

Executive Decision Report

The Council's Finance & HR Systems

Decision to be taken by: City Mayor

Decision to be taken on: 26th March 2015

Lead director: Director of Finance/Director of Delivery,
Communications & Political Governance



City Mayor

Useful information

- Ward(s) affected: All
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- Report version number:

1. **Summary**

- 1.1 The purpose of this report is to advise that contracts for the Council's core finance and HR systems are coming to an end, and to propose next steps (including a procurement strategy). Expiry of the contracts provides an opportunity to consider whether new investment will secure long-term efficiencies and future cost savings.

2. **Recommendations**

- 2.1 The City Mayor is recommended:-
- (a) To note that contracts for crucial systems are coming to an end;
 - (b) To approve the proposed strategic approach to re-procurement;
 - (c) To approve a budget of £2m for new investment, dependent upon such investment demonstrating pay back within an acceptable time;
 - (d) To approve funding of this cost (if needed) from a combination of Financial Services Division's savings and the service transformation fund, as described in the financial implications;
 - (e) To approve the commitment of this money, on conclusion of a procurement exercise.

3. **Supporting Information**

- 3.1 The Council's key financial system is Agresso, which is supplied by Unit 4. This system first went live in May, 2007; and the contract is due to expire in May, 2017.
- 3.2 The Agresso system manages the Council's budgeting and accounting processes; ordering of (and payment for) goods and services; and collection of debts, other than local tax and rents. It also carries out stock management functions on behalf of Housing and IT Services.
- 3.3 Agresso has over 2,000 active users, with the principal users being nearly 200 finance staff.

- 3.4 Resourcelink is the Council's key HR system, which is supplied by Northgate. The system went live in February, 2005; and contracts are due to expire in September, 2017.
- 3.5 Resourcelink manages the Council's HR records, and the payroll for its employees; it also carries out related tasks such as expense payments, absence management and taxation returns. It has over 6,000 users (not all of whom are active) with the principal users being 150 HR and payroll staff.
- 3.6 On the periphery of both systems are other finance/HR systems, which are (or could be) integrated to some extent. These include debt recovery through court action, an electronic market place for ordering goods, job evaluation, receipt of internet payments, and on-line recruitment.
- 3.7 Under EU procurement directives, the Council is required to undertake a formal tendering process to replace the systems (or to keep the current ones under new contracts). Both the organisational and technological environments have changed significantly since the current systems were procured: market testing gives us the opportunity to buy products which most efficiently meet current needs.
- 3.8 "Soft market testing" has been carried out: this has given us the opportunity to understand what products are currently available, in advance of a formal procurement exercise. The conclusions of this exercise are:-
- (a) The requirements of the Council can be met with products currently on the market;
 - (b) The more sophisticated products available are primarily aimed at organisations with considerably more users than the Council, and may be too sophisticated (and expensive) for our own needs. These products often integrate finance and HR into one single system;
 - (c) The existing systems could fit our needs, subject to a reinstallation to deliver the operating efficiencies we now require;
 - (d) There is the potential to make revenue savings from implementing the system on an "invest to save" basis;
 - (e) A number of suppliers provide one or other of finance and HR systems but not both.
- 3.9 In previous systems implementations, great effort has been expended to get detailed knowledge of the requirements of all users, and to incorporate these into a specification of requirements. The result has often been a high level of bespokeing (no system does everything everyone wants), and complex system design has been required in order to cater for all requirements.

