

# Electronic Invoicing

The next steps towards digital government



**“Electronic invoicing could save the public sector and its suppliers a minimum of £2 billion per annum by streamlining UK government administrative processes at a stroke. By enabling government to use its immense purchasing power, elnvoicing could open up new markets throughout the country and help drive innovation and economic growth.”** Stephen McPartland MP

# **This Report is the result of an Inquiry into electronic invoicing ('eInvoicing') in the UK public sector.**

It explores the benefits and barriers of eInvoicing, how it is currently used in the private sector and in other countries. It proposes a series of recommendations that could be implemented by policymakers to encourage greater adoption. This in turn would support SMEs and help stimulate economic growth throughout the regions and champion the UK as a global leader in this area.

We live in a world driven by digital innovation where efficiency and productivity benchmark new standards and expectations for business. Whilst the UK has some way to go in matching the most efficient countries in the use of eInvoicing in the public sector, the challenges are not insurmountable if the political will exists. The new European eProcurement Directives on Public Procurement, Utilities Procurements and Concessions Contracts help to provide a focus for an increased pace of change, which the UK Government should embrace.

# Foreword by Stephen McPartland MP



**eInvoicing  
should be  
viewed as an  
integral part  
of the delivery  
process and  
solution**

Electronic invoicing could save the public sector and its suppliers a minimum of £2 billion per annum by streamlining UK government administrative processes at a stroke. By enabling government to use its immense purchasing power, eInvoicing could open up new markets throughout the country and help drive innovation and economic growth.

Why then, has the UK been so slow in adopting eInvoicing in the public sector? What are the barriers and solutions to increased adoption? Does government need to mandate its use? What levers could be used to encourage greater use of eInvoicing and develop best practice and leadership throughout the public sector? What can the public sector learn from the private sector? What has been the experience within the EU and what can we learn from other areas of the world?

The European Commission's recent announcement to support eInvoicing by giving approval to the development of a standard to support interoperability across the EU has provided a clear target. Now is the perfect opportunity for the UK Government to lead by best practice, accelerate implementation and drive a significant process change throughout the public sector.

I assembled a committee from industry, academia, economics and subject experts for the Inquiry, to ensure that the many opinions and views expressed could be challenged and examined to produce an analysis and a set of apolitical recommendations.

During the course of the Inquiry we heard from many experts, business leaders and organisations who were all united in the desire to see an increased adoption of eInvoicing throughout the UK public sector, even if their opinions on how to achieve this varied.

The public sector is under increasing pressure to provide numerous services efficiently and cost effectively - eInvoicing should be viewed as an integral part of the delivery process and solution. There is also an urgency to act to address inefficiencies and protect front line public sector roles.

I hope the recommendations in this Report will provide policy makers and decision takers with a pragmatic approach to drive an ambitious, targeted adoption of eInvoicing throughout the public sector. After all, we live and work in an increasingly global world being driven by digital innovation and the UK's public sector cannot afford to be left behind. Nor can those businesses linked to public service delivery afford to lose a competitive edge. Now is the time for action!

Finally, and by no means least, I wish to thank all of the Committee for so generously giving their time and expertise for which I am most grateful, and to MasterCard for their support of the Inquiry and Report.

A handwritten signature in blue ink that reads "Stephen" with a horizontal line underneath.

**Stephen McPartland  
MP for Stevenage**

# Acknowledgements

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# Executive Summary – Key Findings & Recommendations

## **Theme 1: The adoption of eInvoicing in the UK public sector supporting economic growth**

**Key Findings:** The public sector would benefit from a more efficient process and a minimum of £2 billion per annum savings; there is a genuine need for HM Treasury/Cabinet Office/National Audit Office to establish the real and measurable savings for eInvoicing across the public sector, with a defined official methodology; eInvoicing improves liquidity to SMEs through being paid on time and paying their suppliers faster; Government has the opportunity to generate economic growth and innovation through its immense purchasing power.

**Recommendation:** The Government should encourage transparency and greater efficiency by establishing defined targets for eInvoicing in the public sector, for example, by including how much they pay by eInvoicing and how quickly they pay, in their annual reports.

## **Theme 2: Learning from the UK private sector**

**Key Findings:** The public sector should promote the productivity and financial benefits of eInvoicing both internally and to the supply chain; there is a need to agree on a common set of standards; the adoption of eInvoicing as a contractual requirement should be accompanied by guidance to implementation, leveraging best practice from the private sector and around the world.

**Recommendation:** Make eInvoicing a contractual requirement in the public sector and set common standards against the background of the European eProcurement Directives, based upon learnings from the private sector.

## **Theme 3: Learning from other countries**

**Key Findings:** Mandating eInvoicing has increased the speed of adoption in other countries; there is a widespread perception that cost is a barrier to adoption, which can be addressed through offering nil cost solutions to SMEs - VAT returns could act as a measure to confirm the threshold under which small businesses do not pay to participate; the lack of access to clear data on eInvoicing across the public sector along with the complex public sector structure further inhibits change, however potentially beneficial it might be.

