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Dear Deborah

Birmingham City Council - Additional Value for Money Work Oracle Interim findings

We are writing to you in connection with our review of your Oracle Fusion implementation, and the plans and further investment required for this programme's completion. This letter contains our interim findings based upon interviews with Council Officers and PWC staff, and review of data and documents provided to date and summarises the themes which are more fully developed in our full report.

Our work has focused on the following lines of enquiry:

- **Finance Operations:** The Council's process to close the 2022/23 Financial Year and produce an auditable set of accounts, and accounting and financial management for 23/24.
- **The Safe and Compliant Programme:** The processes and governance arrangements put in place to identify and manage issues arising from the Oracle implementation.
- **Future Optimisation:** The Council's plans to transition from the Safe and Compliant programme into optimisation of the Oracle solution.

Progress:

- First round interviews have now been completed with Council Officers and members of the PWC team supporting the Council.
- The lack of access to the Interim CFO and other key finance officers over the last few weeks, in the wake of the S114 notice being issued, significantly impaired our ability to gain assurance in relation to the effectiveness of finance operations and the Council's work to produce accounts for 2022/23. However, over the last few days we have begun to get the access to the Finance team, and we are now able to make progress on this aspect of the review.
- A limited number of further interviews with Council Officers are planned to gain further evidence and inform our findings prior to the conclusion of our report.
- The Risk Management Cloud has now been implemented. This module went live in September, with a basic profile of core controls, and is now recording risk events for analysis and resolution. This is expected to give the additional reports to identify access control and other risk events across Oracle and inform priorities for resolution of Segregation of Duties (SOD) issues. We understand the version

implemented does not support the level of customisation that has been applied to Oracle, including areas such as Journals and one time payments.

- An options paper covering the full range of options for future optimisation is being prepared. We have unresolved questions about the extent to which the Council has fully evaluated options around optimisation and reimplementation and the related costs and benefits. It will be beneficial to review this paper when available, expected to be November.

Interim findings:

Remedial activity on the general ledger for 2022/23:

- The Council are some months from having an auditable set of accounts for 2022/23.
 - We have established that the main source of error in the financial processing has been the Bank Reconciliation Solution (BRS), a bespoke piece of coding to manage posting rules, which has resulted in transactions either not being posted to the ledger or posted incorrectly. This appears to be a result of attempts prior to implementation to customise the solution to mirror existing allocation rules under the previous SAP ledger system, but which had not been successfully implemented. As a result, throughout 2022/23 a very large backlog of posting errors had accumulated. This has resulted in the need for a very large volume of correcting journals to be processed manually in order to correct the financial records on the general ledger.
 - In order to process the volume of corrections needed the finance team has been augmented by additional temporary staff, resource allocated through the Oracle recovery programme. The initial focus for this additional resource has been to rectify the financial records for financial year 2022/23 and to establish a reliable outturn position.
 - Aside from BRS, we have established that Oracle modules relating to payroll, accounts payable and asset management have also experienced issues particularly immediately post implementation, and there is an ongoing requirement for manual intervention and additional resource. For example, in Payroll an additional 60 to 100 hours per month, of staff overtime, is currently required to manage the monthly payroll process.
 - The Accounts Receivable module has been identified as an area of risk, current issues with cash allocation and reporting of debtors, which relies to a high degree on information from the BRS system, is affecting the Council's ability to operate effective credit control processes. Cashflows are monitored on a daily basis and a higher level of free cash is being held to manage short term volatility. Officers also recognise the impact upon collection rates and the risks around debt recoverability, and plans are being put in place with Directorates to manage long-term collection. However, there are indications of a significant problem with the recoverability of accumulated debt.
 - The finance team have provided some assurance that the level of manual corrections to the ledger that have now been processed for 2022/23 means that the draft Q4 outturn report is expected to be produced over the next few weeks. At this stage we have had verbal assurances, but we have not yet been able to fully explore the process being followed or seen evidence to support that view and the delivery timeline has not been defined. We note the heavy reliance on a high volume of correcting journal entries, some of which have been posted on the basis of limited information and in some cases 'best fit'. We have general concerns about the lack of reliable financial controls within Oracle and a lack of reliable financial reports to enable effective monitoring of budgets which mean that the financial record for 2022/23 is likely to be vulnerable to error. Therefore, significant time may be required to obtain further internal assurance over the accuracy of the Quarter 4 figures, before these will be ready for external audit.
 - Overall, the Council are speaking positively about remediation in regard to the financial records for 2022/23 but we have not yet seen sufficient evidence to provide assurance that the Q4 position is materially correct. There seems to have been little provision made to independently check controls over the manual processes being followed or to test the financial record for 2022/23 using internal audit or other 3rd party.

