High Level Solution Options Change Pack

# Communication Detail

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| Comm Reference: | 3139.3 - VO - PO |
| Comm Title: | XRN5547 - Updating the Comprehensive Invoice Master List and INV template – Solution Review |
| Comm Date: | 13/02/2023 |

**Change Representation**

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| Action Required: | For Representation |
| Close Out Date: | 27/02/2023 |

# Change Detail

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| Xoserve Reference Number: | XRN5547 |
| \*ChMC Constituency Impacted: | Shipper All Classes, Distribution Networks |
| Change Owner: | James Barlow  [James.barlow@xoserve.com](mailto:James.barlow@xoserve.com) |
| Background and Context: | Change XRN5547 was raised to investigate the following customer pain points:   1. The content and format of the Comprehensive Invoices Charge Master List document 2. Identification of Charge Types applicable for Domestic Reverse Charge (DRC) and associated clause wording   On part 1, the key issue raised is that the descriptions available for each Charge Type do not clearly identify what the Charge Type is for and, therefore, the Shipper cannot readily validate their accounting of each charge without completing additional research into each Charge Type.  Part 2 highlights that, currently, there is a standard clause on invoices that may contain a charge that is subject to DRC however it is not clear to the customer which Charge Types this actually impacts. This may result in the Shipper not accounting for the DRC charges correctly. The clause in question is clause 3 and worded as follows:  “IF YOU ARE ESTABLISHED IN THE EU AND NO UK VAT CHARGED ON THIS INVOICE, YOU NEED TO ACCOUNT FOR REVERSE CHARGE VAT UNDER EITHER EU DIR 2006 112 ART 38, 44, 195, 196, OR UK DOMESTIC REVERSE CHARGE”  For reference, the Change Proposal can be found [here](https://www.xoserve.com/change/change-proposals/xrn-5547-updating-the-comprehensive-invoice-master-list-and-inv-template/). |