**Recommendation:** The UK should be moving from average to world leading and, by looking at the experience of other countries, seriously consider whether mandating is required in the public sector.

## **Theme 4: European legislation provides a framework for change**

**Key Findings:** There is a need to rapidly transpose the implementation of the European eProcurement Directives and simultaneously introduce eInvoicing, as without this SMEs in particular and public sector in general will not reap the full benefit; no large IT project is required to implement eInvoicing.

**Recommendation:** The Government should ensure that the rapid transposition of the European eProcurement Directives through legislation also confirms an obligation to adopt eInvoicing.

## **Theme 5: Greater inclusion of SMEs in the public procurement process**

**Key Findings:** eInvoicing must be easy and cost effective to ensure greater SME participation; the Government should seek to increase the number of SME suppliers in the UK public sector supply chain.

**Recommendation:** eInvoicing solutions should be paid for by efficiency savings, and be free to small businesses (up to a defined level of activity) to encourage and ensure their involvement.

# Introduction

**eInvoicing has been around for over 30 years**

eInvoicing is the complete removal of paper from the invoicing process and replacing it with electronic versions. This is not a new or even recent phenomenon. Some of the earliest eInvoices were sent over 30 years ago and since then have continued to be adopted in the private and public sector at a variable pace.

There are numerous options for the delivery of eInvoicing, from technical process integration capable of processing transactions for both suppliers and buyers, through to online models sent via the Web.

**There is a long way to go for wider adoption**

The growth of the internet and developments in technology has meant that eInvoicing has become more affordable with greater adoption across different sized businesses, sectors and geographical locations, improving accounts operations, Business to Business (B2B) and Business to Government (B2G) interaction. In recent years, eInvoicing has slowly started to be adopted by both the UK's public sector and 4.9m SMEs<sup>1</sup>, but it was acknowledged throughout this Inquiry that there is a long way to go in order to achieve widespread adoption.

The main driver behind the recent increase in adoption of eInvoicing has undoubtedly derived from a governmental level, but there are far from common standards or processes, which in turn create other issues for businesses to consider. Additionally, tackling inefficient processes in parallel is also essential in a time of reduced public sector spending.

Whilst the Committee acknowledges the scope of eInvoicing potential through many public and private sector routes, both in the UK and globally, the focus of this Report is towards the greater adoption of eInvoicing in the UK public sector.

# Theme 1: The adoption of eInvoicing in the UK public sector supporting economic growth

**End-to-end cost savings for the entire UK public sector alone of between £4-£6billion**

**Releasing working capital... creates employment opportunities**

The Government's priorities of deficit reduction, economic growth, greater competition and financial transparency are closely aligned with the potential benefits promised by eInvoicing in the UK public sector.

"The UK National eInvoicing Forum has calculated that the end-to-end cost savings for the entire UK public sector alone, inclusive of procurement, invoicing, fraud reduction and supply chain finance, are between £4-6billion. At about a third of all public spending, purchasing is split 30% by central government and 70% by local public bodies, including NHS trusts."<sup>2</sup>

These significant potential savings are generated by more efficient and accurate processes, improved compliance and leveraging the buying power of the public sector, which could be redeployed to protect front line services and increased investments throughout the UK public sector.

Furthermore, eInvoicing:

- would support and stabilise cash flow along the UK public sector supply chains
- reduce VAT fraud
- promote eProcurement efficiencies and the adoption of eInvoicing by UK SMEs and corporates
- does not require central government IT investment
- could help the UK lead the EU Digital Agenda.<sup>3</sup>

The implementation of straight through eProcurement across the public sector, with all phases of the process from sourcing, invoicing and payment being conducted electronically, would reduce the cost of trading and support economic growth by making it easier and cheaper for suppliers, including SMEs, to do business with Government.<sup>4</sup>

Apart from the obvious environmental benefits of reducing paper usage and trafficking of invoices, the resources that "could be diverted from the management of procurement and invoicing data towards more productive market engagement and the securing of better deals from providers,"<sup>5</sup> should not be overlooked.

"It makes no sense to deploy the inefficient use of old fashioned paper as an instrument to process twenty-first century business transactions."<sup>6</sup> eInvoicing reduces the process costs, and by introducing it as part of an end-to-end eProcurement solution, including ePayments, the public sector has the potential to pay suppliers within two working days and the buyer settles on standard terms.<sup>7</sup> All suppliers, irrespective of size, view cash flow as critical to business but particularly so in the SME community. The ability to receive early or prompt payment would have a major impact on releasing liquidity, the ability to invest in the future and create employment opportunities.<sup>8</sup> This could "create an enormous impact of 0.3% to the GDP."<sup>9</sup>

BACS reported in 2013 that the amount tied up in late payment had risen to nearly £30billion.<sup>10</sup> The Forum of Private Business research illustrates late payment is having

## **FPB recommends that the government backs eInvoicing in the public sector to prevent late payment**

## **From eInvoicing case studies, the business case is pretty much well-made (BIS)**

significant impact on business development, productivity and growth. Access to finance, cost of finance and credit trade insurance were all cited by business as problems linked to late payment.<sup>11</sup> The cross-party campaign group *'Be Fair, Pay on Time'* Report further referenced how prompt payment is crucial for SMEs.<sup>12</sup>

The premium value of a public sector payment approval in electronic form to SMEs could be substantial in helping them circumvent difficulties when seeking to secure funds from banks. Electronic approvals are a flexible, fast, competitively priced collateral for raising business finance via eInvoice auction companies.<sup>13</sup>

The Government's ambition to increase the share of public procurement with SMEs to 25%, would stimulate growth and development of businesses.

