REPORT FOR: OVERVIEW AND SCRUTINY COMMITTEE

Date of Meeting:	4 June 2013
Subject:	Reviews of financial Management
Responsible Officer:	Simon George Director of Finance and Assurance
Scrutiny Lead Member area:	Councillor Jerry Miles – Policy Lead Corporate Resources Councillor Kam Chana – Performance Lead Corporate Resources
Exempt:	No but with some Part II appendices – Exempt by virtue of Paragraph 3 of the Local Government Act 1972 in that these appendices contain information relating to the financial or business affairs of any particular person (including the authority holding that information)
Enclosures	Appendix 1 – Exempt – Finance Effectiveness Review Appendix 2 – PWC Update Budget Holder Forecasting Compliance Appendix 3 – Exempt – ERP Development Plan Appendix 4 – Exempt – Corporate Services Summary Appendix 5 – Exempt - Outline Business Case Appendix 6 – Birmingham Health Check Appendix 7 – Harrow CIPFA – Next Steps report

Section 1 – Summary and Recommendations

This report provides members with a summary of the recommendations of past reviews into the use of SAP and financial management and the actions that have followed them.

Recommendations: To note the report

Section 2 – Report

2. Introduction

2.1　This report summarises recent reviews into Financial Management in Harrow that formed part of the evidence base for the "SAP/General Ledger Improvements" workstream within the Transforming Financial Management Project. The summary includes the main recommendations relating to financial Management and the actions that have arisen.

3. Background

3.1　All organisations require effective financial systems to operate well and meet their statutory obligations. It is even more the case for Local Authorities because of their unique duties of public stewardship and accountability.

3.2　Local Authorities must constantly scrutinise and improve their processes to ensure they continue to efficiently and effectively support the delivery of their strategies and plans.

3.3　The Council in recognition of this, established a ten-year strategic partnership with Capita in 2005 with a remit to improve performance, customer services and business efficiency through end-to-end business process reviews and IT improvements. The reports itemised below were produced either directly or indirectly in support of this Business Transformation process, which includes a rigorous cost benefit analysis.

Financial Management Reports

3.4　The reports summarised below in date order, are those identified as having the most relevance to the "SAP/General Ledger Improvements" within the improving Transformation Financial Management Project (TFM). The seven reports reviewed are as follows:

- Report 1 – PWC Finance Effectiveness Review, (2008).
- Report 2 - Budget Holder Forecasting Compliance, (2011)
- Report 3 – ERP Development Plan, (2008)
- Report 4 - Corporate Resources Blueprint (2010)
- Report 5 – Outline Business Case – Corporate Services
- Report 6 – SAP Health Check with Service Birmingham (2011)
- Report 7 – CIPFA FM. (2012)

3.5　They formed part of a desktop review to support the SAP and General Ledger work stream within the overall TFM project, the purpose of which was to learn from previous reviews and therefore avoid wasting time and

resources at a time when resources are severely stretched. Some actions to address the issues identified are included. Some of the actions are relevant to more than one report and to avoid repetition are simply referenced where relevant.

Report 1: PWC Finance Effectiveness Review – Final Report, May 2008

3.6　This report was commissioned by Harrow from PWC and was funded by central government through the Capital Ambition programme (2008-11). This programme aimed to support London's authorities and local strategic partnerships to deliver efficiencies, improve performance, and support innovative ways of working.

3.7　The Performance & Finance Scrutiny Sub-Committee were given a verbal report and presentation by the Divisional Director of Corporate Finance and Procurement in April 2008. It was resolved that the Chair and Vice Chair review the report. It is marked "Strictly confidential"

3.8　The 75 page report aimed to review Harrows "budget monitoring process and the use of underlying technology", including SAP. Budget Monitoring is covered in two sections (pp 22-27, 59-61). PWC undertook a process mapping exercise, a gap analysis and an activity analysis of finance staff and also interviewed managers. Key findings were:

　a. The Budget monitoring process is inconsistent across service areas, does not provide accurate and timely data and there is insufficient challenge. There should be more focus on high risk areas and creating a robust month-end processes.
　b. The budget setting process needs to streamlined and made bottom up.
　c. There are capacity gaps in some key areas of Finance
　d. The roles and responsibilities in Finance and for service managers are not clear and support levels vary.
　e. The new skills and intended culture of managers owning budgets is not embedded and there is some non-compliance. A training programme is required.
　f. SAP is under utilised by managers due to data inaccuracy, some input screens being hard to use, and poor report formats. There is a lack of skills in some areas. There is a considerable number of excel based processes and time spent on non-value-added activities
　g. An exercise on the Social Care system (Framework I) to improve data and the effectiveness of the interface with SAP would be beneficial.
　h. There is a lack of SAP expertise in Finance with no single point of contact.