# Solution Options

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| Solution Option Summary: | The Comprehensive Invoices Charge Master List document has been in place for a number of years and although charge/invoice types have been added iteratively, the document has not had a thorough review to ensure it is still fit for purpose and meets customers needs. It is seen as a document written by experts, for experts and as such it is not providing customers with the information and detail that they require in order to account for their charges with confidence.  Specific issues identified with the document:   * No “layman’s” description of Charge Types * No definition of columns and the allowable values therein * Challenges in validating VAT due to a lack of clear charge descriptions * Invoice supporting information structure is not clear * There is no clear indicator of where a Charge Type is subject to Domestic Reverse Change (DRC) rules   Leading on from the final point above, customers may be finding it difficult to process invoices and account for relevant Charge Types as DRC as these are not uniquely identified within the invoice file. In addition, the clauses used on the invoices, one of which is used to account for DRC, are not clear.  As already highlighted, the Comprehensive Invoices Charge Master List document is not currently reviewed on a proactive basis and this may allow for the information to become out of date due to changes in regulations or legislation.  The High-Level Solution Option (HLSO) for this change can be found [here](https://umbraco.xoserve.com/media/34mpnxgy/xrn5547-hlso-v10.pptx).  **Scope Considerations**  The invoice clauses are assigned to invoice types and, therefore, may not always be applicable to the Charge Types included on the invoice itself. Changes to this are out of scope of this change.  **Solution Approach**  **Part 1 – Updates to the Comprehensive Invoices Charge Master List document**  The CDSP invoice team will review the existing Comprehensive Invoices Charge Master List document and take the following actions in order to improve and present a more meaningful document to customers:   * Draft a description for each Charge Type (circa 350 Charge Types in total) * Add clear definitions on column headers and content * Inclusion of a DRC indicator * Provide a clearer view of associated invoice file types   This work has commenced, and the target is to issue the updated document for representation in April 2023.  This work will be done utilising existing resources and as such no additional funding will be sought from DSC Customers.  **Part 2 – Updated Invoice Clause and DRC VAT Code**  The solution approach to part 2 is made up of two parts:   1. Review, recommend and apply update to standard clause 3 2. Create a new VAT code to be used to identify DRC Charge Types within invoices   To ensure any proposed approach is compliant with current legislation, a piece of analysis work was requested from KPMG on the wording required within a clause related to DRC, and the use of differing VAT codes. A more detailed review of these findings and solution recommendations can be viewed [here](https://umbraco.xoserve.com/media/ywqmmkp5/xrn5547-kpmg-review-findings.pptx)*.*  In summary the analysis provided the following conclusions:   * Invoice clause wording   + The EU directives referenced within the existing clause are no longer applicable (as the United Kingdom has left the EU). Therefore any reference can be removed from the proposed re-wording   + HMRC does suggest wording within its guidance as how to reference DRC on invoices however, this has no force of law and the recommendations actually go beyond the legal requirement   + The minimum legal requirement is to reference “reverse charge” on applicable invoices   + Where paper invoicing is used the VAT due amount on DRC charges should be provided however in electronic invoicing, where this may not be possible, there is a minimum requirement to highlight to the recipient what is required of them i.e. Recipient should account for VAT themselves using the VAT exclusive selling price     - Should the VAT amount be included on the invoice it must NOT be shown as, or included within, the total VAT charged. * VAT code   + There is no legislative requirement to use a specific set of VAT codes     - This is for any charge and not specifically those subject to DRC   + A specific code can be used to identify charges subject to DRC however the invoice must contain the DRC clause wording and, it is recommended, that the list of charges subject to DRC is also clearly defined   Based on the above the recommended proposed wording of standard clause 3 is:  Charges on this invoice may be subject to, and therefore should be accounted for under, the UK DOMESTIC REVERSE CHARGE. The recipient of this invoice should account for the VAT of any such charge at the standard rate, based on the VAT exclusive selling price  In additional to this external analysis performed with KPMG, internal analysis performed by invoicing subject matter experts has confirmed that only Charge Types associated to the VAT Zero (VZ) VAT code are subject to DRC. This current position results in two options in delivering part 2.  ***Solution Option 1 – Updated Clause and New VAT Code***  This option seeks to update the invoice clause, as defined above, for all invoice types that currently include it and to introduce a new VAT code to be assigned to all Charge Types which are subject to DRC.  Functional changes would be required to support this in UKLink as well as configuration work within Gemini to reflect the same position. An appropriate level of testing would need to be completed to ensure there were no negative impacts on the invoicing process.  It should be noted that, as at present only DRC Charge Types are assigned to VZ, should a new VAT code be created to be used for DRC VZ will remain but unused.  This is estimated as a small change requiring a minor release and a cost banding of £35k – £75k.  ***Solution Option 2 – Update Standard Clause and Redefine VAT Code VZ***  This option would, again, seek to update the standard clause as per Option 1 in both UKLink and Gemini. However, a new VAT code would not be introduced and, instead, the VZ code would be re-defined as VZ (VAT Zero - DRC) within documentation.  This option would reduce the functional change and testing required. As such it could be delivered within a maintenance level release and supported by existing resource. |
| Proposed Implementation Date: | As Part A of this change does not relate to functionality within our systems or processes, updates to the documentation do not require an implementation window.  Under Part 2, Solution Option 1 will require a minor release – alternatively Solution Option 2 could be completed during a standard maintenance release once testing is complete. |
| Xoserve preferred option:  (including rationale) | Solution Option 2 will meet the objectives of the Change Proposal and by reusing an existing VAT code, which is already only used for Charge Types that are subject to DRC, will mitigate any risk to invoice processes. It is believed it will also reduce the potential impacts to customers by not introducing a new VAT code, which in itself may create confusion for those parties that currently utilise VAT codes and action DRC accordingly. |
| DSG preferred solution option:  (including rationale) | Impacted parties are encouraged to attend the Delivery Sub-Group (DSG) on 20th February 2023, where this Solution Change Pack will be presented for discussion.  For more information on February DSG please visit Xoserve.com [here](https://www.xoserve.com/calendar/dsc-delivery-sub-group-20-february-2023/) where the session documentation will be added.  If you would like to be added to the DSG invite list, please contact us at [uklink@xoserve.com](mailto:uklink@xoserve.com). |