The greater use of eInvoicing would give the public sector an increased choice of service providers, and suppliers would benefit from a level playing field, enabling competition to flourish from wider markets and SMEs to challenge the largest companies for trade.<sup>14</sup>

By using its immense purchasing power, the Government could open up new markets throughout the country and help drive economic growth and innovation throughout the regions. "...Having seen some of the case studies that we are beginning to get through, and particularly from local-authority users of eInvoicing, the business case is pretty much well-made."<sup>15</sup>

"Global research shows that four things are required to drive adoption:

- Strong sponsorship
- Great content
- A good system, free to suppliers
- A change programme which moves the organisation to 21st Century technology"<sup>16</sup>

If all public bodies insisted on inbound invoices being electronic or required to do so by law and also sent their own invoices electronically, this would set a precedent. That said, "in any shift towards eProcurement across government, there will need to be a sufficient period during which existing and eProcurement systems are valid."<sup>17</sup>

The public sector has the opportunity to stimulate growth throughout the wider community by adopting digital processes with productivity gains throughout the economy.

HMRC alone "...would derive significant benefits if there was a level-playing field on how we report transactions. It would be much more efficient for them to look at the taxation element and at how they manage the tax take."<sup>18</sup>

The UK digital economy, key for generating growth, could be denied an important incentive for growth and innovation if the UK public sector fails to implement widespread eInvoicing adoption.<sup>19</sup>

## Total savings target of £2billion a year as a result of public sector adoption of eInvoicing

### A worked scenario

“The benefits from eInvoicing vary according to the supplier’s profile, buyer’s systems, and the potential for full integration with back-office systems and end-to-end workflow.

The scenario below takes a conservative approach and demonstrates ways of further increasing the benefits.

The total public sector procurement of goods and services in the UK is £230billion per annum. The average face value of a public sector invoice lies in the region of £2,000.

On this basis, with approximately 115 million invoices, total savings for buyers amount to £1.15billion, to which £575million can be added from total savings to suppliers.

It is then reasonable to add a figure for fraud reduction. The National Fraud Authority reports that the UK public sector suffers from fraud worth £1.4billion per annum. By applying a 15% reduction target as a result of improved invoicing, a further £210million savings potential is perhaps possible. We can then identify a total savings target of £2billion per annum as a result of public sector adoption of eInvoicing.

Further potential for savings will lie in the implementation of fully automated, end-to-end e-procurement from notification through to contract, order, invoice and payment. Further benefits will also arise from the improvement in VAT revenue collection and the elimination of tax evasion, and from environmental benefits.”<sup>20</sup>

**Directly attributable savings of £15.6million, at an incremental saving to the NHS of more than 13.5%**

## Case Study

Shared Service Connected Limited (SSCL) provides the shared services for the Department of Work & Pensions.

“The major driver for growth from the adoption of eInvoicing relates to savings in the cost of administration of the accounts payable function, in the purchasing organisation and perhaps less frequently discussed the costs of administering the accounts receivable function in the vendor organisation.

Savings of up to 80% can be obtained depending on an organisation’s start point. (Appendix 2)

The reduced cost of processing can be a competitive advantage leading to growth in terms of both offering reduced pricing but also the ability to e-invoice may be attractive to a large adopter of e-invoicing.

SSCL has a supplier induction pack, developed work queue (quasi electronic) and are at about 86% leading the way across government.”<sup>21</sup>

## Case Study

NHS Supply Chain is generating real cash savings for trusts by increasing the number of suppliers and volume of invoices electronically. “The Fund has achieved directly attributable savings of £15.6million, at an average incremental saving to the NHS of more than 13.5%.”<sup>22</sup>

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**Recommendation:** The Government should encourage transparency and greater efficiency by establishing defined targets for eInvoicing in the public sector, for example, by including how much they pay by eInvoicing and how quickly they pay, in their annual reports.

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# Theme 2: Learning from the UK private sector

**97% of local authorities say they will pay in 30 days yet only 62% do**

**There are clear examples of best practice in the grocery sector**

eInvoicing and eProcurement within the UK private sector has increased significantly and is expected to grow substantially in the coming years.

