

# Joint Audit and Governance Committee



Report of Head of Finance

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To: Joint Audit and Governance Committee

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## Insourcing of Exchequer Services and Financial Management System upgrade

### Recommendation(s)

That Joint Audit and Governance Committee:

1. Notes the Insourcing of Exchequer Services and Financial Management System upgrade report
2. Considers whether to request Internal Audit to conduct additional fieldwork to address any concerns of Committee members

## Purpose of Report

1. To update Joint Audit and Governance Committee with the programme of activities related to the insourcing of Exchequer Services and Financial Systems Programme, the current status of the service (supported by Internal Audit reports) and invite Committee members to consider whether any additional fieldwork should be conducted by Internal Audit.

## Strategic Objectives

2. An efficient and well-functioning Exchequer Services team, alongside a modern, supported, suite of Finance Systems, supports the councils' operational activities which underpin their strategic objectives.

## Background

3. Exchequer Services was outsourced to Capita in 2006 under South and Vale's previous "Financial Services" contract. Part of this contract made Capita responsible for providing services for Accounts Payable (AP), Accounts Receivable (AR), and the provision of a Financial Management System (FMS) (collectively "Exchequer Services"). This position was maintained when the councils entered into the Corporate Services Contract with Capita on 1 August 2016. The 2016 contract expanded the range of financial services provided by Capita to include Accountancy functions.
4. Under the Financial Services contract that commenced in 2006 Capita implemented the "Agresso" FMS for both councils in 2007/08. One upgrade of the FMS was undertaken in 2011, but other than that little development took place and by 2019 the system (now branded Unit4) had fallen out of support and placed the councils in a position of risk.
5. During the period of the Financial Services contract the councils used an Income Management System (IMS) called ICON which they purchased from Civica. ICON was used for all payment processing including cashiering activities at the councils' offices and online/automated telephone credit/debit card payments.
6. The Corporate Services Contract transferred responsibility for the IMS to Capita and, as part of its contract bid, Capita committed to migrate the councils to its own "Pay360" IMS. The migration was successfully completed in December 2018.
7. In February 2020 Cabinet approved the two-stage return of financial services from Capita. With effect from 1 April 2020 the Accountancy Service was removed from the contract and returned to the councils, with an agreement that the Exchequer Service was expected to be removed from 1 April 2021, subject to confirmation by the councils by a deadline date of 31 December 2020.

8. During May and June 2020 an independent review of the councils' Exchequer functions (as provided by Capita) was undertaken which had the following brief:
  - a. Review the current service against expectations and contractual obligations ("as-is")
  - b. Set out what a good service looks like now and in the future (considering changes in technology, operations, and customer expectations)
  - c. Complete a gap analysis to identify the change needed by the councils
  - d. Define the roadmap required to deliver the preferred service going forward.
9. As a result of the findings of the review, in September 2020 both Cabinets agreed to withdraw Exchequer Services from the Capita contract, and upgrade "Agresso" to the latest, cloud-based, version of the Unit4 FMS. Cabinets also agreed to maintain use of Pay360 and directly contract with the Pay360 division of Capita to facilitate this, alongside the procurement of a BACS Bureau service. Ancillary management decisions were taken to move income management activities internally from the Customer Services function to Finance and create a centralised IT application support team.

### Programme of work post-Cabinet decision

10. Following the Cabinets' decisions in September 2020 officers set upon a programme of work to:
  - **Formally exit the Exchequer Services element of the Corporate Services Contract.** This was a combined effort with the other councils in the 5 Councils Partnership as they too had decided to exit this element of the contract. Project management activities were centralised at Capita's request, with South and Vale taking the lead in project management. Despite a tight timescale, and a considerable number of activities to complete, the successful contract exit was completed on 31 March 2021
  - **Form a contractual relationship with Unit4 for FMS provision and upgrade to the latest, cloud-based, version of the application.** The councils decided to use the Government's "G-Cloud" framework to facilitate this piece of work. This enabled the councils to keep procurement costs to a minimum and take advantage of pricing agreed at a scale they could not achieve by going direct to the market. The contractual terms were agreed for a two-year period and the councils have the option to extend the contract for an additional year on two separate occasions. Although the timetable was challenging, the upgrade was successfully completed in the final two weeks of March 2021, with the new upgraded FMS going live on 1 April 2021. Subsequently, the councils have already benefited from one upgrade, with another planned for March 2022 (compared to no upgrades between 2011 and 2021 under the previous service model)

