Somerset Council
Scrutiny Committee – Corporate and Resources
4 January 2024

Business Process System for Finance – Implementation Review

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1. Summary

1.1. At its meeting on 16 March 2022, the former Somerset County Council's Cabinet approved the business case for Somerset County Council and the district councils of Sedgemoor, South Somerset, Somerset West & Taunton and Mendip to migrate their respective Finance, HR, payroll, and transactional procurement functions to Microsoft Dynamics to establish a single business process system for Somerset Council. The then Cabinet agreed '*the Director of Finance and Governance is authorised to enter into a contract with the preferred SI [System Implementation] partner to implement MS Dynamics, subject to the County Solicitor's confirmation that the agreement appropriately manages the risks*', together with a number of associated recommendations.

1.2. This report provides Scrutiny – Corporate and Resources with an update on the project for the implementation of the new system and the current position, with the aim of giving assurance that the finance system has the capability to provide sufficient control and reporting to support effective financial governance and management for Somerset Council.

2. Issues for consideration / Recommendations

2.1. Scrutiny – Corporate and Resources notes;
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   a. the progress made on the implementation of Phase One of the Dynamics system for finance and transactional procurement;

b. the financial control, oversight and subsequent assurance the system currently provides;

c. that Phase Two of the project, HR and payroll, is on hold and will be considered as part of the Council's wider programme of Transformation activity due to the financial emergency.

3. Background

3.1.   Prior to vesting day, there were four different finance system solutions across the five legacy councils in Somerset and the former County's support contract for their finance system was coming to the end of its life. As such, a single solution was required for Somerset Council. Given the timescales between March 2022 and vesting day, 1 April 2023, it was recognised that there were risks with the project, primarily associated with the timescales and resource availability, particularly whilst Local Government Reorganisation was taking place. On balance the risks were considered greater if the Council were to do nothing at that time as in that instance Somerset Council would be negatively impacted from a lack of robust financial reporting and monitoring mechanisms at Day One.

3.2.   The project was not without its challenges, primarily from the complexities of five authorities working together and less from working with a system that was relatively new to the local authority market. Lean, effective project management was put in place to enable quick decision making and problem solving, keeping the project on track which could easily have been de-railed by scope-creep and delayed decision making, and whilst having an immovable Go Live date on 1 April 2023 provided challenges, it also focused efforts to complete the finance system set up, migration of legacy system data and create the interfaces with other systems. The management and oversight included clear levels of governance and decisions making, from a Strategic Board to a detailed design authority.

3.3.   A key principle that was applied was 'adopt not adapt' in other words to make use of the standard system functionality as far as possible, instead of trying to change the system to meet individual needs that are 'nice to haves' but can significantly impact a project of this nature in a negative way. That said some areas were adapted where specific functionality had to be tailored to meet Somerset's requirements, and the design authority was the forum for considering the issues, options and making a decision. A drawback of adopt can be that a new system functions quite differently to the ones that individuals have previously used, but with four in place across the legacy councils there was always going to be a high degree of change involved and as this was a new system this impacted all staff who make use of financial management and reporting.

3.4.   From the outset, the services of an independent partner were sought to review our preparedness for the implementation of Dynamics. These services were procured from an external organisation with expertise in this area, who had access to all aspects of the project and reported monthly to the Strategic Board on progress. This provided important challenge and insight to the work of the

project team and reassurance regarding project management and progress against the programme of work.

3.5. It was never anticipated that all elements of the new Finance system would be available from day one, instead the initial focus was on a minimal viable product (MVP), a single general ledger. However, through the discovery process in early 2022 it was identified that more could be delivered for vesting day but not the fully functional system from Day One.

3.6. For 'Go Live', functionality included Accounts Payable, Purchase Orders, Good Receipt Notices, Invoice capture and payment approval, sales ledger and customer invoicing. Since that time developments have continued to a point where the system is now considered to be fully functional (except for fixed assets which was an additional feature always planned to be developed in due course). See appendix one which illustrates the development since 'Go Live'.

3.7. Somerset Council has recently benchmarked the timescales for implementation against industry averages and found that Somerset's progress from procurement to fully functional (stable) system, which is where we are now at, aligns well with the average. See appendix two for a graphical representation.

3.8. The main challenges encountered that were not identified at project inception were interfaces and data cleansing. The issues came from 'five authorities into one' with the scale of interfaces starting at over 100 but was reduced down to 51, all of which needed to be built and tested. For data, in some instances there was a wealth of historic data that was not required or out of date and if there had been the opportunity to undertake robust data cleansing in each system some time in advance of the project that would have been preferable. This was not possible due to range of factors including short project lead in time and the sovereignty of each council system prior to vesting day.