Whilst the UK public sector strives to be more efficient, it must embrace and champion eInvoicing as key to driving supply chain efficiencies and optimising business processes and competitiveness. “We are certainly a very long way from the consumer experience of technology.”<sup>23</sup> Furthermore, when local authority budgets are cut, often internal IT budgets are as well, limiting the scope for future efficiencies. The public sector needs to “go for efficiency rather than cost cutting.”<sup>24</sup>

The Federation of Small Business states that it is unacceptable that “97% of local authorities...have published the fact that they will pay in 30 days, yet only 62% do.”<sup>25</sup>

The UK public sector should learn from the best practices that can be found in the UK private sector on all matters relating to public procurement, which includes the roll out of eInvoicing<sup>26</sup> and in turn, issues such as data security. The UK retail and grocery sector, which has been at the forefront of implementing eInvoicing over 30 years are clear examples of best practice.

“GS1 UK’s research of the top15 grocery retailers covering 90% of the sector found that the sector saves £650million per year in costs by using eInvoicing (EDI) instead of manual, paper-based processes for its orders, invoices and despatches advices.”<sup>27</sup> It is not difficult to envisage the substantial savings for the UK public sector should eInvoicing become more widely adopted.

Tesco is one of the world’s largest retailers which sends and receives more than one million business documents every month - working with more than 500,000 suppliers globally. Processes have been automated through offering flexible options to suppliers, such as EDI or multiple web options, combined with attractive payment terms for those suppliers prepared to trade electronically.<sup>28</sup>

Marks and Spencer delivered a business led B2B programme as part of a long term growth strategy, affecting every area of their business – merchandise, food, supply chain, stock planning, allocation and replenishments. M&S process over two million invoices per annum, with some invoices containing hundreds of line items, matching to a Purchase Order and Goods Receipt, with a first time pass rate of 97%.<sup>29</sup>

The private sector has largely addressed redundant processes and reduced Accounts Payable functions. Outsourcing and Shared Service Centres have been a standard operation in larger private sector organisations for decades, but are relatively recent developments in the public sector. However, where processes have not been automated, the migration to shared services only reduces the cost, referred to as ‘your mess for less.’ “You are not solving a problem, you are shifting it.”<sup>30</sup>

## Leadership within the public sector is paramount

Leadership within the public sector is paramount if there is to be greater adoption of eInvoicing. It is up to the purchasers in the UK public sector, such as local authorities and public bodies, to take the initiative in driving the adoption of eInvoicing but they need to be supported and encouraged in their decision by central government.

Merely adopting a passive willingness to accept eInvoices and waiting for suppliers to seize the initiative themselves will never achieve the full potential, as has been the experience of enterprises such as Tesco and Aviva where the Boards of those companies have driven change.<sup>31</sup>

Consumers habitually buy online and accept electronic invoices / receipts. Today public and private businesses are certainly buying online and buyers can now use their current eProcurement processes to buy in a fully compliant way, accepting eInvoices and making ePayments.

The private sector experience directs the public sector to promote the productivity and financial benefits of eInvoicing, both internally and to suppliers. It should agree on a common set of standards for eInvoicing compliant with EU eInvoicing rules. All public sector authorities and bodies should be committed by legislation to adopting eInvoicing by a specified date and against the background of the EU eInvoicing proposals.

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**Recommendation: Make eInvoicing a contractual requirement in the public sector and set common standards against the background of the European eProcurement Directives, based upon learnings from the private sector.**

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# Theme 3: Learning from other countries

### Mandating eInvoicing has seen rapid adoption in other countries

There are differences of opinion as to whether or not the UK is leading the way with eInvoicing. Whilst there are examples of excellence in both the public and private sector, there is much that still needs to be done. The infrastructure in the UK is comparable to most European countries and the “European Commission Impact Assessment suggested that the UK was very close to the overall EU average in public sector eInvoicing.”<sup>32</sup>

Those countries that have made eInvoicing mandatory and, whose governments have made an effort to implement it, have moved at a more rapid pace, for example Denmark, Norway and Portugal.<sup>33</sup> The lack of clear government policy direction and prioritisation, shared service facilities and expertise in implementation are arguably all acting as inhibitors in the UK public sector. “Suppliers will not tend to change their process until their buying customers create a demand.”<sup>34</sup>

The UK is well placed in the global market to be a leader but it requires significant central direction, legislation, a mandate and policy enablers if it is not to lag behind countries such as the Nordics and fiscally driven schemes launched by governments such as Brazil, Mexico, Korea and Turkey.<sup>35</sup>

