invoices is critical to ensure appropriate expenditure of public money. Agencies will not be required to pay invoices within the payment times set out in Rule 51A if:

24.1. the goods, services or works are unsatisfactory or incomplete;

24.2. the invoiced amount is in dispute;

24.3. an invoice is incomplete or incorrectly rendered.

A volume-based threshold for eInvoice capability will balance costs and benefits

There are some costs to becoming eInvoice capable

25. Since 31 March 2022, Public Service agencies have been required to be eInvoice-capable. About a third of the 32 agencies achieved this for under \$20,000, while most others spent between \$20,000 and \$100,000, often as part of broader financial system upgrades.

26. Investing in eInvoicing capability may not be financially viable for agencies with low invoice volumes. It would take longer for them to realise the benefits of such an investment.

27. Agencies will need to integrate eInvoicing into their systems, update processes for payment time compliance, and manage the associated resource, time, and financial costs. The proposed threshold targets agencies best suited to adopt eInvoicing.

The proposed threshold targets agencies that are best placed to implement eInvoicing

28. Of 32 Public Service agencies, 29 received over 2,000 invoices in 2023. The volume threshold balances costs with benefits.

29. Agencies with higher invoice volumes will be required to adopt eInvoicing to drive wider uptake, while smaller agencies with low volumes will avoid unnecessary costs, as they have minimal impact on eInvoicing adoption.

30. The threshold is based on the number of domestic trade invoices sent or received in the previous financial year. Agencies below the threshold must monitor their volumes, and then become eInvoice-capable if they exceed 2,000 invoices.

31. Agencies below the threshold will be encouraged to adopt eInvoicing, with MBIE providing support and information on its benefits.

Implementation

eInvoicing requirement will be implemented from 1 January 2026

32. We propose that the eInvoicing requirements must be implemented from 1 January 2026. This is a similar timeframe that Public Service agencies had to implement eInvoice receive capability.
33. To support implementation and mitigate unintended consequences, such as fraud, we will set the payment target to 90 percent of domestic trade invoices, excluding eInvoices, for 2025. This will increase to 95 percent for domestic trade invoices and eInvoices within timeframes set out in Rule 51A thereafter.
34. Implementing the proposed eInvoicing requirements in just over 12 months may be challenging for some entities. For example, some entities may need to upgrade their finance systems. If this is not already planned and funded, implementation costs could be significant.
35. If an agency does not believe they can implement the eInvoicing requirements from 1 January 2026, they will need agreement from their portfolio minister to request approval from the Minister for Small Business and Manufacturing and the Minister for Economic Development for an extended implementation timeframe.
36. MBIE will provide guidance and support agencies to implement the proposed eInvoicing capability and payment requirements.
37. MBIE will expand its monitoring framework for 10-day payments to include the five-day target. Agencies will report to MBIE quarterly, with performance published publicly. For agencies not meeting the targets, reporting to MBIE will be required monthly.

Proposed further work - targeted consultation on suppliers to be eInvoice capable and pay subcontractors within 10 business days

Requiring some suppliers to government to submit eInvoices

38. Several large businesses told us that they think a stronger mandate is necessary to drive upfront investment in eInvoicing capability, beyond the five-day payment time incentive for government suppliers.
39. This means a requirement on certain government suppliers to send and receive eInvoices. Overseas experience shows that this kind of 'supplier mandate' provides strong impetus for wider eInvoicing use and productivity benefits across the economy. As with the current proposal, any such requirements would only apply to invoices related to domestic trade credit that are processed by the receiving agency in the ordinary course of its business.

Requiring some suppliers to government to pay subcontractors within 10 business days

40. Sometimes suppliers with a direct contract to government (principal contractor) do not pay subcontractors promptly. This affects their cash flow and financial sustainability. As agencies will be required to pay principal contractors within set timeframes, we wish to consider requiring contractors to pay subcontractors within the same timeframe.

Targeted consultation with suppliers

41. We propose consulting government suppliers and the business community on requiring eInvoices for billing government agencies and prompt payment to subcontractors as part of the wider review of the Government Procurement Rules. Any proposed changes will be part of a report back to Cabinet by February 2025.

Implications and impact analysis

42. The proposed requirements will encourage agencies to streamline and automate their accounts payable systems. Over time, this will help realise backroom efficiencies.
43. Mandated agencies will be expected to fund any required system upgrades within baselines. The cost will be dependent on the type and complexity of their individual billing systems.
44. No legislative, cost of living, or human rights implications have been identified.
45. No impacts on specific population groups have been identified.
46. Regulatory Impact Analysis and Climate Implications of Policy Assessment is not required.

