

The UK e-Invoicing Advocacy Group was set up in 2010 as a self-funded initiative of industry associations, public sector bodies and solution providers to promote e-Invoicing in the UK public and private sectors. Our mission is to help UK public bodies and commercial enterprises of all sizes save money and understand the benefits of replacing paper invoices with wholly electronic transactions.

Public Sector on-line procurement, e-Invoicing and Payments – cutting costs, improving transparency, and supporting SMEs

BACKGROUND

Given HMG policy priorities of deficit reduction and financial transparency, UK public sector can no longer afford to ignore the efficiencies from paperless procurement and payment, leaving the UK to lag behind our EU counterparts. Paper has had its day in the invoicing process in organisations of all sizes. Not only is paper and ink itself expensive, but the manual processes involved in handling paper invoices are labour-intensive and make for errors and delays. This then degrades integration within the supply chain, often leading to overly long payments processing, of particular harm to SMEs. Similarly, manual approval processes and limited process controls, lead to uncorrected billing errors, potential fraud, and difficulties in accurately auditing the invoicing and payment processes.

Electronic systems allow transparency of spend, and easy cost comparisons across government, and more effective trade financing, of particular appeal to SMEs supplying the public sector. The adoption of e-ordering and e-invoicing processes can be achieved with comparatively little up-front investment and many off the shelf solutions exist provided by service and solution providers. Deeper re-engineering and supply chain integration efforts require more resources, but the basic ordering and invoicing cycle is a good place to start and deliver immediate cost savings.

Paperless purchasing, invoicing and payment are well established among millions of consumers in the UK, when buying items such as music, books and travel tickets via the Internet. It is also long since fundamental to running any business trading globally, and increasingly the norm in large companies. In just one progressive UK sector – grocery - latest research <http://www.gs1uk.org/Pages/default.aspx> shows annual savings of £650 million p.a. using electronic ordering and payment processes.

The single largest overall buyer of goods and services in the UK (worth £220 billion in 2008-09) is UK Government, central and local, so has the greatest potential to gain cost benefits from using the paperless approach, and cutting the cost of its estimated 100 million paper invoices p.a.

At about a third of all public spending, purchasing is split 30% by central government, 70% by local public bodies including NHS trusts, which implies major scope across the whole UK for procurement - driven efficiencies and cost savings. Yet previous governments did little to drive paperless procurement and invoicing processes beyond some very modest efforts among local authorities in 2005.

That massive efficiencies and service improvements can be so gained in the public sector is seen in the success of the DVLA in running the UK's largest business-to-consumer e-business site.

BENEFITS

The recently established **UK e-Invoicing Advocacy Group**, of users, suppliers and standards bodies, identified the following key benefits to UK public administration, and the economy as a whole:

1. Substantial cost savings through reduction in manual work, material and transport (postage in particular) costs.
2. Additional cost savings from fraud and loss prevention, and lower auditing costs for trading parties and tax authorities.
3. Enabling of accelerated payments, improved cash flow and reduced credit losses for both large and small enterprises, and removing a major current discouragement to SMEs to supply to public bodies. E-Invoicing could unlock the potential for new collateralised lending services at a time of subdued growth in traditional credit products, especially for SMEs.
4. Raising productivity and customer satisfaction in both the public and the private sector, and improving UK competitiveness overall.
5. Enabling workforce transition to more productive activities and a learning vehicle to increased use of electronic practices throughout the public and private sectors.
6. A direct contribution to carbon savings and resultant environmental gains, by reducing use of trees for paper.

WHY & HOW ARE THE OTHER EU MEMBER STATES FORGING AHEAD WITH e-INVOCING?

Several European studies have confirmed the benefits of e-invoicing, e.g. the European Association of Corporate Treasurers (EACT) stated that realising electronic invoicing could reduce supply chain

costs by €243 billion across Europe as well as help streamline business processes and help drive innovation. Recent case studies are available, e.g. from GS1 (for the UK grocery sector) and Cap Gemini (sponsored by the European Commission in the context of assessing the business case for the Single Euro Payments Area).

Since Government purchases in the European Union account for around 16 % of GDP (approx €1,500 Billion), Member States see their public sector as a prime mover in establishing e-Invoicing within their borders and across the EU. EU political commitment to improve public service procurement by adopting e-invoicing was shown in the Manchester ministerial declaration of 24 November 2005

<http://archive.cabinetoffice.gov.uk/egov2005conference/documents/proceedings/pdf/051124declaration.pdf> , i.a.: “By 2010 all public administrations across Europe will have the capability of carrying out 100 % of their procurement electronically and at least 50 % of public procurement above the EU public procurement threshold will be carried out electronically.”

Since then, the UK has lagged ever further behind most other EU Member States in realising these gains, most obviously behind the Scandinavian countries and Spain, followed by Ireland, Netherlands and Estonia, with UK recording some of the lowest activity in the EU.

The European Commission Expert Group produced its final report with a number of recommendations for the adoption of e-invoicing throughout the EU in November 2009.

(http://ec.europa.eu/internal_market/payments/docs/einvoicing/report-2009_01_27_en.pdf)

It is clear that the countries with the highest adoption rates are also those where governments have been leading in the use of e-invoicing as illustrated by **Denmark**, where paper invoicing for trading with the public sector has been abolished since 2005, **Finland** where since January 2010, the Government has only accepted e-invoices, **Germany**, whose the Ministry of Economics and Technology has initiated the „Forum elektronische Rechnung Deutschland (FeRD)“ to implement the recommendations of the European Commission Expert Group on e-Invoicing in the German market, **Italy** e-invoicing for the supply of goods and services to the public sector has now started to become mandatory, **Spain**, which made e-Invoicing mandatory for all suppliers to the public sector from November 2010, and **Sweden** where since December 2006, e-Invoicing has been mandatory in dealings with the public sector.

There are still measures required to encourage further take-up of e-invoicing and e-procurement processes. E-invoicing is still at the beginning (less than 10% of all invoices in Europe) but growing fast.

WHAT SHOULD UK DO NOW?

The UK VAT authorities have always been at the forefront in facilitating e-Invoicing and can retain this leadership as the simplifying measures adopted by the European Council are implemented.

The UK public sector can be a role model in adopting harmonised standards and smoother operating procedures. Public sector e-Invoicing can be a major catalyst in encouraging the transition to electronic payments from cheques, especially in the business world.

Current economic circumstances clearly present an opportunity for the new administration to take a lead in mandating e-invoicing when trading with the public sector, significantly cut public sector costs and drive adoption by SMEs.

HM Government needs to make procurement-driven savings a priority for the public sector, realising its own efficiency and cost gains, and extending to its private sector suppliers. Given its dominant share of public purchasing, an ideal step would be for local government, and the NHS, department by department, to mandate paperless processes to its suppliers, as is increasingly the norm with equivalent private enterprises.

Taking no action can only lead to continued waste and to the UK falling further behind competitor countries with these costs of public administration falling on UK enterprises and taxpayers, as a drag on cash flow and on UK economic recovery. (7 October 2010).

The UK e-Invoicing advocacy group meets on a regular basis and operates in an entirely non-competitive, cooperative space. Our meetings are inclusive of both public and private sector stakeholder interests. **We operate in an open, transparent and informal** manner.

Whilst addressing an area requiring strategic transformation, **the group adopts scoped and realistic objectives**. Initiatives undertaken are agreed among the group to be concrete, feasible and effective and their execution always closely monitored.