

## **TAUNTON DEANE BOROUGH COUNCIL**

**EXECUTIVE 21st JULY 2004**

### **REPORT OF THE GROUP ACCOUNTANT – CORPORATE FINANCE**

**This matter is the responsibility of Executive Councillor Hall**

### **REPLACEMENT OF THE COUNCILS FINANCIAL MANAGEMENT SYSTEM**

#### **EXECUTIVE SUMMARY**

- FMS is no longer capable of supporting a modern finance function
- A joint review was undertaken by members of the finance and IT sections, which recommends replacement of the current system
- The replacement of FMS will allow the finance section to work more efficiently than is currently possible
- The replacement of FMS will improve the quality of the financial information provided both internally and externally
- Capital funding of £165,000 is sought
- Savings identified within Financial Services will provide a payback period of 2.97 years

#### **1. Purpose Of The Report**

1.1 To summarise the contents of the Project Approval Report requesting approval from the Executive for the replacement of the Councils Financial Management System (FMS) with a packaged solution and to agree a contribution of £165,000 from capital resources to support this invest to save project. This would be repaid over the next three years.

#### **2. Background**

2.1 FMS has been in existence since 1996 and despite a number of minor changes it has received little in development since then.

2.2 A joint review has been undertaken by members of the finance and IT sections and it has been established that FMS is no longer capable of supporting a modern finance function who are being exposed to a number of internal and external pressures, namely,

- Pressures to reduce staff numbers
- Whole of Government Accounts
- The Councils Medium Term Financial Plan
- CPA and External Audit inspection

#### **3 Process of the Review**

3.1 As mentioned in 2.2 a joint review was undertaken by members of the finance and IT sections. The review focused on:

- The potential requirements of any new system were identified through the survey of members of the finance team

- An analysis of the major functions undertaken in the finance section was undertaken.
- As well as the finance related areas where savings could be realised investigations were made into the other areas that could benefit from the introduction of or development of an integrated finance system
- A full financial business case for the replacement of FMS was produced.
- It has been estimated that any investment in a new finance system will achieve payback by the end of the third year after implementation.
- IT carried out a review of the feeder systems and concluded that they were not closely integrated as they could be, leading to extra steps in data handling and authorisation
- A joint report was produced and taken to CMT on 29<sup>th</sup> June 2004 the recommendation being the recommendation being that approval is given to the replacement of FMS. A PAR summarising the main points from this report is attached at Appendix A.

### **3. Benefits of Replacing FMS**

3.1 The replacement of FMS will allow the finance section to work more efficiently than is currently possible. A number of the key processes undertaken by the section, Budget Setting, Accounts Preparation, Budget Monitoring and Payments rely upon FMS.

3.2 The finance section provides a high level of support to all departments within the Council, Members and external bodies. The information provided internally is vital for the management of the Council to make decisions and so it is important that it is accurate, relevant and provided on a timely basis.

3.2 The replacement of FMS will improve the quality of the financial information provided both internally and externally .It will allow the Council to comply with WGA and will assist the Council in future CPA assessments.

3.3 The review undertaken has also highlighted other service areas that will benefit from the introduction of an integrated finance system including Payments and Procurement where substantial savings could be achieved

### **4. Resource Implications**

4,1 Capital funding of £165,00 is sought. This will cover purchase of software, costs of consultancy, implementation and training. TDBC officer time will also be required, however his is already included in the annual revenue budgets.

4.2 As mentioned earlier the initial savings identified will provide a payback period of 2.97 years. Once the system has been fully implemented across the council further substantial savings will be realised.

Initial Investment	Year 1 Savings	Year 2 Savings	Year 3 Savings
£165,000	£55,520	£55,520	£55,520
<b>BALANCE</b>	£109,480	£53,960	(£1,560)

### **5. Effect on Corporate Priorities**

5.1 The improvement of the Councils financial management will assist in the delivery of all of the Corporate Priorities.

## **6. Recommendation**

6.1 It is recommended that the Executive approve this invest to save bid of £165,000 from unallocated capital resources based upon the information contained within report and the attached PAR.