# Service Lines and Funding – for each option

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| Service Line(s) Impacted - New or existing | Service Area 10 – Invoicing Customers |
| Level of Impact | ~~Major/ Minor/ Unclear/~~ None |
| Impacts on UK Link Manual/ Data Permissions Matrix | Updates to charge type supporting information |

Industry Response Solution Options Review

# Organisation’s preferred solution option

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| User Contact Details: | Organisation: | Wales & West Utilities |
| Name: | Tom Stuart |
| Email: | tom.stuart@wwutilities.co.uk |
| Telephone: | 07964937739 |
| Organisation’s preferred solution option, including rationale taking into account costs, risks, resource etc. | No comments in respect of Part 1. It would however be useful to understand the proposed process and timeframes for GDNs reviewing the charge types and associated VAT rates in the Comprehensive Invoices Charge Master List.   In respect of Part 2 – 1. and the update to standard clause 3 – limited proposed changes as follows: “Charges on this invoice may be subject to, and therefore should be accounted for, under the UK DOMESTIC REVERSE CHARGE. The recipient of this invoice should account for the VAT of any charge types including the DRC indicator at the applicable rate, based on the VAT exclusive selling price”.  Cross referencing the applicability of DRC to those charge types that have the DRC indicator increases clarity. And, replacing standard with applicable, future proofs clause 3 for any reduced rate supplies that may be subject to DRC going forward. Because VAT rates are included alongside each charge type in the Comprehensive Invoices Charge Master List there should be no ambiguity as to the applicable rate.  In respect of Part 2 – 2. and the DRC VAT code, our preference is Solution Option 1 to introduce a new VAT code for DRC. Whilst we understand VZ presently only includes DRC items and therefore after the introduction of a new VAT code for DRC VZ may be unused, this provides an enduring solution in the event that zero rated supplies are made in the future. VAT changes can be used by Governments to encourage investment and influence behaviour and it may be leveraged to achieve the UK’s net-zero targets through expansion of the zero rate. Adopting Solution Option 1 now would avoid the potential need to re-introduce VZ in the future, and this, combined with the low cost banding and minor release status, supports our preference.  Looking forward, we would also recommend that a reduced rate VAT code (VR) is introduced alongside the new VAT code for DRC to maximise efficiency from a cost and time perspective, avoiding the requirement to introduce VR as a separate change request in the future. For example, HMRC’s Guidance on Fuel & Power was updated in September 2022 to include hydrogen piped to domestic premises as a replacement for natural gas in the list of examples of gases that are liable to the reduced rate in paragraph 4.1.   To note, the ask of this consultation form to consider the implementation date/Xoserve preferred solution/DSG preferred solution is confusing and could be clearer. | |
| Implementation Date: | Approve | |
| Xoserve preferred solution option: | Approve | |
| DSG preferred solution option: | Approve | |
| Publication of consultation response: | N/A | |

# Xoserve’ s Response

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| Xoserve Response to Organisations Comments: | Thank you for your representation.  Part 1, we will have the plan reviewed and assess when DNOs will be required for review. Part 2-1, thank you for your review and recommendation to amend the wording. This has been supported within other representations and will be adopted for future change reviews. Part 2-2, following lower-level investigation against the recommendation to include an additional VAT rate for future proofing purposes, it has been confirmed that VAT codes are not maintained separately to charge types and are only present when assigned to a charge type. As such it would not be possible to add a VAT code ahead of its assignment to a charge type |

# Organisation’s preferred solution option

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| User Contact Details: | Organisation: | SSE Energy Supply Limited |
| Name: | Mark Jones |
| Email: | mark.jones@sse.com |
| Telephone: | 07467646256 |
| Organisation’s preferred solution option, including rationale taking into account costs, risks, resource etc. | SSE's preferred solution is Option 2 | |
| Implementation Date: | Approve | |
| Xoserve preferred solution option: | Approve | |
| DSG preferred solution option: | Approve | |
| Publication of consultation response: | N/A | |

# Xoserve’ s Response

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| Xoserve Response to Organisations Comments: | Thank you for your representation, we will feed this into ChMC for a final decision. |