Actions:

3.9　Mandatory refresher Training for Revenue Budget Holders on SAP took place between February and June 2009. Refresher training was offered in May and June 2010 and each budget holder has a named finance officer who can offer support. A performance measure to

ensure that managers were complying with their forecasting was introduced.

3.10 The compliance of managers with the KP06 budget monitoring process was measured monthly. Compliance rates increased substantially from rates below 50% to rates ranging between 70 and 100% (Jan 2011)

3.11 The Finance Business Partner role was reviewed and updated

3.12 An annual timetable is consulted on and agreed for Budget Monitoring, Budget Setting and Closing. The timetable has reduced over time and is monitored closely. For the Budget Setting process and related training, other actions are reported below under "Budget Holder Forecasting Compliance, Jan 2011 in paragraph 3.23.

3.13 From 2013/13 and 2013/14 a more bottom up budget process was implemented.

3.10 Training programmes in Business Explorer (the SAP reporting tool), for 10 super users were completed in April 2013, jointly with the ERP Support team and colleagues in Housing. In addition, a Finance Super User post has been created and appointed to in 2013 under the new Finance and Assurance structure.

3.12 A review of the data cubes is underway in two work streams covering HR and Finance. Workshops have been undertaken and reports are being be commissioned.

3.13 Framework I improvements are currently being made by cleansing data and moving assessment onto the system from two subsidiary systems.

Report 2. Budget Holder Forecasting Compliance, Jan 2011
Author Myfanwy Barrett (Corporate director of Finance). Report to Scrutiny Committee (Cllr Tony Ferrari). This was basically a follow up to elements from the PWC report. It noted the following actions:
- Mandatory Training for Revenue Budget Holders on SAP took place between February and June 2009. Refresher training was offered in May and June 2010 and each budget holder has a named finance officer who can offer support. A performance measure to ensure that managers were complying with their forecasting was introduced.
- Target KP06 compliance 100%. This was being monitored by the Finance Business Partners. Compliance rates have increased substantially from rates below 50% to rates ranging between 70 and 100%.

Report 3: ERP Development Plan, Sept 2008

3.13 This was a joint report of Corporate Director Finance (Myfanwy Barrett) and Divisional Director of Shared Services (Greg Foley) to the Corporate Leadership Group (CLG). It was commissioned at a result of the PWC report above.

3.14 Its aim was "to help managers to do their jobs by providing reliable and timely management information" and get VFM from SAP ERP. The main goals were:
- Increase use of the system
- Improve the reputation of the system
- Fix technical problems
- Simplify key processes
- Improve compliance with key processes
- Improve management reporting
- Clear up confusion and improve support to users
- Provide additional training
- Improve value for money

Its evidence base included the:
- Capita post implementation review
- PWC Financial Effectiveness Review
- ERP Healthchecks
- Internal Audit work

Key actions included;
- Technical fixes, particularly in relation to purchasing
- An end to end review of the month end and forecasting process
- Introduce purchasing cards
- Review Northgate/Anite interface for Housing
- ERP Team to be trained as super users.
- Managers to promote use of ERP, new training for users, ERP mini campaign)

Actions:
3.15 In addition to the Transforming Financial Management work streams on Data Cubes and Reporting outlined above:
- In Sept 2012, SAP was upgraded by the introduction of a portal based software module SRM7, to allow better buying through greater visibility of spend activity and improved compliance with the procurement regulations. This change was supported by a compulsory training programme and a review in the number of suppliers which led to a reduction. Purchasing roles were also reviewed and rationalised and the Pro Class Category management process introduced. This is Local government owned classification system that categorise goods and services. It is designed to improve the accuracy of the Expenditure Analysis by forcing correct coding and ensure that only approved suppliers can be used. The SRM upgrade was aligned to the changes to the Council's Corporate Procurement Policy to not only ensure reinforce compliance but also ease of use by introducing changes to the user interface.
- An end-to-end review of the month end and forecasting process was carried out by the Divisional Director of Finance and Procurement in 2008 and a revised process with tighter timescales was introduced. It was supported by new guidance and training. During the implementation phase, monitoring of

KP06 compliance was undertaken and a Business Warehouse report was written to collate forecasts at different levels centrally.