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## APPENDIX A

### Capital Project Approval Report – Replacement Financial Management System

#### Project Description

A joint review has been undertaken between the Finance and IT sections into the Councils Financial Management System (FMS) where the following failings of the current system were identified.

- FMS was conceived in 1996 and has only been developed internally as and when users have required.
- FMS runs in a “Green Screen” environment and much of its functionality has remained unchanged since its initial development
- It is a keyboard driven system requiring a large number of keystrokes to navigate around the system. It is not mouse driven and does not exist in a true Windows environment.
- It is possible to view historic transactions but this function only applies to the current and previous two financial years.
- While FMS is the core finance database, holding details of all financial transactions, it sits within the middle of a host of complex feeder systems.
- Each transaction that exists in FMS are created in separate systems and are fed into FMS via a number of different interfaces
- Each sub system has been separately developed as and when and is owned by departments outside of the finance section. For instance the Debtors Ledger is owned by the revenues department and the Purchase Ledger by the procurement team.

It has been acknowledged for some time by both finance and IT sections that the current version of FMS needs to be developed to bring it into line with the requirements of a modern finance section. In addition to the shortcomings of the system from an operational point of view there are a number of outside pressures on the finance section which are driving the need to change systems.

- Whole of Government Accounts (WGA). This will require the Council to close its accounts by the end of June in 2006, three months earlier than the traditional 30<sup>th</sup> September deadline.
- Medium term financial plan. The Council has budget problems and it is therefore vital that timely and accurate financial information can be provided to management and members to inform the decision making process. FMS in its current form is not able to facilitate this.
- CPA and External Audit. The financial management is assessed annually by our external auditors and formed part of our recent CPA assessment. Our Audit Manager has issued his support to the replacement of FMS and CPA inspectors questioned the number of in-house systems the Council maintains.

The joint review concluded in June 2004 with a report to Corporate Management Team on the 29<sup>th</sup> June requesting approval, in principal, for a capital bid to replace FMS with a packaged solution. This was supported by CMT.

The PAR therefore seeks approval for Capital Funding of £165,000 for the replacement of FMS with a packaged solution to include in the first instance the full replacement of

the general ledger and the payments and procurement systems. However during the project if at any time it is seen as the best use of Council resources other areas such as debtors, asset management and cash receipting may be added.

### **Category of scheme**

**Service necessity** – The replacement of FMS will allow the finance section to work more efficiently than is currently possible. A number of the key processes undertaken by the section, Budget Setting, Accounts Preparation, Budget Monitoring and Payments rely upon FMS. The review has established that due to the number of processes that are required to be undertaken and the delays experienced in extracting data from the system and that the time taken to carry out these processes could be cut significantly with the implementation of a new system.

**Maintenance of existing service** – The finance section provides a high level of support to all departments within the Council, Members and external bodies. The information provided internally is vital for the management of the Council to make decisions and so it is important that it is accurate, relevant and provided on a timely basis. The deadlines for providing external information are becoming tighter with the advent of Whole of Government Accounts (WGA).

**Improvements in the quality of existing service** – The replacement of FMS will improve the quality of the financial information provided both internally and externally .It will allow the Council to comply with WGA and will assist the Council in future CPA assessments. The review undertaken has also highlighted other service areas that will benefit from the introduction of an integrated finance system including Payments and Procurement where substantial savings could be achieved.

### **Establishment of need**

- The potential requirements of any new system have been identified through the survey of members of the finance team
- Contact was made with neighbouring local authorities and those in which members of the finance team had professional contacts to identify the different systems that were operated in other local authorities
- An analysis of the major functions undertaken in the finance section was undertaken to determine the current reliance on FMS and identify areas where savings could be achieved if processes were changed
- A full review of the amounts of IT costs recharged to Finance related systems were also undertaken. It was identified that savings could be achieved within the finance section as a result of the implementation of a new system
- As well as the finance related areas where savings could be realised investigations were made into the other areas that could benefit from the introduction of or development of an integrated finance system. The main area that would benefit would be the area of procurement and payments while it is acknowledged that the areas of debtors, asset management and cash would also benefit.
- A full financial business case for the replacement of FMS has been produced. It is estimated that any investment in a new finance system will achieve payback by the end of the third year after implementation.
- IT carried out a review of the feeder systems and the architecture where they concluded that the existing systems that make up our current FMS run on a

common hardware platform but are not as closely integrated as they could be, leading to extra steps in data handling and authorisation

- A joint report was produced and taken to CMT on 29<sup>th</sup> June 2004 the recommendation being the recommendation being that approval is given to the replacement of FMS

## **Corporate Priorities**

The improvement of the Councils financial management will assist in the delivery of all of the Corporate Priorities.

