

Development of Financial Management Reporting in MPLS

1. Aim

Our current financial reports are structured to deliver an overall financial picture of the department in its entirety, and there is no attempt to provide either one-off or regular reports on the teaching /research/other activities that we undertake within our departments.

Given that most of our departments believe that there is a substantial loss made on teaching undergraduate students, and a break-even to surplus position on research, graduate teaching and other activities e.g. sales and services, we believe that departments need to be supported by regular monthly accounts that provide an accurate statement of their underlying financial position.

The aim of this proposal is to develop reports from Oracle that will provide relevant financial information to departments, allowing them to review income/costs in more detail and to make decisions based upon real information rather than instinct. The reports would also support long-term financial planning, which would be more confidently undertaken with reliable supporting information. Finally, the reports would assist external scrutiny by HEFCE, sponsors and donors. We believe that future funding might be jeopardised if we are unable to support their requests. The information would also support negotiations with colleges, the Centre and Government.

2. Development

Oracle will be developed to deliver financial information on the true financial position for teaching, research and other activities. The development will also enable us to ascertain the full cost of our support activities e.g. workshops.

This transformation in the value of Oracle reporting will be delivered by two distinct changes in the way that we manage information on Oracle. First, MPLS will ensure that the Oracle coding structure used to hold financial data matches the departmental organisational structure, and that the financial data is correctly recorded within this new structure. The effect of this first change will be to remove the clutter that currently exists in accounts and to start producing clearer data about our activities.

The second change (as simplistically depicted in Appendix A) will be achieved by apportioning the costs of the department's support activities to the income-earning activities (teaching, research and other activities) by an agreed method of apportionment. It is also intended that the full costs for sub activities such as catering or the finance function will be known, and that it will be possible to determine the contribution of commercial activities.

3. Principles

This development will operate within the Oracle environment and will follow a few key principles that will maintain the integrity and simplicity of the system:

3.1 Chart of Accounts Design incorporating reserve type classification –the design within Oracle will replicate the actual organisational structure within a department e.g. a cost centre for the Finance team, and will have a common format that can be implemented across all MPLS departments. This is shown in Appendix B and provides a hierarchical structure that groups together operational activity e.g. teaching. The structure is sufficiently flexibility to allow departments to manage at lower levels in the future if desired e.g. research group. At the same time, as described in Appendix C, the structure would include the parallel layers of reserve reporting as outlined in the paper on “core and non core reporting”.

3.2 Coding – all income and costs will be coded directly to teaching / research / other activities / support activities with a “holding pot” cost centre at the top of each group to hold items that

departments do not wish to devolve – e.g. share of JRAM income, share of infrastructure costs, research overheads etc.

3.3 Cost Allocation Methodology – this will be a time-consuming exercise when undertaken for the first time. Departments will need to have data on various parts of their organisation, e.g. space, to facilitate an initial cost-allocation exercise. Once completed, the methodology will be relatively easy to update, barring major changes in operations, e.g. new building. Further information is provided in Appendix D.

3.4 Reports – new reports will be developed to show financial results by teaching, research and other activities. Further detail is provided in 4.6.

3.5 Transparency – support activities are not re-allocated within the Oracle system itself, but will be allocated on the Oracle reporting tool. (Support activity costs will not be journalled around Oracle creating confusion but will remain in their cost centres providing a full and transparent picture of support activity costs)

4. Work Plan

Division will work with individual departments to roll out this development with knowledge gained from one department being used to speed up the process in the next, particularly in terms of introducing the concept of posting at source. Each department will be expected to take 3 to 4 months to complete the necessary analysis of core data; other departments will gain from this exercise.

4.1 Review organisation structure on Oracle– to align and focus financial reporting to the departments organisational structure based on a uniform structure as detailed in Appendix B.

4.2 Review and analysis of department staff –to identify all staff costs in the accounts and be able to account for these in terms of roles and location within the new structure. This revised understanding of payroll costs in terms of activity to then be hard coded into the accounts via the monthly payroll run.