- **Form a direct contractual relationship with Capita’s Pay360 division for the use of the Pay360 IMS.** As with the FMS, the councils decided to use a framework agreement for this piece of work to keep procurement costs to a minimum. A framework set up by Kent County Council’s commercial services division was identified as suitable, with competitive pricing. The contractual terms were agreed for a five-year period to partially coincide with the term of the Corporate Services Contract which ends in September 2025 (to avoid early exit costs), but to also reduce the potential of multiple changes being required at the same time in 2025. The contractual paperwork was signed in time for the 31 March 2021 deadline and the councils experienced a seamless transition
- **Procure a “BACS Bureau” to facilitate payments to suppliers and the collection of direct debits from customers.** With Capita no longer providing Exchequer Services the councils required a mechanism to make BACS payments to suppliers and to collect direct debits from non-council tax and business rate customers (garden waste, mobile home rents, sewage charges, etc.). As with the other procurement activities, the councils chose to use a framework and opted for G-Cloud and selected Bottomline Technologies, a market leader in BACS Bureau provision. The contractual terms were agreed for a two-year period and the councils have the option to extend the contract for an additional year on two separate occasions. The contractual paperwork was signed in time for the 31 March 2021 deadline and thanks to excellent support from Bottomline and the councils’ bankers, Barclays, the service was operationally ready for 1 April 2021
- **Recruit an Exchequer team to deliver the service.** Because of the long-standing Capita arrangements, the councils did not have an existing team that could absorb the Exchequer work. A recruitment exercise was therefore required, and job adverts were placed in November 2020 for an Exchequer and Procurement Manager, Exchequer Team Leader, an Application Support Analyst (to initially sit with this team and then move to the centralised IT application support team), and four Exchequer Officers. Interviews were conducted during December 2020 and job offers for all posts made before the Christmas break. The team members joined on a phased basis from January 2021 to March 2021 with all posts filled in time for 1 April 2021 go live. In the lead up to 1 April the team concentrated on identifying and understanding all processes and activities required, creating procedure notes, and familiarising themselves with the Unit4 system. They also worked with Unit4, Capita, and Bottomline to achieve a successful go-live in April. Unfortunately, during this period the Application Support Analyst received another offer of employment and decided to leave the councils on 31 March 2021. To avoid service disruption during a recruitment exercise, the councils commissioned the services of an application support company (Techmetis) to provide support until the vacant post was filled. The amount of support purchased was set at a level equivalent to the salary costs for the Application Support Analyst to remain within agreed budgets.

11. Many of the above activities had to be completed via remote working as officers across the councils grappled with the consequences of the Covid-19 pandemic.

### **Post 1 April 2021 experience**

12. For the first 2 months the Exchequer team found delivery of the new service extremely challenging. As expected, a backlog of supplier invoices had built-up during the system downtime resulting from the Unit4 upgrade, and changes in process resulting from the upgrade needed to be communicated to service teams. System configuration changes were required as a result of historic system administration processes, and fundamental changes arising from the upgrade path - working through multiple (16) versions. The result of these issues meant there was an initial period of “firefighting”. Notwithstanding this, the councils were able to collect direct debits from customers and make payments to suppliers within the first two weeks of operation (6 and 9 April respectively).
13. By early summer things had begun to settle down as the Exchequer team, and wider service teams across the councils, gained more knowledge and experience of the upgraded Unit4 system. Within the Exchequer team additional temporary resources were recruited to help clear the supplier invoice backlog, and procedure notes were constantly updated, with processes refined as team knowledge developed.
14. Once Autumn had arrived, the service had very much stabilised and, whilst there remains room for improvement in terms of refining processes, in conjunction with service teams, the councils are now experiencing a stable Exchequer service. The team is beginning to focus on rolling out service improvements by taking full advantage of functionality offered by the Unit4 system. Focussed training for service teams will be offered to enable them to increase their knowledge and understanding. The team will also be looking at matters such as Aged Debt and improved management information to help improve the councils’ overall financial standing.

### **Internal Audit review of the Exchequer Service**

15. As part of its 2021/22 internal audit plan the councils’ Internal Audit service has reviewed the Accounts Payable and Accounts Receivable elements of the Exchequer service.
16. The 2021/22 Accounts Payable (Creditors) audit made seven recommendations, two of which were classified as medium risk and five as low risk. An overall assurance rating of **Satisfactory Assurance** was given.
17. The 2021/22 Accounts Receivable (Debtors) audit made two recommendations, both of which were classified as low risk. An overall assurance rating of **Full Assurance** was given.

### **Consideration of additional Internal Audit fieldwork**

18. The insourcing of Exchequer Services after 15 years of outsourced operation, whilst at the same time upgrading the FMS for the first time in ten years, taking direct control of the IMS, and procuring a new BACS Bureau service, was a major undertaking which presented considerable risk.

19. However, as a result of the programme of work detailed above, and in conjunction with the two independent Internal Audit reports (which focussed solely on the in-house Accounts Payable and Accounts Receivable processes), officers consider the insourcing of Exchequer Services, and FMS upgrade, to have been a success. Furthermore, it is considered that the councils are now in a strong position to further enhance financial processes, by taking advantage of a modern FMS, to support the councils' financial resilience.

20. Notwithstanding the above, Committee members are invited to consider whether they want Internal Audit to provide independent assurance on any areas of concern which are outside the scope of the 2021/22 Accounts Payable/Accounts Receivable key financial audits.

### **Climate and ecological impact implications**

21. There are no climate and ecological impact implications arising from this report.

### **Financial Implications**

22. There are no financial implications arising from this report.

### **Legal Implications**

23. There are no legal implications arising from this report.

### **Risks**

24. There are no additional risks arising from this report.

### **Other Implications**

25. There are no other implications

### **Conclusion**

26. During 2020 the councils commenced a major project to fundamentally change their financial operations. Despite the tight timescale, and the many moving parts of the project, as well as being conducted during a pandemic, officers believe it has been a success. Within a few months of go-live operation the new Exchequer team has been able to deliver a settled and professional service for the councils which provides a strong platform to embark on a programme of further work to support the councils' operations.

27. Independent reviews have already been undertaken and support officers' views, but if further assurance is required by this Committee, officers welcome further fieldwork by Internal Audit.

### **Background Papers**

- Exchequer Services Review
- September 2020 Cabinet papers (confidential)

- Internal Audit Report: Creditor Payments 2021/2022
- Internal Audit Report: Sundry Debtors 2021/2022