## **Service Objectives**

The Financial Services Unit provides financial operational support to the various Units of the Authority and to the services provided by the Council. We work in partnership with those front line services to provide a cohesive financial service for the public and elected Members.

In order to provide a more comprehensive service in the future and to react to the external pressures placed upon the unit and the Council as a whole we need to replace FMS.

The risks associated with not changing FMS have been highlighted in the Financial Services Unit Plan and includes;

- The need to meet internal and external deadlines
- Accurate Budget Monitoring
- Early closure of the Councils Accounts

## **Sustainability**

Depending of the preferred method of procurement the annual revenue costs to the Council would be annual licence fees, in the region of £10,000 per annum. The joint review has highlighted areas where substantial efficiency savings would be realised through a fundamental review of the processes and procedures undertaken in areas currently supported by FMS, which would outweigh the cost of capital employed in the initial purchase of any new system and any annual revenue costs.

This project is being put forward on an invest to save basis; repayment will take place within three years.

## **Option Appraisal**

### Option 1 - Do nothing

This is not seen as being a feasible option by both Finance and IT. The current FMS system is inefficient and needs upgrading. This option has also been discounted by CMT through the findings of the joint review.

## Option 2 – Enhance FMS

The following is an extract from the report submitted to CMT on 29<sup>th</sup> June 2004. The IT Manager thereby supporting the view that a packaged solution is the way forward prepared this part of the report.

*“An in-house development of the existing systems would deliver the core requirements but would inevitably not have some of the “bells and whistles” that a package from a dedicated supplier would include as standard. It would also require more work from the accountancy unit in terms of specification and testing of software. Given existing resource commitments in the IS Unit it and then the preferred solution is to procure external software to provide the following: Core Ledger, Purchasing, Creditor, Budgeting, Reporting, Electronic invoice processing.*

*The effort required to implement either solution should not be underestimated - recent experience of implementing the new payroll system, a more simple system with far fewer users confirms this.”*

The in-house development of FMS would be a large project that would require the purchase of additional IT support to continue to provide the core IT function, it is estimated that the cost of providing an in-house option would be similar to the purchase of a packaged solution. CMT did not support the in-house development of FMS.

## Option 3 – Purchase a Packaged Solution

This is the preferred option. It would bring Taunton Deanes financial management system up to date and comparable with its near neighbours. It would also facilitate a fundamental review of the procedures and processes in place. This is the recommendation of the joint review, which was endorsed by CMT on 29<sup>th</sup> June 2004.

## **Outputs**

- Annual Accounts prepared in accordance with WGA timetable
- Annual budget prepared within shorter timescales
- Achievement of the medium term financial plan
- Savings in both costs and effort within finance and other sections
- More accurate financial information available to officers and members

