

Implementing the Scottish Government's eInvoicing Solution at West Lothian Council - Case Study

Background

Whilst eInvoicing has been implemented by some public sector bodies across Scotland, it has been done in an inconsistent and fragmented fashion. Different solutions are in place with different technical requirements and different cost models. For suppliers, this means that they have to support different invoice formats and pay varied transaction costs. Rather than simplifying the process and reducing costs for suppliers, the fragmented approach to eInvoicing has resulted in the opposite being true.

To reduce duplication of effort, fragmentation of approach and cost, the Scottish Government has delivered eInvoicing capability through PECOS¹ which is a core element of the national eCommerce Shared Service². Whilst the capability is being delivered via PECOS, it is being made available to all Scottish public sector bodies, irrespective of the purchase-to-pay (P2P) solution that is in place. By delivering this capability through the Service, the procurement process from advertising contracts to presenting invoices for payment, is now fully automated.

Some of the benefits to be realised from implementing eInvoicing include:

- **Reduced costs** – costs associated with scanning, keying, storage, manual retrieval or destruction are reduced or eliminated
- **Increased visibility and transparency** – the online archiving and reporting elements ensures a full audit history is available which reduces opportunities for duplicate payments and fraud
- **Enhanced process efficiencies** – the time consuming and error prone task of keying data is reduced or removed completely allowing staff to focus on other duties
- **On-time / quicker payment to suppliers** - as the invoice processing route is automated it increases the opportunities for suppliers to be paid on time or early if appropriate
- **Improved response to supplier queries** – availability of invoices online enables suppliers to be advised of mismatch reasons and who to contact within an organisation to resolve the issue.

Solution Overview

The eInvoicing solution being delivered through PECOS is very simple and based on PDF conversion which does not require any wholesale technical changes for public sector bodies or suppliers. It takes advantage of existing technology and business processes to receive a PDF invoice, extract the underlying data and translate into an

¹ PECOS is the national purchase-to-pay (P2P) solution that is currently used by 96 public sector bodies that span central government, local government, the NHS, universities and colleges.

² www.gov.scot/Topics/Government/Procurement/eCommerce

XML invoice before transferring that to PECOS or an alternative finance system for matching, processing and finally payment.

Whilst PDF invoices are the most predominant format received, invoices in a number of other formats such as XML, HTML, CSV and Word can also be accepted and translated.

The solution is also compliant with the requirements of the EU eInvoicing Directive which states that an eInvoice is one that has been issued, transmitted and received in a structured electronic format which allows for automatic and electronic processing.

Pilot Project Overview

To allow the Scottish Government to gain a full understanding of the capability of the eInvoicing solution as well as the work required by not only a public sector body but a selection of suppliers, a pilot project was initiated involving public sector bodies that used and invoice matched in PECOS.

Three PECOS user organisations were initially identified to participate in the pilot project. However, due to resource issues and budget constraints, West Lothian Council (WLC) was the only organisation able to continue. The pilot was delivered in two phases: Phase 1 enabled the eInvoicing environment and the creation of the validation and exception management workflow; Phase 2 designed the supplier enrolment process and managed the on-boarding of a selection of suppliers.

The key objectives of the pilot project were to:

- prove that the solution met the eInvoicing needs of WLC
- define the supplier enrolment and on-boarding methodology
- design and configure the data extraction, interpretation, validation and exception management workflow
- confirm the format of the validated eInvoice file for upload into PECOS
- define the commercial business case and delivery model for the wider public sector
- capture the benefits and savings that could be achieved for both the public sector and suppliers.

Implementation Approach

There were three key elements to the implementation – technical, people and processes and suppliers.

From a technical perspective, WLC were already a mature user of PECOS, capturing a significant volume of purchase orders from across most service departments and utilising existing invoice workflow within PECOS. As a result, there were no fundamental changes that needed to be made to processes or workflow. A unique email address was created to which all PDF invoices would be submitted and WLC agreed the invoice validation rules and exception management workflow.

WLC identified a number of suppliers who had large invoice volumes as they would bring major benefits to the council if they were to start transmitting invoices electronically. Analysis of historical orders, invoice volumes and mismatches was then carried out and a number of suitable suppliers were contacted to explain the invoicing process and to confirm that they were able to provide invoices in PDF format. These suppliers were then connected up to the solution and provided with the unique email address to which invoices should be submitted.

A decision was taken to test the process with each supplier WLC adopted onto the solution. A number of purchase orders and invoices were selected as suitable candidates for testing and suppliers were then approached to provide copy invoices in PDF format. The relevant purchase orders were set up in the PECOS test environment and the PDF invoices were then submitted through the solution with the outcome recorded. Results from testing enabled WLC to address a number of problems. They issued communications to suppliers so they learnt how to provide invoices in a suitable format for electronic submission to stop mismatches. Requisitioners were also informed about how to raise purchase orders in the correct way and they engaged with their procurement staff to ensure they were fully aware of the importance of having up to date catalogues available to requisitioners at all times.

Following successful testing with each supplier, a go live date was agreed and communications were issued to both requisitioners and invoicers across the council to advise of the launch of electronic invoicing for that supplier. At the same time, WLC issued communications to their requisitioners reminding them of their responsibilities when they raised purchase orders, processed receipts and of the need to attend to any invoice mismatches promptly.

Results

The pilot project was completed in October 2013 following WLC's successful connection with 11 pilot suppliers and receipt of 7,488 eInvoices.

