

Public Sector Electronic Invoicing and Payments Administration – cutting costs, improving service, and setting an example to SMEs.

BACKGROUND

As individual consumers in the UK, we are mostly now used to paperless invoicing (e-invoicing) and payments administration when we buy such as CDs, books and travel tickets via the Internet. It is also long since fundamental to running any business trading globally. And some parts of UK public administration, eg DVLA, have also embraced this cost-saving and service improvement technology.

Nonetheless, despite the proven benefits, there was little urgency in the previous UK government to adopt e-invoicing as the norm. Figures in a number of independent case studies indicate that the potential benefit to the UK of the full adoption of e-invoicing could be between €27 and €35 billion p.a., with modest levels of investment required, and feasible on a department by department basis, using savings from first implementations to fund the next stages, so maintaining positive cash flow.

HM Government is the largest overall buyer of goods and services in the UK, so has the greatest potential to gain cost benefits from using e-invoicing itself, and to be the most positive influence in encouraging adoption across the remaining private sector.

Paper has had its day in the invoicing process in organisations of all sizes. Not only is paper 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, particularly harmful 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.

WHY ARE THE OTHER EU MEMBER STATES FORGING AHEAD WITH PUBLIC SECTOR E-INVOCING?

A number of European studies have looked at the benefits of e-invoicing, eg 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. (NB. According to Eurostat, UK GDP represents 14.5% of EU27 GDP, so **this implies a potential €35 billion p.a. benefit to the UK**).

Since Government purchases in the European Union account for around 16 % of GDP (approx €1,500 Billion), Member States see that their public sector can be prime movers in establishing e-invoicing within their borders and the EU. EU political commitment to improve public service procurement by adopting e-invoicing was reflected 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 significantly behind other member states in effecting these improvements. 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)

Billentis (an independent research company) has been studying European e-invoicing for some time. Currently it estimates that the Nordic countries are most advanced in B2B e-invoicing with adoption rates >12% followed by Ireland, Spain, Netherlands and Estonia (6-12%) and with the UK languishing with rates of 1-3%. 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 the following examples illustrate:-

- **Denmark** Danish e-Government initiatives placed the country as one of the frontrunners in e-Government, e-Tendering and e-Procurement. In 2005 its e-Invoicing solution won the European e-Awards on e-Government. Paper invoicing for trading with the public sector has been abolished since 2005.
- **Finland** Since January 2010, the Government has only accepted e-invoices. All government agencies will be ready to send e-invoices by the end of 2010 at the latest. Government agencies receive 3 million and send 40 million invoices each year.
- **Germany** New national E-Invoicing Forum in Germany: The Ministry of Economics and Technology has initiated the „Forum elektronische Rechnung Deutschland (FeRD)“ with the aim of implementing the recommendations of the European Commission Expert Group on E-Invoicing in the German market. This is also intended to send a strong signal to the market, especially to the SMEs to become E-Invoicing users. More than 15 industry associations support this forum.
- **Italy** E-invoicing for the supply of goods and services to the public sector has started to become mandatory under a phased timetable.
- **Spain** E-Invoicing becomes mandatory for all suppliers to the public sector from November 2010 irrespective of size or turnover.
- **Sweden** Since December 2006 E-Invoicing has been mandatory in dealings with the public sector. It fully enabled e-invoicing from July 2008 for public procurement.

SIX BENEFITS FOUND FROM E-INVOCING – financial and environmental - can be summarised as follows:-

1. It saves costs through reduction in manual work, material and transport (postage in particular) costs.
2. Additional cost savings arise in fraud and loss prevention and auditing costs for trading parties and tax authorities.
3. It allows accelerated payments, improved cash flow and reduced credit losses for both SMEs and large enterprises.
4. It saves a lot of paper, so makes a direct contribution to carbon savings and environmental gains.
5. Improves competitiveness of enterprises and raises productivity and customer satisfaction in both the public and the private sector.
6. It can enable workforce transition to greater productivity, acting as a learning vehicle leading to increased use of electronic practices in both public and private sectors.

WHAT SHOULD UK DO NOW?

Given that e-invoicing offers the UK substantial unrealised benefits and that the position and support of public authorities is a clear driver for e-invoicing, HM Government needs to make it a public policy priority, and learn from other EU Member States. Current economic circumstances present a clear opportunity for the new administration to take a lead in promoting e-invoicing and by mandating e-invoicing when trading with government, to cut public sector costs and drive adoption by SMEs. Taking no action can only lead to continued waste and to the UK falling further behind European counterparts in terms of the costs of public administration falling on UK enterprises.

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ANNEX: CASE STUDIES

Forrester Research recently completed a case study of a global pharmaceutical company that transformed its invoice process. This company processes nearly two million invoices per year through shared service centres, but was suffering with a 20-day backlog of unprocessed invoices—causing many to be overdue for payment even before they were touched by an AP clerk. The implementation of an effective e-invoicing solution therefore not only reduced cost in the company's AP function but also improved working capital flow through that company's supply chain.

http://www.ariba.com/resourcelibrary/views/resource_library_asset_brief.cfm?asset_id=524

The Danish experience is set out in study undertaken by the Politechno di Milano School of Management in May 2008:

- Electronic invoicing mandatory in Denmark from February 2005
- 18 million invoices p.a sent to public authorities
- Average annual saving for Danish authorities of €120-150 million*
(The business case for adopting e-invoicing conducted by KPMG in 2003 calculated each minute saved in the handling of 15m invoices would save 12 m Euros and that a conservative estimate was that 10 minutes could be saved in the handling of each invoice if received electronically. And that a further 7 minutes could be saved per transaction if an automatic match could be found between an electronic order and electronic invoice creating a potential saving of 200m Euros.)
- Large companies connect via a gateway to a VAN to send their invoices to public authorities, SME's can use scanning agencies or e-invoicing portal solutions. Today 70% are sent via VAN's, 30% via scanning agencies with minimal via the e-invoicing portals.
- Average saving €7.5 per invoice for public sector.