# Organisation’s preferred solution option

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| User Contact Details: | Organisation: | E.ON |
| Name: | Kirsty Dudley |
| Email: | Kirsty.Dudley@eonenergy.com |
| Telephone: | 07816172645 |
| Organisation’s preferred solution option, including rationale taking into account costs, risks, resource etc. | Option 1 - We would support a change in the clause wording with the creation of a new VAT code. We would also prefer that clause wording relating to DRC is only populated on the invoice where a DRC VAT code is used, this will avoid confusion arising from any contradictory tax references on the same document. It also delivers a clear and unambiguous approach which was the intent of this change. | |
| Implementation Date: | Approve | |
| Xoserve preferred solution option: | Approve | |
| DSG preferred solution option: | Approve | |
| Publication of consultation response: | N/A | |

# Xoserve’ s Response

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| Xoserve Response to Organisations Comments: | Thank you for your representation and support of Option 1. To amend when clause wording is included on an invoice was not included in the original requirements and as such would require further impact assessment if required at this point. |

# Organisation’s preferred solution option

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| User Contact Details: | Organisation: | Northern Gas Networks |
| Name: | Ben Mulcahy |
| Email: | bmulcahy@northerngas.co.uk |
| Telephone: | 07548107181 |
| Organisation’s preferred solution option, including rationale taking into account costs, risks, resource etc. | NGNs preference under Part 2.2 is that of Option 1. A new VAT code for DRC provides a cleaner and future proof solution. Also if there is no significant incremental cost it may be worth considering introducing a reduced rate VAT code for DRC in case there is a requirement for it in future years. | |
| Implementation Date: | Approve | |
| Xoserve preferred solution option: | Reject | |
| DSG preferred solution option: | Defer | |
| Publication of consultation response: | N/A | |

# Xoserve’ s Response

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| Xoserve Response to Organisations Comments: | Thank you for your representation. Following a lower-level investigation it has been confirmed that VAT codes are not maintained separately to charge types and are only present when assigned to a charge type. As such it would not be possible to add a VAT code ahead of its assignment to a charge type |

# Organisation’s preferred solution option

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| User Contact Details: | Organisation: | SGN |
| Name: | Sally-Ann Hardman |
| Email: | sally.hardman@sgn.co.uk |
| Telephone: | 07970019027 |
| Organisation’s preferred solution option, including rationale taking into account costs, risks, resource etc. | SGN’s preference would be that of Option 1 This option would ensure any future changes to either the Domestic Reverse Charge (DRC) or in relation to other Vat Zero (VZ) requirements could be accommodated.  We also support WWU’s proposed changes to standard clause 3 to:  “Charges on this invoice may be subject to, and therefore should be accounted for, under the UK DOMESTIC REVERSE CHARGE. The recipient of this invoice should account for the VAT of any charge types including the DRC indicator at the applicable rate, based on the VAT exclusive selling price” The above amendment would accommodate any future changes in the legislation set out for the DRC currently. | |
| Implementation Date: | Approve | |
| Xoserve preferred solution option: | Reject | |
| DSG preferred solution option: | Defer | |
| Publication of consultation response: | N/A | |

# Xoserve’ s Response

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| Xoserve Response to Organisations Comments: | Thank you for your representation. Following a lower-level investigation it has been confirmed that VAT codes are not maintained separately to charge types and are only present when assigned to a charge type. As such it would not be possible to add a VAT code ahead of its assignment to a charge type. |

**Change Management Committee Outcome**

**ChMC Recommendation – Solution Review**

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| Change Status: | Approve | Reject | | | Defer |
| Industry Consultation: | 10 Working Days | | 15 Working Days | | |
| 20 Working Days | | Other [Specify Here] | | |
| DSC Consultation Issue: | Yes | | No | | |
| Date Issued: | 13/02/2023 | | | | |
| Comms Ref(s): | 3139.3 - VO - PO | | | | |
| Number of Responses: | Option 1: 4 Option 2: 1 | | | | |
| Solution Voting: | Shipper | | | Please select. | |
| National Grid Transmission | | | Please select. | |
| Distribution Network Operator | | | Please select. | |
| IGT | | | Please select. | |
| Meeting Date: | 08/03/2023 | | | | |
| Release Date: | Option 1 is a Minor Release  Minor Release budget will be used | | | | |