To calculate transaction savings, figures from the Billentis Report 2013³ were used. These showed that a contracting authority could save £9.44 per invoice and a supplier could save £5.46 per invoice. Using these figures, WLC saved approximately £71,000 and their suppliers saved approximately £41,000 during the pilot project.

WLC demonstrated that the solution worked successfully, accepting supplier invoices in the required PDF format, translating them into XML invoice files before automatically importing them into PECOS. Invoices received through the solution not linked with PECOS purchase orders were forwarded on to specific email addresses within WLC as part of the validation process.

The pilot project was extremely important as it not only established the solution but also the mechanism for delivery across the wider Scottish public sector. As a result of the success of the pilot, the overarching invoicing Solution Business Case was endorsed by the Public Procurement Reform Group in June 2014 and the Scottish

³ "E-Invoicing / E-Billing – The catalyst for AR/AP automation"; Bruno Koch, Billentis; April 2013

Government began the formal roll-out of eInvoicing capability to other public sector bodies in August 2014.

Lessons Learned

During the pilot project, a number of key lessons learned were captured by WLC:

- The need to analyse at the outset, the structure and content of existing invoices as well as the internal invoice matching process prior to creating the validation rules and exception management workflow.
- As some suppliers issue credit notes in a different format to their standard invoice, it is important to obtain examples of credit notes prior to go-live to ensure that the conversion to XML can be performed.
- The testing phase is a key part of the supplier on-boarding process as it must be ensured that suppliers provide PDF invoices in an HMRC compliant format which also satisfies the validation rules configured.
- As purchase order item numbers are fundamental to the matching process for eInvoices, it's important that requisitioners are aware of their responsibilities to raise orders with item numbers that comply with those used in the generation of invoices by suppliers and vice versa. Suppliers also need to ensure that their eInvoices contain item numbers that represent the item numbers displayed on their catalogues and websites.
- To ensure that the full benefits of eInvoicing are achieved, requisitioners must assign suitable quantities and unit prices when raising purchase orders. If orders are raised with lines that do not reflect the structure of supplier invoices, there will be a discrepancy when it comes to the matching process thus leading to the need for manual intervention before an invoice can be paid.
- Where item numbers are not appropriate, e.g. the supply of a service, it's important that suppliers include the appropriate line number from the purchase order on the invoice. Line numbers can be used as an alternative to item numbers as the validation rules can be configured to match invoice lines to order lines based on the line number.
- Requisitioners need to be reminded of the importance of receipting purchase orders to ensure that invoices received electronically will successfully meet the 3-way matching criteria and be passed for payment.
- Staff who are responsible for invoicing need to be communicated with to ensure they are aware of the process to follow when a supplier's delivery note acts as an invoice. This is important as there is the possibility for duplicate payments where the eInvoice has been imported with a different invoice number than the delivery note number.

- Any eInvoices that fail the 3-way match workflow in PECOS still require manual intervention to resolve.
- There is a need to work closely with the procurement team to ensure suppliers are engaged with and educated on an on-going basis as to the benefits that can be realised through eInvoicing. The procurement team are also key to ensure that catalogues and punch-out sites are accurate and up-to-date to minimise the potential of wrong products being ordered or wrong prices appearing on the invoice which would cause mismatches.
- The procurement team need to assist in the wider deployment of eInvoicing by including the necessary requirements as part of both existing and new contracts.

Future Plans

West Lothian Council's progress with the Scottish Government's electronic invoicing solution has been to date limited to invoices processed through PECOS. In conjunction with cXML invoices received directly from suppliers and the processing of Evaluated Receipt Settlement (ERS) invoices into PECOS, the council has within the past 12 months successfully processed 49,469 (49 per cent) of PECOS invoices and 34 per cent of council invoices electronically.

Further analysis of the invoices currently received from PECOS suppliers shows that by onboarding a further 10 suppliers, 59 per cent of PECOS invoices could be captured electronically by the end of 2015/16.

In addition to PECOS, WLC also operates 3 legacy systems that meet the operational requirements of specific service departments. Of the invoices currently processed through the systems, a further 35,000 invoices have been identified as being suitable for eInvoicing. Work to facilitate this has however yet to commence as WLC is currently reviewing its financial systems and processes.

Merle Stevenson, Procurement Systems and Business Development Officer, West Lothian Council.

"Historically, West Lothian Council targeted high volume invoice suppliers with the ability to generate their own cXML invoice files. Although beneficial, this limited the number of suppliers willing and able to transact with the council. The Scottish Government's electronic invoicing solution offers Scottish public sector bodies the opportunity to implement electronic invoicing with suppliers of all technical capabilities supplying a range of invoice volumes.

The solution offers a sound process for invoice mapping and conversion to the appropriate system format but there can be inconsistencies when new suppliers are brought onboard. Organisations need to be willing to invest time and effort in transaction analysis and testing to ensure that maximum benefits are achieved following implementation.

The Scottish Government's national eInvoicing solution has been tried, tested and successfully implemented across a number of public sector bodies and their suppliers. It would undoubtedly cost more for an organisation to embark upon their own eInvoicing solution than to collaborate with the Scottish Government".

Further Information

For information please email the [eInvoicing mailbox](#)

Should you wish to find out more about West Lothian Council's experience please contact [Merle Stevenson](#), Procurement Systems and Business Development Officer on 01506 281 547.

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