*Note: an EC Study of E-Invoicing in Public Procurement (March 2009) identified larger savings of €500 million annually for Denmark.

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The Politechno di Milan also studied the Swedish experience:

- December 2006 norm stipulated invoices received or issued by public sector must be in electronic format
- Swedish authorities receive 11 million invoices p.a
- 2005 study gave annual savings of €100 million
- Average saving €9 per invoice for Swedish public sector

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The Scottish Executive published an e-invoicing project in January 2006. It based the project on evidence gleaned from successful deployment of similar projects elsewhere. It projected e-invoicing being introduced on some 300,000 invoices with:

- Project cost assessed at £600,000 over 2 years
- Project benefit assessed at £1.7 million annually within 2 years of implementation
- Cost saving per invoice received by Scottish Executive and its partners through the introduction of e-invoicing assessed at £5.66 per invoice

<http://www.scotland.gov.uk/Resource/Doc/55971/0015406.pdf>

A Finnish study reported that:

- The Confederation of Finnish Industries has estimated the savings from the digitisation of B2B invoices alone to be €2.7 billion.
- The Finish State Treasury and some companies estimated that an incoming paper invoice incurs costs of 30-50 Euros to the receiving company and that by moving to e-invoicing those costs could be reduced by 80%.

<http://is2.lse.ac.uk/asp/aspecis/20080110.pdf>

The Federation of Enterprises in Belgium has calculated that companies in Belgium could save 3.5billion Euros by introducing e-invoicing.

Pan-European studies

There have been a number of European studies that have looked at the benefits of e-invoicing. The scale of benefits identified seems to depend in part on whether e-invoices are fully automated or not. To scale down European studies into the UK it is worth noting that according to Eurostat the UK GDP represents 14.5% of EU27 GDP. http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

- The European Association of Corporate Treasurers (EACT) stated that realising electronic invoicing could significantly reduce supply chain costs by €243 billion across Europe as well as help streamline business processes and help drive innovation. (NB. a potential €35 billion benefit to the UK).
- Billentis estimates that in 2009 the annual volume of invoices across Europe was over 30 billion with only 3% electronic. However it also recognised that e-invoicing was achieving growth levels of the order of 40%. Electronic invoicing can reduce current costs for bill issuers and bill recipients alike by €6-7 per invoice. http://www.billentis.com/EBPP_EIPP_e.htm.
- Billentis estimated that in 2007 the EU generated 29 billion invoices and that 20 billion letters could be avoided by implementing e-invoicing (saving 12 million trees, 2,700 tonnes of ink, 165 million litres of diesel and 1,350GWh of energy every year)
- Forrester Research has assessed that for suppliers electronic invoices are 82% cheaper than the variable paper and delivery cost of a traditional invoice and that customer service calls are 10% lower for e-invoice adopters. They have identified similar benefits for buyers. <http://www.forrester.com/rb/research>
- NACHA the European Payments Association has estimated that days outstanding can be reduced by 4 days in the year following E-Invoicing adoption. <http://www.nacha.org>
- PWC's International Survey Unit from Belfast carried out a pan European study on e-invoicing in 2005. The vast majority of respondents saw increased efficiency (71%) and cost reduction (61%) as benefits of e-invoicing while 38% cited faster customer payments as a benefit. Around 20% saw fewer disputes, and moving in line with customer and supplier preferences as benefits. http://www.pwc.fr/fr/pwc_pdf/pwc_e-invoicing.pdf
- CAP Gemini undertook a study in 2006 which estimated the payments related operational cost of invoicing on the demand side was €112 billion for EU16, that 80-90% of invoices were based on paper and that electronic invoicing reduced the cost per invoice by 70-75%. http://ec.europa.eu/internal_market/payments/docs/sepa/sepa-capgemini_study-final_report_en.pdf
- European Commission presentation records an unattributed French case study from 2001 suggesting B2B savings of Euro 40bn.

Allied to e-invoicing are a number of initiatives that support global trade flows including:

- **SWIFT Trade Services Utility (TSU)** is a collaborative centralised matching utility that is designed to help banks meet the supply chain needs of their customers. Banks will build individually on the core functionality of the TSU to offer services such as financing, payables/receivables management, logistics and risk mitigation.
- **TradeCard** connects buyers, sellers and their service partners on a hosted, paperless platform and supports a range of services that automate financial processes.
- **Tradocs** is a global trading system that enables businesses to trade electronically by quickly exchanging documents, such as purchase orders and invoices, securely over the Internet.
Bolero is a neutral secure platform enabling paperless trading between buyers, sellers, and their logistics providers

CONCLUSION FOR THE UK

Taking the midpoint savings as suggested by Billentis of €6.5 per invoice and its estimate that in 2007 the UK had 4.2 billion invoices, the potential benefits to the UK arising from the full adoption of e-invoicing could be of the order of €27billion.