3.9. As per the report to Executive on 6 December entitled 2024/25 General Fund Revenue Budget & Capital Programme update, Somerset's transition to a single council has identified 'substantial weaknesses which have been inherited from all five legacy councils. It is clear that some of our organisational approaches, including our cross-organisational responsibility for financial management, have not been good enough'. This has contributed to the challenge of integrating the system to the new organisation's needs, particularly in changing people's ways of working.

3.10. In anticipation of the impact of change and help prepare all former five authorities for working with a new system, a programme of change management and training was delivered in parallel with the finance system. A range of solutions including train the trainer and super users were put in place. In March 2023, all staff had the opportunity to attend familiarisation sessions

based on what aspects of the system they would mostly use; attendance ranged from 60-200 individuals per session across 16 sessions.

3.11. Post 'Go live', twenty-four bitesize sessions have been offered to all staff during June and July of this year, attendance at which ranged from 10-90 individuals per session, which were then provided again in August. Daily 'drop-in' sessions were held between 20th July and 7th August and then held fortnightly until October. Invitations were sent to all system users for these sessions and helped address the queries that were arising, mostly down to the system not having all functions from day one (although this had been regularly communicated) and from adapting to a new system.

3.12. As well as the training, the Super user/Change Champion Network held daily support calls from Go Live, with the cohort helping staff and providing feedback. The Super User group will continue permanently and currently comprises 92 people across the council, but we would like to continue to expand the group. A generic mailbox for email enquiries was established with contacts dealt with daily and the Halo Resolve (IT support) group monitored Halo tickets daily, managed via daily triage calls.

3.13. For online resources, the Learning hub was created with step-by-step guides and recordings made available to all staff. This repository of information continues to be maintained and developed, for example process flows are currently being compiled to provide further guidance.

3.14. Development of financial management capability

3.15. Accurate financial reporting and controls are essential requirements. Built into Dynamics are a range of measures that provide this for Somerset Council. From Go-Live, none of the controls were rated as 'lacking or inadequate' but ranged from 'standard/adequate controls with identified strengthening actions' or 'controls strong'. Therefore, from Day One, whilst the functionality was not yet fully realised sufficient controls were in place.

3.16. Since Go-Live, additional business control processes have been put in place for finance, these include;

Accounts receivable
- Approval for customer refunds / write offs are made outside of the system

Accounts payable
- Scanned invoice values are manually checked prior to posting on supplier accounts
- High value payments are validated back to the invoice on daily BACs processing
- Budget spend approval user access has a second sign-off from the relevant Finance Business Support manager

General Ledger
- Prior to access being granted to input journals, mandatory training is delivered by corporate finance on the appropriateness of the input (including authorisation and evidence) for journals

Budget reporting
- The capture form for virement processing evidence and authorisation is held outside of the system

Interfaces
- Interface posting validations are completed manually on a daily basis.

The system and associated processes that we now have provide the functionality and the capability for effective financial control and oversight and, as such, assurance of financial management for Somerset Council.

3.17. Developments and improvements will continue to be made to the system and processes where they realise benefits. December 2023 included development of an aged debt template for internal reporting and the final stages of first reminders for debt recovery were issued. Plans for further developments in 2024 include. Further plans for 2024 include;

Accounts payable
- Enforcement of the 'No Po No Pay' policy
- Review of the potential for automated invoice scanning

General Ledger
- Follow-up coding from standard reconciliations for balance sheets and bank accounts
- Allocation of cash suspense to service budgets
- Loading of 22/23 closing balances – pending audit completions

Budget reporting
- Continued Revenue budget alignment and validation reviews of actual charges
- Capital budgets and forecasting data to be loaded into the system
- PowerBI developments to allow budget holders direct access to financial data (currently provided via Finance Business Partner)

Fixed Assets
- Continued development of the newly designed Fixed Asset Module.

