FINREF and its implications

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FINREF Mission and Objectives

- **Mission**
  - To provide ESA programmes with a common, integrated resource management model, promote efficient and effective use of public funds and reinforce transparency and trust with external stakeholders.

- **Two main strategic objectives:**
  - More effective management of all ESA resources
  - Better governance and relationships with external stakeholders

- **FINREF** (**Fin**ancial Management **Ref**orm) provides ESA with a mechanism for:
  - Dependable planning
  - Predictable funding
  - Reliable execution

Why FINREF?

- To be compliant with the **I**nternational **P**ublic **S**ector **A**ccounting **S**tandards (IPSAS) rules the Agency needed to improve mainly on two basic accounting practices:
  - Recognise cost at accrual: i.e. when the work is done or the goods/services delivered and not when the invoice is paid;
  - Account for the Fixed Assets: in order to value the 'capital' of the Agency.
- Old Financial Management Model no longer adequate to meet these requirements. Rigid annual budgets were badly suited to the development cycles of programmes and did not allow to optimise the balance between actual payment needs of industry and Member States' contribution planning.
- Variety of planning and reporting systems in different directorates and departments made consultation, collaboration and consolidation sometimes difficult.
- Finally, the model did not meet the demands of Member States that the Agency's financial management system should conform to the highest standards of management, accounting and reporting ➔ need to reform ESA's Financial Management Model.
- FINREF aims to provide financial information that supports the decision-making process and to ensure optimal use of resources entrusted by Member States.

Why FINREF?

External Drivers

- **Member States expectations and constraints** regarding the resources they attribute to ESA programmes
- **Scrutiny from external Audit bodies**, highlighting the need to comply with recognised financial management and accounting standards (i.e.: IPSAS*)
- **Diversification of the Agency's sources of funding** – developing relationship with the European Commission as a funding partner

Financial Management Reform *(FINREF)*

Internal Drivers

- **Improvement in the governance of the Agency** – enhanced performance management and ability to demonstrate "value-for-money" to stakeholders
- **Improvement and integration of business processes** to maximise the use of resources for delivering world-class Programmes/Projects/Activities and Internal Support Services
- **Endorsement of a shared corporate identity – 'One ESA'** – with a strong cost management culture

Benefits (1/2)

1) Improved communication and enhanced collaboration

FINREF provides an easily accessible platform sharing information and knowledge across Directorates. The web Portal facilitates better communication with partners and other parties.

2) Improved 'customer-supplier' relationship within ESA

FINREF provides a more effective and efficient end-to-end procurement process and provides more reliable supplier data to share between Directorates. Suppliers are able to update some of their own data, reducing the burden for ESA.

3) Empowered personnel with faster and deeper access to information

Personnel have direct and easy access to detailed relevant information through a single, integrated web Portal.

4) Increased focus on core business activities

A standardised, integrated approach enables personnel to reduce effort on data entry, data collection, data consolidation and reporting therefore permitting employees to concentrate on core business activities.

Benefits (2/2)

5) Standardised work culture and organisation for One ESA

FINREF implements a standard approach to managing and controlling activities and resources throughout the Agency.

6) Comprehensive Agency-wide cost management

The implementation of a structured ESA wide cost management framework improves the visibility of projects and associated assets / overheads.

7) Increased transparency, visibility and credibility for Member States

FINREF provides Member States with consolidated and coherent financial, project and procurement information. The introduction of standard accounting terminology makes it easier for Member States to read and understand information.

8) Better equipped to serve the EU and other partners

FINREF facilitates monitoring and automate reporting on third-party activities for both our Member States and for the EU.

9) Compliance with international best practice accounting standards

Standard and auditable financial statements are compliant with the International Public Sector Accounting Standards (IPSAS).

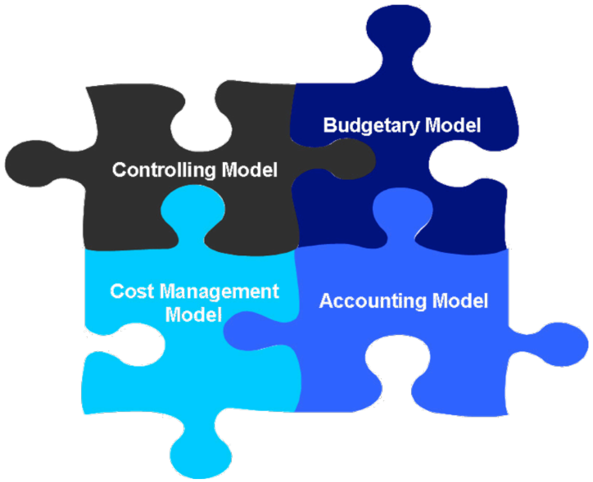
The new system – SAP

- Many previous Information Systems and Architecture replaced by FINREF's solution, although a few legacy systems remain in use. Reduction from over 50 applications to less than 20.
- SAP is an ERP system (Enterprise Resource Planning). The SAP-based software solution **esa-p** integrates the most important processes into one single system to manage resources.
- Data shared in a master database and tracked from different establishments.
- Master database updated each time an adjustment is made, in real-time.
- The solution includes rationalised and standardised tools, including project management and internal services applications.
- Time spent to gather information and draft reports to be reduced as a result of the integrated solution.

New Financial Model

- The key driver for the implementation of FINREF was a new Financial Management Model. The main objectives of the model are to:
  - Improve multi-year planning reliability
  - Apply cost plans driven by activities (accruals)
  - Develop cost-oriented visibility of projects and overhead
  - Set up asset accounting.

- Four main models implemented in esa-p
  - Budgetary & Planning Model with multi-year framework
  - Accounting Model following the principles of Accrual Accounting
  - Cost Management Model to provide greater transparency, attributing costs directly where possible.
  - Controlling Model for simplified and more effective controlling and monitoring mechanisms.



FINREF Status

- esa-p went live in February 2010 after only 1½ years of development phase with 75% of the functionality.
- Difficult start with many problems at technical and procedural level. Planning for further releases had to be adapted.
- Contingency action plan was put in place to mitigate the situation. Further improvements foreseen for 2012-2013.
- Today the system is considered fairly stable, has enabled ESA to perform its business, but still considerable effort has to be spent in improving the functionality and performance of the present release and to implement the remaining releases to complete the full anticipated functionality.

Implications for Mission Budget

- The 'golden rule' of the system is to book cost as much as possible (but justified!) directly to a 'project'. This is to avoid high indirect cost, which will impact the directorate's manpower rate.
- Management and administrative support (e.g., Division Head, Project Controller, …) now explicitly booked in the project instead of covered by the directorate's overhead.
- All direct manpower (i.e. those who book their time directly to a project) are budgeted with standardized rate (calculated per Directorate) per person, regardless if staff, supernumerary staff or contractor. Previously different rates applied for different team members.
- Together with some other cost impacts this leads to **an increased cost for the individual mission operations**.
- At the moment it is **impossible to specify the final impact of FINREF on the mission extension** as these questions are still under debate at high level and no solid information is available.