Report 4: BTP- Corporate Services Blueprint Summary V 0.9.

3.16 This report was commissioned from Capita by Harrow, and summarises a number of separate issues. The finance element proposed implementing a SAP "Business Planning and Consolidation (BPC)" module to enable senior managers, budget holders and Finance officers to access and manipulate financial data in SAP. It included workflow and creating a budget audit trail.

3.17 Its aims were to:

- Enable meaningful modelling of budgets to cater for changing business scenario's

- Reduce the time spent by the Finance department supporting budget holders budget monitoring and forecasting returns. Increase the time challenging the variances and working with budget holders to address them and to streamline the month end forecasting process by an automated workflow.

- Introduce more robust financial controls and audit systems including using role profiles and authorisations to control what data can be changed by the user

Actions:
3.19 The BPC was not taken forward due to the high cost of implementation, both consultancy and infrastructure, so other alternatives were investigated by the council.

3.20 A new budget monitoring tool "My4Cast" has been developed with stakeholders. It is in the process of completing user testing and managers training begins on the 14th May, in preparation for a launch for the period 2 forecast in June. This addresses most of the issues raised above. It is simple to use and provides access to a range of up to date reports online (not by email), including commitments and salaries and supports drill down functionality. The forecast is pre-populated with the budget at the start of the year and the managers forecast and comments roll forward each month. This saves a considerable amount of data entry where there is little change between months, as is the case with most budget lines. There are activity monitoring reports available so that mangers forecast activity can be tracked at a line item level. A BW report to amalgamate managers forecasts has been written and is available to Finance.

3.21 All managers will receive some basic budget monitoring guidance before Period 2 as part of the launch process.

3.21   A process for uploading and recording electronic budget Virements has been created, as part of the My4Cast workstream.

3.21   A full review of the budget setting process, will begin following the implementation of My4Cast in June 2013.

3.22   A new strategic commissioning panel process was introduced for 2012/13 budget and refined for 2013/14 setting out the directorate vision over the next three years at different resource levels. Progress on savings is monitored through monthly budget monitoring in 2012/13.

3.23   In 2013/14 monitoring of the implementation of MTFS savings and developments was introduced.

Report 5: Corporate Resources - Outline Business Case (2012)

This summarised a number of initiatives to review, streamline and automate back office functions. These were supplemented by one-to-one meetings and workshops. It included a workstream on Financial Processes, Financial Control, Performance Management and Reporting and Budgeting & Service Planning" – This included workstreams on
- end user training
- reducing manual processes and improving efficiency by improved use of SAP (including for budget setting)
- improved user interface
- improving reporting by keeping a single version of truth

Findings were:
- The monthly Budget Monitoring process is inefficient taking 3 weeks from end to end. The Council aims to reduce this to 10 working days.
- Reporting is inadequate with too much reliance on excel manipulation. It should be standardised, focussed and relevant to the reader and easily understood
- Budget holders can cross charge to other budget holders areas without permission.
- The chart of accounts isn't best structured
- There is a lack of user guidance such as coding books, instruction manuals and user guides

Actions:
- As identified above My4Cast has been introduced which will make the Budget monitoring process more efficient and provides instant access to reports on finance, establishment and staffing costs and HR related to the users area only. A drill down facility to underlying transactions is also enabled. It is being linked to training to all budget managers in May.
- Another project which will begin in June is to establish a new SAP based Journal process to improve control and establish and

authorisation process. An initial specification has been drawn up with Capita.

- The Financial regulations have been updated to clarify roles and responsibilities and after approval by the Council in May a finance guide will be written.
- The chart of accounts will be reviewed in time for the 2014/15 accounts.

Report 6: SAP Health Check with Service Birmingham (3rd Aug 2011)

3.25   This report was produced by the Divisional Director Finance & Procurement (Jennifer Hydari). It was Internal only but SAP system support and accountants were involved. Areas Covered were:
- revenue budgeting, reporting and forecasting
- balance sheet reporting
- capital accounting budgeting and reporting.