- 3.10 It is recognised that, in the current financial environment, this type of approach is no longer tenable. Modern systems will cater for most of our standard requirements, and we need to adapt to more uniform practices.
- 3.11 Prior to deciding how to approach the market, strategic objectives have been considered and the following are proposed:-
- (a) To secure value for money by ensuring new systems are operationally efficient, and support methods of working which cost less to run than present systems (both in terms of the systems themselves, and the processes required to use them);
 - (b) To operate as closely as possible to the way the system is designed, without bespokeing;
 - (c) To rationalise our processes and procedures, and to adopt standard ways of working across the whole organisation;
 - (d) To introduce greater self-service functionality for managers, and reduce the intervention currently required by HR and (particularly) finance staff; and
 - (e) To incorporate the current peripheral systems, where it is sensible to do so.
- 3.12 The strategic objectives, in effect, place organisational efficiency at the top of our list of requirements. Efficiency is necessarily going to require more from managers, who must be supported by products which are easy to use (making the most of technology with which they are familiar, such as smart phones). Savings will come from reductions in back office support and a reduction in the number of systems in use.
- 3.13 The proposed way forward is:-
- (a) To seek bids for separate HR and finance systems, whilst leaving the option open for tenderers to propose a single solution;
 - (b) To leave it open to suppliers how they will provide the solution – this may be through installation on the Council’s servers (in the traditional manner); through installation on the supplier’s own servers; or through “Cloud” services, which is a developing trend in the industry.
- 3.14 The outline timetable for implementation would be:-
- (a) March 2015 – publish invitation to tender;
 - (b) July 2015 – shortlist suppliers;
 - (c) November 2015 – contract award;

- (d) February 2016 – enter contract;
- (e) March 2017 – HR system goes live;
- (f) April 2017 – finance system goes live.

3.15 It is proposed to use the “Competitive Procedure with Negotiation” route for procurement. This is a new mechanism which has just been introduced. It enables more negotiation with shortlisted suppliers than the traditional route.

3.16 The option to buy a service from another local authority, via a shared service contract, has also been considered and explored with others who have adopted this approach. Feedback suggests that such arrangements can struggle, due to the complexity of the contractual arrangements required, and the partial loss of control which can be experienced. Cost savings from having to set up processes only once need to be set against the cost associated with managing the overall relationship; and software licences need to be paid for by all participants.

4. **Details of Scrutiny**

None.

5. **Financial Implications**

5.1 The cost of operating current systems is not easy to ascertain, as some costs are shared with other systems. However, the table below provides our best estimate of current annual costs:-

	<u>Agresso</u> <u>£000</u>	<u>Resourcelink</u> <u>£000</u>	<u>Total</u> <u>£000</u>
Support and maintenance from suppliers	76	155	231
Cost of peripheral systems	23	64	87
IT infrastructure (Agresso only)	78		78
LCC support (staffing)	200	128	328
Consultancy	85	0	85
Total	462	347	809

5.2 The cost profile of the two systems is slightly different, as Agresso is run on the Council’s own IT, whilst Resourcelink is “hosted” on the supplier’s servers. This table disregards the considerable cost of operating the systems, which will amount to a significant proportion of the running costs of Finance and HR

Services. It also excludes the cost of IT staff supporting the infrastructure, operation of the building housing the data centre, and incidental costs of running systems (e.g. production of cheques). Additionally, some £2m has been spent implementing and developing the systems since 2005.

- 5.3 Based on our experience of implementing current systems, and research done, procuring and implementing new products could incur a one-off cost of £2m. This, however, assumes an intensive implementation will be required. It is likely that the current providers will bid to continue providing the products, which could result in substantially less initial implementation effort and cost. An alternative tenderer would, nonetheless, be the preferred option if it was more economically advantageous over the life of the contract (i.e. if additional initial costs were paid back by savings later). Thus, it is anticipated that a major initial cost will only arise if the Council takes a decision to move away from its current suppliers, although this cannot be guaranteed.
- 5.4 If investment is required, it is proposed to fund this from a combination of Financial Services Division's reserves and the service transformation fund.
- 5.5 Financial Services Division's reserves have arisen from savings made in the delivery of the service, which have been set aside for developments such as this. Subject to the 2015/16 underspend being as anticipated, up to £1m will be available from this source.
- 5.5 The balance will be funded from the service transformation fund. The uncommitted balance on this fund is currently £3.4m.

6. **Legal Implications**

- 6.1 This report identifies the requirement for a competitive procurement, which will take place under the new Public Contracts Regulations 2015. Legal Services can provide advice on the situations set out in regulation 26(4) of the new regulations, under which use of the competitive procedure with negotiation is permitted.

(Greg Surtees, Legal Services, ext. 37 1421)

7. **Is this a "key decision"?**

Yes.

8. **Is this a private report?**

No.