## **Benefits**

<b>Service Area</b>	<b>Functions</b>	<b>Actions</b>
<b>General Accountancy Functions</b>	<ul style="list-style-type: none"> <li>• Year end closedown</li> <li>• Budget Setting and Maintenance</li> <li>• Budget Monitoring</li> <li>• General Accountancy</li> </ul> <p>These processes are very labour intensive taking a great deal of time, again a result of the inflexibility in the current FMS. With the imminent departure of the two Group Accountants savings could now be realised in this department, the introduction of an integrated finance package would ensure that the high standard of support given to the rest of the Council remains.</p>	<ul style="list-style-type: none"> <li>• Implement new integrated FMS system</li> <li>• Comprehensive reporting and two way integration with Word / Excel</li> <li>• Comprehensive Budget setting tool</li> <li>• More flexible analysis and FMS coding structure</li> <li>• User friendly windows and browser based user interfaces</li> <li>• Move to electronic forms and authorisation process for internal transactions</li> <li>• Move away from weekly updates for all feeders</li> </ul>
<b>Procurement</b>	<p>The procurement of goods and services is responsible for over £10,000,000 of the authority's expenditure, and therefore small percentage savings have potentially a huge impact of the finances. The issue of procurement has been part of the recent corporate restructure and it may be seen as a good opportunity to include the systems used to manage the process as part of this review.</p> <p>The main areas where savings could be made are:</p> <ul style="list-style-type: none"> <li>• Reduction in staffing costs</li> <li>• Reduction in reduced phone, fax and postage costs.</li> <li>• Overall reduction the costs of the goods we purchase through better supplier management.</li> <li>• Elimination of "Maverick" spending Increase in the amount of discount taken from suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• Intranet based requisitions system based on shopping basket principle</li> <li>• Removal of manual ordering process.</li> <li>• Better enforcement of procurement policies</li> <li>• Purchasing linked to available budgets</li> <li>• Move to full e-procurement</li> </ul>
<b>Payments</b>	<p>The current payments process involves a large number of steps requiring paper documents to be moved around the organisation before authorising payments. Whilst recognising the requirements of Audit and Control, there is nevertheless an opportunity to make significant direct and indirect savings by modernising this process.</p> <p>The main areas where savings could be made are:</p> <p>Potential reduction in staff time</p>	<ul style="list-style-type: none"> <li>• Move to fully electronic invoice Encourage better take up of electronic payment (BACS)</li> <li>• Remove manual entry of payment batches</li> </ul>



## **Costs**

A number of suppliers have been approached for details and indicative costs of their solutions and we have enough information to establish that initial costs for a core FMS package could range from £100,000 - £170,000. These costs include software, their implementation costs, training and consultancy. They exclude TDBC staff time for project management, interfacing and implementation. This should be assumed to add another £75,000 to the full project cost (though this would be internal recharge rather than external spend and would therefore **not** require additional funding).

As part of the business case it has been calculated that savings of £55,520 per annum can be saved within financial services as a result of the implementation of a new system. This gives a pay back period of 2.97 years on the initial capital investment of £165,000.

## **Risk Identification**

The following risks have been identified and will need to be managed as part of the implementation:

1. Key sponsors leave organisation during implementation of package
2. Key developers leave during development of in-house systems
3. Internal resources not sufficient
4. Estimated potential savings significantly overstated
5. Estimated costs of packages significantly understated

A full risk management exercise will be prepared if this scheme was approved, in line with the PRINCE 2 project management methodology adopted by the Council.

## **Monitoring**

A corporate project team should be formed to progress the procurement and implementation of the new system. The team should be led by the Head of Resources and supported by;

- Financial Services Manager
- A key Service manager (user of the system)
- Revenues Manager
- Procurement Manager
- IT Manager
- Other officers as necessary

This team should manage the implementation of the new system and provide regular feedback to CMT and members both during and post implementation.

### **Project Evaluation and Preferred Course of Action**

A fully costed business case has been prepared which identifies areas where substantial savings can be achieved through the implementation of an integrated finance package. The joint review undertaken by the Finance and IT sections clearly support the purchase and implementation of a new system and this view has been endorsed by CMT.

### **Resource Implications**

Capital funding of £165,00 is sought. This will cover purchase of software, costs of consultancy, implementation and training. TDBC officer time will also be required, however this is already included in the annual revenue budgets.

As mentioned earlier the initial savings identified within financial services will provide a payback period of 2.97 years. Once the system has been fully implemented across the council further savings will be realised.

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### **Timescale**

If approval is given to this project the initial procurement exercise will start as soon as possible through the development of a full list of system requirements. Potential suppliers would be asked to demonstrate their systems to the Council and to explain how they would meet the requirements.

Depending on the most suitable method of procurement (OJEC advert or invitation to selected suppliers) it is hoped that a partner would be selected before Xmas 2004.

Planning, implementation and training would then start early in 2005 with a "go live" date of 1<sup>st</sup> October 2005.

### **Recommendations**

It is recommended that the Executive approve this Capital bid based upon the information contained within this PAR and approve funding of £165,000 from unallocated capital resources.