3.26   Operational Issues and actions:
- Harrow Finance staff feel that the drill down to Purchase Orders and transactions is poor for both Finance and Budget Holders. Birmingham found the process to be fit for purpose but the descriptions input for Purchase Orders were inadequate. Action: Process change required
- Users can make charges to another's budget managers budget – Birmingham states this is standard procedure in BCC "the budget holder is expected to raise a query…with the source of the charge" : Action. Business decision for Harrow.
- Profiling – Harrow only uses 1/12th profile. Several profiles are available including quarterly, half-yearly, termly and so on. Birmingham uses a range of profiles which are discussed in depth with budget holder at the start of the year. Action. Business decision for Harrow.
- Revenue and Capital Reports are inadequate, report descriptions are poor. There is no drill down, and data inconsistent with SAP (i.e. ZFI-GRIR): Birmingham used BI to design in house reports. Action: Harrow to review suite of reports and implement a flexible report writer.

Action:
3.28   Suitable reports have been made available on the SAP portal in 2013. The reports are pre-filled with the users cost centres, using SAP role profiles and have been amended so that the data is consistent with the system actuals. Reports include commitments and salaries, with full drill down to the transactional detail.

Report 7: CIPFA Financial Management Report, May to June 2012

3.29   This was commissioned by Harrow and reported to CSB. It was later agreed with Portfolio Holder and reported to the Performance and Finance Scrutiny Sub-Committee, 12 Sept 2012.

3.30 This is the report that initiated the Transforming Financial Management project. It is wide ranging but its specific recommendations on finance systems included:

- Producing a standard suite of Reports
- Reducing the significant level of manual manipulation of base data required for reporting;
- Improving quality of in year information for forecasting purposes;
- Leading integration programme with other systems;
- Introducing consolidated real time information
- Help managers make much better use of the SAP system to reduce undue reliance on Finance staff.

Actions:

3.31 The Transforming Financial Management project was initiated to address the issues above. The actions planned are extensive but include but those completed or are in progress are:

- 3 Workshops with Finance Managers in Nov 2012 to standardise base budget processes and coding practices for 2013/14 and onwards.
- Budgets were risk rated in July 2012 to direct Finance support efficiently and effectively.
- Designed a new Finance and Assurance structure and evaluated new role profiles. Recruitment will be substantially completed by August.
- Replacement of the current budget forecast screen (KP06) with an easy to use alternative from June 2013 (Period 2), supported by training.
- Review and update the Financial Regulations to improve system controls, thereby reducing manual intervention. These have been to the Constitutional Working Group and approved by Cabinet and are on the Council agenda in May 2013.
- Projects are underway to introduce more system interfaces to reduce manual interventions, including Northgate OHMS and Verto

4. The Future of SAP and the impact on SAP Developments

4.1 SAP was procured and implemented as part of a ten-year Business Transformation Partnership with Capita, through a vendor neutral process in 2005/06. This Capita support contract ends in October 2015, with an option to extend for up to 5 years, subject to 12 months notice.

4.2 Although, Harrow can replace SAP, whether the existing Capita contract continues or not, there will obviously be considerable costs involved for new software, licences and implementation. A change in software provider will also have a considerable impact on the future support contract arrangements. The Council is therefore reviewing the future of SAP ERP to enable a decision to be made for October 2015.

4.3   To facilitate this process, Harrow is heavily involved in Project Athena, a Capital Ambition funded project that aims to facilitate shared working amongst London's public sector organisations in areas such as procurement of systems, HR, Finance and other functions. This has meant that the Council has focused recently on more manageable or lower cost enhancements to SAP, those that add value to future financial management solutions or have a short investment pay-back period. The current climate of financial restraint has also made significant investment less attractive.

5.   Financial Implications

5.1   None

6.   Performance Issues

6.1   None

7.   Environmental Impact

7.1   None

8.   Risk Management Implications

8.1   The Business Transformation process includes a risk assessment.

9.   Equalities

9.1   The Business Transformation process includes an Equalities Imapct assessement where relevant.

10.   Corporate Priorities

10.   Not applicable.

Section 3 - Statutory Officer Clearance

Name: Simon George Date: 28 May 2013	√	Chief Financial Officer
Name: Hugh Peart Date: 29 May 2013	√	on behalf of the Monitoring Officer

Section 4 - Contact Details and Background Papers

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Background Papers
None