3.18. Deliverables compared to the business case

3.19. The 2022 business case identified areas where Somerset Council would benefit from adopting the Dynamics system, in some cases wider than the phase one finance implementation. These were;

- **ERP as the preferred solution** – to achieve digital modernisation and organisational results for the unitary authority, rather than a best in breed or legacy solution
- **Microsoft as the preferred vendor -** aligns with Somerset's existing 'Microsoft first' strategy and provides a range of functionalities and benefits for financial management and decision making
- **Integration and innovation benefits -** Microsoft Dynamics Finance can integrate with the unitary authority's operational backbone and digital business platform with multiple systems and data and fosters innovation, data analysis, solution building, process automation and chatbot deployment
- **Data-driven decision-making benefit -** provide real-time monitoring, prediction and data-driven decisions for financial operations, cash flow, customer payments, budget proposals, supplier invoices, credit risks, collections and business intelligence
- **User experience and productivity benefits**
  - Enable faster and simpler financial management and reporting
  - Adapt to changing regulatory requirements
  - Develop standard user interfaces and single log on for users across the unitary authority.

3.20. As the system has only recently reached full functionality for finance, it is too early in the project to detail how these benefits have been realised and a workstream has been established to monitor and record progress over time for future reporting. So far, the early benefits being experienced include;

- **ERP as the preferred solution -** in-house successful implementation of a new version of Dynamics since Go Live with the next upgrade planned for January 2024, providing frequent system development and improvement
- **Microsoft as the preferred vendor -** Power BI and Power Apps are being utilised for integration and reporting. The data lake is providing data for reporting and in-house development resources are being utilised for process improvements
- **Integration and innovation benefits-** support for Dynamics is in-house, and work has begun on utilising the Microsoft tools already in use across the authority (Power BI, Data Lake, automation and low code development)
- **Data-driven decision-making benefits –** systems and tools including PowerBI are being utilised by Finance Business Partners for reporting purposes
- **User experience and productivity benefits -** improvements and enhancements in response to staff feedback have already been delivered by the in-house support team.

3.21. Plans to continue to develop the system beyond the finance functionality include;

- **ERP as the preferred solution -** the second phase (HR and Payroll) is on hold due to financial emergency and will comprise part of the Transformation programme but there remains the potential for further phases of development
- **Microsoft as the preferred vendor -** further integration with Microsoft Teams and Outlook and use of Copilot (AI technology designed to accomplish tasks and activities faster and more efficiently)
- **Integration and innovation benefits –** support provided from Microsoft to develop the automation and AI capabilities within Dynamics
- **Data-driven decision-making benefits -** Copilot, Power BI, AI and automation to enable greater insight in Finance data and link to other data sources with the data lake available to budget holders
- **User experience and productivity benefits -** in-house team to implement regular updates and work closely with Microsoft around suitability of new functionality with future Dynamics releases as well as exploring automation to remove repetitive task and reduce administrative- heavy tasks.

3.22. As per Recommendation 2.1 e) of the March 2022 Cabinet report, the Budget Equalisation Reserve of £7.662m was repurposed to fund the cost of the project, for Phase One (finance and transactional procurement) and Phase Two (HR and payroll). Contained in the confidential appendix 4 of that report were details of the budget for Phase One and against that sum the reported outturn at year end 2022/23 was an underspend of £192,751.