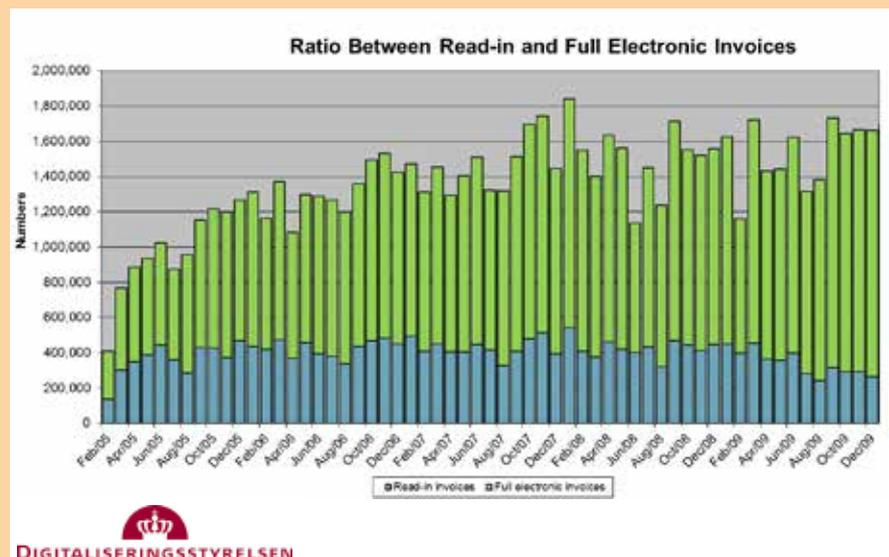
Nordic countries are often cited as European leaders in the adoption of eInvoicing. They have been engaged in electronic procurement for some time, contain a significant proportion of Europe’s Billion Euro businesses and, in the case of Finland and Denmark, their position has been further enhanced by mandates that stipulate all public sector bodies must receive invoices in electronic format.

## Case Study: Denmark

The Ministry of Finance analysis stated that the public sector could save €135million per year, by optimizing the fund transfer process. The report further stated that paper-based invoicing would be a prime candidate for digitisation - with 15 million invoices per year at an estimated €2 reduction in handling cost per invoice, savings could reach €30 million per year. Change and adoption was instigated by legislation - the argument being that the public sector and all companies had to be committed to eInvoicing in order to ensure critical mass. High speed broadband was also important in ensuring widespread adoption.

As of February 2005, paper invoices were no longer accepted by the public sector buyers and payments were withheld until the invoice was received in the correct format. However, it is broadly acknowledged that to gain the real efficiency benefits like order and invoice match, the whole procurement process needs to be electronic. The experience of SMEs varied but the principle that eInvoicing should be as easy as email was applied to ensure benefit. The outcome has been impressive - within a year and a half, nearly 98% of invoices were received electronically and the public sector embraced eInvoicing as essential for efficiencies in a time of budget constraints.

### The result was impressive



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The UK, whilst close to the overall EU average, lags behind many of our global competitors. In Brazil, eInvoicing is used as a method for providing the tax authorities with a solution to combat tax evasion and fraud - they refer to an eInvoice as an 'electronic fiscal note' reflecting the tax focus of their initiative. In Portugal, eInvoicing has led to 30% more taxable invoices being processed.<sup>37</sup>

A mandate in the Mexican model is that companies over a certain turnover must comply, which is achieved by reviewing VAT reclaims.<sup>38</sup> In the UK, something similar could be achieved based on company turnover or on the number of invoices processed per annum.<sup>39</sup>

The UK appears to lack both the Scandinavian Governments' sense of mission to run a cost-effective public sector, and the Brazilian tax authorities' mission to actively and thoroughly address tax losses from evasion and fraud.<sup>40</sup>

The UK public sector is arguably more protected from commercial pressures than the private sector that drives change and encourages the take up of eInvoicing. Whilst "a change in administrative culture needs to be brought about,"<sup>41</sup> this must be balanced alongside challenging budgetary constraints within the UK public sector.

There is a widespread perception of cost which is arguably one of the main barriers to adoption. However, the Danish experience shows this not to be the case in reality. Implementation costs incurred by the Danish Government to set up an eInvoicing system nationwide were in the region of €10million, with ongoing annual maintenance costs of around €1 million.<sup>42</sup> The cost of implementation is far exceeded by the ultimate cost benefits.

In addition, the lack of access to clear data on eInvoicing across the public sector along with the complex public sector structure further inhibit change however potentially beneficial it might be.

The European Parliament Report A7-0083/2012<sup>43</sup> on 'competitive digital single market - eGovernment as a spearhead' and the recent European Commission announcement means there is an urgent necessity to set standards, champion existing best practice and catch up with other countries. The UK needs to move from average to leading in the world on eInvoicing - now is the perfect opportunity for the UK public sector to get ahead and "follow common sense for the common good."<sup>44</sup>

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**Recommendation: The UK should be moving from average to world leading and, by looking at the experience of other countries, seriously consider whether mandating is required in the public sector.**

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# Theme 4: European legislation provides a framework for change

**The UK should lead the way in early adoption of European procurement legislation**

The 2014 European eProcurement Directives<sup>45</sup> have been approved by the European Parliament and EU Council. The Directives have since been published in the Official Journal of the European Union and are subsequently now a legal requirement.

The Government is aiming to implement these Directives by the end of 2014 so that the UK can benefit as soon as possible from the improved flexibilities they offer.<sup>46</sup>

The Directives provide an incentive to pick up the pace and the opportunity in which the Government can lead the way in eInvoicing - improving efficiency and visibility.