Consultation

47. All agencies that must apply the Procurement Rules were given the opportunity to comment on this Cabinet paper. Feedback was provided by 61 agencies. Overall, most agencies were broadly supportive of the intent of paying suppliers promptly and of shifting to eInvoicing, but many noted that there would be implementation challenges. Several agencies considered payment timeframe and reporting requirements burdensome, and that the invoice volume thresholds should be increased. It was also suggested that the 95 percent target for not allow sufficient time for necessary invoice approvals, checks and due diligence.

Communications

48. We expect to announce these new Procurement Rules as soon as is practical.

Proactive Release

49. The paper will be proactively released within 30 business days of final decisions being taken by Cabinet.

Recommendations

The Minister for Economic Development and Minister for Small Business and Manufacturing recommend that the Committee:

Previous decisions

- 1 **note** that on 14 February 2024, the Cabinet Economic Policy Committee noted that the Minister for Small Business and Manufacturing intended to address issues related to long business payment times through a range of measures (ECO-24-MIN-0001)

Proposed new Procurement Rules

- 2 **agree** that new eInvoicing capability and prompt payment requirements are introduced in the Government Procurement Rules (Procurement Rules)
- 3 **agree** that Rule 51 of the Government Procurement Rules is replaced with new 'Rule 51- eInvoicing capability' which states:
- 3.1 Agencies that receive more than 2,000 domestic trade invoices annually must be capable of receiving eInvoices through their primary accounts payable system(s)
- 3.2 Agencies that send more than 2,000 domestic trade invoices annually must be capable of sending eInvoices through their primary accounts receivable system(s)
- 4 **agree** to the addition of 'Rule 51A - Prompt payment times' in the Government Procurement Rules which states:
- 4.1 Agencies must pay 95 percent of:
- 4.1.1 domestic trade eInvoices within five business days
- 4.1.2 other domestic trade invoices within 10 business days
- 4.2 Agencies must report on domestic eInvoice and domestic trade invoice payment times to MBIE quarterly, so these can be made publicly available
- 4.3 Agencies must encourage their suppliers to pay their subcontractors promptly
- 4.4 Agencies should encourage suppliers to offer subcontractors no less favourable payment terms than the ones they receive from agencies

- 5 **agree** that the new rule requirements will apply to invoices related only to domestic trade credit that are processed by the receiving agency in the ordinary course of its business, and that requests for payment that are out of scope include:
- 5.1 reimbursement of employee expenses;
 - 5.2 rents, leases and utilities (office space, power, telecoms etc);
 - 5.3 credit card statements, finance payments, and insurance premiums;
 - 5.4 payments made regularly as part of an ongoing contract, which don't require an invoice.

Implementation

- 6 **agree** that agencies will not be required to pay domestic trade invoices within the payment times set out in new Rule 51A if:
- 6.1 the goods, services or works are unsatisfactory or incomplete;
 - 6.2 the invoiced amount is in dispute;
 - 6.3 an invoice is incomplete or incorrectly rendered
- 7 **agree** that mandated agencies must:
- 7.1 pay domestic trade invoices (except eInvoices) as set out in Rule 51A from 1 January 2025
 - 7.2 implement eInvoicing receive and send capability requirements specified in new Rule 51, and eInvoice payment requirements specified in Rule 51A from 1 January 2026
- 8 **agree** that implementation of the 95 percent payment target as specified in Rule 51A is phased in as follows:
- 8.1 from 1 January 2025 agencies must pay 90 percent of domestic trade invoices, excluding eInvoices, within 10 business days;
 - 8.2 from 1 January 2026 agencies must pay 95 percent of domestic trade invoices and eInvoices within the timeframes set out in Rule 51A.
- 9 **agree** that if an agency does not believe they can implement the eInvoicing requirements from 1 January 2026, they will need agreement from their portfolio minister to request approval from the Minister for Small Business and Manufacturing and the Minister for Economic Development for an extended implementation timeframe
- 10 **agree** that the Ministry for Business, Innovation and Employment can require agencies to report monthly if they are not meeting payment time targets

- 11 **agree** that when monthly reporting is required, agencies must submit payment information over the preceding three months
- 12 **note** that the Ministers of Economic Development and Small Business and Manufacturing will be briefed annually on the extent to which payment targets have been met
- 13 **agree** that if an agency is not meeting invoice payment time targets set out in Rule 51A, it must inform MBIE and their responsible minister why this has occurred

Targeted consultation on a potential requirement to submit eInvoices

- 14 **note** that business leaders indicated that a stronger mandate is necessary to drive upfront investment in invoicing;
- 15 **agree** that MBIE consults with business stakeholders on a requirement on certain government suppliers to submit eInvoices and pay invoices to subcontractors within 10 working days;
- 16 **note** that any proposed changes to the Government Procurement Rules will reported back to Cabinet by February 2025 as part of the wider review of the Government Procurement Rules.

Hon Melissa Lee
Minister for Economic Development

Hon Andrew Bayly
Minister for Small Business and Manufacturing