4. Consultations undertaken

4.1. No consultation has been undertaken as this report is for information.

5. Implications

5.1. There are no implications arising as this report is for information.

6. Background papers

6.1. Report to Somerset County Council Cabinet, Forward Plan reference FP/22/01/07 'Future Business Process System - Findings of the Discovery Phase', 16 March 2022.
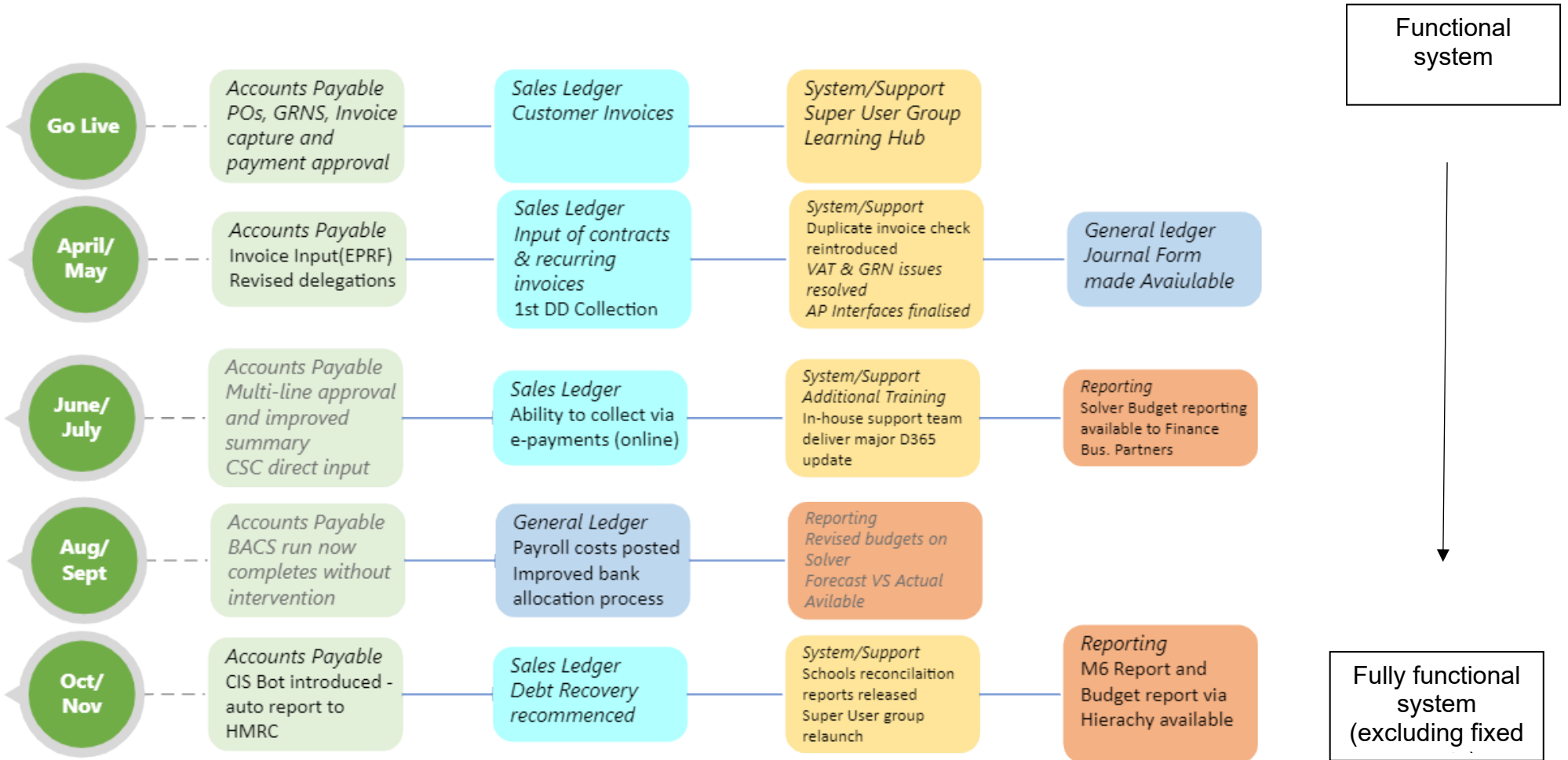
Note For sight of individual background papers please contact the report author

7. Appendices

7.1.
- Appendix One - D365 Finance Post Go Live High-Level Activity
- Appendix Two - Project Timescales Compared to Industry Average

Appendix One

D365 Finance Post Go Live High-Level Activity

Functional system

Fully functional system (excluding fixed

Go Live

Accounts Payable POs, GRNS, Invoice capture and payment approval

Sales Ledger Customer Invoices

System/Support Super User Group Learning Hub

April/ May

Accounts Payable Invoice Input(EPRF) Revised delegations

Sales Ledger Input of contracts & recurring invoices 1st DD Collection

System/Support Duplicate invoice check reintroduced VAT & GRN issues resolved AP Interfaces finalised

General ledger Journal Form made Avaiulable

June/ July

Accounts Payable Multi-line approval and improved summary CSC direct input

Sales Ledger Ability to collect via e-payments (online)

System/Support Additional Training In-house support team deliver major D365 update

Reporting Solver Budget reporting available to Finance Bus. Partners

Aug/ Sept

Accounts Payable BACS run now completes without intervention

General Ledger Payroll costs posted Improved bank allocation process

Reporting Revised budgets on Solver Forecast VS Actual Avilable

Oct/ Nov

Accounts Payable CIS Bot introduced - auto report to HMRC

Sales Ledger Debt Recovery recommenced

System/Support Schools reconcilaition reports released Super User group relaunch

Reporting M6 Report and Budget report via Hierachy available

Appendix Two

Project Timescales Compared to Industry Average

Industry Average Timeline			
Start	**6-12 months**	**12-18 months**	**2-4 Months**
Procurement	System configuration	Post go live Hyper Care	Stable System

Somerset Council Timeline			
July 21	9 Months → **May 22**	10 Months → **April 23**	8 Months → **Nov 23**
Procurement	System configuration	Post go live Hyper Care	Stable System