4.3 Allocate RAM/JRAM to new cost centre structure – to accurately devolve funding and infrastructure charges on the basis of drivers used in the PRAS model.

4.4 Analysis of accounts – to transfer items of income and cost relating to income generating activities held in departmental overhead accounts to their correct place in the new accounts structure. Remaining items in Departmental overhead accounts to then be analysed to inform design of allocation methodology.

4.5 Allocation methodology - from information gained in above stages, an allocation methodology to be designed and prototyped on an Excel spreadsheet and then applied via Oracle reporting. Further information is provided in Appendix D.

4.6 Design of reports – new reports will be developed providing accurate financial information that focuses on departmental activities. The intention is for these new reports to run off a front end GL Enquirer tool that is able to access Oracle data and which will provide the additional functionality in Excel format to support these reports. The software is currently under review with central finance and roll out is likely to be in 2/3 months time. Central finance have provided assurance that they will support the reporting requirements on Excel should the GL Enquirer tool not be available. Copies of proposed reports can be obtained from divisional finance.

4.7 Reviews – project to be reviewed at each stage by division and department.

4.8 Maintenance –support accounts to be regularly reviewed to ensure adherence to post at source policy and to enable regular recharging where necessary (eg photocopy charges, rent apportionments). This is also good practice to keep on top of costs that may have been posted onto departmental accounts in error.

5. Cost/Benefit Overview

This will enable us to make informed financial decisions, and to understand where losses are being made and why.

This development is quite simple, building on and maximising the resources that have been and continue to be invested in Oracle. It represents a professional approach to financial management but without the costs that have been associated with the introduction of Oracle. However, the proposal does require that there is a better understanding of finance in departments and that processes and assumptions underpinning the system are regularly monitored. This additional work is largely good practice but is listed below in order to be clear about the on-going commitment of resources:

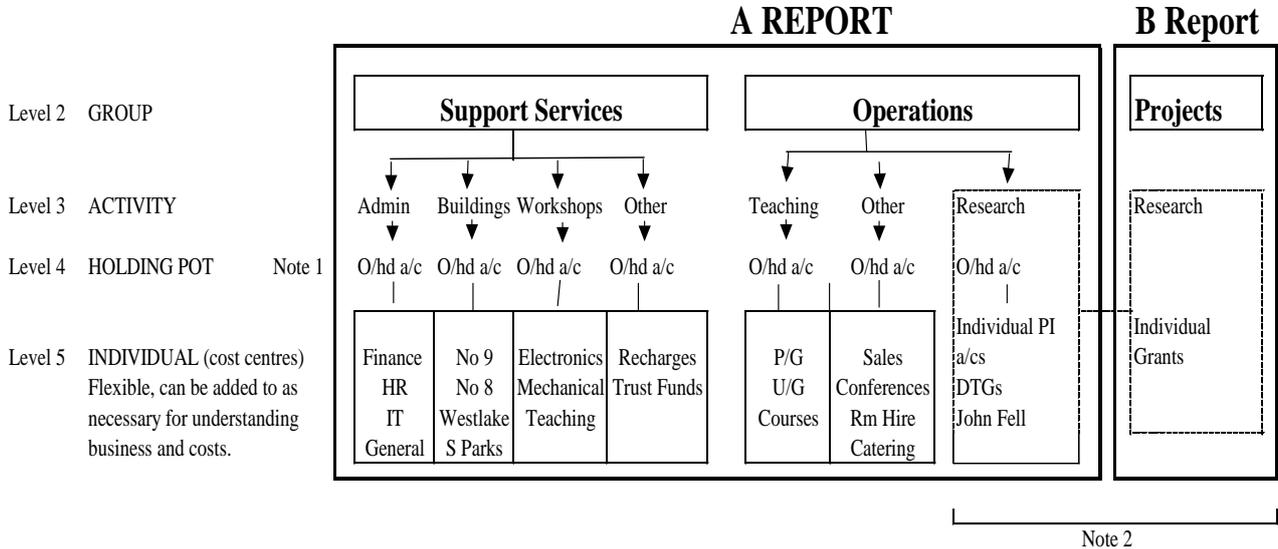
- monthly review of support service costs to make sure that these are in order
- monthly review of payroll costs
- regular reviews of Oracle coding structure to make sure it continues to operate as designed
- regular distribution of reports on teaching, research, other income generating activities and support service costs
- annual allocation of JRAM (but this might be better done by Division)
- regular allocation of research overheads.