The public sector embracement of full end-to-end eProcurement will not only have considerable benefits for eInvoicing but undoubtedly impact the entire EU Single Market, reducing the cost of doing business digitally and driving growth.

## Case Study

In June 2013, the European Commission issued a press release regarding the then proposed directive on eInvoicing in public procurement, which estimated that the savings per invoice could be as much as €30 - €50.<sup>47</sup>

Denmark has already implemented public sector eInvoicing and has estimated a saving of approximately €130million per annum. When scaled up for the UK, this is equal to €1.5billion per annum.<sup>48</sup>

The general view for public sector buyers is that there exists a savings potential from eInvoicing of up to €11 per invoice for buyers and around €6 for suppliers, which equates to at least a 60%<sup>49</sup> saving over the cost of processing a paper invoice and 10 minutes of staff effort per invoice.

The Billentis eInvoicing / e-Billing report 2013 estimates a minimum UK public sector saving of €4.4bn per annum.

**A measured approach by Government is advisable to ensure value for money**

The Directives provide new measures to reduce the pre-contractual cost burden for SMEs. "SMEs or companies that want to submit proposals only have to confirm their bona fides as an operating company. They do not have to submit all of their historical accounts or all other costs unless they actually get the tender."<sup>50</sup>

The advancement for the completion of the digital single market should be significant. Benchmarking will give intelligence on the cost of goods and services across the public sector and enable buyers to identify value for money and or alternatives.<sup>51</sup>

"It is important that, at the start of the transposition process, the Government sends a strong signal internally and to the market that it has a clear strategy

### There has to be some form of interoperability between service providers

for ensuring eInvoicing will become the norm over time in parallel with this shift across Europe towards dynamic procurement systems.”<sup>52</sup>

There is no doubt that the UK will be at an economic disadvantage unless the Government addresses the impact of the new Directives as a matter of urgency. The Government and service suppliers need to work in collaboration to drive adoption. It is encouraging to note that “a lot of the ideas (for the reform of the European Public Procurement Legislation) have come, actually, from the UK.”<sup>53</sup>

Furthermore, it is important that when developing policy, it aligns with the aims and objectives stated by the European Commission and the semantic data model of the core eInvoice - the new European standard. But there also “has to be some form of interoperability between service providers”<sup>54</sup> to allow the digital single market to flourish.

The Government should consider ensuring that the adoption of the Directives through the legislative process is aligned with the obligation for the public sector to also adopt eInvoicing systems within the same timeframe and irrespective of their financial size. Otherwise, it is possible that the majority of SMEs will not benefit, and the public sector will continue to not embrace eInvoicing as is currently the case.<sup>55</sup>

Government does not need to launch a large open ended IT project. Instead, it needs to focus on the obligation of the EU’s ultimate goal of straight through eProcurement and ensure that it does not result in it being incredibly difficult to implement, potentially consuming internal resources to no effect and delaying the benefits of eInvoicing, dampening economic growth and setting back the widespread achievement of eInvoicing already demonstrable by leading practitioners in a number of public authorities.<sup>56</sup>

Improving processes and methodologies for gathering EU-wide statistics on adoption and organising expert European Union wide groups is necessary if the real potential of eInvoicing is to be achieved.

“There is potentially significant added value contributing to overall economic growth, which stems from the coordinated roll-out of eInvoicing in the public sector across the EU, to be brought about with this new Directive.”<sup>57</sup>

Finally, whilst the timeline for change and adoption in the past has been relatively quick, with technological ambition and central government taking a lead, advances in adoption rates throughout the UK public sector could be even quicker.

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**Recommendation: The Government should ensure that the rapid transposition of the European eProcurement Directives through legislation also confirms an obligation to adopt eInvoicing.**

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# Theme 5: Greater inclusion of SMEs in the public procurement process

The UK Government spends £230 billion per annum on non-payroll and non-benefit related purchases. Its 'aspirational target' to increase the share of public procurement with SMEs to 25% by 2015<sup>58</sup> could help create a level-playing field, generate growth of existing and new business throughout the country, and also create improved competitive choice and services from more local and regional suppliers.

"The benefit of eProcurement data analysis can also identify local supply voids that business support agencies can utilise to encourage local supply chains and consortia-type bidding."<sup>59</sup> However, the inclusion of SMEs in the public procurement process "needs to be balanced with best value delivery and an understanding of the competitive process."<sup>60</sup>

For SMEs to effectively engage in the public procurement process, which is often protracted, there needs to be change and inherent value. Too often where eInvoicing has been adopted, SMEs simply cannot afford to buy the technology or spare the resources to apply and often need support from government on understanding the chosen eInvoicing process.