- Some form of independent assurance process would be advisable prior to any attempt to present 2022/23 outturn as accurate or commence the 2022/23 external audit. We understand the Council intend to commission independent assurance as part of the Internal Audit work programme for the 22/23 outturn.
- Financial Management during 2023/24 and planning for 2024/25.
 - The Council has been operating during 2022/23 and 2023/24 without effective budgetary control mechanisms in place. Localised efforts to manage budgets within the services using historic performance as a benchmark appear to have been taking place, but this has not been adequate to provide a reliable measure of performance against budget or the delivery of savings to the corporate management team or to members. The Council does not have a reliable forecast outturn figure for 2023/24 or a reliable baseline cost position on which to set the 2024/25 budget. The baseline budget position on which the 2023/24 budget was set must also be in significant doubt.
 - We note that the finance team assert that the same BRS system issues have continued to apply to transactions day by day in 2023/24, with errors occurring in approximately 40% of transactions. As at 25th September there were 9,057 unallocated transactions with a net value of £74.43 million, a Debit balance of £118.12 million and Credit balance of £43.69 million.
 - Finance are hopeful that having almost completed 2022/23, they can now switch focus and resources to 2023/24, and will benefit from having developed a much clearer idea of how and where the errors are occurring. Rectification of these issues requires a significant level of ongoing manual effort, investigating each transaction to identify and correct postings to the General Ledger and this needs to be done in the context of the Council needing to minimise costs due to the requirements of the S114 notice.
 - There appear to be limited system-based fixes that can be applied to BRS in the short term, and therefore the finance team will be reliant upon an ongoing process of retrospective transaction analysis and manual journal adjustments until BRS is replaced. There is currently no agreed plan for replacement of BRS, though an options appraisal is being carried out and Officers believe that a discrete solution, based upon use of standard Oracle supported by specialist Income management software, will take less than eighteen months.
 - The development of the Q1 budget monitoring report for 2023/24 is still some way off but finance are intending to focus on remedial action immediately after the 2022/23 Q4 position has been resolved. There is acknowledgement from the finance team that that budgetary control and the monitoring of savings had not been functioning effectively in 2022/23 or 2023/24. While the Council is nearing a position where the overspend for 2022/23 can be calculated within a degree of accuracy, very little reliance can be placed on the financial information available on the forecast financial outturn for 2023/24.
 - The finance team have indicated that, based on the latest Q4 numbers for 2022/23 there is likely to be a significant over-spend on budget for 2022/23 that will need to be covered by reserves, in addition to reserves already committed to supporting the original 2022/23 budget. We have yet to have access to any preliminary Q4 outturn figures to confirm this.
 - The finance team have an expectation that 2023/24 will have at least a similar forecast overspend (but this is not based on definitive information). If this proves to be true, then the combined effect of overspends in 2022/23 and 2023/24 is likely to severely deplete available reserves and weaken the ability to set a balanced budget for 2024/25, even without the additional cost impact of Oracle and Equal Pay costs.
- Internal Audit have not done and are not planning any assurance work around the measures taken to correct the ledger, though we note the Council intend to commission independent assurance as part of the Internal Audit Work programme for the 22/23 outturn.
- Remediation of 22/23 and ongoing processes for 23/24 require significant manual intervention and are reliant upon additional temporary resource. It is likely that the additional costs being incurred will therefore continue to accumulate until a solution which resolves the BRS issues is fully implemented. There is a reliance on material levels of interim resource, including middle to senior management levels both in day

to day management and project remediation. A large team of additional temporary finance staff had been brought in to clear the backlog, this team was now being reduced but still c. 20 people needed to complete the backlog work and continue making corrections to support BAU in 2023/24.