It is likely that in some departments, part of this work may already be regularly performed by the Administrator or Finance Officer, and in these cases, additional workload is likely to be small. In those instances where this is not the case, up to 0.50 FTE for a large department might be needed.

There would be a need to review system processes and assumptions in the medium term – say five years.

APPENDIX B

Detailed departmental structure common to MPLS departments



Note 2 Currently Research in A report is considered separately from research in B report but given the scale of research in some MPLS departments it may now be time to be able to consider these together.

APPENDIX C

Integration of reporting by core and non-core activity into Oracle structure

The Oracle coding structure will also incorporate the parallel level of reserve reporting as outlined in the paper on core and non-core reporting. Each cost centre will be flagged at the time of restructuring as a reserve type with a parent code set up that recognises that reserve type as either core or non-core.

This exercise should be relatively straightforward but it will require some consideration as reserves have been accumulated for various purposes and this needs to be recognised on Oracle. The use of additional cost centres or more likely additional Source of Funds codes will provide the functionality to recognise the different types of reserve within the Oracle coding structure and categorise them by type and then at a higher level by core or non-core.

Reporting on core and non-core activities will either use existing Oracle reporting functionality or will use the GL enquirer tool referred to in 4.6 above.

APPENDIX D

Discussion of allocation methodology

The main paper has deliberately avoided discussion of allocation methodology or using worked examples because the paper is intended to present the concept. However, it is clear that the allocation methodology is likely to be of immediate interest and this appendix addresses some key aspects of allocation methodology as an aside to the main paper.

- **Posting of income and costs at source** – all income (eg JRAM, Research Overheads) and costs (equipment, repairs, I/S charges, etc) that can be identified as belonging to a discrete activity or activity group will be posted directly to that activity in the coding plan. This approach will much reduce the level of income and costs held on support activity cost centres making the accounts more accurate and responsive to changes in operations. It also provides a truer picture of support activity costs and reduces the impact of subsequent allocation of support activity costs.

- **Allocation Methodology for support activities costs**- the methodology will be derived from an analysis of these accounts to understand how costs have arisen and which part of the department uses this resource and in what amount. It is likely that each line in the accounts will be analysed and a specific driver chosen to reflect usage to make sure that allocation methodology is accurate and fairly reflects usage.

Pay –payroll accounts will be reconciled for previous year so there is a complete and accurate record of pay costs and each line will then be allocated to an activity(ies) according to data collated about that role. Data is likely to be sourced from Heads of Department, Heads of Groups, Administrators, other staff, contract documentation, and other records (TRAC needs to be considered as a simpler alternative).

Premise/workshop/equipment spend – allocation should follow purpose of the account and this may be relatively easy to ascertain and if not then usage should be calculated by reference to space occupied, headcount, number of phones, pay value.

Other costs – each line will be analysed and an appropriate driver chosen. It may be possible to amalgamate lines which use common drivers to streamline the process.

- **Maintenance** - although considerable work will have been done to use different drivers to accurately allocate service costs, it may be worth streamlining the process by using generic drivers, weighted, if necessary to achieve the same result. The benefit of this approach is that it will facilitate any future update to the methodology for increased or changed operations. However, in reality it is unlikely that any updating will be needed to the methodology, certainly in the short term, because:

a) costs on support service accounts are much reduced following adoption of post at source policy and therefore less material especially when spread across a number of activities

b) operational change is gradual and it will take a number of years or more before this change is sufficient to warrant any change to methodology.

- **Resource** – the main costs for this system will be incurred up front setting up the system and collating the core data.