**Costs should be covered by efficiency savings rather than suppliers**

"There is still an understandable reluctance among small businesses to using new technologies."<sup>61</sup> The Federation of Small Businesses are adamant that "the costs of implementation should be taken out of savings and not merely passed onto suppliers...There is one London Borough already that has introduced eInvoicing and is making a charge of £1,000 per supplier to fund the project. That means a number of SMEs will no longer deal with that London Borough."<sup>62</sup> However, in Denmark smaller suppliers paid no fees. From a suppliers' perspective "it needs to be cheaper than a price of a stamp."<sup>63</sup>

By encouraging and assisting SMEs to become suppliers to the public sector there would be a substantial impact on the adoption of eInvoicing and the "SME community would benefit from the lower transactional costs with their customers and with government."<sup>64</sup> "The eInvoicing habit would spread as SMEs become more experienced in generating eInvoices."<sup>65</sup>

Furthermore, if eInvoicing was introduced as part of an end-to-end eProcurement solution that included ePayments, SMEs would see direct benefit through the multiplier effect of payments through supply chains, supporting the growth agenda.

### **eInvoicing solutions should encourage SMEs to become public sector suppliers**

The European eProcurement Directives allow for the provision of “more generalised negotiations between public and private partners before full tenders are published. This will foster a dialogue between innovative SMEs and the public sector in shaping future procurement requirements.”<sup>66</sup> They also enable ‘innovative partnerships’ allowing innovative SMEs to identify what will be core forthcoming procurement requirements within public bodies.

“All the evidence from many countries, inside and outside Europe, is that eInvoicing is very attractive to SMEs because it reduces their costs, and generally they get paid more quickly and without too much difficulty.”<sup>67</sup>

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**Recommendation:** eInvoicing solutions should be paid for by efficiency savings, and be free to small businesses (up to a defined level of activity) to encourage and ensure their involvement.

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# Conclusion

The greater adoption of eInvoicing in the UK public sector is an area of real opportunity. It could save the public sector and its suppliers a minimum of £2 billion per annum. The potential should be viewed as an important part of the Government's agenda around improving public sector performance, safe guarding front line services and encouraging economic growth.

In a future where public spending constraints are expected to continue, it is vital that the Government takes advantage of the potential benefits offered by eInvoicing, placing the UK public sector at the forefront of efficiency with eInvoicing part of any contractual requirement and extracting "the maximum amount of cost from the system and ensure resources are diverted to service delivery."<sup>68</sup>

The savings estimates are based on publicly available data and industry averages. To establish what the real savings would be, HM Treasury should consider reviewing the potential of widespread adoption of eInvoicing in the UK public sector. To further drive adoption, the Government might consider each public sector entity including how much they pay by eInvoicing and how quickly they pay, in their annual reports.

In adopting eInvoicing, the public sector need not invest in a centralised IT project with large capital investment. Instead, the industry is already well supplied with many solution providers in a competitive landscape. There is also a case for re-using existing payments infrastructure, including Government Purchasing Card payments embedded within the existing Government eMarketplace, to enable a new market for SME eInvoicing.

The European eProcurement Directives should encourage the Government to be proactively engaged and establish a clear plan on how to implement it within a timeframe, with clear milestones for assessment. This should include involving HMRC in understanding the new rules, and how they affect VAT rules for eInvoicing and setting common standards. It should also ensure that the rapid transposition of the European eProcurement Directives through legislation confirms an obligation to adopt eInvoicing.

**Now is the time for change, with clear ambition and policy direction.**

# Appendix 1: Benefits

## Benefits to buyers

- Eliminate manual data processing
- Reduce or eliminate data errors
- Enable compliance with regulations
- Improve purchase order or contract compliance
- Eliminate the processing of duplicate invoices and the duplicate processing of invoices
- Remove the need to archive paper invoices (the current retention period in UK is six years)
- Refocus staff on more valuable work
- Reduce invoice fraud
- Achieve more accurate, quicker reporting and audits
- Improve payment-on-time metrics or enable early payments
- Collate and store line-level invoice data to enable detailed analysis of spend variance
- Support corporate social responsibility programmes

## Benefits to suppliers

- No delivery or print costs
- Guaranteed, secure delivery
- Automatic validation of invoices ensures errors are corrected early
- Eliminate the potential for lost invoices
- More predictable payment
- Increase visibility of the payment process
- Make fewer phone calls chasing payment updates
- Improve days sales outstanding
- Greater access to early payment and improved cash flow
- Support corporate social responsibility programmes

# Appendix 2: Process Savings

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**The following 10 areas can lead to savings of up to 80% depending on an organisation's start point:**

<b>1. Digital Invoice Capture</b>	No requirement to sort, and rekey from supplier into buyer system
<b>2. Automated Invoice Validation</b>	Automatic checking of arithmetic, part nos, PO no, VAT and other required fields
<b>3. Automated Matching</b>	Matching between contract, PO, invoice and Goods Received Note
<b>4. Vendor Self Service</b>	Avoidance of call centre costs(both parties) to establish receipt, recording and status of invoice. Should be available on portal
<b>5. Cash Management</b>	Greater visibility allows better cash/currency forecasting and avoidance of short term borrowing for a missing large invoice
<b>6. Account Reconciliation</b>	Visibility of makeup of consolidated payments with offsetting credits, discounts
<b>7. No paper</b>	Avoidance of postage/paper and storage costs
<b>8. Spend management</b>	Visibility can identify fraud, waste, and abuse by combining purchasing, contract, and AP in a data warehouse
<b>9. Early payment discounts</b>	Faster approval and payment cycles allows a variety of discount methods to be applied
<b>10. Evaluated Receipts Settlement</b>	Buyer generates and pays supplier invoice