- The high level of turnover of middle and senior finance staff has resulted in a fundamental loss of corporate memory which is relevant to the production of the accounts following such a period of delay. The Deputy S151 Officer had been leading the work to resolve issues with BRS and was using a dashboard to monitor the gradual reduction in the level of backlog errors (volume and value). However, this individual has now left the Council and the role will be filled by a new temporary appointment.
- There is acknowledgment of a high level of fatigue within the Finance team. A number of senior finance officers communicated deep dissatisfaction with the senior management culture and lack of receptiveness to finance expressing concerns, perceptions of poor treatment by colleagues outside of the finance team and the lack of engagement particularly with the design aspect of the revised Oracle implementation plan. They also raised concerns about the lack of sufficient engagement from the Oracle Programme team on supporting shorter term systems fixes within the existing Oracle modules, that could help reduce the reliance on labour intensive and costly manual workarounds that they have had to deploy to address the immediate remedial requirements and maintain basic business as usual finance functions. This issue is seen as important given the significant time period that will elapse before a longer-term solution can be implemented.

The Safe and Compliant ('S&C') programme

The Safe and Compliant programme has captured issues arising since go live and provides the governance for the prioritisation and delivery of "fixes", issues ranging from material (e.g. BRS miss postings) to cosmetic (e.g. Invoice headers). The S&C programme was established in March 2023 following escalation of issues and the commissioning of a high level review by PWC. We note the following:

- A governance (Gold, Silver, Bronze) "crisis management" process has been established, including CLT and Member oversight, to provide appropriate focus on Oracle issues. PWC are providing project management and governance support, not Oracle expertise. There is very limited Oracle knowledge within the Council and there remains a significant reliance on expertise provided by Version One Ltd and a limited number of contract staff to inform decision making on priorities and appropriateness of fixes deployed.
- Fixes are focused on addressing the immediate problem not necessarily resolving the underlying issues. The programme team acknowledge many of the fixes being implemented are not aligned to the long-term vision for Oracle and are thus considered temporary.
- Concerns have been raised, during interviews, that the S&C programme's focus is on upward communication to Members, and it does not have sufficient appreciation of operational issues. As a consequence, actions that could be progressed to reduce significant areas of manual intervention and risk to the Council, e.g. BRS and Accounts Receivable modules, are being deferred until a completed solution for future optimisation is designed.
- The BRS module remains on the S&C issue log. BRS is a bespoke piece of coding and fixes for this critical module have been limited to point solutions for particular transactions and missing data, as the module itself is considered to be too complex to fix. The Programme team are currently proposing that resolution of issues with BRS is moved out of S&C and into future optimisation. This will leave the finance team reliant on the labour intensive and costly short-term workarounds it has developed for an estimated twelve to eighteen months
- People Services has the largest number of open items classified under Safe & Compliant, principally issues affecting the Councils ability to report against its statutory obligations, e.g. reporting on staff DBS checks, or because they form part of schools essential requirements.
- Open S&C issues as at June:
 - Finance 49 – majority related to BRS miss postings, year-end reporting and remediation.
 - People Services 77 – majority related to statutory obligations or schools essential requirements.