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# Appendix 4: Committee Members



**Stephen McPartland MP** was elected to the House of Commons as Member of Parliament for Stevenage on 6th May 2010. He has a keen interest in education, health, small business and science and technology. Stephen is involved in, and Chairs, a range of All Party Parliamentary Groups that work on a cross party basis to achieve real change for the long term. Prior to being elected an MP, Stephen was the Director of Membership for British American Business.



**Philip Aiken** is Chairman of Aveva plc, Senior Independent Director of Essar Energy plc and Non-Executive Director of National Grid plc and Newcrest Mining Limited. He was previously a senior executive including roles as President BHP Billiton Energy and Managing Director BOC Gases Europe and has served on the Boards of Kazakhmys plc, Robert Walters plc and BTR plc. He is a Bachelor of Engineering (Chemical) from University of Sydney and AMP from Harvard Business School.



**Professor Dermot Cahill** is the Chair in Commercial Law at Bangor University, Wales, UK, and is the Chairman of the Institute for Competition & Procurement Studies, where he leads a large multidisciplinary research team of public procurement researchers. Current projects include the EU funded Winning in Tendering project, led by Bangor, which has developed a unique methodology for helping SMEs vastly improve their public tendering success rates, along with research into the patterns in judicial review in both Ireland and UK under the EU Procurement Remedies Directive. The Institute's research has also helped public purchasers to vastly reduce tender documentation length and processing and evaluation times while using the open competition procedure; dispelling the myth that open tender competition leads to an overwhelming volume of tenders. Professor Cahill's team is also a member the six EU Member State TESLA project which is examining ways to create an ecosystem for HPSUs (high performance start-ups) in Europe to accelerate their growth strategies, with Professor Cahill's team examining how public procurement strategies can contribute towards this objective.



**Chris Godwin** was elected in 2010 to chair of the UK eInvoicing Advocacy Group, on retirement from 11 years managing Government Relations for IBM in the UK, and a previous 20 years in IBM roles in sales, market development and consulting. With the advice and support of Stephen McPartland MP, Chris won formal Department for Business Ministerial sponsorship for the Group, permitting its accreditation by the EU Commission as the UK expert voice in Brussels on matters relating to formulation of eInvoicing regulation across the EU. At Christmas 2012, on becoming 65, Chris resigned as chair of the Group - now renamed the UK National eInvoicing Forum - to be succeeded by his former vice-chair, Nigel Taylor. Chris maintains an active interest in the progress of eInvoicing and its associated benefits to the private and public sector in the UK. Chris has graduate and post-graduate degrees in Economics and Business, and is - under German law - a State Examined Interpreter and Translator for German and English.



**Pete Loughlin** has specialised in Purchase to Pay for about 20 years and is known as an independent industry expert in the fields of electronic invoicing and supply chain finance. As a consultant he has supported some of the largest organisations in the world in developing and implementing their purchase to pay strategies. In 2009 Pete launched “Purchasing Insight” a specialist online resource for purchasing and finance people to share expertise, experience and insight in all matters purchase to pay including purchasing and procurement technologies, electronic invoicing, supply chain finance. Purchasing Insight is now recognised as one of the leading P2P resources anywhere in the world and is read by approximately 20,000 purchasing and finance professionals each month.



**Manos Schizas** is the Senior Economic Analyst and Acting Head of Small Business Policy at ACCA. He manages ACCA’s research programme on Access to Finance and is the editor of the ACCA/IMA Global Economic Conditions Survey. His research and advocacy interests revolve around business financing, regulatory reform, business economics and enterprise statistics. ACCA was an early member of the UK National eInvoicing Forum, and Manos has served as a UK representative to the EU Multi-stakeholder Forum on eInvoicing. He is the author of the EU Forum’s first report to the Commission on good practices in the promotion of eInvoicing adoption, as well as two reports estimating the potential of eInvoicing among UK SMEs. Manos studied Economics and then Human Resource Management in Athens before moving to London to study Accounting and Finance. He worked as a Labour Market researcher for the Financial Services Skills Council (now the Financial and Legal Skills Partnership) before joining ACCA in 2008.



**Ian Taylor** is a former MP and Science Minister who now serves on the board of, or advises, several companies and institutions mainly involved in software, technology and innovation. He is Chairman of the National Space Academy steering group, on the UK Science & Technology Facilities Council and an advisor to the D-G of ESA. Ian is Executive Chairman of Living PlanIT SA which is developing an open standards software operating system for urban areas, connecting devices, sensors and infrastructure. He is also Chairman of the supervisory board of the Rainbow Seed Fund which supports and invests in very early stage companies and pre-companies emerging from the science research establishments.



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