- Internal Audit 9 – Risk Management Cloud, Audit Logs, Reporting and access.
- Procurement 3 – Contracts reporting
- Technology 22 – Implementation of Risk Cloud and various interfaces
- There is a clear objective to exit the S&C governance model and move to a more traditional transformation / optimisation programme. However, while backlogs have been reduced there is limited evidence that the exit criteria have been achieved, and significant ongoing issues and further risks remain particularly in the areas of Finance and People Services.
- Exit criteria from the current gold, silver, bronze governance structure are summarised as:
 - **Confidence in Delivery:** Members and Council leadership feel confident and assured in the progress of delivery towards 'safe and compliant', signified by feedback at Boards.
 - **Reduced Risk to the Council:** The overall level of risk to the Council (reputational, financial and business continuity) is reduced.
 - **Progress in Delivery:** The programme is established and delivering, signified by a reduced need for decision making at pace/in a reactive manner.
 - **Clear future direction:** There is visibility over the future direction of the programme and what the end result will look like.
- Whilst the broad principles of these criteria are reasonable to support a change in governance arrangements, to support a decision about exiting the S&C phase of the programme a more robust gateway process will be required with specific and evidencable targets and metrics as the basis for an informed decision.

Future optimisation of the Oracle solution

As set out above, there is a clear intent to move away from the S&C governance model and transition to a more traditional transformation programme. While we note this intent, our initial work indicates that planning for future optimisation is at a very early stage and a clear end state for the Council's functions and the approach to Oracle optimisation have yet to be defined. We note the following:

- The High-Level Design for the future Oracle solution is currently being carried out. This was started by an in-house Council team, based upon the principal of adopting Oracle standard functionality and lessons learned from other authorities (Norfolk, Solihull). Oracle UK have now been engaged to support high level design activity. Design workshops are planned over coming weeks. This is anticipated to be a twelve week programme through to November.
- We understand the approach to high level design is based upon adopting standard Oracle functionality across its principal business processes, e.g. Procure to Pay, and adapting the Council's ways of working. Whilst this is an appropriate approach to process design, this is only a partial solution and wider consideration needs to be given to future resourcing and organisation (the target operating model) for corporate functions to design a complete and efficient solution.
- There are potentially a number of different approaches which could be used to achieve optimisation. From interviews the primary focus is on establishing a new "clean" Oracle instance with a phased transfer from the current version. There are significant technical considerations and financial implications to this approach. Other options such as removal of customisation, back to standard Oracle functionality, may offer a more practical and value for money solution. Options need to be fully evaluated and a business case established, to enable informed decision making as to the right approach to optimisation. It is our understanding that a paper presenting the various options for optimisation, from do nothing to full reimplementation, is currently being prepared. It is anticipated this paper will be presented in November.
- Our current understanding is Oracle will present a cost for the next stage of Systems Integration (SI) work. In our experience this only represents a part of the cost to the council (typically a 1/3) and we are unclear on how the BAU costs and additional resource required to implement a new system in parallel, are being captured or presented as this could run for another 18 months until resolved.

- There is an acknowledgement from the Director of Transformation, and other interviewees, that significant business change will be required, but at this stage a reliance on High Level Design to define those requirements, consequently at this time there is no:
 - plan, timeline or resourcing strategy for optimisation and the management of change, or
 - evidence of Member buy in to what will be required to achieve an optimised solution.
- Resourcing (capacity and capability) to maintain business as usual, which will continue to require significant manual intervention, and support the requirements of the design and implementation phases of the optimised solution is a significant risk. For example, based upon our current understanding:
 - there are high levels of interim resource in Finance, indicators of low morale and low levels of resilience
 - there is limited in house Oracle capability and a reliance upon external expertise
 - wider change within the Council, is drawing resources away from the programme e.g. the newly appointed Comm's lead for Oracle has been focused on wider internal comms related to the S114 notice.
- The Director of Transformation's view is that all likely costs are covered by the £100m estimate already stated in the public domain and they are trying to stay within this cost, and there is a mindset that things are acceptable if they stay within this budget, i.e. approximately £40m for original implementation, £26m for the Safe & Compliant programme and a further £18m left to spend to keep them well within the £100m envelope. They consider the money spent to re-design Oracle (£500K) is Value for money against other options considered.
- Prior to the completion of the final report we are currently carrying out additional interviews with Council Officers and will consider any further documentary evidence provided prior to the finalisation of our report. Finalisation will be dependent on availability of Officers, over the next two weeks, to complete the outstanding interviews.

Mark Stocks

Yours sincerely

Mark Stocks

Partner